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The Role of Expectations in the FRB/US Macroeconomic Model

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In the past year, the staff of the Board of Governors of the Federal Reserve System began using a new macroeconomic model of the U.S. economy, referred to as the FRB/US model. This system of mathematical equations describing interactions among economic measures such as inflation, interest rates, and gross domestic product (GDP) is used in economic forecasting and the analysis of macroeconomic policy issues at the Board.

The FRB/US model replaces the MPS model, which, with periodic revisions, had been used at the Federal Reserve Board since the early 1970s.[1] A key feature of the new model is that expectations of future economic conditions are explicit in many of its equations. Because of the clear delineation of expectations, issues that would have been difficult or impossible to study with the MPS model can now be examined. For example, the new model can show how the anticipation of future events, such as a legislated reduction in future defense spending, may affect the economy today. Similarly, the FRB/US model can be used to examine the extent to which the consequences for inflation of a sharp increase in the price of oil depend on the course of monetary policy anticipated by the public.

Expectations in Macroeconomic Models

Expectations play an important role in the economic theories that underpin most macroeconomic models. Planning for the future is a central part of economic life. The need to make decisions about the type of car to buy, the amount of education to pursue, and the fraction of income to save forces households to think about which choices make the most sense not just for today but for years into the future. Similarly, business firms, in deciding where to locate factories and offices, what equipment to install, and what products to develop and produce, make decisions with consequences that may last many years. Individuals must make informed guesses about circumstances in the years ahead and then base decisions on these expectations. The approach to expectations taken in the FRB/US model is best understood in the context of a debate that has engaged macroeconomists for the past twenty-five years.

The Debate about Expectations

Economists have long recognized that expectations play a prominent role in economic decisionmaking and are a critical feature of macroeconomic models. However, they disagree about the basis on which individuals form expectations and thus about the way to model them. For example, the conventional view is that current consumption spending depends partly on how large or small consumers expect their future income to be. But economists are not in accord over exactly what information consumers take into account in forecasting future income.

The debate continues, partly because obtaining data on expectations is difficult. For example, surveys of expectations are limited to a few economic variables, such as inflation, and it is unclear whether the sur-

1. For further discussions of the FRB/US model, see Flint Brayton and Peter Tinsley, "A Guide to FRB/US: A Macroeconomic Model of the United States," Finance and Economics Discussion Series, 1996-42 (Board of Governors of the Federal Reserve System, 1996; available on the Board's web site at http://www.bog.frb.fed.us/pubs/feds/); Sharon Kozicki, Dave Reifschneider, and Peter Tinsley, "The Behavior of Long-Term Interest Rates in the FRB/US Model," *The Determinants of Long-Term Interest Rates and Exchange Rates and the Role of Expectations,* Bank for International Settlements Conference Papers, vol. 2 (Basle: Bank for International Settlements, 1996), pp. 215–51; and Flint Brayton, Andrew Levin, Ralph Tryon, and John C. Williams, "The Evolution of Macro Models at the Federal Reserve Board," *Carnegie–Rochester Conference Series on Public Policy,* forthcoming. The latter paper also discusses a new global macroeconomic model, known as FRB/MCM, now used by the staff of the Federal Reserve Board. See also Andrew Levin, "A Comparison of Alternative Monetary Policy Rules in the FRB Multi-Country Model," *The Determinants of Long-Term Interest Rates,* pp. 340–69. For a discussion of the MPS model, see Flint Brayton and Eileen Mauskopf, "The Federal Reserve Board MPS Quarterly Econometric Model of the U.S. Economy," *Economic Modelling,* vol. 3 (July 1985), pp. 170–292.

veys accurately measure the expectations that influence actual decisions. In some instances, expectations can be inferred from nonsurvey data. Expectations about future short-term interest rates, for example, can be inferred by comparing the yields on bonds of different maturities, given the assumption that a bond's yield depends on the sequence of short-term interest rates expected over its term to maturity, plus a term premium. However, this approach provides accurate measures of expectations only if this theory of the term structure of interest rates is itself correct and if term premiums can be reliably estimated.[2]

The lack of adequate data has meant that builders of macroeconomic models have had to specify a priori how individuals form expectations (see box "Assumptions about the Ways in Which Expectations Are Formed"). Most models developed in the 1960s and 1970s, including MPS, incorporated the simplifying assumption that people form expectations *adaptively.* Under this assumption, for example, the expectation for inflation in the next year is based on the recent inflation trend. Similarly, expected interest rates depend on past interest rates.

Starting in the 1970s, a number of economists strongly criticized this treatment of expectations in macroeconomic models. Robert Lucas, in what has become known as the "Lucas Critique," argued that analyzing alternative monetary and fiscal policies using these models is of questionable value because the adaptive approach fails to recognize that, in the real world, people are likely to modify their expectations as policies are changed.[3] According to Lucas and others, individuals have economic incentives to form accurate forecasts of future economic events, and such forecasts include the anticipated effects of the government's macroeconomic policies. If the Federal Reserve usually lowers interest rates during recessions, for example, then individuals facing the onset of a recession will base their forecasts of future interest rates on the systematic relationship between the cyclical state of the economy and interest rates.

Because of the criticism of adaptive expectations, the assumption of *rational expectations,* which had first been proposed in the early 1960s, gained favor among many macroeconomists.[4] In a given macroeconomic model, expectations of future events are rational if they are identical to the forecasts of that model. Because it posits that individuals make full use of all of the information embodied in the structure of a macroeconomic model, the rational expectations approach has become one benchmark for the estimation of unobserved expectations.

Cost–benefit analysis provides a useful perspective on this debate. In the view represented by models employing adaptive expectations, either the costs of

2. Similarly, the Treasury's recent issuance of bonds with returns indexed to the consumer price index (CPI) may help in the measurement of inflation expectations, which can be calculated by comparing the rate of interest on conventional bonds with the rate on indexed bonds. This approach, however, is subject to a number of potential problems. For a discussion, see Martin D.D. Evans, "Index-Linked Debt and the Real Term Structure: New Estimates and Implications from the U.K. Bond Market," New York University, Solomon Center, Working Paper Series S-96-24 (March 1996).

3. Robert E. Lucas, "Econometric Policy Evaluation: A Critique," *Carnegie–Rochester Conference Series on Public Policy,* vol. 1 (1976), pp. 19–46.

4. See John F. Muth, "Rational Expectations and the Theory of Price Movements," *Econometrica,* vol. 29 (1961), pp. 315–35. The definition of rational expectations proposed by Muth (p. 316) includes the statement that "the way [rational] expectations are formed depends specifically on the structure of the relevant system describing the economy."

Assumptions about the Ways in Which Expectations Are Formed

Macroeconomic models have relied on several different assumptions about how individuals form expectations of future economic conditions:

Adaptive expectations depend only on past observations of the variable in question. Most econometric models developed in the 1960s and 1970s, including the MPS model, employed this assumption.

Rational, or model-consistent, expectations are identical to the forecasts produced by the macroeconomic model in which the expectations are used. This assumption has been used in many macroeconomic models developed in the past fifteen years and is one option for the formation of expectations used in FRB/US.

VAR expectations are identical to the forecasts of a small vector autoregression (VAR) model that includes equations for a few key economic measures (see box "Types of Macroeconomic Models" for a description of a VAR model). This is another option for expectations formation used in FRB/US.

Adaptive and VAR expectations may be rational if they are used in a macroeconomic model with a coinciding structure. For example, if actual inflation depends only on past inflation, then adaptive expectations of inflation will be rational.

sophisticated approaches to forming expectations are high, or the benefits from improved forecast accuracy are slight. Thus, individuals form their expectations of the future using simple rules of thumb or easily computed formulas, such as adaptive expectations. At the other extreme is the view underlying the rational expectations approach. In this case, collecting and analyzing information is assumed to have small costs and large benefits, and consequently individuals base expectations on sophisticated forecasting models that make use of all relevant data.

Between these extremes is the view that forecasting has both significant advantages and significant costs. Such a circumstance should lead households and firms to choose forecasting models that closely resemble their economic environment but fall short of a complete model of the economy in every detail.[5] In FRB/US, one of the options for expectations formation, referred to as *VAR expectations,* is motivated by this view.

Separation of Expectations from Actions in FRB/US

An important feature of the new model is the explicit separation of expectations regarding future events from delayed responses to these expectations. This separation does not exist in traditional structural macroeconomic models (see box "Types of Macroeconomic Models"), partly because the expectations of firms and households are unobservable and partly because the structures of these models are not based on formal theories of optimal planning over time. Thus, traditional structural models cannot distinguish whether changes in activity are a function of altered expectations today or lagged responses to past plans. For example, they cannot determine whether a rise in business capital investment is attributable to revised expectations about sales or is part of a sequence of gradual capital acquisitions related to earlier investment plans.

FRB/US removes this ambiguity by explictly parsing observed dynamic behavior into movements that have been induced by changes in expectations and responses to expectations that have been delayed because of adjustment costs. This separation rests on two assumptions. One is that the unobserved expectations of firms and households can be adequately captured by forecasts of an explicit model of the economy. The second is that participants in the economy behave so as to achieve the highest possible expected welfare and profits over time. Although these assumptions are similar to those usually found

5. In recent years, the view that information about the economy is costly to obtain and analyze has spurred some economists to study how individuals' knowledge about the economy might increase over time as they observe their economic environment. Different approaches to learning are discussed in Thomas J. Sargent, *Bounded Rationality in Macroeconomics* (Clarendon, 1993).

Types of Macroeconomic Models

FRB/US is one of many macroeconomic models that have been developed over the past thirty years. Macroeconomic models are systems of equations that summarize the interactions among such economic variables as gross domestic product (GDP), inflation, and interest rates. These models can be grouped into several types:

Traditional structural models typically follow the Keynesian paradigm featuring sluggish adjustment of prices. These models usually assume that expectations are adaptive but subsume them in the general dynamic structure of specific equations in such a way that the contribution of expectations alone is not identified. The MPS and Multi-Country (MCM) models formerly used at the Federal Reserve Board are examples.

Rational expectations structural models explicitly incorporate expectations that are consistent with the model's structure. Examples include variants of the FRB/US and FRB/MCM models currently used at the Federal Reserve Board, Taylor's multi-country model, and the IMF's Multimod.[1]

Equilibrium business-cycle models assume that labor and goods markets are always in equilibrium and that expectations are rational. All equations are closely based on assumptions that households maximize their own welfare and firms maximize profits. Examples are models developed by Kydland and Prescott and by Christiano and Eichenbaum.[2]

Vector autoregression (VAR) models employ a small number of estimated equations to summarize the dynamic behavior of the entire macroeconomy, with few restrictions from economic theory beyond the choice of variables to include in the model. Sims is the original proponent of this type of model.[3]

1. John B. Taylor, *Macroeconomic Policy in a World Economy* (Norton, 1993); Paul Masson, Steven Symansky, Rick Haas, and Michael Dooley, "MULTIMOD: A Multi-Region Econometric Model," *Staff Studies for the World Economic Outlook* (International Monetary Fund, 1988).

2. Finn Kydland and Edward C. Prescott, "Time to Build and Aggregate Fluctuations," *Econometrica,* vol. 50 (1982), pp. 1345–70; Lawrence J. Christiano and Martin Eichenbaum, "Current Real-Business-Cycle Theories and Aggregate Labor-Market Fluctuations," *American Economic Review,* vol. 82 (1992), pp. 430–50.

3. Christopher Sims, "Macroeconomics and Reality," *Econometrica,* vol. 48 (1980), pp. 1–48.

in rational expectations macroeconomic models, the FRB/US model uses a more general description of frictions to more closely match the correlations in historical time-series data.

OPTIONS FOR EXPECTATIONS FORMATION IN FRB/US

The FRB/US model is designed so that alternative assumptions can be made about the *scope* of information that households and firms use in forming expectations and the *speed* with which they revise their expectations on the basis of new information. Because of the lack of detailed knowledge on how individuals actually form expectations, the grounds are weak for choosing one assumption over all others. The flexibility of FRB/US makes it possible to gauge the sensitivity of conclusions drawn from model simulations to alternative assumptions about the way expectations are formed.[6]

Scope of Information

Two alternative assumptions regarding the scope of information are used in the FRB/US model. One is that expectations are rational, or model-consistent. In this case, households and firms are assumed to have a detailed understanding of how the economy functions, and expectations are identical to the forecasts of the FRB/US model.

The other alternative is that expectations are based on a less elaborate understanding of the economy, as represented by a small forecasting model containing only a few important macroeconomic variables. Because the form of the forecasting model is similar to that of a vector autoregression (VAR), such expectations are called VAR expectations. The VAR approach in the FRB/US model assumes that households and firms form expectations primarily on the basis of their knowledge of the historical interactions among three variables: the federal funds rate, the cyclical state of the economy, and the rate of inflation (see box "The Forecasting Model for VAR Expectations").

The FRB/US model can also be simulated under the assumption that the scope of information used in forming expectations is greater for some participants in the economy than for others. For instance, the expectations of investors in financial markets may be based on more detailed information and more sophisticated forecasting models than are those of households—a difference that can be approximated by making the expectations of investors model-consistent and those of households VAR.

Speed of Expectations Revision

Another dimension of expectations formation is the speed with which households' and firms' views of the economy respond to changes in the economic environment. Of particular importance in analyzing the effects of monetary and fiscal policy actions is how quickly the public recognizes that a deliberate change in policy has occurred or will occur sometime in the future.

In some instances, households and firms may recognize that a shift in policy has occurred only after some time has elapsed. FRB/US allows for the gradual adjustment of expectations about some key long-run conditions to changes in policy objectives so as to mimic the process of learning. For example, under either VAR or model-consistent expectations, a shift in monetary policy intended to reduce inflation can be simulated using alternative assumptions about how quickly the change in policy is recognized by the public. If recognition is assumed to be slow, expectations about long-run inflation are specified to adjust slowly. Conversely, rapid recognition is associated with fast adjustment of inflation expectations.

In other instances, a policy action—or the likelihood of the action—may be recognized in advance. For example, movements in bond yields have at times been attributed to revised expectations of future government fiscal actions.[7] Under model-consistent expectations, anticipation of future policy changes or of other events can be introduced simply by including knowledge of the event in the information that firms and households use when forecasting. In the case of VAR expectations, advance recognition, if appropriate, is introduced by specifying that expectations of both long-run inflation and interest rates respond before the event.

6. The legitimacy of shifting among alternative specifications of expectations formation rests on the assumption that the coefficients in the equations of FRB/US are unaffected by such changes in specification.

7. For a discussion of such effects during 1993, see Council of Economic Advisers, *Economic Report of the President* (February 1994), pp. 78–87.

The Forecasting Model for VAR Expectations

VAR expectations in FRB/US are the forecasts of a model that has at its core a set of three equations—one each for the federal funds rate, inflation, and the output gap. The equations contain an identical set of explanatory variables consisting of the first lagged value of the deviation of each variable from its expected long-run value and three lagged values of the first difference of each core variable. Coefficient estimates indicate that the system of core equations is stable, meaning that forecasts of outcomes far into the future converge to the measures of long-run expectations observed on the date they are formed. Long-run expectations for inflation are taken from survey data, and those for the federal funds rate from forward interest rates. The long-run expectation of the output gap is assumed to be zero. In the equations in this box, each set of weights ($w_{j,i}, j = 1, 2 \ldots 9$) sums to one.

$$(1) \quad \Delta r_t = .03(\pi - \pi^e_\infty)_{t-1} + .12\,(\tilde{x} - 0)_{t-1} - .05\,(r - r^e_\infty)_{t-1} + .33 \sum_{i=1}^{3} w_{1,i}\Delta\pi_{t-i} + .22 \sum_{i=1}^{3} w_{2,i}\Delta\tilde{x}_{t-i} - .27 \sum_{i=1}^{3} w_{3,i}\Delta r_{t-i}.$$

$$(2) \quad \Delta\pi_t = .17(\pi - \pi^e_\infty)_{t-1} + .13\,(\tilde{x} - 0)_{t-1} - .01\,(r - r^e_\infty)_{t-1} - .27 \sum_{i=1}^{3} w_{4,i}\Delta\pi_{t-i} - .17 \sum_{i=1}^{3} w_{5,i}\Delta\tilde{x}_{t-i} + .02 \sum_{i=1}^{3} w_{6,i}\Delta r_{t-i}.$$

$$(3) \quad \Delta\tilde{x}_t = .02(\pi - \pi^e_\infty)_{t-1} - .04(\tilde{x} - 0)_{t-1} - .21(r - r^e_\infty)_{t-1} + .09 \sum_{i=1}^{3} w_{7,i}\Delta\pi_{t-i} + .19 \sum_{i=1}^{3} w_{8,i}\Delta\tilde{x}_{t-i} + .08 \sum_{i=1}^{3} w_{9,i}\Delta r_{t-i}.$$

The variables are defined as follows:

r = federal funds rate

π = inflation rate of chain-weight price index for personal consumption expenditures

$\tilde{x}$ = percentage gap between actual and potential output

π^e_∞ = expected long-run rate of inflation

r^e_∞ = expected long-run value of the federal funds rate.

The set of equations is able to generate expectations of the values of the three core variables at any future date. (Forecasts of π^e_∞ and r^e_∞ equal their most recent observed value.) For each additional variable for which an expectation appears in FRB/US, an auxiliary equation, which expresses the variable as a function of its own past values and of the set of explanatory variables appearing in the core equations, is added to the forecasting model.

Expectations in Individual Decisionmaking

In the FRB/US model, expectations about future economic conditions influence current prices and activity by means of two distinct channels. Through the first channel, *asset valuation,* today's price of an asset is linked to the expected earnings stream of the asset and the expected rate of return on alternative assets. Thus, in the model, current bond and stock prices are determined by the present discounted value of expected coupon and dividend payments. Through the second channel, *adjustment dynamics,* expectations play a role in reducing the costs of economic frictions. Households, in maximizing their welfare, and firms, in maximizing their profits, face various frictions in pursuing their goals, such as costs associated with adjusting the rate of household purchases of durable goods or the rate of business investment in capital equipment. In FRB/US, small changes in activity, made over several periods, are generally less costly than the same cumulative change made in a single period. As a result, anticipation of relevant future conditions benefits households and firms. The more accurately they forecast future events, the less frequently they must make large revisions to their economic plans and, consequently, the lower are their adjustment costs.

Asset Valuation

Tying the current price of an asset to its expected future earnings is a common way of modeling bond and equity prices and is not unique to FRB/US. The price of a bond equals the flow of payments (coupons plus principal repayment) that will accrue to the owner of the bond discounted by the opportunity cost of holding the bond. Because an alternative to holding a bond is holding a sequence of short-lived assets, the opportunity cost can be represented, in part, by the set of short-term interest rates expected to prevail over the bond's term to maturity. Thus, the bond's yield depends on expected future short-term interest rates, plus a term premium to compensate for the difference in risk exposure from holding the bond instead of the sequence of short-term assets (see box "Equation for the Ten-Year Treasury Bond Yield").

Similarly, the value of corporate equity depends on the present discounted value of the expected dividend stream accruing to the owner of the equity. In FRB/US, the opportunity cost of holding equity is proportional to the corporate bond rate adjusted for expected inflation. Thus, expectations about future dividends, future inflation, and future short-term interest rates, as captured by the corporate bond rate, determine the current price of equity.

FRB/US also applies the link between the current value of an asset and its expected earnings stream to the valuation of human capital, where the flow of earnings is that expected by an individual over his or her lifetime. The need to have a measure of the value of human capital arises from a theory of consumption in which households base current spending not on current income but on the expected average of income over their remaining lifetime. Households borrow and lend in banking and capital markets to adjust for discrepancies between actual income and average expected income. In FRB/US, the value of human capital is defined as the present discounted value of expected future wage income net of taxes and inclusive of transfer payments.

Equation for the Ten-Year Treasury Bond Yield

According to the expectations theory of the term structure, the current yield on ten-year Treasury bonds equals a weighted average of the values of the federal funds rate expected over the forty-quarter term of the bond, plus a term premium,

$$r10_t = E_t\{\sum_{i=0}^{39} w_i r_{t+i}\} + \mu_t,$$

where $E_t\{.\}$ denotes forecasts based on information available during the current quarter and the weights, w_i, sum to one. In the FRB/US model, the term premium,

$$\mu_t = .46 - .79E_t\{\sum_{i=0}^{39} w_i \tilde{x}_{t+i}\},$$

equals a constant, a cyclical component that varies inversely with the expected gap between actual and potential output, and an unexplained residual (not shown).

The variables are defined as follows:

$r10$ = yield on ten-year Treasury bonds

r = federal funds rate

μ = term premium

$\tilde{x}$ = percentage gap between actual and potential output.

Adjustment Dynamics

The need for expectations in areas of decisionmaking other than asset valuation is determined by the strength of frictions or constraints on dynamic adjustments. As discussed below, slower responses require longer lead times as provided by forecasts of more distant events.

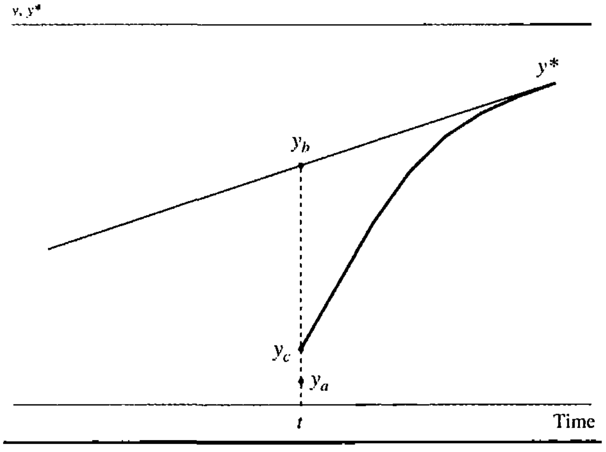
In the nonfinancial sectors of FRB/US, decisions by households and firms rest on forecasts of equilibrium goals that would be selected in the absence of frictions but, because of costs in adjusting activities, are only gradually achieved. Consequently, the economy generally is characterized by disequilibrium, with firms and households behaving optimally but being constrained from immediate movement to equilibrium. Indeed, apart from the expectations required for asset valuation, the condition of gradual adjustments to equilibrium is the main reason that firms and households need to look ahead.

Displacements from equilibrium levels of activity are in many cases due to unexpected events, such as differences between anticipated and actual household income or between expected and realized business sales. The restoration of equilibrium is subject to planning lags, contractual requirements, and other frictions that inhibit full adjustment to equilibrium within a quarter. The extent of frictions varies by activity, so the speed at which equilibrium is restored varies across activities and sectors.

Diagram 1 illustrates differences in behavior due to differences in the extent of friction constraints on dynamic adjustment. Typically, a household purchase of a staple commodity is not subject to significant adjustment costs. The decision to purchase such a staple—milk—is depicted in the diagram, in which the horizontal axis denotes time; t denotes "today," the current period; and line y^* denotes the equilibrium amount of milk consumption for each period. The equilibrium amount of milk consumption is assumed to grow over time as the expected number or age of children in the household increases. The amount of milk carried over from the past, y_a, is below the equilibrium amount needed for today's consumption, y_b. In this example, frictions are not a significant constraint on dynamic adjustment because milk is readily available at a nearby store. Thus, the decision to purchase additional milk is followed by an action that restores the amount of milk on hand to the equilibrium level, y_b. In the absence of significant frictions, forecasts of future requirements for milk are unnecessary because the household can quickly adjust the stock of milk to the equilibrium level required in each subsequent period.

The diagram also depicts a situation in which forward-looking expectations are necessary because of the presence of significant frictions—for example, the purchase by a firm of new capital equipment. Because the firm expects to increase its output, the path of equilibrium purchases, y^*, rises over time. In this example, y_a represents yesterday's level of equipment investment, which is assumed to be below the equilibrium level, y_b, that is consistent with demand and cost conditions today. In contrast to the earlier example, only a fraction of the gap between the previous level of investment, y_a, and the current equilibrium level, y_b, will be eliminated in the current period, t. Delays in adjusting investment may be due

1. Adjustments to equilibrium



not only to the need to collect and assimilate information on customer needs and supplier costs but also to lags in developing engineering and management specifications for the new equipment. The firm may select a slower delivery schedule if equipment producers charge more for early delivery. Finally, additional delays may occur because of the time needed for the installation of the new equipment and the training of operators.

Confronted by these constraints on adjustment, the firm decides on a program of gradual adjustment to equilibrium. Based on the average speed of quarterly adjustment for equipment investment estimated from historical data, the firm moves the current level of equipment investment to y_c, which is about 15 percent closer to the equilibrium, y_b, than the level of investment in the previous period, y_a. In each subsequent period the firm reduces the distance between the actual and equilibrium rates of investment about 15 percent, as shown by the line curving from y_c to the equilibrium path y^*.

Although diagram 1 is useful in illustrating the difference between rapid adjustment to equilibrium in the absence of frictions and gradual adjustment to equilibrium when frictions are present, it does not directly indicate the way in which expectations of future goals influence dynamic adjustments under frictions. That is, diagram 1 provides an external observer's view of different adjustment speeds resulting from differences in the importance of frictions in specific economic activities, but it does not reveal the nature of the decisionmaking process used by firms and households.[8] As indicated in the box "Optimizing Actions When Change Is Costly," an optimal action today reflects plans for adjustment formulated in earlier periods and revised plans for the future based on current information. Thus, in the case of business capital investment, decisions in the current period are based on a weighted average of equilibrium values for past periods and expected equilibrium values for future periods.

Diagram 2 presents the intertemporal planning perspective of a profit-maximizing firm for which frictions are important constraints on actions. The vertical line indicates the decisionmaker's location in

8. The forward-planning aspect of decisionmaking is absent in the partial adjustment equations frequently used in traditional structural models to represent the dynamic behavior depicted in diagram 1. In such equations, action in the current period is related to the distance that remains between today's equilibrium and yesterday's action: $y_t = y_{t-1} + \lambda(y_t^* - y_{t-1})$, where y_t denotes today's action and y_t^* is today's equilibrium value.

Optimizing Actions When Change Is Costly

Firms and households in FRB/US balance the expected costs of deviating from equilibrium against the costs of changing their actions. Expected future costs are discounted so that those in distant periods have a smaller influence on current actions than do those in near-term periods. The optimization of tradeoffs between the costs of current and future actions is represented in FRB/US by the assumption that individuals minimize the following weighted sum of expected current and future costs:

$$E_{t-1}\{\sum_{i=0}^{\infty} B^i[c_0(y_{t+i} - y^*_{t+i})^2 + c_1(\Delta\, y_{t+i})^2$$

$$+ c_2(\Delta^2\, y_{t+i})^2 + c_3(\Delta^3\, y_{t+i})^2 + \ldots]\},$$

where $E_{t-1}\{.\}$ is a forecast of future costs based on information available at the end of the previous period, $t-1$, and B is a discount factor between zero and one. The first squared term in the summation is the cost of deviating from equilibrium in period $t+i$, where c_0 is the unit cost associated with squared deviations from equilibrium, y_{t+i} is the planned activity, and y^*_{t+i} is the associated equilibrium.

The remaining terms in the cost function define the expected costs of frictions associated with changes in actions. Δ is a mathematical shorthand to represent the one-period change in a variable, such as $\Delta y_t \equiv (y_t - y_{t-1})$, and $\Delta^2 y_t \equiv \Delta(y_t - y_{t-1}) \equiv ((y_t - y_{t-1}) - (y_{t-1} - y_{t-2}))$. Many macroeconomic models assume that the principal source of friction in observed behavior is represented by the term $c_1(\Delta y_{t+i})^2$, where c_1 is the unit cost of changing the *level* of activity. A more generalized description of frictions is permitted in FRB/US, with c_2 representing the unit cost of changing the *growth rate* of actions, c_3 representing the unit cost of changing the *rate of acceleration*, and so on.

The decision rule that minimizes this weighted sum of expected costs can be represented as the following:[1]

$$\Delta y_t = a_0(y^*_{t-1} - y_{t-1}) + \sum_{j=1}^{m-1} a_j \Delta y_{t-j} + E_{t-1}\{\sum_{i=0}^{\infty} f_i \Delta y^*_{t+i}\}.$$

Optimal adjustment of activity in the current period, Δy_t, depends on three components: (1) the deviation of last period's activity from its equilibrium level, $y^*_{t-1} - y_{t-1}$; (2) past changes in the levels of activity, Δy_{t-j} (these lagged terms are not present if firms or households minimize only the costs associated with changing the level of activity); and (3) a weighted forecast of future changes in equilibrium levels, Δy^*_{t+i} (the forecast weights, f_i, are functions of the discount factor, B, and the cost parameters, $c_0, c_1, c_2, \ldots$).

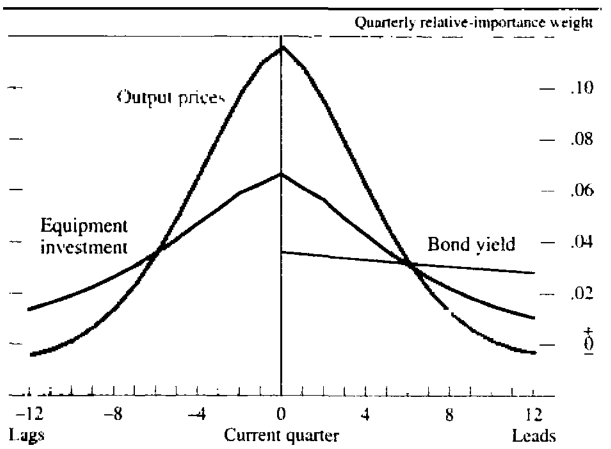
The optimal level of activity, y_t, defined by this decision rule can be expressed equivalently as a two-sided moving average in past and future equilibrium values:

$$y_t = E_{t-1}\{\sum_{i=-\infty}^{\infty} w_i y^*_{t+i}\},$$

where the w_i weights, indicating the relative importance for current decisions of past and future equilibrium values, sum to one. The estimated relative-importance weights for selected activities in FRB/US are plotted in diagram 2.

1. See Peter A. Tinsley, "Fitting Both Data and Theories: Polynomial Adjustment Costs and Error Correction Decision Rules," Finance and Economics Discussion Series, 93-21 (Board of Governors of the Federal Reserve System, 1993).

2. Relative importance of past and future equilibrium values in current decisions



time. Future quarters over the firm's planning period appear to the right of the vertical line, and past quarters to the left. The three curves show the relative-importance weights used in planning for different economic activities and are based on the dynamic responses estimated for these activities in the FRB/US model.

The curve labeled "Equipment investment" depicts the relative-importance weights of past and expected future events in determining investment in capital equipment. Although in principle firms plan over an infinite future, the effective length of the planning period is determined by the extent of the frictions associated with the firm's actions. The relative-importance weights for only the past three years and future three years are plotted because the weights for more distant quarters are close to zero. In the case of equipment investment, the initial twelve quarters of the planning period (to the right of the vertical line) account for about 90 percent of the relative-importance weights over the infinite planning period. Equilibrium levels further in the future are less important to current investment than are those in the nearer term because more-distant needs can be satisfied by equipment purchases in future quarters.

A summary measure of the effective average length of the forward planning period is the *mean lead* determined by the relative-importance weights.[9] Because frictions play a large role in dynamic adjustments for capital equipment, the mean lead for equipment investment is relatively lengthy—approximately six quarters.

Weights for past quarters (to the left of the vertical line) indicate the relative importance of past equilibrium levels for current decisions. The relative-importance weights for past planning periods also approach zero for distant quarters because older plans have been completed by past actions. In a construction similar to that used to define the mean lead, relative-importance weights for past quarters can be used to estimate the *mean lag* response. This construction is useful as a measure of the average speed at which firms respond to unexpected shocks because, by definition, firms cannot respond in advance to unforseen events. In the FRB/US model, the mean lag for responses involving equipment investment is about seven quarters.

Lead and lag responses for activities less affected by frictions in FRB/US also appear in diagram 2. One is the adjustment of output prices by firms to better reflect current and anticipated demand and cost conditions. In the FRB/US model, the prices of most goods and services are "sticky," or slow to adjust to equilibrium. This behavior contrasts with that of models based on classical theories, in which the prices of goods and services are as flexible as those in financial markets. The curve labeled "Output prices" illustrates the relative importance firms assign to past and future equilibrium values in deciding the current price of business output. Because the frictions for pricing are smaller than those for equipment investment, the equilibrium values in periods close to the current quarter are assigned higher weights, and periods further from the current quarter are assigned lower weights. Consequently, the mean lead for pricing is markedly shorter—about three quarters.

Diagram 2 also illustrates the one-sided format of relative-importance weights used in asset valuations. Because frictions are of negligible importance in financial markets, asset valuations are only forward-looking, and the bond yield is determined by forecasts of the federal funds rate over the maturity of the bond. For a ten-year Treasury coupon bond (the example plotted in diagram 2), the relative-importance weights of expected future funds rates decline over the ten-year planning period. Consequently, the associated mean lead is about four years.

Overview of the Equations in FRB/US

The FRB/US model takes into account decisions in three sectors: (1) the household sector, where households make choices about spending, saving, and entering or leaving the workforce; (2) the private business sector, where firms make investment, employment, pricing, production, and financial plans; and (3) the public sector, where local, state, and federal governments (including the Federal Reserve) set monetary and fiscal policies.[10] FRB/US models the behavior of these sectors in the aggregate, but some equations do allow for differences among households or among firms. For example, because small businesses have less ready access to capital markets than large corporations have and must rely more heavily on internal funds to finance capital investment, the equation for investment in business equipment allows the amount of investment to depend, in part, on firms' cash flow.

About half of the approximately fifty behavioral equations in the model—estimated from thirty years of historical data—use explicit measures of expectations. Of this half, the adjustment-dynamics framework is used for the equations for consumption of nondurable goods and services; spending on consumer durables of two types; investment in residential structures, producers' durable equipment, and manufacturing and trade inventories; aggregate labor hours; the price level and rate of hourly labor

9. The mean lead is calculated by multiplying the sequential number of each quarter in the forward planning period by the corresponding relative-importance weight:

$$\sum_{i=0}^{\infty} w_i i / \sum_{i=0}^{\infty} w_i,$$

where $w_i i$ is the relative-importance weight for the i^{th} quarter in the planning period.

10. Decisions made by financial intermediaries such as banks are not modeled directly, but instead are captured by equations that link rates on consumer and business loans and home mortgages to those on comparable government securities.

compensation; and dividends. The asset valuation approach is used for the equations for the yields on three types of bonds; the market value of corporate equities; and the exchange rate. The other behavioral equations—including those for exports, imports, employment, labor supply, investment in nonresidential construction, and the stock of inventories outside of manufacturing and trade—are estimated using traditional specifications without explicit expectations.

Household Sector

In the model, households maximize their welfare, which is measured by the present discounted value of expected utility derived from the consumption of nondurable goods and services.[11] Households are assumed to prefer a smooth pattern of consumption over time and therefore base their spending on estimates of permanent income—defined to be proportional to the sum of human capital and other wealth—rather than on current income alone. By doing so, a household is able to maintain a relatively stable standard of living over its lifetime even if its income fluctuates substantially. This model of consumption is commonly referred to as the "life-cycle" model.[12]

The equation for consumption of nondurable goods and services follows the life-cycle model by allowing aggregate consumption spending to depend on the distribution of income and assets across the population (see box "Consumption of Nondurable Goods and Services"). For example, the life-cycle model predicts that the marginal propensity to consume—the increase in spending associated with a dollar increase in income or assets—is higher for retirees than for young workers, who are assumed to be saving for their retirement and their children's education. Thus, the consumption equation incorporates an estimated higher marginal propensity to consume out of social security benefits (as well as other transfer income) than out of after-tax labor income. Consequently, a shift of resources from workers to retirees in the form of equal increases in payroll taxes and social security benefits is predicted to raise total spending on consumer goods and to reduce saving.

The standard life-cycle approach is modified for FRB/US in three important ways. First, in evaluating lifetime income, households discount their expected future income at a rate estimated to be 25 percent per year. Such a high rate of discount reflects the significant degree of uncertainty that households attach to their future earnings. Given this rate, expected after-tax wage and transfer income over the next five years makes up about three-fourths of human capital.[13] Second, consumption adjusts to permanent income only gradually (in accordance with the adjustment-cost approach described earlier). The frictions that slow adjustment are relatively small, however, and spending therefore adjusts to the level warranted by permanent income at an estimated rate of 20 percent per quarter. Finally, an estimated 10 percent of total consumption is accounted for by a group of households that spend on the basis of current rather than permanent income, perhaps because their access to credit is limited.[14]

Besides choosing how much to consume, households also decide how much to spend on housing, motor vehicles, and other consumer durable goods. Because housing and durable goods last for many years, purchases of these items are modeled as capital investments, where the cost depends in part on the inflation-adjusted interest rate on consumer loans or home mortgages. As with the consumption of nondurable goods and services, the equations for purchases of motor vehicles, other durable goods, and housing reflect households' gradual adjustment to equilibrium.

Income that households do not spend on goods and services is assumed to be invested in various financial assets, including Treasury and corporate securities. Households are assumed to be risk averse, and the equations for returns on long-term bonds and stocks

11. In the FRB/US model, the measure of consumption of nondurable goods and services includes the flow of services from durable goods and therefore differs from the data published under the same name in the national income and product accounts.

12. The life-cycle model was introduced in the 1950s by Franco Modigliani and Richard Brumberg. It is described in A. Ando and F. Modigliani, "The Life-Cycle Hypothesis of Saving: Aggregate Implications and Tests," *American Economic Review*, vol. 53 (1963), pp. 55–84.

13. The idea that income may be discounted at a rate well in excess of the market rate of interest was originally proposed by Milton Friedman in his description of the permanent income model of consumption. See Friedman, "Windfalls, the Horizon, and Related Concepts in the Permanent Income Hypothesis," in Carl Christ and others, eds., *Measurement in Economics* (Stanford University Press, 1963), pp. 3–28.

14. For a number of reasons, including the presence of credit-constrained households, Ricardian Equivalence—the independence of private consumption and the level of government debt—does not hold in the FRB/US model. For example, a temporary reduction in current income taxes funded through the issuance of bonds redeemed over thirty years leads to a short-run increase in consumption in FRB/US.

Consumption of Nondurable Goods and Services

The equilibrium level of consumption depends on current values of stock market and other property wealth and on the present discounted value of expected future income. Income is divided into labor, transfer, and property components, where labor income is represented by total income less the sum of transfer and property income. Expectations of future income are discounted at the rate of 7 percent per quarter. The equilibrium level of consumption also varies procyclically, as represented by the positive coefficient on the output gap, X_{gap}. The adjustment equation for consumption indicates that optimal dynamic planning determines about 90 percent of consumption but that about 10 percent (the coefficient on $\Delta \log Y_{h,t}$) of consumption moves with current income, possibly because of liquidity constraints.

$$(1)\quad \log C_t^* = .8307\, E_t\{\log[(1-.93)(\sum_{i=0}^{\infty} .93^i Y_{h,t+i})]\}$$

$$+ .0584 E_t\{\log[(1-.93)(\sum_{i=0}^{\infty} .93^i Y_{ht,t+i})]\}$$

$$- .0656 E_t\{\log[(1-.93)(\sum_{i=0}^{\infty} .93^i Y_{hp,t+i})]\}$$

$$+ .0325 \log W_{ps,t} + .144 \log W_{po,t}$$

$$+ .00801\, X_{gap,t} - .262.$$

$$(2)\quad \Delta \log C_t = .000554 + .154(\log C_{t-1}^* - \log C_{t-1})$$

$$+ .208\, \Delta \log C_{t-1}$$

$$+ (1-.0995) E_{t-1}\{\sum_{i=0}^{\infty} f_i\, \Delta \log C_{t+i}^*\}$$

$$+ .0995\, \Delta \log Y_{h,t}$$

$$- (.0995 * .208)\, \Delta \log Y_{h,t-1}.$$

$$\Sigma f_i = .74.$$

Definitions

C = Consumption of nondurable goods and services (including service flow from the stock of durables), billions of chained (1992) dollars.

E_t = Expectational operator, using information available at time t.

W_{po} = Household property wealth excluding stock market assets, divided by price index for C.

W_{ps} = Household stock market wealth, divided by price index for C.

X_{gap} = Percentage deviation between real GDP and its potential level.

Y_h = After-tax total household income, divided by price index for C.

Y_{hp} = After-tax household property income, divided by price index for C.

Y_{ht} = Household transfer income, divided by price index for C.

$*$ = Equilibrium value.

include term and risk premiums that compensate households for the risks they bear in holding them. Through the process of arbitrage, asset prices are assumed to adjust rapidly, and risk-adjusted returns are equalized across assets.

Finally, the decision to participate in the workforce is modeled in a relatively simple way that captures the time trends in participation over the past thirty years and the tendency for the participation rate to rise during periods of high employment. The aggregate supply of labor is assumed not to respond to the wage rate or to taxes.

Business Sector

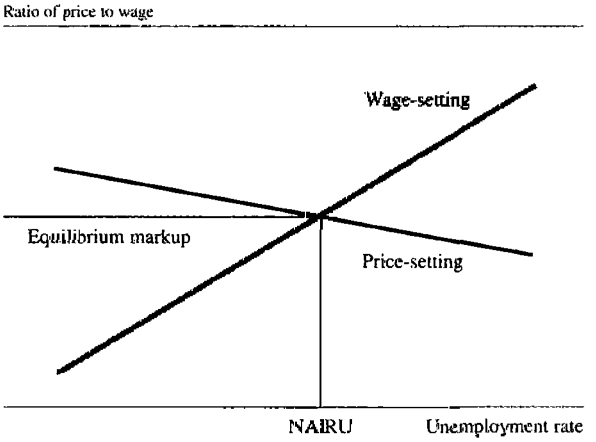
In the model, firms maximize the present discounted value of expected profits. They set prices for their products, negotiate wages and benefits with their employees, and decide how much to invest in buildings and equipment, how much inventory to hold, and how many workers to employ and the length of the workweek. They also select the amount of profits paid out as dividends. Expectations enter these equations because of the need for planning that arises from adjustment costs.

In FRB/US, most firms sell their products in markets characterized by imperfect competition; that is, a firm sets the prices of goods it sells as a markup over costs of production (see box "Prices and Wages"). Abstracting from frictions that impede price adjustment, the profit-maximizing price markup varies inversely with the degree of slack in the economy as measured by the unemployment rate. This relationship is illustrated by the downward-sloping line in diagram 3. In the model, firms are inhibited by the reactions of their customers and competitors from changing their prices too rapidly in response to changes in costs or demand. Prices adjust to their equilibrium level at a rate estimated to be 25 percent per quarter.

The equation for the rate of hourly labor compensation, as measured by the employment cost index, is based implicitly on a model of bargaining over the real wage. Because wages are typically based on explicit and implicit multiperiod contracts, they are less flexible than prices: Wages adjust to their equilibrium level at a rate estimated to be only 10 percent per quarter. Abstracting from such frictions, the ability of workers to bargain for a high real wage depends on their relative bargaining power, which declines during periods of high unemployment. In diagram 3, this relationship is represented by the upward-sloping line, which relates the inverse of the real wage (the price markup) to the unemployment rate.

In equilibrium, price inflation equals the growth rate of unit costs, and the price markup over wages chosen by firms equals the inverse of the real wage resulting from the bargaining process. This equilibrium in wage- and price-setting is shown by the intersection of the two lines in diagram 3. This intersection determines a unique equilibrium unemployment rate consistent with profit-maximizing behavior of firms and the bargaining ability of workers.[15] Because the equilibrium unemployment rate does not depend on the rate of inflation, it is the same as the nonaccelerating inflation rate of unemployment (NAIRU). Because of short-run frictions, the labor market is often not in equilibrium. When it is not in equilibrium, wage and price inflation will tend to rise when unemployment is below the NAIRU and to fall when unemployment is above the NAIRU. But inflation can also change for other reasons, such as a movement in energy or import prices.

3. Price and wage equilibrium



Equilibrium production costs depend on the profit-maximizing mix of capital, labor, and energy used in production, and the mix, in turn, depends on the after-tax cost of capital relative to the prices of other factor inputs. The cost of capital increases as the inflation-adjusted yield on bonds rises and decreases as the price of shares in the stock market rises. Equilibrium labor productivity, or output per unit of labor input, is determined by two factors—long-run trends, assumed to be exogenous, and the equilibrium capital and energy intensity of production.

In the FRB/US model, a firm meets the demand for its goods and services given the price it has set by adjusting production and by building up or drawing down inventory stocks. A firm can alter its level of production by adjusting the number of labor hours hired and by installing new equipment. In the model, the responses of employment and investment depend on the relative costs of labor and capital and on the frictions that slow the adjustment of labor hours and capital.

Because of the costs of adjusting total hours, including the costs of hiring and training new workers and of paying shift and overtime premiums, most firms (covering an estimated two-thirds of private-sector employment) are modeled as adjusting labor input to its equilibrium level at a rate estimated to be about 15 percent per quarter, thus smoothing labor input over the business cycle. The remaining firms (covering one-third of private-sector employment) adjust hours immediately when demand changes by laying off or recalling workers or by using temporary help.

Rapidly altering the rate of equipment investment to its equilibrium level is costly for firms, so their

15. Several theories of wage and price determination yield an equilibrium unemployment rate like that in FRB/US. These theories include labor market search, union wage bargaining, efficiency wages, and insider–outsider interests in employment and compensation. N. Gregory Mankiw and David Romer, eds., *New Keynesian Economics* (MIT Press, 1991), contains examples of such models.

Prices and Wages

Prices. The main price variable in the FRB/US model, P_{xp}, is a domestic absorption (private domestic final sales plus exports, net of indirect taxes) price index. The equilibrium price, P^*_{xp}, is a weighted average of the equilibrium price for private output, P^*_{xg}, and the price of output from other sectors less inventory change, P_{oth}, and is inversely related to the rate of unemployment, L_{urda}. The equilibrium private output price—based on a three-factor Cobb-Douglas production technology—is a markup over minimized cost. The dynamic equation for P_{xp} follows the framework for gradual adjustment described in the text and is constrained to be consistent with a vertical long-run Phillips curve; that is, the coefficients on lagged and future inflation sum to one. The equation also contains terms that allow for the more rapid adjustment of the prices of energy-intensive products, such as retail gasoline, relative to that of the prices of other goods.

(1) $\log P^*_{xp} = \log((P^*_{xg}X_g + P_{oth}X_{oth})/X_p) - .003L_{urda} + .019.$

(2) $\log P^*_{xg} = .280 + .980 \log(P_l/L_{prdgt}) + .020 \log P_{ceng}.$

(3) $$\Delta \log P_{xp,\,t} = .001 + .101(\log P^*_{xp} - \log P_{xp})_{t-1} + \sum_{i=1}^{2} w_i \Delta \log P_{xp,\,t-i} + E_{t-1}\{\sum_{i=0}^{\infty} f_i \Delta \log P^*_{xp,\,t+i}\} + .271\omega_{e,\,t-2}\Delta \log P_{cengr,\,t-1} - .047\omega_{e,\,t-3}\Delta \log P_{cengr,\,t-2}.$$

$\Sigma w_i = .566.$ $\Sigma f_i = .434.$

Wages. The equilibrium nominal wage (compensation per hour) is based on the same relationship that underlies the equilibrium private output price, P^*_{xg}, with an additional term reflecting the negative effect of the unemployment rate on the equilibrium wage. As in the case of the dynamic price equation, the wage equation follows the gradual adjustment framework and is constrained to be consistent with a vertical long-run Phillips curve. Three additional terms—a dummy for wage and price controls, D_{wpc}, the rate of growth of employer social insurance taxes, ΔS_{tax}, and the rate of increase of the real minimum wage, $\Delta \log P_{lminr}$—capture the rapid pass-through of changes in these variables to actual wages.

(4) $$\log P^*_l = .068 + \log L_{prdgt} + 1.020 \log P_{xg} - .020 \log P_{ceng} - .011L_{urda}.$$

(5) $$\Delta \log P_{l,\,t} = -.009 + .030(\log P^*_l - \log P_l)_{t-1} + \sum_{i=1}^{3} w_i \Delta \log P_{l,\,t-i} + E_{t-1}\{\sum_{i=0}^{\infty} f_i \Delta \log P^*_{l,\,t+i}\} - .009D_{wpc,\,t} + 1.400\,\Delta S_{tax,\,t} + .023\,\Delta \log P_{lminr,\,t}.$$

$\Sigma w_i = .709.$ $\Sigma f_i = .291.$

Definitions

D_{wpc} = Dummy for Nixon wage–price controls.

E_{t-1} = Expectational operator, using information available at the end of the previous quarter, $t - 1$.

L_{prdgt} = Trend labor productivity.

L_{urda} = Demographically adjusted unemployment rate.

P_{ceng} = Price index for crude energy consumption.

P_{cengr} = Price for crude energy consumption relative to price of nonfarm business output.

P_l = Compensation per hour in nonfarm business.

P_{lminr} = Minimum wage, deflated by hourly labor compensation.

P_{oth} = Price index for X_{oth}.

P_{xg} = Price index for X_g.

P_{xp} = Price index for X_p.

S_{tax} = Employer social insurance premiums, deflated by total labor compensation.

X_g = Nonfarm, nonhousing business output plus oil imports (net of indirect business taxes).

X_{oth} = Output of housing, farm, household, and institutional sectors plus government output (net of employee compensation) plus non-petroleum imports less inventory investment.

X_p = Private domestic final sales (net of sales taxes and other indirect taxes) plus exports.

ω_e = Energy share of output.

$*$ = Equilibrium value.

adjustment to changes in expected output or in the costs of capital, labor, and energy proceeds relatively slowly, at a rate estimated to be 15 percent per quarter in the FRB/US model. In addition, for a group of firms (accounting for about 20 percent of investment), profit-maximizing investment plans are constrained by their limited access to external sources of funds. For these firms, investment is determined by available cash flow.

Government Sector

In the FRB/US model, the government influences macroeconomic conditions through three activities: monetary policy carried out by the Federal Reserve, fiscal policy carried out by the federal government, and the spending and tax actions of state and local governments.

Monetary policy is characterized by an equation for the level of the federal funds rate. In model simulations, policymakers are assumed to set the federal funds rate to stabilize the rate of inflation at some target level and to hold aggregate demand near the level consistent with full employment. The key characteristics of such a policy are the rate of inflation that policymakers hope to achieve over time—the inflation target—and the sensitivity of the federal funds rate to deviations of actual inflation from this objective and to deviations of the level of economic activity from its potential.

The activities of the federal government are summarized by a group of equations that describe the setting of tax rates (on personal and corporate incomes, payrolls, and the sales value of some goods) and the level of spending (on employee compensation, investment, other purchases of goods and services, transfer payments, net subsidies to government enterprises, and grants to state and local governments). Federal debt (the accumulation of deficits over time) is financed through the issuance of Treasury bills and bonds. A similar set of equations describes the aggregate tax and spending policies of state and local governments.

Expectations in Action: Model Simulations

So far the discussion has focused on the way in which expectations affect the decisions of firms and households. Now it turns to the interactions of these sectors of the economy and, through model simulations, explores the role of expectations in the behavior of aggregate production, employment, and inflation. Specifically, the FRB/US model is used to predict how the overall economy would respond to two hypothetical events—a tightening in fiscal policy achieved through a permanent reduction in defense spending and an increase in the price of oil.

In the analysis of the first scenario, a critical factor is the speed with which the public recognizes that a change in the economic environment has occurred or will occur. The model can be simulated with several possibilities, including gradual learning about the change after it has occurred, recognition of the change at the time it occurs, and anticipation of the change before it occurs. All three possibilities are relevant for fiscal policy, so the analysis of the cutback in defense spending focuses on the sensitivity of the model's predictions to changes in recognition speed.

For the second scenario, the recognition problem does not concern oil prices per se (these are readily observable) but instead the anticipated response of monetary policy to the rise in oil prices. Specifically, the public might think that a change in policy has occurred when none actually has. The macroeconomic implications of such a possibility is the focus of this analysis.

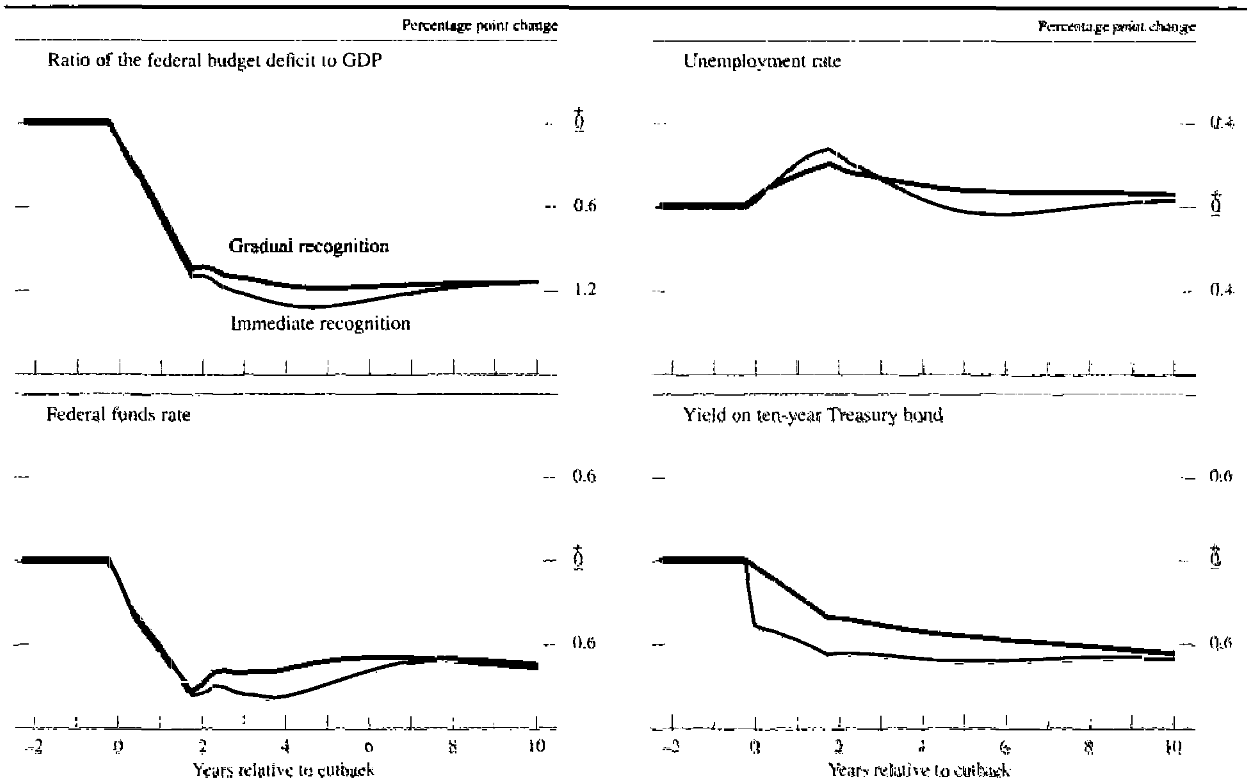
To simulate the effects of these events, a baseline forecast of economic activity is generated given a set of assumptions for fiscal and monetary policy, foreign economic conditions, oil prices, and so forth. Then the model is run again under the assumption that one of these factors—government spending or the price of oil—changes. A comparison of the baseline and simulation forecasts indicates the way the economy would react to such an event (according to the FRB/US model).

Simulation of economic events permits the tracing of the dynamic responses of households and firms to changes in the economic environment. It shows how adjustment costs give rise to macroeconomic disequilibrium—transitory deviations of aggregate demand from the economy's full-employment level of production. Such disequilibrium explains, for example, why many policies that may be beneficial in the long run, such as a reduction in federal borrowing or a return to price stability, often carry with them short-run costs in the form of reduced income and higher unemployment.

Tightening of Fiscal Policy

In the first hypothetical event, the Congress passes legislation that reduces annual defense expenditures

4. Simulated consequences of a cutback in defense spending when recognition of the change is immediate or gradual



NOTE. Both simulations are based on VAR expectations.

relative to baseline by ½ percent of GDP in the first year of the program and 1 percent in the second year. The annual reduction in non-interest outlays, expressed as a percentage of GDP, remains at this level thereafter.[16] The improvement in the overall budget balance is assumed to be a similar percentage of GDP; taxes are adjusted to offset interest savings generated by a reduction in federal borrowing. Monetary policy makers are assumed to act to stabilize the economy by gradually lowering the federal funds rate whenever the level of real activity is below its potential and inflation is less than the targeted rate; when the opposite is true, they raise the funds rate.[17]

Effects under Immediate and Gradual Recognition

The macroeconomic effects of the tightening of fiscal policy, under the assumption that households and firms have VAR expectations, are summarized in diagram 4. Results are shown for two different characterizations of the speed with which the public recognizes the extent of the change in policy: (1) The public at the start of the program recognizes the full implications of the policy change for the long-run value of the real federal funds rate, and (2) the public only gradually revises its estimate of the equilibrium real funds rate, on the basis of observed changes in actual rates of inflation and interest. In both cases, the public's beliefs about the long-run rate of inflation (in other words, about the inflation goals of monetary policy makers) are unaffected by the change in fiscal policy.

Under either assumption about the speed of recognition, the cuts in defense spending weaken aggregate demand—first by decreasing the sales of defense contractors and then by decreasing sales in other sectors that supply goods and services to the defense industry and its workers. The initial effect is magnified as firms reduce employment and household spending responds to the loss in current income. Firms and households project (more or less correctly) that the initial decline in the level of aggregate sales, employment, and income will persist for a few years. Accordingly, firms cut back on their capital spending

16. Such cuts would be only half as great as the actual decline in defense spending since the end of the cold war: Expenditures have fallen from about 5½ percent of GDP in 1989–91 to about 3½ percent today.

17. The speed at which policy responds to changes in real activity and inflation is based on an equation for the funds rate estimated over 1980–95.

and further reduce their demand for labor; households moderate their spending on consumer goods and housing. Under these conditions, unemployment rises.

The initial increase in unemployment is smaller if the public fails to recognize immediately the size and persistence of the change in fiscal policy; in this situation, households and firms underestimate the full contractionary effect of the cuts and see less need to reduce their spending. In contrast, even though immediate recognition magnifies the short-run consequences of the policy change, it nonetheless hastens the return to equilibrium because in this situation firms and households understand a key fact about the economy as represented by FRB/US: A permanent decline in the federal budget deficit, by raising the economy's aggregate rate of saving, lowers the long-term real funds rate consistent with full employment.[18] Therefore, with monetary policy directed toward keeping the rate of inflation unchanged, the public forecasts that the nominal federal funds rate will quickly fall to a lower level and remain there permanently. This view leads to a drop in bond yields immediately upon enactment of the cuts in defense spending.[19] By contrast, when recognition is gradual, bond yields decline more slowly because firms and households only sluggishly revise their estimate of the long-run level of the federal funds rate.

Whether the public reacts quickly or slowly, competitive forces in financial markets ensure that the decline in bond yields is accompanied by falling mortgage rates, rising stock prices, and a depreciating dollar. These changes in wealth and borrowing conditions spur consumer spending and domestic capital formation and increase the net foreign demand for U.S. goods. Eventually, the stimulus from favorable financial conditions fully offsets the contractionary effect of the cuts in defense spending, and unemployment returns to its baseline level. This return takes five years if recognition is immediate and considerably longer if the public only gradually revises its notions of the long-term state of the economy.

Effects of Prior Recognition

In the preceding simulations, the public either recognizes the economic implications of the spending cut as soon as it is implemented or learns about them as time passes. The public might, however, anticipate the policy change before its actual implementation. Such prior recognition could arise when the Congress passes legislation containing provisions that take effect at a later date. Prior recognition could also occur when a prolonged period of discussion within and outside the government has preceded the passage of legislation (as, for example, the public debate over the likely size of future cuts in defense spending that began immediately after the fall of the Berlin Wall, well before an actual reduction in spending).

If firms and households recognize a policy change before its enactment, they can begin to adjust early. Diagram 5 shows the response of the economy to the cuts in defense spending discussed earlier under two assumptions: (1) the public recognizes the full change in policy when the initial cuts are first enacted and (2) the public anticipates the change two years before it occurs. In both cases, households and firms are assumed to have model-consistent expectations.[20]

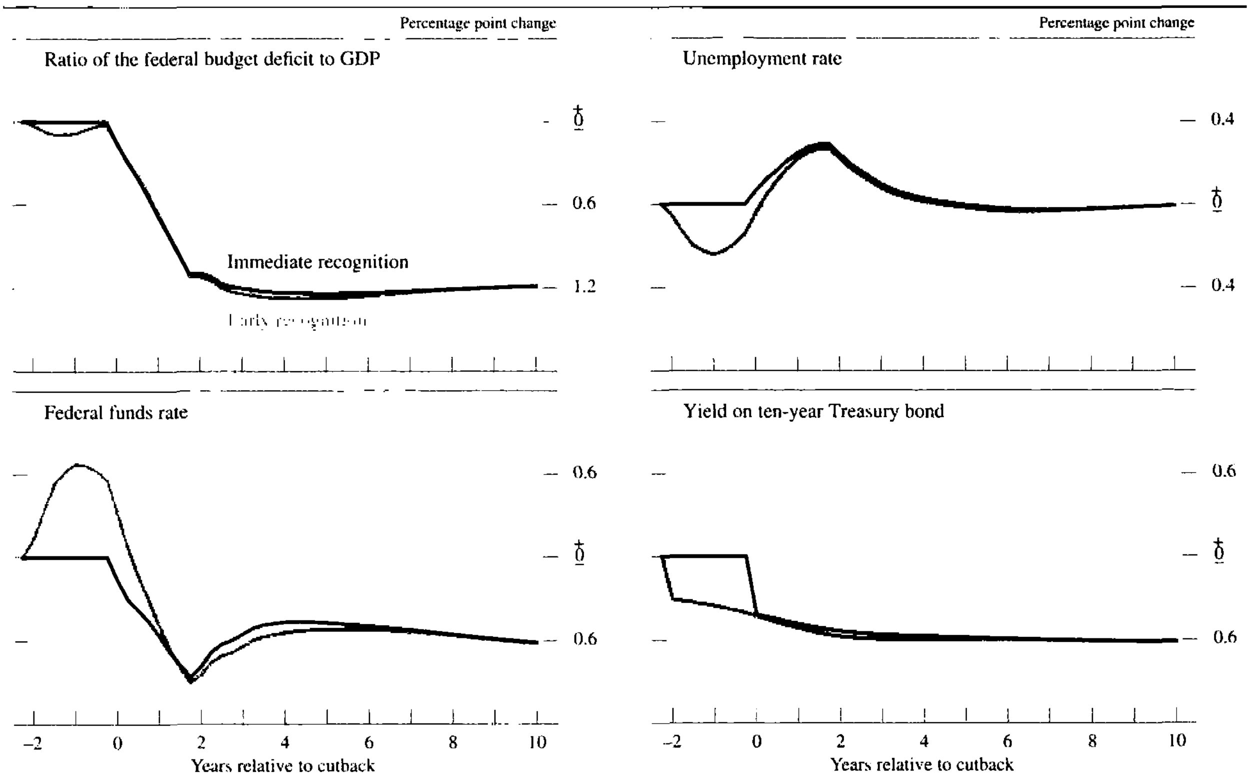
As can be seen, prior recognition causes the economy to strengthen in advance of the spending cuts. The source of this early pickup in activity is the public's knowledge that the coming change in fiscal policy is associated with a lower federal funds rate in the long run. As a result of this expectation, bond yields fall two years before the spending cuts take place. The stimulus from this reduction in borrowing costs—combined with the effects of higher stock prices and a lower foreign exchange value of the dollar—initially increases aggregate demand, particularly in the areas of investment goods and net exports. As a result, the unemployment rate falls before the change in policy, and in response, the federal funds rate rises. However, once the spending cuts are imple-

18. In FRB/US, inflation stability is achieved only if the unemployment rate equals the NAIRU or, equivalently, only if aggregate demand equals the potential level of output. The real interest rate that achieves this equality is the equilibrium real rate. Because aggregate demand is positively related to government spending and negatively related to the real interest rate, a permanent decline in government spending must, if equilibrium is to be restored, be offset by a permanent decline in the real interest rate.

19. The initial decline in long-term interest rates is smaller than the eventual fall, primarily because the term premiums demanded by investors increase with the slowdown in economic activity. Once the level of activity returns to normal, term premiums return to baseline values.

20. Comparison of the black lines in diagrams 4 and 5 shows that altering the *scope* of the public's knowledge about the economy has little effect on the predicted macroeconomic consequences of the change in fiscal policy: For this hypothetical event, what matters is not whether the public has VAR (diagram 4) or model-consistent (diagram 5) expectations, but the speed at which they recognize that a change has occurred. For other scenarios (such as that of the oil price shock), however, altering the scope of the public's knowledge does significantly affect the model's predictions.

Simulated consequences of a cutback in defense spending when policy change is recognized before or immediately upon enactment



NOTE: Both simulations are based on model-consistent expections.

mented, the rise in aggregate demand is reversed, and the pattern of economic activity is roughly the same as if the change had not been recognized in advance.

Rise in Oil Prices

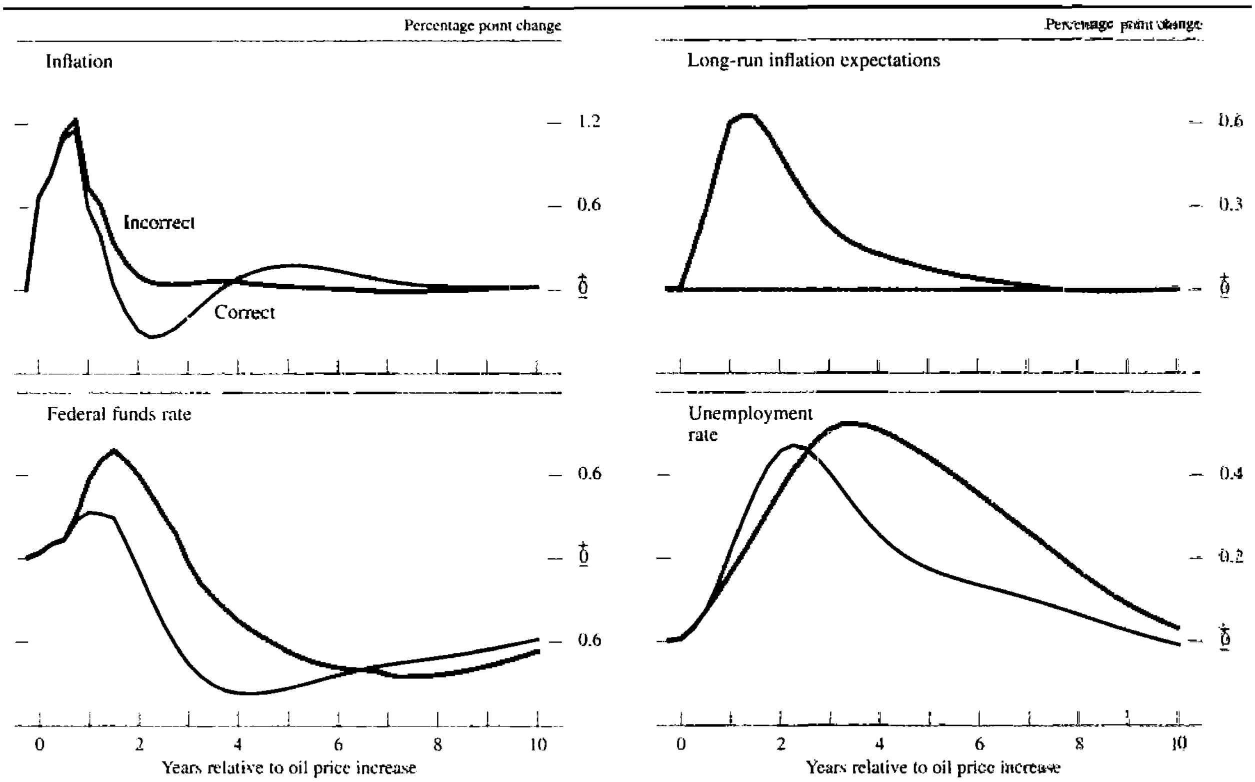
In the simulations involving a cut in defense spending, households and firms face the problem of discerning the long-run objectives of fiscal policy. In one case they recognize the complete details of the program immediately upon enactment; in others they either learn about the change over time or anticipate it in advance. In gauging the likely effects of their actions, policymakers must accept that any of these reactions is possible and that policy actions can influence but not wholly control the public's speed of recognition (or any other aspect of the public's beliefs).

Conceivably, there are circumstances in which the public may come to perceive a change in policy when none has occurred. Such a situation might arise, for example, in the context of a large increase in the price of oil, like the ones that occurred during the middle and late 1970s. Consider a simulation in which oil prices double over the course of a year and remain at this higher level for several years thereafter.[21] This situation is illustrated in diagram 6, under the assumption that firms and households have VAR expectations. As can be seen, such an energy shock would produce a large initial spike in consumer price inflation.

In one situation (curve labeled "Correct" in diagram), the initial rise in inflation is assumed to have no effect on the public's beliefs concerning the goals of monetary policy; the public has confidence in the government's commitment to restoring the baseline rate of inflation and does not change its expectations regarding inflation in the long run. In an alternative situation (curve labeled "Incorrect"), the public, seeing that inflation has risen, modifies its views about

21. A price increase of this magnitude would be considerably smaller than the 250 percent rise in 1973–74 but about the same size as that in 1979–80.

6. Simulated consequences of higher oil prices when public perceptions of monetary policy are correct or incorrect



NOTE. Both simulations are based on VAR expectations.

the long-run target for inflation, even though the goals of policy have not changed. Under such circumstances the price spike leads to expectations of a signficant increase in long-run inflation. Only after policymakers prove their commitment to a noninflationary path and achieve a reduction in the actual rate of inflation—a process that takes several years—do expectations of long-run inflation return to baseline.

The rise in oil prices affects households and firms in similar ways under the two assumptions about expectations. For example, in both cases higher oil prices feed directly into higher prices for gasoline, heating oil, and other sources of energy. The higher energy bill puts pressure on firms' profit margins, and thus on prices, while workers demand higher wages as the cost of living rises. Because wages adjust more slowly than prices, the real wage falls and depresses the demand for consumer goods. Consumption spending is further restrained by the increase in the share of aggregate income flowing overseas to pay for imported oil. Under these circumstances, unemployment rises.

The resultant weakness in aggregate spending is only transitory. Because the goal of monetary policy is to stabilize the economy, the federal funds rate initially rises in response to the original spike in inflation but later falls below baseline as inflation moderates and unemployment rises. With inflation close to baseline after three years, the implied reduction in the real interest rate is sufficient to eventually offset the contractionary effects of higher oil prices.

The cost of bringing inflation down to its original level is greater, in terms of the cumulative increase in unemployment, if the public thinks that the target rate of inflation has risen. This extra cost arises because the public's misperception of policy leads it to make two forecasting errors: (1) an overstatement of the future rate of growth of unit labor costs (the wage rate adjusted for productivity growth) and (2) an understatement of the average future level of unemployment. The first error is a direct consequence of the policy misperception, because equilibrium in FRB/US requires that the rate of growth of unit labor costs must equal the target rate of inflation in the long run. The second error results from the mistaken belief that monetary policy makers will allow inflation to remain permanently higher instead of bringing it back to baseline by restraining aggregate demand. Because the actual rate of inflation depends on the expected growth of unit labor costs and the future level of unemployment (as well as on lagged inflation), the two forecasting errors exacerbate the inflation problem created by higher oil prices. To offset this additional source of inflationary pressure, the stance of monetary policy must be tighter on average. The need for this tighter stance does not disappear until the policy misperception is corrected through an actual reduction in inflation.

CONCLUSION

These simulations provide a glimpse of the key role that expectations play in the new macroeconomic model of the U.S. economy used at the Federal Reserve Board and the ways in which they affect predictions of the economy's response to disturbances in aggregate supply and demand. As noted earlier, economists do not agree on the appropriate treatment of expectations in macroeconomic models. Thus, the FRB/US model was designed to be flexible with respect to the formation of expectations. A subject of ongoing research is the way in which firms and households modify their method of forming expectations in light of new evidence—that is, how they learn about the structure of the changing economic environment. The FRB/US model provides a framework for analyzing this and other issues. □

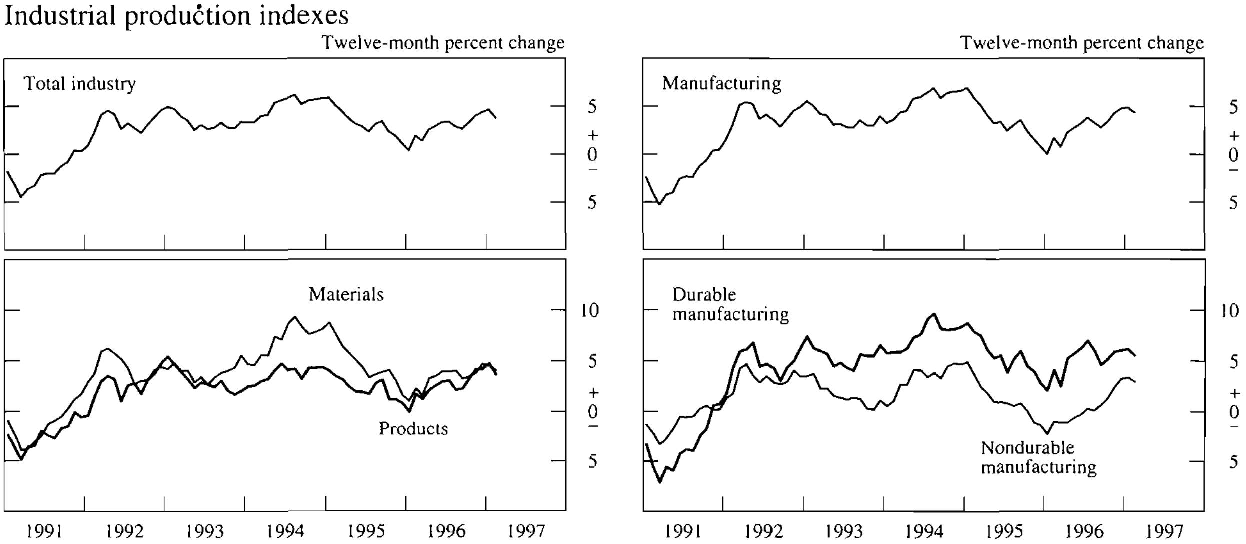
Industrial Production and Capacity Utilization for February 1997

Released for publication March 14

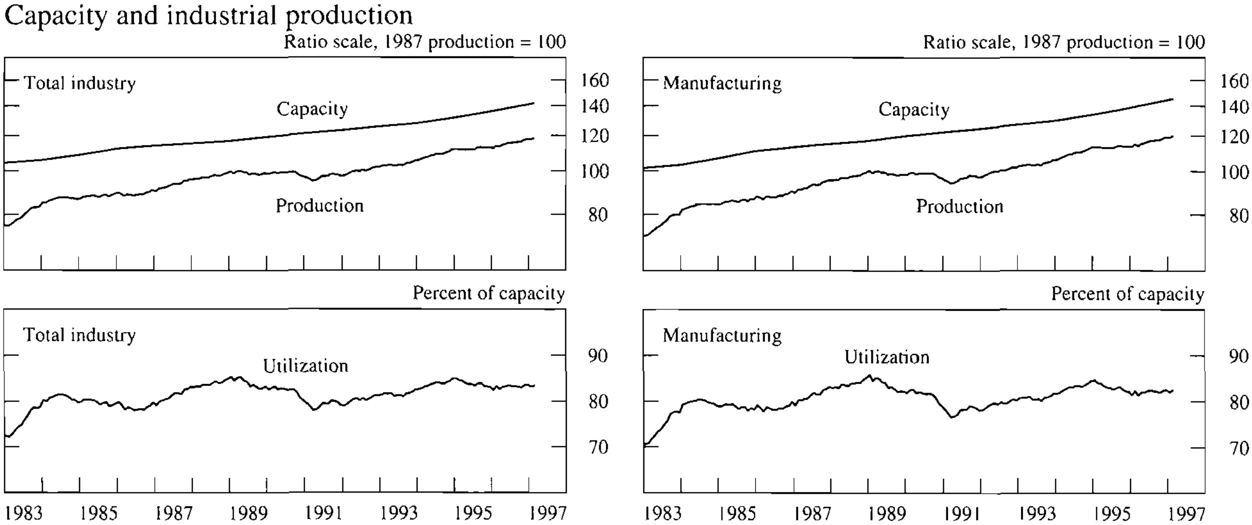
Industrial production rose 0.5 percent in February after having edged down a revised 0.1 percent in January. The increase resulted from gains in the production of durable consumer goods, business equipment, construction supplies, and durable materials; the output of energy products and energy materials fell sharply because of the unseasonably warm weather. At 118.1 percent of its 1992 average, industrial production in February was 3.8 percent above its level of February 1996. Capacity utilization edged up 0.1 percentage point, to 83.3 percent, matching the average level in the last half of 1996.

When analyzed by market group, the data show that the output of consumer goods was unchanged in February; gains in the production of durable goods and nondurable goods other than energy products

Industrial production indexes



Capacity and industrial production



All series are seasonally adjusted. Latest series, February. Capacity is an index of potential industrial production.

Industrial production and capacity utilization, February 1997

Category	Industrial production, index, 1992=100								
	1996		1997		Percentage change				
					1996[1]		1997		Feb. 1996 to Feb. 1997
	Nov.[r]	Dec.[r]	Jan.[r]	Feb.[p]	Nov.[r]	Dec.[r]	Jan.[r]	Feb.[p]	
Total	**117.2**	**117.7**	**117.6**	**118.1**	**.8**	**.4**	**–.1**	**.5**	**3.8**
Previous estimate	117.1	117.7	117.7	...	.8	.5	.0	...	...
Major market groups									
Products, total[2]	114.1	114.3	114.3	114.8	1.1	.2	.0	.5	3.6
Consumer goods	112.3	112.7	112.1	112.1	1.3	.4	–.6	.0	2.1
Business equipment	129.8	130.5	131.8	133.3	.8	.5	1.0	1.1	7.0
Construction supplies	120.7	118.1	118.1	119.7	2.6	–2.2	.0	1.4	5.7
Materials	122.2	123.1	122.7	123.3	.4	.8	–.3	.5	4.1
Major industry groups									
Manufacturing	118.5	119.2	118.9	119.8	.8	.6	–.2	.8	4.4
Durable	128.4	128.9	128.9	130.5	1.0	.4	.1	1.2	5.6
Nondurable	107.9	108.8	108.1	108.5	.5	.8	–.6	.3	3.0
Mining	103.5	105.0	104.3	105.6	.1	1.4	–.6	1.3	4.8
Utilities	114.5	112.7	114.1	110.1	2.4	–1.6	1.3	–3.5	–2.8

Category	Capacity utilization, percent								MEMO Capacity, percentage change, Feb. 1996 to Feb. 1997
	Average, 1967–96	Low, 1982	High, 1988–89	1996			1997		
				Feb.	Nov.[r]	Dec.[r]	Jan.[r]	Feb.[p]	
Total	**82.1**	**71.1**	**85.3**	**83.2**	**83.4**	**83.5**	**83.2**	**83.3**	**3.7**
Previous estimate	...	...	...	...	83.4	83.5	83.3	...	...
Manufacturing	81.2	69.0	85.7	82.2	82.4	82.5	82.1	82.5	4.1
Advanced processing	80.6	70.4	84.2	80.9	80.5	80.7	80.3	80.6	4.9
Primary processing	82.3	66.2	88.9	85.3	86.5	86.6	86.0	86.6	2.3
Mining	87.5	80.3	86.8	86.5	91.1	92.4	91.7	92.9	–.1
Utilities	87.2	75.9	92.6	91.5	91.0	89.3	90.4	87.1	2.1

NOTE. Data seasonally adjusted or calculated from seasonally adjusted monthly data.

1. Change from preceding month.

2. Contains components in addition to those shown.

r Revised.

p Preliminary.

were offset by weather-related declines in the output of energy products. Among durables, the output of motor vehicles advanced further, to a level well above the average pace in 1996. In addition, the production of appliances rebounded, reversing some of the decline posted in January. On balance, however, the output of appliances was somewhat below the high levels of last spring and summer. The production of nondurable consumer goods other than energy products also turned up; so far this quarter, the output in this sector, which perked up late last year, is about unchanged from the fourth-quarter level.

The output of business equipment rose 1.1 percent further in February, with all major categories posting gains. The output of information processing equipment continued to contribute importantly to the strength in this sector, accounting for about half of the February gain. In addition, the ongoing strength in commercial aircraft boosted the production of transit equipment; the output of industrial equipment, which had been quite sluggish last year, rose noticeably for a second month.

The output of construction supplies rebounded, reversing much of the weakening of the previous two months. The production of materials rose 0.5 percent, led by a sizable gain in the output of durable goods materials. Among the components of durable materials, the output of equipment parts, particularly semiconductors, rose sharply. The production of parts for consumer durables, mainly for motor vehicles, also increased. The output of nondurable goods materials edged down 0.3 percent; gains in the production of paper materials were offset by declines in other categories. Over the past few months, the output of paper and chemicals has improved somewhat, while, on balance, the production of textiles has weakened. The production of most energy materials fell in February because of the relatively mild weather.

When analyzed by industry group, the data show that manufacturing output rose 0.8 percent in February after a 0.2 percent decrease in January. The gain mainly reflected a rebound in durables; the output in this sector was about flat in January. The production of nondurables rose 0.3 percent, retracing part of the decline in January. The sharp drop in utility output more than offset a large increase in the index for mining, which was boosted by higher coal output and a pickup in oil and gas drilling activity.

The factory operating rate rose 0.4 percentage point, to 82.5 percent, and was just slightly above the level of a year earlier. The utilization rate for advanced-processing industries edged up 0.3 percentage point, to 80.6 percent; the rate for primary-processing industries rose 0.6 percentage point, to 86.6 percent.

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Statements to the Congress

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions and Consumer Credit of the Committee on Banking and Financial Services, U.S. House of Representatives, February 13, 1997

It is a pleasure to appear here today to present the views of the Federal Reserve Board on some broad issues associated with financial modernization. The unremitting pressures of technology and the market are drastically changing the financial landscape and eroding traditional positions of competitors, inducing new competitive strategies and participants, forcing new regulatory responses, and building pressures on the Congress to shape developments in the public interest.

I know that you have been an active sponsor and supporter of legislation to modernize the financial system. The Board also has been a strong proponent both of expanded financial activities for banking organizations and enhanced opportunities for nonbank financial institutions to enter banking. We continue to support financial modernization because we believe it would provide improved financial services for our citizens. Moreover, both our experience and analysis suggest that the additional risks of new financial products are modest and manageable. Indeed, technology already has resulted in a blurring of product and service-defining lines so dramatic as to make many financial products virtually indistinguishable from one another and the old rules inapplicable. In the process, we have already seen the public benefits—benefits that removal of old barriers could only enhance.

But as we proceed down the path of reform, reforms both desired for their benefits to the public and required by global markets and new technologies, the Board urges that any modifications be tested against certain standards. In particular, the Board believes that the changes we adopt should be consistent with (1) continuing the safety and soundness of the banking system; (2) limiting systemic risks; (3) contributing to macroeconomic stability; and (4) limiting the spread of both the moral hazard and the subsidy implicit in the safety net.

Thus, if my comments today sound cautious, I want the subcommittee to understand that my observations do not reflect opposition to further freeing of constraints on financial competition. To the contrary. We strongly urge an extensive increase in the activities permitted to banking organizations and other financial institutions, provided these activities are financed at nonsubsidized market rates and do not pose unacceptable risks to our financial system. Although a level playing field requires broader powers, it does not require subsidized ones.

SAFETY NET IMPLICATIONS

In this century the Congress has delegated the use of the sovereign credit—the power to create money and borrow unlimited funds at the lowest possible rate—to support the banking system. It has done so indirectly as a consequence of deposit insurance, Federal Reserve discount window access, and final riskless settlement of payment system transactions. The public policy purpose was to protect depositors, stem bank runs, and lower the level of risk to the financial system from the insolvency of individual institutions. In insuring depositors, the government, through the Federal Deposit Insurance Corporation (FDIC), substituted its unsurpassable credit rating for those of banks. Similarly, provisions of the Federal Reserve Act enabled banks to convert illiquid assets, such as loans, into riskless assets (deposits at the central bank) through the discount window and to complete payments using Federal Reserve credits. All these uses of the sovereign credit have dramatically improved the soundness of our banking system and the public's confidence in it.

In the process, it has profoundly altered the risks and returns in banking. Sovereign credit guarantees have significantly reduced the amount of capital that banks and other depositories need to hold because creditors demand less of a buffer to protect themselves from the failure of institutions that are the beneficiaries of such guarantees. In different language, these entities have been able to operate with a much higher degree of leverage—that is, to obtain more of their funds from other than the owners of the organization—than virtually all other financial institutions. At the same time, depositories have been able to take greater risk in their portfolios than would otherwise be the case because private creditors—depositors and others—are less affected by the illiquidity of, or losses on, the banks' portfolios. The end result has been a higher risk-adjusted rate of return on depository institution equity.

Moreover, the enhanced ability to take risk has contributed to economic growth, while the discount window and deposit insurance have contributed to our macroeconomic stability. But all good things have their price. The use of the sovereign credit in banking—even its potential use—creates a moral hazard that distorts the incentives for banks: The banks determine the level of risk-taking and receive the gains therefrom but do not bear the full costs of that risk. The remainder of the risk is transferred to the government. This then creates the necessity for the government to limit the degree of risk it absorbs by writing rules under which banks operate and imposing on these entities supervision by its agents—the banking regulators—to ensure adherence to these rules. The experience with many insured thrift institutions in the 1980s showed just how dangerous lax enforcement of supervisory rules can be. In the end, some hard lessons were learned, many of which were legislated into the FDIC Improvement Act of 1991.

The subsidy to the banking and other depositories created by the use of the unsurpassable sovereign credit rating of the U.S. government is an undesirable but unavoidable consequence of creating a safety net. Indeed, one measure of the effectiveness of a safety net is our ability to minimize the subsidy and limit its incidence outside the area to which it was directed. Some of the value of the subsidy has been passed to depositors of, and borrowers from, banks, for example, as well as to the original bank shareholders. But the U.S. government has been remarkably successful in containing the value of most of the subsidy within depository institutions. The organizational structure of the bank holding company has, on balance, provided an effective means of limiting the use of the sovereign credit subsidy by other parts of the banking organization. To be sure, bank holding companies have *indirectly* benefited from the subsidy because their major assets are subsidiary banks. The value of the subsidy given to the subsidiary banks has no doubt been capitalized, in part, into the share prices of holding companies and has improved their debt ratings, lowering their cost of capital. But holding companies also own nonsubsidized entities that have no *direct* access to the safety net. Accordingly, both bank holding companies and their nonbank subsidiaries have a higher cost of capital than banks.

This is clear in the debt ratings of bank subsidiaries of bank holding companies, which are virtually always higher than those of their parent holding companies. Moreover, existing law and regulation under sections 23A and 23B of the Federal Reserve Act require that any credit extended by a bank to its parent or affiliate not only be totally collateralized and subject to quantitative limits but also be extended at arm's length and at market rates, making a *direct* transfer of the safety net subsidy difficult.

It is true that a bank could pay dividends from its earnings—earnings that have been enhanced by the safety net subsidy to fund its parent's nonbank affiliates. However, the evidence appears to be that such transfers generally do not occur. Existing holding company powers are limited and do not offer a broad spectrum of profitable opportunities. Accordingly, it is not surprising that data for the top fifty bank holding companies indicate that transfers from bank subsidiaries to their parents, which, like dividends, embody the subsidy, appear to have approximately equaled holding company net transfers to their own shareholders and long-term creditors. This finding indicates that few subsidized dollars in the aggregate found their way into the equity accounts of holding company nonbank affiliates from the upstreaming of bank funds.

We must, I think, be continually on guard that the subsidy provided by the safety net does not leak outside the institutions for which it was intended and provide a broad subsidy to other kinds of activities. Put another way, we must remain especially vigilant in maintaining a proper balance between a safety net that fosters economic and financial stabilization and one that benefits the competitive position of private businesses for no particular public purpose. As I noted, safety net subsidies have costs in terms of distorted incentives and misallocated resources. That is why the Congress must be cautious in how the sovereign credit is used.

It has been suggested that the structure of the bank holding company imposes inefficiencies on banking organizations and that these organizations should thus be given the option of conducting expanded financial activities in a direct subsidiary of the bank. The bank subsidiary may be a marginally more efficient way of delivering such services, but we believe it cannot avoid being a funnel for transferring the sovereign credit subsidy directly from the bank to finance the new powers, thereby imparting a subsidized competitive advantage to the subsidiary of the bank. One can devise rules—such as 23A and 23B—to ensure that *loans* from the bank to its own subsidiaries are limited and at *market* rates. One can even devise rules to limit the aggregate equity investment made by banks in their subsidiaries. But one cannot eliminate the fact that the equity invested in subsidiaries is funded by the sum of insured deposits and other bank borrowings that directly benefit from the subsidy of the safety net. Thus, inevitably, a bank subsidiary must have lower costs of capital than an independent entity and even a subsidiary of the bank's parent. Indeed, one would expect that a rational banking organization would, as much as possible, shift its nonbank activity from the bank holding company structure to the bank subsidiary structure. Such a shift from affiliates to bank subsidiaries would increase the subsidy and the competitive advantage of the entire banking organization relative to its nonbank competitors.

I am aware that these are often viewed as only highly technical issues and hence ones that are in the end of little significance. I do not think so. The issue of the use of the sovereign credit is central to how our financial system will allocate credit and hence real resources, the kinds of risk it takes, and the degree of supervision it requires. If the Congress wants to extend the use of the sovereign credit further, to achieve a wider range over which the benefits of doing so can accrue, it ought to make that decision explicitly and accept the consequences of the subsidy on the financial system that come with it. But it should not, in the name of some technical change, or in search of some minor efficiency, inadvertently expand the use of the sovereign credit. This issue would not be so important if we were not in the process of addressing what must surely be a watershed in the revamping of our regulatory structure. We must avoid inadvertently extending the safety net and its associated subsidy without a thorough understanding of the implications of such an extension to the competitive balance and systemic risks of our financial system.

Central to the Board's choice of a financial structure is its desire for one that will be most effective in fostering both a viable financial system and a vibrant economy. These objectives, in our view, would be thwarted if the safety net subsidy directly benefited new activities. With the safety net comes the moral hazard of which I spoke earlier, and its attendant misallocation of resources, and uneven competitive playing field. If the government subsidies directed to banks were channeled to bank subsidiaries, in my judgment, both the benefits and enumerated costs to the financial system and the public would occur.

If banks were permitted to engage in new activities in their own subsidiaries, inevitably virtually all holding companies would shift those activities now conducted in holding company affiliates to bank subsidiaries, eviscerating the holding company structure. If such shifts happened solely as the result of operational efficiencies, no one, including the Board, should mourn the demise of the holding company. But if, as I suspect, such shifts occurred because of the attraction of a government subsidy, we should be concerned because the insidious effects of such subsidies would have spread. The evidence from flows between banks and their parents, relative bond ratings, and the administration of sections 23A and B of the Federal Reserve Act all strongly suggest that the holding company structure is far more capable of containing the sovereign credit subsidy whose purpose is support of the safety net, not providing expanded competitive advantage.

As new activities hopefully expand for banking organizations, we believe that it is essential that we ensure that they are financed at market rates, not subsidized ones. This will not always be easy. Containment of subsidies is often implemented through firewalls and other devices that could also inhibit the very synergies that the expansion of activities is meant to achieve. But we have dealt with these tradeoffs before and should be able to do so in the future as well.

UMBRELLA SUPERVISION

Whether new activities are authorized in bank subsidiaries, bank holding companies, or both, the Congress, in its review of financial modernization, must consider legal entity supervision versus umbrella supervision. The Board believes that umbrella supervision is a realistic necessity to protect our financial system and to limit any misuse of the sovereign credit.

The bank holding company organization is increasingly being managed to take advantage of the synergies between its component parts to deliver better products to the market and higher returns to stockholders. Such synergies cannot occur if the model of the holding company is one in which the parent is just, in effect, a portfolio investor in its subsidiary. Indeed, virtually all of the large holding companies now operate as integrated units and are managed as such.

As bank holding companies began to widen their activities, and as new technologies permitted not only the development of new products but also the systems for controlling them, the banking organization was impelled to develop centralized risk-control techniques that crossed legal entities. Today, risk management for the entire company is increasingly centralized not only at the larger and more sophisticated banking organizations but at other large financial services providers as well. This development reflects the demands of the market place, which views banks and their affiliates and other financial businesses and their affiliates as integrated organizations in terms of financial condition, management, and reputation.

To understand the risk controls of the bank, we have first to come to grips with the fact that the organization is interested in risk and its control, not by instrument or legal entity but for the entire business. This type of control is being adopted by more and more organizations each year and can only increase as more activities are authorized by the regulators and the Congress. Regulatory policies and operating procedures have had to respond to these realities, to focus on the *process* of decisionmaking for the total organization. Thus, the Federal Reserve—the historical umbrella supervisor—also has found it necessary to concentrate more on the process that banking organizations use to manage market, credit, operating, and exchange rate risk, and less on the traditional after-the-fact evaluation of balance sheets that can, and often do, change dramatically the day after they have been reviewed by the supervisors. In such a world, process, if not everything, is critical, and that process is determined increasingly at the parent holding company for *all* of the units of the organization on a consolidated basis.

One could argue—as several witnesses appearing before this subcommittee did on Tuesday—that regulators should only be interested in the entities they regulate and, hence, review the risk-evaluation process only as it relates to their regulated entity. Presumably each regulator of each entity—the bank regulators, the Security and Exchange Commission, and the state insurance and finance company authorities—would look only at how the risk-management process affected their units. It is our belief that this simply will not be adequate. Risks managed on a consolidated basis cannot be reviewed on an individual legal entity basis by different supervisors.

Indeed, our experience has been that a problem in one legal entity can have a contagion effect in other entities. If a bank affiliate begins to have difficulty, the market evaluates the problem as the consolidated entity's problem and can bring pressure on all the units. These pressures usually take the form of funding or liquidity difficulties, as creditors seek to reduce their exposure to all units of an organization that seem to be having trouble. Better safe than sorry. Indeed, it is in the cauldron of the payments and settlement system, where decisions involving large sums must be made in short periods, that this contagion effect might first be seen as participants understandably seek to protect themselves from the uncertainty that accompanies this contagion effect. And that is how crises often begin.

These concerns were part of the motivation for the congressional decision just five years ago to require that foreign banks could enter the United States if, and only if, they were subject to consolidated supervision. This decision, which is consistent with the international standards for consolidated supervision of banking organizations, was a good decision then. It is a good decision today, especially for those banking organizations whose disruption could cause major financial disturbances in U.S. and foreign markets. For foreign and for U.S. banking organizations, retreat from consolidated supervision would, the Board believes, be a significant step backward.

We have to be careful, however, that consolidated umbrella supervision does not inadvertently so hamper the decisionmaking process of banking organizations as to render them ineffectual. The Federal Reserve Board is accordingly in the process of reviewing its supervisory structure and other procedures to reflect the aforementioned market-directed shift from conventional balance sheet auditing to evaluation of the internal risk-management process. Although focused on the key risk-management processes, it would sharply reduce routine supervisory umbrella presence in holding companies. As the committee knows, the Board has recently published for comment proposals to expedite the applications process, and the legislation that the Congress enacted last year eased such procedures as well. Nonetheless, the Board requests even greater modification to its existing statutory mandate so that the required applications process could be sharply cut back, particularly in the area of nonbank financial services.

We would hope that if the Congress authorizes wider activities for financial services holding companies, that it recognize that a bank that is a minor part of such an organization (and its associated safety net) can be protected through adequate bank capital requirements and the application of sections 23A and 23B of the Federal Reserve Act. The case is weak, in our judgment, for umbrella supervision of a holding company that because it owns only a small bank, does not have material access to the safety net.

As I noted when discussing the safety net and bank subsidiaries, attached to all uses of the sovereign credit come efforts by the government to protect the taxpayer. Those entities interested in banks are really interested in access to the safety net because it is far easier to engage in the nonsafety net activities of banks without acquiring a bank. If an organization chooses to deliver some of its services with the aid of the sovereign credit by acquiring a bank, it should not be excused from efforts of the government to look out for the stability of the overall financial system. For bank holding companies that own more than a small bank, this implies umbrella supervision. Although that process will increasingly be designed to reduce supervisory presence and be as nonintrusive as possible, umbrella supervision should not be eliminated but recognized for what it is: the cost of obtaining a subsidy.

BANKING AND COMMERCE

Finally, let me turn to an issue that has bedeviled supervisory and regulatory discussions for years: the potential separation of commerce and banking.

As I indicated earlier, it is clear that rapidly changing technologies are altering the nature of what constitutes finance. Indeed, just as the lines between banking and other financial institutions are often already difficult to discern, the boundaries between finance and nonfinance are likely to become increasingly indistinct as we move into the twenty-first century. For example, computer and software firms will certainly be offering ever more sophisticated financial products. And doubtless financial firms will be offering an increasingly sophisticated array of nonfinancial services. In addition, some of the financial firms who mainly produce products and services that many observers believe should be permissible to banks are also engaged in, or affiliated with, nonfinancial businesses.

Newer technologies will make it highly unlikely that the walling off of any ownership of financial institutions by nonfinancial businesses and vice versa can be continued very far into the twenty-first century. Nonetheless, the Board has concluded that it would be wise to move with caution in addressing the removal of the current legal barriers between commerce and banking. The free and open legal association of banking and commerce would be a profound and surely irreversible structural change in the American economy. Hence, we must be careful to assure ourselves that whatever changes are made in our supervisory structure not distort our evolution to the most efficient financial structure as we move into the next century.

If we were fully confident of how the structure would evolve, we could presumably construct today the regulations that would foster that evolution. But we cannot be certain. We thus run the risk of locking in a set of inappropriate regulations that could adversely alter the development of market structures. We cannot be confident that we know what the true synergies between finance and nonfinance will be in ten or even five years. Our ability to foresee accurately the future implications of technologies and market developments in banking, as in other industries, has not been particularly impressive. As Professor Rosenberg of Stanford University has pointed out, ". . . mistaken forecasts of future structure litter our financial landscape." Consider the view of the 1960s that the "cashless society" was imminent. Nonetheless, the public preference for paper has declined only gradually. Similarly, just a few years ago conventional wisdom argued that banks were dinosaurs that were becoming extinct. The reality today is far from it. Even more recently, it was argued that banks and nonfinancial firms had to merge to save the capital-starved banking system. Today, as you know, virtually all of our banks are very well capitalized.

All these examples suggest that if we change the rules now about banking and commerce under circumstances of uncertainty about future synergies between finance and nonfinance we might end up doing more harm than good. And, as with all rule changes by government, we are likely to find it impossible to correct our errors promptly. Modifications of such a fundamental structural rule as the separation of banking and commerce should accordingly proceed at a deliberate pace, testing the response of markets and technological innovation to the altered rules in the years ahead. The public needs to have confidence in the regulatory structure, implying that we proceed slowly and cautiously.

Excessive delay, however, would doubtless produce some inequities. Expanded financial activities for banking organizations requires, the Board believes, that those firms operating in markets that banks can enter should, in turn, be authorized to engage in banking. However, some of these nonbanking financial firms already own—or are owned by—nonfinancial entities. A complete commerce and banking prohibition would thus require the divestiture of all nonfinancial activities by those organizations that wanted to acquire or establish banks. The principle of caution suggests an approach that may prove useful. Perhaps those organizations that either have or establish well-capitalized and well-managed bank subsidiaries should be permitted a small *basket* of nonfinancial assets—a certain percentage of either consolidated assets or capital. A small permissible basket would establish, in effect, a pilot program to evaluate the efficacy of further breaching of the banking and commerce wall. We found that such a slow and deliberate policy worked well with section 20 affiliates.

Of course, some nonbanking firms would find that their nonfinancial activities would exceed a small basket exemption. Such excess nonconforming assets might be addressed on a case-by-case basis with a scheduled longer-term divestiture to avoid the worst short-term inequities. A basket clause plus a case-by-case review of individual situations might also provide a way to make available a common bank and thrift charter to those unitary thrift institutions that are affiliated with nonfinancial businesses. The Board has no firm opinion on just exactly how such tradeoffs might be made, constrained only by the general concerns I summarized earlier.

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 26, 1997

I appreciate the opportunity to appear before this committee to present the Federal Reserve's semiannual report on monetary policy.[1]

The performance of the U.S. economy over the past year has been quite favorable. Real GDP growth picked up to more than 3 percent over the four quarters of 1996, as the economy progressed through its sixth year of expansion. Employers added more than 2½ million workers to their payrolls in 1996, and the unemployment rate fell further. Nominal wages and salaries have increased faster than prices, meaning that workers have gained ground in real terms, reflecting the benefits of rising productivity. Outside the food and energy sectors, increases in consumer prices actually have continued to edge lower, with core CPI inflation only 2½ percent over the past twelve months.

Low inflation last year was both a symptom and a cause of the good economy. It was symptomatic of the balance and solidity of the expansion and the evident absence of major strains on resources. At the same time, continued low levels of inflation and inflation expectations have been a key support for healthy economic performance. They have helped to create a financial and economic environment conducive to strong capital spending and longer-range planning generally, and so to sustained economic expansion. Consequently, the Federal Open Market Committee (FOMC) believes that it is crucial to keep inflation contained in the near term and ultimately to move toward price stability.

Looking ahead, the members of the FOMC expect inflation to remain low and the economy to grow appreciably further. However, as I shall be discussing, the unusually good inflation performance of recent years seems to owe, in large part, to some temporary factors of uncertain longevity. Thus, the FOMC continues to see the distribution of inflation risks skewed to the upside and must remain especially alert to the possible emergence of imbalances in financial and product markets that ultimately could endanger the maintenance of the low-inflation environment. Sustainable economic expansion for 1997 and beyond depends on it.

For some, the benign inflation outcome of 1996 might be considered surprising, as resource utilization rates—particularly of labor—were in the neighborhood of those that historically have been associated with building inflation pressures. To be sure, an acceleration in nominal labor compensation, especially its wage component, became evident over the past year. But the rate of pay increase still was markedly less than historical relationships with labor market conditions would have predicted. Atypical restraint on compensation increases has been evident for a few years now and appears to be mainly the consequence of greater worker insecurity. In 1991, at the bottom of the recession, a survey of workers at large firms by the International Survey Research Corporation indicated that 25 percent feared being laid off. In 1996, despite the sharply lower unemployment rate and the tighter labor market, the same survey organization found that 46 percent were fearful of a job layoff.

The reluctance of workers to leave their jobs to seek other employment as the labor market tightened has provided further evidence of such concern, as has the tendency toward longer labor union contracts. For many decades, contracts rarely exceeded three years. Today, one can point to five- and six-year contracts—contracts that are commonly characterized by an

1. See "Monetary Policy Report to the Congress," *Federal Reserve Bulletin*, vol. 83 (March 1997), pp. 173–87.

emphasis on job security and that involve only modest wage increases. The low level of work stoppages of recent years also attests to concern about job security.

Thus, the willingness of workers in recent years to trade off smaller increases in wages for greater job security seems to be reasonably well documented. The unanswered question is why this insecurity persisted even as the labor market, by all objective measures, tightened considerably. One possibility may lie in the rapid evolution of technologies in use in the work place. Technological change almost surely has been an important impetus behind corporate restructuring and downsizing. Also, it contributes to the concern of workers that their job skills may become inadequate. No longer can one expect to obtain all of one's lifetime job skills with a high school or college diploma. Indeed, continuing education is perceived to be increasingly necessary to retain a job. The more pressing need to update job skills is doubtless also a factor in the marked expansion of on-the-job training programs, especially in technical areas, in many of the nation's corporations.

Certainly, other factors have contributed to the softness in compensation growth in the past few years. The sharp deceleration in health care costs, of course, is cited frequently. Another factor is the heightened pressure on firms and their workers in industries that compete internationally. Domestic deregulation has had similar effects on the intensity of competitive forces in some industries. In any event, although I do not doubt that all these factors are relevant, I would be surprised if they were nearly as important as job insecurity.

If heightened job insecurity is the most significant explanation of the break with the past in recent years, then it is important to recognize that, as I indicated in last February's Humphrey–Hawkins testimony, suppressed wage cost growth as a consequence of job insecurity can be carried only so far. At some point, the tradeoff of subdued wage growth for job security has to come to an end. In other words, the relatively modest wage gains we have experienced are a temporary rather than a lasting phenomenon because there is a limit to the value of additional job security people are willing to acquire in exchange for lesser increases in living standards. Even if real wages were to remain permanently on a lower upward track than otherwise as a result of the greater sense of insecurity, the rate of change of wages would revert at some point to a normal relationship with inflation. The unknown is when this transition period will end.

Indeed, some recent evidence suggests that the labor markets bear especially careful watching for signs that the return to more normal patterns may be in process. The Bureau of Labor Statistics reports that people were somewhat more willing to quit their jobs to seek other employment in January than previously. The possibility that this reflects greater confidence by workers accords with a recent further rise in the percent of households responding to a Conference Board survey who perceive that job availability is plentiful. Of course, the job market has continued to be quite good recently; employment in January registered robust growth, and initial claims for unemployment insurance have been at a relatively low level of late. Wages rose faster in 1996 than in 1995 by most measures, perhaps also raising questions about whether the transitional period of unusually slow wage gains may be drawing to a close.

To be sure, the pickup in wage gains has not shown through to underlying price inflation. Increases in the core CPI, as well as in several broader measures of prices, have stayed subdued or even edged off further in recent months. As best we can judge, faster productivity growth last year meant that rising compensation gains did not cause labor costs per unit of output to increase any more rapidly. Nonlabor costs, which are roughly a quarter of total consolidated costs of the nonfinancial corporate sector, were little changed in 1996.

Owing in part to this subdued behavior of unit costs, profits and rates of return on capital have risen to high levels. As a consequence, businesses believe that, were they to raise prices to boost profits further, competitors with already ample profit margins would not follow suit; instead, they would use the occasion to capture a greater market share. This interplay is doubtless a significant factor in the evident loss of pricing power in U.S. business.

Intensifying global competition also may be further restraining domestic firms' ability to hike prices as well as wages. Clearly, the appreciation of the dollar, on balance, over the past eighteen months or so, together with low inflation in many of our trading partners, has resulted in a marked decline in non-oil import prices that has helped to damp domestic inflation pressures. Yet it is important to emphasize that these influences, too, would be holding down inflation only temporarily; they represent a transition to a lower price *level* than would otherwise prevail, not to a permanently lower rate of inflation.

Against the background of all these considerations, the FOMC has recognized the need to remain vigilant for signs of potentially inflationary imbalances that might, if not corrected promptly, undermine our economic expansion. The FOMC in fact has signaled a state of heightened alert for possible policy tightening since last July in its policy directives. But we have also taken care not to act prematurely. The FOMC refrained from changing policy last summer, despite expectations of a near-term policy firming by many financial market participants. In light of the developments I have just discussed affecting wages and prices, we thought inflation might well remain damped, and in any case was unlikely to pick up very rapidly, in part because the economic expansion appeared likely to slow to a more sustainable pace. In the event, inflation has remained quiescent since then.

Given the lags with which monetary policy affects the economy, however, we cannot rule out a situation in which a preemptive policy tightening may become appropriate before any sign of actual higher inflation becomes evident. If the FOMC were to implement such an action, it would be judging that the risks to the economic expansion of waiting longer had increased unduly and had begun to outweigh the advantages of waiting for uncertainties to be reduced by the accumulation of more information about economic trends. Indeed, the hallmark of a successful policy to foster sustainable economic growth is that inflation does not rise. I find it ironic that our actions in 1994–95 were criticized by some because inflation did not turn upward. That outcome, of course, was the intent of the tightening, and I am satisfied that our actions then were both necessary and effective and helped to foster the continued economic expansion.

To be sure, 1997 is not 1994. The real federal funds rate today is significantly higher than it was three years ago. Then we had just completed an extended period of monetary ease that addressed the credit stringencies of the early 1990s, and with the abatement of the credit crunch the low real funds rate of early 1994 was clearly incompatible with containing inflation and sustaining growth going forward. In February 1997, in contrast, our concern is a matter of relative risks rather than of expected outcomes. The real funds rate, judging by core inflation, is only slightly below its early 1995 peak for this cycle and might be at a level that will promote continued noninflationary growth, especially considering the recent rise in the exchange value of the dollar. Nonetheless, we cannot be sure. And the risks of being wrong are clearly tilted to the upside.

I wish it were possible to lay out in advance exactly what conditions have to prevail to portend a buildup of inflation pressures or inflationary psychology. However, the circumstances that have been associated with increasing inflation in the past have not followed a single pattern. The processes have differed from cycle to cycle, and what may have been a useful leading indicator in one instance has given off misleading signals in another.

I have already discussed the key role of labor market developments in restraining inflation in the current cycle and our careful monitoring of signs that the transition phase of trading off lower real wages for greater job security might be coming to a close. As always, with resource utilization rates high, we would need to watch closely a situation in which demand was clearly unsustainable because it was producing escalating pressures on resources, which could destabilize the economy. And we would need to be watchful that the progress we have made in keeping inflation expectations damped was not eroding. In general, though, our analysis will need to encompass all potentially relevant information, from financial markets as well as the economy, especially when some signals, like those in the labor market, have not been following their established patterns.

The ongoing economic expansion to date has reinforced our conviction about the importance of low inflation—and the public's confidence in continued low inflation. The economic expansion almost surely would not have lasted nearly so long had monetary policy supported an unsustainable acceleration of spending that induced a buildup of inflationary imbalances. The Federal Reserve must not acquiesce in an upcreep in inflation, for acceding to higher inflation would countenance an insidious weakening of our chances for sustaining long-run economic growth. Inflation interferes with the efficient allocation of resources by confusing price signals, undercutting a focus on the longer run, and distorting incentives.

This year overall inflation is anticipated to stay restrained. The central tendency of the forecasts made by the Board members and the Reserve Bank presidents has the increase in the total CPI slipping back into a range of 2¾ percent to 3 percent over the four quarters of the year. This slight falloff from last year's pace is expected to owe, in part, to a slower rise in food prices as some of last year's supply limitations ease. More important, world oil supplies are projected by most analysts to increase relative to world oil demand, and futures markets project a further decline in prices, at least in the near term. The recent and prospective declines in crude oil prices not only should affect retail gasoline and home heating oil prices but also should relieve inflation pressures through lower prices for other petroleum products, which are embedded in the economy's underlying cost structure. Nonetheless, the trend in inflation rates in the core CPI and in broader price measures may be somewhat less favorable than in recent years.

A continued tight labor market, whose influence on costs would be augmented by the scheduled increase in the minimum wage later in the year and perhaps by higher growth of benefits now that considerable health care savings already have been realized, could put upward pressure on core inflation. Moreover, the effects of the sharp rise in the dollar over the past eighteen months in pushing down import prices are likely to ebb over coming quarters.

The unemployment rate, according to Board members and Bank presidents, should stay around 5¼ percent to 5½ percent through the fourth quarter, consistent with their projections of measured real GDP growth of 2 percent to 2¼ percent over the four quarters of the year. Such a growth rate would represent some downshifting in output expansion from that of last year. The projected moderation of growth likely would reflect several influences: (1) declines in real federal government purchases should be exerting a modest degree of restraint on overall demand; (2) the lagged effects of the increase in the exchange value of the dollar in recent months likely will damp U.S. net exports somewhat this year; and (3) residential construction is unlikely to repeat the gains of 1996. On the other hand, we do not see evidence of widespread imbalances either in business inventories or in stocks of equipment and consumer durables that would lead to a substantial cutback in spending. And financial conditions overall remain supportive; real interest rates are not high by historical standards, and credit is readily available from intermediaries and in the market.

The usual uncertainties in the overall outlook are especially focused on the behavior of consumers. Consumption should rise roughly in line with the projected moderate expansion of disposable income, but both upside and downside risks are present. According to various surveys, sentiment is decidedly upbeat. Consumers have enjoyed healthy gains in their real incomes along with the extraordinary stock market-driven rise in their financial wealth over the past couple of years. Indeed, econometric models suggest that the more than $4 trillion rise in equity values since late 1994 should have had a larger positive influence on consumer spending than seems to have actually occurred.

It is possible, however, that households have been reluctant to spend much of their added wealth because they see a greater need to keep it to support spending in retirement. Many households have expressed heightened concern about their financial security in old age, which reportedly has led to increased provision for retirement. The results of a survey conducted annually by the Roper Organization, which asks individuals about their confidence in the social security system, shows that between 1992 and 1996 the percent of respondents expressing little or no confidence in the system jumped from about 45 percent to more than 60 percent.

Moreover, consumer debt burdens are near historical highs, while credit card delinquencies and personal bankruptcies have risen sharply over the past year. These circumstances may make both borrowers and lenders a bit more cautious, damping spending.

In fact, we may be seeing both wealth and debt effects already at work for different segments of the population, to an approximately offsetting extent. Saving out of current income by households in the upper income quintile, who own nearly three-fourths of all non-pension equities held by households, evidently has declined in recent years. At the same time, the use of credit for purchases appears to have leveled off after a sharp run-up from 1993 to 1996, perhaps because some households are becoming debt constrained and, as a result, are curtailing their spending.

The Federal Reserve will be weighing these influences as it endeavors to help extend the current period of sustained growth. Participants in financial markets seem to believe that in the current benign environment the FOMC will succeed indefinitely. There is no evidence, however, that the business cycle has been repealed. Another recession will doubtless occur some day because of circumstances that could not be, or at least were not, perceived by policymakers and financial market participants alike. History demonstrates that participants in financial markets are susceptible to waves of optimism, which can, in turn, foster a general process of asset-price inflation that can feed through into markets for goods and services. Excessive optimism sows the seeds of its own reversal in the form of imbalances that tend to grow over time. When unwarranted expectations ultimately are not realized, the unwinding of these financial excesses can act to amplify a downturn in economic activity, much as they can amplify the upswing. As you know, last December I put the question this way: ". . . how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions . . .?"

We have not been able, as yet, to provide a satisfying answer to this question, but there are reasons in the current environment to keep this question on the table. Clearly, when people are exposed to long periods of relative economic tranquility, they seem inevitably prone to complacency about the future. This is understandable. We have had fifteen years of economic expansion interrupted by only one recession—and that was six years ago. As the memory of such past events fades, it naturally seems ever less sensible to keep up one's guard against an adverse event in the future. Thus, it should come as no surprise that, after such a long period of balanced expansion, risk premiums for advancing funds to businesses in virtually all financial markets have declined to near-record lows.

Is it possible that there is something fundamentally new about this current period that would warrant such complacency? Yes, it is possible. Markets may have become more efficient, competition is more global, and information technology has doubtless enhanced the stability of business operations. But, regrettably, history is strewn with visions of such "new eras" that, in the end, have proved to be a mirage. In short, history counsels caution.

Such caution seems especially warranted with regard to the sharp rise in equity prices during the past two years. These gains have obviously raised questions of sustainability. Analytically, current stock-price valuations at prevailing long-term interest rates could be justified by very strong earnings growth expectations. In fact, the long-term earnings projections of financial analysts have been marked up noticeably over the last year and seem to imply very high earnings growth and continued rising profit margins, at a time when such margins are already up appreciably from their depressed levels of five years ago. It could be argued that, although margins are the highest in a generation, they are still below those that prevailed in the 1960s. Nonetheless, further increases in these margins would evidently require continued restraint on costs: labor compensation continuing to grow at its current pace and productivity growth picking up. Neither, of course, can be ruled out. But we should keep in mind that, at these relatively low long-term interest rates, small changes in long-term earnings expectations could have outsized impacts on equity prices.

Caution also seems warranted by the narrow yield spreads that suggest perceptions of low risk, possibly unrealistically low risk. Considerable optimism about the ability of businesses to sustain this current healthy financial condition seems, as I indicated earlier, to be influencing the setting of risk premiums, not just in the stock market but throughout the financial system. This optimistic attitude has become especially evident in quality spreads on high-yield corporate bonds—what we used to call "junk bonds." In addition, banks have continued to ease terms and standards on business loans, and margins on many of these loans are now quite thin. Many banks are pulling back a little from consumer credit card lending as losses exceed expectations. Nonetheless, some bank and nonbank lenders have been expanding aggressively into the home equity loan market and so-called "subprime" auto lending, although recent problems in the latter may already be introducing a sense of caution.

Why should the central bank be concerned about the possibility that financial markets may be overestimating returns or mispricing risk? It is not that we have a firm view that equity prices are necessarily excessive right now or risk spreads patently too low. Our goal is to contribute as best we can to the highest possible growth of income and wealth over time, and we would be pleased if the favorable economic environment projected in markets actually comes to pass. Rather, the FOMC has to be sensitive to indications of even slowly building imbalances, whatever their source, that, by fostering the emergence of inflation pressures, would ultimately threaten healthy economic expansion.

Unfortunately, because the monetary aggregates were subject to an episode of aberrant behavioral patterns in the early 1990s, they are likely to be of only limited help in making this judgment. For three decades starting in the early 1960s, the public's demand for the broader monetary aggregates, especially M2, was reasonably predictable. In the intermediate term, M2 velocity—nominal income divided by the stock of M2—tended to vary directly with the difference between money market yields and the return on M2 assets—that is, with its short-term opportunity cost. In the long run, as adjustments in deposit rates caused the opportunity cost to revert to an equilibrium, M2 velocity also tended to return to an associated stable equilibrium level. For several years in the early 1990s, however, the velocities of M2 and M3 exhibited persisting upward shifts that departed markedly from these historical patterns.

In the past two to three years, velocity patterns seem to have returned to those historical relationships, after allowing for a presumed permanent upward shift in the levels of velocity. Even so, given the abnormal velocity behavior during the early 1990s, FOMC members continue to see considerable uncertainty in the relationship of broad money to opportunity costs and nominal income. Concern about the possibility of aberrant behavior has made the FOMC hesitant to upgrade the role of these measures in monetary policy.

Against this background, at its February meeting, the FOMC reaffirmed the provisional ranges set last July for money and debt growth this year: 1 percent to 5 percent for M2, 2 percent to 6 percent for M3, and 3 percent to 7 percent for the debt of domestic nonfinancial sectors. The M2 and M3 ranges again are designed to be consistent with the FOMC's long-run goal of price stability: For if the velocities of the broader monetary aggregates were to continue behaving as they did before 1990, then money growth around the middle portions of the ranges would be consistent with noninflationary, sustainable economic expansion. But even with such velocity behavior this year, when inflation is expected to still be higher than is consistent with our long-run objective of reasonable price stability, the broader aggregates could well grow around the upper bounds of these ranges. The debt aggregate probably will expand around the middle of its range this year.

I will conclude on the same upbeat note about the U.S. economy with which I began. Although a central banker's occupational responsibility is to stay on the lookout for trouble, even I must admit that our economic prospects in general are quite favorable. The flexibility of our market system and the vibrancy of our private sector remain examples for the whole world to emulate. The Federal Reserve will endeavor to do its part by continuing to foster a monetary framework under which our citizens can prosper to the fullest possible extent. □

Chairman Greenspan presented identical testimony before the Subcommittee on Domestic and International Monetary Policy of the Committee on Banking and Financial Services, U.S. House of Representatives, March 5, 1997.

Announcements

REGULATION Y: REVISIONS

The Federal Reserve Board on February 20, 1997, announced revisions to Regulation Y (Bank Holding Companies and Change in Bank Control) that are intended to improve the competitiveness of bank holding companies by eliminating unnecessary regulatory burden and operating restrictions and by streamlining the application and notice process. The revisions are effective April 21, 1997.

The revisions include the following:

- A streamlined and expedited review process for bank and nonbanking proposals by well-run bank holding companies
- A reorganization and expansion of the regulatory list of nonbanking activities and the removal of a number of restrictions on those activities that are outmoded, have been superseded by Board order, or are unnecessary restrictions that would not apply to insured banks that conduct the same activity
- Amendments to the tying restrictions, including removal of the regulatory extensions of those restrictions to bank holding companies and their nonbank subsidiaries
- Other changes to eliminate unnecessary regulatory burden and to streamline and modernize Regulation Y, including changes to the provisions implementing the Change in Bank Control Act and section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

This final rule reflects a number of revisions in response to concerns, suggestions, and information provided by commenters. In particular, the Board has changed in several respects the streamlined procedure governing bank acquisitions and has adopted a number of measures designed to broaden and improve public notice of acquisition proposals. These changes focus on ensuring that interested persons will have a meaningful opportunity to provide the Board with information regarding acquisition proposals.

REGULATION Z: ANNUAL UPDATE TO OFFICIAL STAFF COMMENTARY

The Federal Reserve Board on February 28, 1997, published its annual update to the official staff commentary to Regulation Z (Truth in Lending). The revisions are effective October 1, 1997, and compliance is optional before that date.

The revisions provide guidance on the treatment of some fees paid in connection with mortgage loans and tolerances for accuracy in disclosing the finance charge and other costs. They also discuss such issues as the treatment of debt cancellation agreements and duties of creditors that provide periodic statements electronically.

PROPOSED ACTION

The Federal Reserve Board on February 12, 1997, requested comment on a second proposal revising the official staff commentary to Regulation M, which implements the Consumer Leasing Act. The act requires that lessors provide uniform cost and other disclosures about consumer lease transactions. Comments were requested by March 13, 1997.

FINAL DECISION AND FINAL ORDER OF PROHIBITION AND ASSESSMENT OF CIVIL MONEY PENALTY

The Federal Reserve Board announced on February 4, 1997, the issuance of its Final Decision and Final Order of Prohibition and Assessment of Civil Money Penalty in the Matter of Ghaith R. Pharaon, a former Bank of Credit and Commerce International (BCCI) insider.

The Board assessed a $37 million fine against Pharaon and permanently barred him from the U.S. banking industry because of his illegal activities.

The Board's Final Decision adopted the Recommended Decision of the Administrative Law Judge who presided at a nineteen-day administrative hearing conducted in 1995 by attorneys from the Board and the Federal Reserve Bank of New York.

The Board found that Pharaon acted illegally as a secret nominee for BCCI when he acquired the Independence Bank of Encino, California, in 1985. The Independence Bank of Encino failed in January 1992.

Pharaon, who is a resident of Saudi Arabia, is the subject of criminal indictments issued by the U.S. Department of Justice and the New York County District Attorney. He participated in the Board's administrative hearing through his counsel but has not returned to the United States to contest personally federal and state criminal charges.

Pharaon has the right to appeal the Board's Final Decision in a federal appellate court.

Revisions to the Money Stock Data

Measures of the money stock were revised in February 1997 to incorporate the results of the annual benchmark and seasonal factor review. Data in tables 1.10 and 1.21 in the statistical appendix to the *Bulletin* reflect these changes beginning with this issue.

The revisions had no effect on the annual growth rate of M2 over 1996, but they raised the annual growth rates of M1 and M3 by 0.1 and 0.3 percentage points, respectively, over the past year.

The benchmark incorporates minor revisions to data reported on the weekly and quarterly deposit reports, and it takes account of deposit data from call reports for banks and thrift institutions that are not weekly or quarterly deposit reporters. These revisions to deposit data start in 1994. The benchmark also incorporates minor revisions to estimates of individual retirement accounts and Keogh accounts at banks and thrift institutions using Call Reports starting in the mid-1980s. The benchmark also incorporates historical data for a number of money market mutual funds that began reporting for the first time during 1996. Finally, some money market mutual funds have been reclassified from the retail category into the institutional category. These revisions to the money fund data generally lowered the level of M2 slightly, but they raised the level of M3 by amounts that cumulate to $23 billion by late 1996.

Seasonal factors for the monetary aggregates have been revised using the benchmarked data through December 1996. As in the past few years, the X-11 ARIMA procedure was used to derive monthly seasonal factors. Overall, the revisions to seasonal factors slightly shifted the growth of M1, M2, and M3 from the first half to the second half of 1996.

Complete historical data are available in printed form from the Money and Reserves Projection Section, Mail Stop 72, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202) 452-3062. Historical data for the monetary aggregates and their components are available each week in statistical release H.6 on the Board's World Wide Web site (http://www.bog.frb.fed.us) under Domestic and International Research, Statistical Releases, and also from the Economic Bulletin Board of the U.S. Department of Commerce. Call (202) 482-1986 or toll free (800) 782-8872 for information on how to access the Commerce Department bulletin board.

1. Monthly seasonal factors used to construct M1, January 1996–March 1998

Year and month	Currency	Nonbank travelers checks	Demand deposits	Other checkable deposits[1]	
				Total	At banks
1996—January	.9966	.9588	1.0106	1.0154	1.0233
February	.9933	.9575	.9764	.9945	1.0016
March	.9971	.9726	.9815	1.0012	1.0038
April	.9986	.9805	1.0021	1.0226	1.0222
May	.9995	.9911	.9793	.9903	.9880
June	1.0016	1.0272	.9967	.9974	.9943
July	1.0023	1.0606	1.0039	.9931	.9892
August	1.0018	1.0633	.9960	.9899	.9880
September	.9980	1.0404	.9973	.9946	.9934
October	.9967	1.0076	1.0008	.9911	.9884
November	1.0010	.9751	1.0137	.9982	.9957
December	1.0070	.9625	1.0405	1.0117	1.0120
1997—January	.9965	.9594	1.0098	1.0148	1.0229
February	.9930	.9581	.9763	.9944	1.0015
March	.9966	.9732	.9830	1.0015	1.0039
April	.9993	.9817	1.0025	1.0232	1.0229
May	1.0000	.9920	.9790	.9899	.9876
June	1.0016	1.0276	.9974	.9976	.9943
July	1.0025	1.0602	1.0045	.9931	.9892
August	1.0031	1.0623	.9965	.9900	.9882
September	.9973	1.0396	.9974	.9948	.9935
October	.9982	1.0071	1.0001	.9911	.9886
November	1.0013	.9751	1.0130	.9980	.9956
December	1.0071	.9627	1.0401	1.0115	1.0118
1998—January	.9973	.9598	1.0094	1.0146	1.0228
February	.9933	.9587	.9763	.9943	1.0015
March	.9962	.9732	.9839	1.0017	1.0039

1. Seasonally adjusted other checkable deposits at thrift institutions are derived as the difference between total other checkable deposits, seasonally adjusted, and seasonally adjusted other checkable deposits at commercial banks.

2. Monthly seasonal factors used to construct M2 and M3, January 1996–March 1998

Year and month	Savings and MMDA deposits[1]	Small-denomination time deposits[1]	Large-denomination time deposits[1]	Money market mutual funds		RPs	Eurodollars
				In M2	In M3 only		
1996—January	.9946	.9986	.9914	1.0068	1.0288	.9902	1.0126
February	.9937	1.0004	.9957	1.0099	1.0309	.9855	1.0114
March	1.0004	1.0023	.9970	1.0157	1.0131	.9876	1.0106
April	1.0014	1.0027	.9913	1.0106	.9922	.9944	.9926
May	.9984	1.0019	1.0057	.9910	.9868	1.0100	.9904
June	1.0029	1.0008	1.0011	.9893	.9813	1.0257	.9923
July	1.0034	1.0012	.9945	.9959	.9897	1.0044	.9856
August	1.0033	1.0001	.9981	1.0013	.9974	1.0078	.9917
September	1.0011	.9988	.9990	.9916	.9829	1.0106	.9927
October	.9995	.9989	1.0114	.9900	.9885	1.0151	1.0086
November	1.0020	.9975	1.0115	.9953	1.0021	.9939	1.0020
December	.9988	.9963	1.0036	1.0028	1.0040	.9731	1.0072
1997—January	.9944	.9988	.9914	1.0069	1.0288	.9898	1.0146
February	.9938	1.0007	.9960	1.0108	1.0332	.9869	1.0115
March	1.0010	1.0025	.9981	1.0166	1.0147	.9863	1.0094
April	1.0016	1.0030	.9909	1.0099	.9922	.9936	.9926
May	.9982	1.0020	1.0051	.9893	.9849	1.0129	.9905
June	1.0029	1.0007	1.0005	.9888	.9818	1.0260	.9928
July	1.0035	1.0010	.9946	.9959	.9904	1.0030	.9872
August	1.0034	.9999	.9974	1.0018	.9972	1.0094	.9916
September	1.0011	.9986	.9982	.9919	.9830	1.0117	.9934
October	.9994	.9987	1.0119	.9902	.9880	1.0155	1.0096
November	1.0018	.9975	1.0123	.9950	1.0012	.9936	.9983
December	.9987	.9964	1.0040	1.0026	1.0028	.9706	1.0070
1998—January	.9943	.9989	.9909	1.0067	1.0275	.9892	1.0155
February	.9938	1.0009	.9961	1.0113	1.0361	.9879	1.0119
March	1.0014	1.0025	.9986	1.0176	1.0161	.9858	1.0097

1. Seasonal factors are applied to deposits data at both commercial banks and thrift institutions.

3. Weekly seasonal factors used to construct M1, December 2, 1996–April 6, 1998

Week ending	Currency	Nonbank travelers checks	Demand deposits	Other checkable deposits[1]	
				Total	At banks
1996—December 2	.9944	.9620	1.0322	1.0026	.9994
9	1.0039	.9616	1.0269	1.0186	1.0141
16	1.0014	.9622	1.0380	1.0129	1.0131
23	1.0166	.9628	1.0395	1.0098	1.0141
30	1.0115	.9634	1.0501	1.0080	1.0118
1997—January 6	1.0048	.9630	1.0730	1.0382	1.0351
13	1.0004	.9611	1.0304	1.0193	1.0203
20	.9961	.9592	.9964	1.0113	1.0228
27	.9897	.9573	.9638	.9960	1.0121
February 3	.9905	.9554	.9828	1.0006	1.0156
10	.9956	.9567	.9774	.9907	.9889
17	.9948	.9580	.9796	.9924	1.0001
24	.9900	.9593	.9637	.9937	1.0052
March 3	.9922	.9607	.9860	1.0012	1.0092
10	.9980	.9662	.9816	.9904	.9839
17	.9970	.9718	.9901	.9980	.9999
24	.9953	.9774	.9684	1.0019	1.0092
31	.9962	.9830	.9907	1.0159	1.0202
April 7	1.0039	.9844	1.0146	1.0279	1.0222
14	1.0028	.9827	1.0223	1.0265	1.0210
21	.9985	.9810	1.0051	1.0306	1.0340
28	.9944	.9793	.9713	1.0125	1.0199
May 5	.9989	.9798	.9908	1.0073	1.0035
12	1.0011	.9859	.9796	.9860	.9816
19	.9990	.9920	.9815	.9835	.9831
26	1.0004	.9980	.9534	.9831	.9850
June 2	.9981	1.0041	.9985	.9967	.9900
9	1.0055	1.0138	1.0044	.9942	.9802
16	1.0025	1.0241	1.0086	.9948	.9877
23	1.0003	1.0344	.9768	.9993	1.0049
30	.9986	1.0446	.9995	1.0023	1.0057
July 7	1.0089	1.0518	1.0270	.9999	.9908
14	1.0037	1.0567	1.0127	.9878	.9777
21	1.0013	1.0616	.9957	.9914	.9933
28	.9989	1.0664	.9796	.9905	.9947

3. Weekly seasonal factors used to construct M1, December 2, 1996–April 6, 1998—Continued

Week ending	Currency	Nonbank travelers checks	Demand deposits	Other checkable deposits[1]	
				Total	At banks
1997—August 4	1.0032	1.0700	1.0112	.9993	.9903
11	1.0074	1.0664	1.0048	.9820	.9743
18	1.0033	1.0628	1.0043	.9893	.9895
25	.9991	1.0591	.9767	.9882	.9929
September 1	.9988	1.0555	.9910	.9963	.9959
8	1.0038	1.0497	1.0184	.9925	.9791
15	.9984	1.0430	1.0096	.9931	.9882
22	.9949	1.0364	.9807	.9977	1.0037
29	.9924	1.0297	.9803	.9956	1.0033
October 6	1.0000	1.0224	1.0073	.9956	.9882
13	1.0021	1.0142	1.0040	.9856	.9793
20	.9981	1.0060	1.0037	.9920	.9936
27	.9948	.9979	.9812	.9874	.9918
November 3	.9967	.9897	1.0091	.9987	.9909
10	1.0030	.9831	1.0073	.9950	.9850
17	1.0013	.9765	1.0222	.9970	.9938
24	.9996	.9698	.9956	.9934	.9973
December 1	1.0017	.9632	1.0310	1.0078	1.0106
8	1.0040	.9617	1.0287	1.0025	.9901
15	1.0045	.9623	1.0400	.9982	.9940
22	1.0100	.9629	1.0390	1.0140	1.0217
29	1.0119	.9636	1.0469	1.0243	1.0336
1998—January 5	1.0067	.9635	1.0657	1.0373	1.0393
12	1.0020	.9616	1.0349	1.0210	1.0203
19	.9972	.9598	1.0010	1.0150	1.0251
26	.9910	.9580	.9698	.9993	1.0144
February 2	.9900	.9562	.9844	1.0040	1.0180
9	.9958	.9570	.9786	.9917	.9900
16	.9950	.9584	.9788	.9918	1.0008
23	.9910	.9597	.9625	.9928	1.0045
March 2	.9920	.9611	.9855	.9998	1.0078
9	.9983	.9659	.9865	.9884	.9829
16	.9971	.9713	.9916	.9968	1.0000
23	.9960	.9768	.9709	1.0029	1.0103
30	.9942	.9823	.9812	1.0153	1.0189
April 6	1.0000	.9823	1.0194	1.0270	1.0209

1. Seasonally adjusted other checkable deposits at thrift institutions are derived as the difference between total other checkable deposits, seasonally adjusted, and seasonally adjusted other checkable deposits at commercial banks.

4. Weekly seasonal factors used to construct M2 and M3, December 2, 1996–April 6, 1998

Week ending	Savings and MMDA deposits[1]	Small-denomination time deposits[1]	Large-denomination time deposits[1]	Money market mutual funds		RPs	Eurodollars
				In M2	In M3 only		
1996—December 2	.9970	.9971	1.0080	.9997	1.0078	.9843	1.0047
9	1.0048	.9968	1.0069	1.0050	1.0016	.9748	.9934
16	1.0019	.9960	1.0055	1.0084	1.0147	.9757	1.0006
23	.9954	.9955	1.0024	1.0051	1.0025	.9699	1.0053
30	.9927	.9962	.9995	.9963	1.0030	.9680	1.0283
1997—January 6	1.0041	.9983	.9950	.9844	.9562	.9790	1.0195
13	1.0072	.9987	.9920	1.0107	1.0245	.9899	1.0184
20	.9926	.9988	.9904	1.0139	1.0460	.9898	1.0134
27	.9785	.9986	.9897	1.0142	1.0650	.9965	1.0145
February 3	.9867	.9997	.9903	1.0064	1.0461	.9944	1.0029
10	1.0032	1.0004	.9943	1.0096	1.0459	.9914	1.0029
17	.9956	1.0008	.9952	1.0072	1.0253	.9868	1.0144
24	.9853	1.0008	.9983	1.0159	1.0344	.9825	1.0209
March 3	.9942	1.0015	1.0003	1.0132	1.0132	.9810	1.0117
10	1.0147	1.0024	1.0008	1.0162	1.0235	.9825	1.0003
17	1.0062	1.0025	1.0010	1.0193	1.0217	.9916	1.0092
24	.9945	1.0023	.9995	1.0192	1.0155	.9967	1.0086
31	.9915	1.0031	.9904	1.0130	.9987	.9767	1.0187
April 7	1.0145	1.0038	.9877	1.0168	.9995	.9885	.9999
14	1.0155	1.0031	.9880	1.0208	.9993	.9881	.9862
21	.9990	1.0028	.9909	1.0100	.9884	.9952	.9847
28	.9791	1.0023	.9948	.9971	.9847	1.0005	1.0010

4. Weekly seasonal factors used to construct M2 and M3, December 2, 1996–April 6, 1998—Continued

Week ending	Savings and MMDA deposits[1]	Small-denomination time deposits[1]	Large-denomination time deposits[1]	Money market mutual funds		RPs	Eurodollars
				In M2	In M3 only		
1997—May 5	.9956	1.0027	.9978	.9920	.9822	1.0007	.9879
12	1.0060	1.0023	1.0028	.9890	.9821	1.0071	.9822
19	.9989	1.0019	1.0056	.9862	.9856	1.0134	.9878
26	.9923	1.0017	1.0097	.9900	.9890	1.0182	.9983
June 2	.9972	1.0013	1.0086	.9902	.9851	1.0250	.9979
9	1.0183	1.0011	1.0059	.9921	.9862	1.0254	.9910
16	1.0122	1.0006	1.0021	.9936	.9864	1.0345	.9925
23	.9928	1.0001	.9975	.9877	.9750	1.0293	.9894
30	.9900	1.0009	.9942	.9815	.9785	1.0151	.9971
July 7	1.0139	1.0022	.9912	.9854	.9814	1.0054	.9800
14	1.0114	1.0014	.9947	.9970	.9930	.9985	.9745
21	.9988	1.0007	.9949	.9997	.9936	.9989	.9860
28	.9891	1.0001	.9969	.9999	.9951	1.0088	1.0042
August 4	1.0052	1.0003	.9958	.9998	.9872	1.0045	.9969
11	1.0133	1.0007	.9965	1.0045	.9984	1.0114	.9896
18	1.0053	1.0000	.9968	1.0029	.9976	1.0082	.9848
25	.9968	.9995	.9989	1.0039	1.0046	1.0099	.9900
September 1	.9964	.9992	.9984	.9963	.9934	1.0115	1.0001
8	1.0193	.9993	.9980	.9958	.9833	1.0058	.9834
15	1.0125	.9985	.9971	.9961	.9923	1.0134	.9913
22	.9914	.9979	.9979	.9911	.9862	1.0169	.9914
29	.9812	.9985	.9987	.9851	.9693	1.0113	1.0054
October 6	1.0048	1.0001	1.0068	.9854	.9797	1.0088	1.0005
13	1.0075	.9997	1.0125	.9926	.9874	1.0145	1.0046
20	.9985	.9984	1.0123	.9916	.9954	1.0164	1.0099
27	.9897	.9976	1.0145	.9911	.9880	1.0223	1.0216
November 3	.9958	.9976	1.0134	.9896	.9888	1.0132	1.0103
10	1.0138	.9979	1.0147	.9931	.9953	1.0013	.9959
17	1.0070	.9977	1.0119	.9918	1.0022	.9947	.9921
24	.9934	.9972	1.0121	1.0002	1.0083	.9869	.9983
December 1	.9948	.9971	1.0094	.9978	1.0048	.9817	1.0022
8	1.0101	.9969	1.0081	1.0030	1.0027	.9716	.9946
15	1.0047	.9962	1.0064	1.0095	1.0199	.9735	.9988
22	.9935	.9956	1.0033	1.0053	.9990	.9683	1.0042
29	.9847	.9960	1.0003	.9978	.9989	.9657	1.0282
1998—January 5	1.0061	.9983	.9946	.9872	.9699	.9762	1.0179
12	1.0085	.9989	.9919	1.0098	1.0285	.9870	1.0183
19	.9932	.9990	.9898	1.0137	1.0383	.9894	1.0147
26	.9783	.9988	.9892	1.0124	1.0514	.9958	1.0168
February 2	.9867	.9996	.9901	1.0041	1.0347	.9957	1.0083
9	1.0037	1.0005	.9938	1.0082	1.0458	.9929	1.0039
16	.9954	1.0009	.9958	1.0078	1.0313	.9891	1.0121
23	.9845	1.0011	.9974	1.0177	1.0424	.9836	1.0199
March 2	.9935	1.0016	1.0003	1.0142	1.0207	.9819	1.0127
9	1.0137	1.0026	1.0010	1.0170	1.0272	.9819	1.0026
16	1.0060	1.0026	1.0009	1.0201	1.0230	.9895	1.0091
23	.9947	1.0022	.9992	1.0200	1.0158	.9936	1.0089
30	.9914	1.0027	.9939	1.0143	.9992	.9795	1.0180
April 6	1.0144	1.0034	.9906	1.0169	1.0002	.9839	1.0046

1. Seasonal factors are applied to deposits data at both commercial banks and thrift institutions.

Minutes of the Federal Open Market Committee Meeting Held on December 17, 1996

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, December 17, 1996, at 9:00 a.m.

Present:

Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Boehne
Mr. Jordan
Mr. Kelley
Mr. Lindsey
Mr. McTeer
Mr. Meyer
Ms. Phillips
Ms. Rivlin
Mr. Stern
Ms. Yellen

Messrs. Broaddus, Guynn, Moskow, and Parry, Alternate Members of the Federal Open Market Committee

Messrs. Hoenig, Melzer, and Ms. Minehan, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Boston respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Baxter, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Lang, Lindsey, Mishkin, Promisel, Rolnick, Rosenblum, Siegman, Simpson, Sniderman, and Stockton, Associate Economists

Mr. Fisher, Manager, System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Slifman, Associate Director, Division of Research and Statistics, Board of Governors
Mr. Reinhart, Assistant Director, Division of Monetary Affairs, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors
Mr. Barron, First Vice President, Federal Reserve Bank of Atlanta
Messrs. Beebe, Davis, Eisenbeis, and Goodfriend, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Kansas City, Atlanta, and Richmond respectively
Messrs. Gavin, Kos, and Rosengren, Vice Presidents, Federal Reserve Banks of St. Louis, New York, and Boston respectively
Mr. Evans, Assistant Vice President, Federal Reserve Bank of Chicago

By unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on November 13, 1996, were approved.

The Manager of the System Open Market Account reported on developments in foreign exchange markets since the meeting on November 13, 1996. There were no transactions in foreign currencies for System account during this period, and thus no vote was required of the Committee.

The Manager also reported on developments in domestic financial markets and on System open market transactions in government securities and federal agency obligations during the period from November 13, 1996, through December 16, 1996. By unanimous vote, the Committee ratified these transactions.

The Committee members discussed certain changes in the procedures for conducting domestic open market operations that the Manager of the System Open Market Account had proposed for implementation at the beginning of 1997. The changes included advancing the normal time for initiating daily operations by one hour to between 10:30 a.m. and 10:45 a.m. Moving to the earlier time would place Desk operations closer to the period during the day when the financing market was most active and thus in a position to accommodate a larger volume of System transactions when necessary. As at present, the Manager might choose to undertake Desk operations at other times during the day when special circumstances dictate. The Manager also indicated that the normal time for domestic operations might be moved to an even earlier hour after expedited procedures were developed for assembling the necessary statistical information on a timely basis for such operations. In the interest of making information about System operations available more promptly to market participants and the broader public, the Desk also would begin at the start of 1997 to announce the par amount of its market transactions shortly after the completion of the operations. With respect to purchases of Treasury coupon securities for System account, the Desk had adopted about one year ago the practice of making such purchases in separate maturity tranches but might at its option in the future spread such purchases over a number of weeks rather than over the course of several days. This more flexible timing would allow the Desk to inject reserves into the banking system through outright operations as the need arose without waiting for that need to accumulate to particularly high levels.

All the members who commented endorsed the changes, with several noting that they were appropriate responses to evolving market circumstances. Because the new procedures did not involve any alterations in the Committee's current directives, authorizations, or rules, a formal vote was not required.

The Committee then turned to a discussion of the economic and financial outlook and the implementation of monetary policy over the intermeeting period ahead. A summary of the economic and financial information available at the time of the meeting and of the Committee's discussion is provided below, followed by the domestic policy directive that was approved by the Committee and issued to the Federal Reserve Bank of New York.

The information reviewed at this meeting suggested that economic activity had continued to expand at a moderate pace in recent months. Consumer spending had rebounded from its summer lull, but housing demand was somewhat weaker on balance and the growth of business spending on durable equipment had slowed from a very rapid pace. Although inventory investment had picked up, stocks in most sectors had remained well aligned with sales. Both industrial production and employment had recorded sizable advances. Increases in labor compensation had trended up this year, and consumer price inflation also had picked up, but the faster rise in overall consumer prices owed entirely to larger increases in food and energy prices.

Private-sector demand for labor remained solid in November. Private nonfarm payroll employment increased appreciably further in November after an October surge, and the average workweek of private production or nonsupervisory workers retraced more than half of its October decline. Service industries recorded another large gain in employment despite a sharp drop in payrolls at help-supply firms, and the number of jobs in retail trade expanded further in November after a steep rise in October. In the goods-producing sector, employment in construction and manufacturing rose moderately. The civilian unemployment rate increased slightly, to 5.4 percent, in November.

Industrial production rose sharply in November after a small October decline. A rebound in motor vehicle assemblies from the disruptive effects of work stoppages accounted for much of the increase in production in November, but output from utilities also surged in response to unusually cool weather. The production of nondurable consumer goods and business equipment other than motor vehicles also was up significantly in November, while the manufacture of consumer durables and defense and space equipment decreased further. Reflecting the strong advance in production, the utilization of total industrial capacity picked up considerably in November.

Consumer spending increased appreciably on balance in recent months after a lackluster performance in the summer. Total retail sales fell in November but nonetheless were considerably above their average in the third quarter. The November decline reflected weakness in auto sales; retail spending on other items, notably nonauto durable goods, rose significantly further. Spending on services picked up in October (latest data) following a relatively weak third quarter. Housing starts rebounded in November after having declined in September and October. Single-family starts in November were a little below the average pace of previous months in the year, while multifamily starts surged to a level not seen since late 1990. By contrast, sales of both new and existing homes dropped again in October (latest data).

Growth of business fixed investment appeared to have slowed to a moderate pace in the fourth quarter after a sharp rise in the previous quarter. Shipments of nondefense capital goods fell in October, reversing a sizable September gain; however, recent data on orders pointed to further increases in business spending for equipment, especially for communications equipment where shipments already were at a high level. Business investment in transportation equipment evidently weakened, as sales of heavy trucks remained sluggish and production shortfalls held back fleet sales of light vehicles. By contrast, nonresidential construction continued to expand at a solid rate in October, with building activity particularly strong in the office, other commercial, institutional, and industrial categories.

Business inventory investment picked up sharply in October from the slow September pace, but total stocks remained at a low level in relation to sales. Most of the October increase occurred at the wholesale level; inventories of farm products turned up sharply after months of sizable drawdowns, and petroleum stocks were built up from unseasonably low levels. Despite the October rise, the ratio of wholesale inventories to shipments remained at the lower end of its range over recent years. In manufacturing, stocks increased at a pace in line with shipments, and the aggregate inventory–shipments ratio stayed at a very low level. Retail inventories were up moderately in October. The inventory–sales ratio for the sector was unchanged and remained in the middle of its range over recent years.

The nominal deficit on U.S. trade in goods and services was somewhat larger in September than in August; exports decreased slightly in September while imports were little changed. For the third quarter, the deficit widened substantially from its rate in the second quarter as exports fell and imports rose moderately. Nearly all of the decline in exports reflected lower sales of aircraft and gold. Increases in imports were widespread but they were largely offset by declines in imports of gold and semiconductors. Economic growth picked up in most of the major foreign industrial countries in the third quarter, but available indicators generally suggested some slowing of growth in the fourth quarter. In Japan, by contrast, economic activity had been sluggish in the third quarter but appeared to have picked up more recently.

Consumer price inflation in October and November was lifted slightly by sizable advances in energy prices and, to a lesser degree, increases in food prices; however, consumer prices for items other than food and energy rose modestly during the two months. The rise in core consumer prices over the twelve months ended in November was somewhat smaller than it had been over the previous twelve months, although the total index registered a bigger advance as a result of larger increases in food and energy prices. At the producer level, prices of finished energy goods rose sharply in October and November while prices of finished foods advanced less rapidly. Excluding food and energy, prices of finished goods edged lower on balance over October and November, and in the twelve months ended in November, these prices rose substantially less than in the previous twelve months. Average hourly earnings of production and nonsupervisory workers were up considerably in November after having edged down in October. The twelve-month rise in this index was somewhat larger than the advance over the previous twelve months.

At its meeting on November 13, 1996, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions but that included a bias toward the possible firming of reserve conditions during the intermeeting period. The directive stated that in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, somewhat greater reserve restraint would be acceptable and slightly lesser reserve restraint might be acceptable during the intermeeting period. The reserve conditions associated with this directive were expected to be consistent with moderate growth of M2 and relatively strong expansion of M3 over coming months.

Open market operations during the intermeeting period were directed toward maintaining the existing degree of pressure on reserve positions. However, the federal funds rate tended to average a little above the level expected with an unchanged policy stance in apparent response to scattered operating problems and occasional unexpectedly large clearing needs at banks. Other short-term interest rates registered small mixed changes since the November 13 meeting; Treasury bill rates drifted lower, partly because of heightened demands for safety and liquidity as asset markets became more volatile during the period, while year-end pressures boosted rates on private instruments with maturities in early 1997. At longer maturities, yields drifted lower over most of the intermeeting period in response to incoming data that suggested economic growth would remain moderate and inflation subdued, but they rebounded late in the period in response to the release of firmer economic data and growing concerns regarding the sustainability of current domestic asset prices. Despite these concerns, most major indexes of equity prices advanced further on balance.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose slightly over the intermeeting period. The dollar rose even more against the German mark and the French franc amid increased market apprehension that the European Monetary Union's common currency, the euro, will not be as strong a currency as the mark. The dollar also might have been boosted by statements by French and German officials that suggested the dollar was undervalued against their currencies.

Expansion of the broad monetary aggregates was relatively strong in November. Growth of M2 picked up, reflecting a sharp increase in demand deposits and smaller runoffs in other checkable deposits. Inflows to retail money market funds remained substantial. Expansion of M3 moderated somewhat from its brisk pace in October as growth in business demands for credit slowed and banks reduced their reliance on large time deposits and other managed liability components. For the year through November, M2 was estimated to have grown at a rate in the upper half of the Committee's annual range, and M3 at a rate a little above the top of its range. Total domestic nonfinancial debt expanded moderately on balance over recent months and remained in the middle portion of its range.

The staff forecast prepared for this meeting suggested that the expansion would be sustained at a pace close to the economy's estimated growth potential. Consumer spending was projected to increase at a rate generally in line with the anticipated rise in disposable income; the favorable effects on household wealth of the advance that had occurred in stock prices and the ample availability of credit for most borrowers were expected to balance the damping effects of continuing consumer concerns about the adequacy of their savings, the security of their jobs, and the extent of their debt burdens. Homebuilding was forecast to decline somewhat but to stabilize at a relatively high level in the context of continued income growth and the generally favorable cash–flow affordability of home ownership. Business spending on equipment and structures was projected to expand less rapidly in light of some anticipated slowing in the growth of sales and profits. Fiscal policy and the external sector were expected to continue to exert small restraining influences on economic activity over the projection period. Consumer price inflation, excluding the relatively volatile food and energy components of the price index, was forecast to rise slightly over 1997 and 1998 in the context of anticipated high resource use and an accompanying appreciable pickup in the growth of labor compensation that would be augmented by the legislated rise in the federal minimum wage. Somewhat larger increases would have been projected in consumer price inflation in the absence of anticipated technical measurement changes to the index.

In the Committee's discussion of current and prospective developments, members commented that the information received during the relatively short interval since the previous meeting had not materially altered either their assessment that the economy was performing quite favorably or their forecasts of further growth at a pace averaging near the economy's potential. The economy currently displayed fairly solid underpinnings, with few imbalances of the kind that historically had tended to create problems. Against the background of generally supportive financial conditions and a high degree of consumer and business confidence, further economic growth was thought likely to be sustained by appreciable increases in consumer spending and business investment. The overall pace of the expansion was expected to be restrained to an extent, however, by declining federal government outlays for goods and services and ongoing weakness in net exports.

Despite the prospects for moderate economic growth, members observed that the risks on inflation still seemed to be tilted toward some rise over time. Measures of core inflation had displayed little trend and even some decline over the past year. However, wage increases had moved higher over that period, a development suggesting the possibility that labor markets might be tighter than could be sustained over the long term. At some point accelerating labor compensation costs, were they to continue, likely would spill over into higher inflation. Such an outcome remained subject to a great deal of uncertainty, however, in light of the relatively benign behavior in recent years of both wages and prices in comparison with historical experience at prevailing levels of resource utilization.

In the Committee's discussion of developments in major sectors of the economy bearing on the outlook for business activity, members noted that consumer spending had picked up as expected after a lull during the summer months. Survey data and anecdotal reports suggested that consumer confidence was currently high, and there were widespread indications of robust retail sales during the early weeks of the holiday season, though holiday sales were always difficult to read at this stage. Thus far, however, sales of motor vehicles had not strengthened to the extent that was anticipated after full production was restored following a work stoppage at a major manufacturer. Members cited a number of factors—the rise in consumer debt burdens, tightening consumer credit standards, continued worker concerns about job security, and the satisfaction of earlier pent-up demands—that were tending to inhibit the growth in consumer spending and perhaps helped to explain why the sharp increases in stock market wealth had not been accompanied by stronger growth in such spending. The behavior of the stock market injected an additional note of uncertainty into the forecast for consumer spending and the economy more generally. The rise over recent years had been extraordinary and had brought market valuations to fairly high levels relative to earnings and dividends. In these circumstances, the members recognized the need to monitor with special care price movements in the stock market and asset markets more generally for their implications for consumer and other spending. On balance, favorable employment and income conditions seemed likely to foster a level of consumer spending that would provide key support for sustained economic expansion.

The members anticipated smaller though still sizable gains in business fixed investment over the year ahead. Slowing growth in profit levels and cash flows was likely to retard spending for many types of business equipment, but favorable prices, advancing technology, and readily available financing probably would continue to foster rapid expansion in office, computing, and communications equipment. The outlook for nonresidential construction remained uneven across the country, but such construction seemed likely to edge higher on balance over the next several quarters. Members noted in this regard that the construction of office buildings had strengthened in a number of urban areas. Business inventories currently seemed on the whole to be at desired and sustainable levels in relation to sales. In the circumstances, inventory accumulation was projected to remain moderate and, barring unexpected surges or declines in final sales, was not likely to be a significant factor affecting the course of the economy.

The recent information on residential construction was mixed. Weakness in late summer and early fall evidently reflected the effects of earlier increases in mortgage interest rates, but some measures of housing activity in November indicated unexpected strength. In addition, reports from around the country pointed to uneven conditions ranging from further strength to some emerging weakness in regional housing markets. On balance, the statistical and anecdotal information was interpreted, by some members at least, as consistent with a tendency for housing activity to stabilize. In this view, a level of housing construction somewhat below the peak reached earlier in 1996 was likely to be sustained, buoyed in part by the recent decline in mortgage interest rates and the continuing rise in consumer incomes and favorable consumer sentiment.

A modest degree of fiscal restraint seemed likely over the next two fiscal years. Some members expressed optimism with regard to the prospects for an agreement between the President and the Congress that would provide a basis for reaching a balanced budget by the year 2002. Such an agreement would need to include controversial constraints on the growth of entitlements, but its achievement would have favorable effects on financial markets and on business and consumer sentiment more generally, thereby tending to offset at least in part any direct effects of reduced federal spending on aggregate demand.

Members anticipated that the external sector of the economy would continue to exert some restraint on domestic economic activity, though perhaps to a lesser extent than over the past year. In particular, the growth of U.S. exports was expected to accelerate somewhat in association with some strengthening on average in the economies of the nation's key trading partners. The economic recovery in Mexico from its earlier financial crisis was already providing a considerable boost to exports from some parts of the United States.

Inflation had remained subdued, but the members continued to view the risks as tilted toward increases in the future. Labor compensation costs clearly were rising at a faster pace in the context of persistently tight labor markets, and an upturn in core price inflation seemed quite possible at some point in the absence of some easing of pressures in labor markets. However, the members recognized that the increase in wage inflation had been significantly less than would have been anticipated on the basis of historical relationships with labor market conditions, and price performance also had been more favorable than those relationships would have suggested. In the circumstances, there was a good deal of uncertainty regarding the outlook for inflation, including the potential degree of utilization in labor markets, the associated pressures on labor costs, and the ability of firms to pass higher labor costs into prices in markets that generally continued to be described as highly competitive. With the economy operating in the neighborhood of its sustainable potential, relatively minor differences in overall economic growth could have a significant effect over time on whether inflation would tend to trend up or down.

In the Committee's discussion of policy for the intermeeting period ahead, all the members supported a proposal to maintain an unchanged policy stance while also retaining a bias toward restraint in the directive. An unchanged policy was warranted by the quite satisfactory performance of the economy and inflation and the uncertainties surrounding the outlook. Thus, while the longer-term risks might point toward rising inflation, there were reasonable prospects that inflation would remain contained, and any pickup in inflation, should it occur, was likely to be limited at least for a time. In the circumstances, the members concluded that watchful waiting remained the prudent course for policy as they continued to assess ongoing developments. Because the risks of waiting did not appear to be substantial at this juncture, anticipatory tightening was not yet called for.

In the Committee's discussion of possible adjustments to policy during the intermeeting period, members agreed that the retention of an asymmetric directive toward tightening was consistent with their view that the risks remained biased toward higher inflation. Accordingly, while they were not suggesting that policy should be especially quick to react to incoming information over the intermeeting period, they did view the next policy move as more likely to be in the direction of some firming than toward easing. In this connection, some members emphasized that it would be especially important for the Committee to act promptly to counter any tendency for price inflation to rise and for higher inflation expectations to become embedded in financial markets and economic decisionmaking more generally.

At the conclusion of the Committee's discussion, all the members indicated that they supported a directive that called for maintaining the existing degree of pressure on reserve positions and that retained a bias toward the possible firming of reserve conditions during the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, the Committee decided that somewhat greater reserve restraint would be acceptable and slightly lesser reserve restraint might be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with relatively strong expansion in M2 and M3 over coming months.

The Federal Reserve Bank of New York was authorized and directed, until instructed otherwise by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that economic activity has continued to expand at a moderate pace. Private nonfarm payroll employment increased appreciably further in November, although the civilian unemployment rate edged up to 5.4 percent. Industrial production rose sharply in November, in part because of a rebound in motor vehicle assemblies that had been depressed earlier by work stoppages. Consumer spending has posted appreciable gains over recent months after a summer lull. Housing starts rebounded in November after declining in September and October. Business fixed investment appears to be growing moderately after a sharp rise in the third quarter. The nominal deficit on U.S. trade in goods and services widened substantially in the third quarter from its rate in the second quarter. Increases in labor compensation have trended up this year, and consumer price inflation also has picked up owing to larger increases in food and energy prices.

Short-term market interest rates have registered mixed changes since the Committee meeting on November 13, 1996, while long-term yields have risen slightly. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies has risen slightly over the intermeeting period.

Growth of M2 picked up in November, while expansion of M3 moderated somewhat from its brisk pace in October. For the year through November, M2 is estimated to have grown at a rate in the upper half of the Committee's annual range, and M3 at a rate a little above the top of its range. Total domestic nonfinancial debt has expanded moderately on balance over recent months and has remained in the middle portion of its range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the ranges it had established in January for growth of M2 and M3 of 1 to 5 percent and 2 to 6 percent respectively, measured from the fourth quarter of 1995 to the fourth quarter of 1996. The monitoring range for growth of total domestic nonfinancial debt was maintained at 3 to 7 percent for the year. For 1997, the Committee agreed on a tentative basis to set the same ranges as in 1996 for growth of the monetary aggregates and debt, measured from the fourth quarter of 1996 to the fourth quarter of 1997. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, somewhat greater reserve restraint would or slightly lesser reserve restraint might be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with relatively strong expansion in M2 and M3 over coming months.

Votes for this action: Messrs. Greenspan, McDonough, Boehne, Jordan, Kelley, Lindsey, McTeer, Meyer, Mses. Phillips, Rivlin, Mr. Stern, and Ms. Yellen. Votes against this action: None.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, February 4–5, 1997.

The meeting adjourned at 12:40 p.m.

Donald L. Kohn
Secretary

Legal Developments

FINAL RULE—AMENDMENT TO REGULATION H

The Board of Governors is amending 12 C.F.R. Part 208, its Regulation H (Membership of State Banking Institutions in the Federal Reserve System; Recordkeeping and Confirmation of Certain Securities Transactions Effected by State Member Banks). The amendments accommodate developments in recordkeeping, confirmation and settlement requirements for broker-dealers by adding certain yield-related confirmation disclosure requirements for transactions involving debt and asset-backed securities effected by State member banks for customers, and providing for three-day settlement of those transactions. The amendments also clarify that State member banks that effect *de minimis* government securities brokerage transactions and are exempt from registration under Department of the Treasury regulations, also are exempt from Regulation H. Finally, the amendments address the minimum recordkeeping requirements for State member banks exempt from the regulation, require State member banks to establish trading policies and procedures that separate the sales function from the back office function, liberalize the written notification requirements for periodic plans, and include several new definitions and language edits.

Effective April 1, 1997, 12 C.F.R. Part 208 is amended as follows:

Part 208—Membership of State Banking Institutions in the Federal Reserve System (Regulation H)

1. The authority citation for Part 208 continues to read as follows:

Authority: 12 U.S.C. 36, 248(a), 248(c), 321–338a, 371d, 461, 481-486, 601, 611, 1814, 1820(d)(8), 1823(j), 1828(o), 1831o, 1831p-1, 3105, 3310, 3331-3351, and 3906-3909; 15 U.S.C. 78b, 78l(b), 78l(g), 781(i), 78o-4(c)(5), 78q, 78q-1 and 78w; 31 U.S.C. 5318; 42 U.S.C. 4012a, 4104a, 4104b, 4106 and 4128.

Section 208.8—[Amended]

2. In section 208.8, paragraph (k) is removed and reserved.

3. A new section 208.24 is added to subpart A to read as follows:

Section 208.24—Recordkeeping and confirmation of certain securities transactions effected by State member banks.

(a) *Exceptions and safe and sound operations.*

(1) A State member bank may be excepted from one or more of the requirements of this section if it meets one of the following conditions of paragraphs (a)(1)(i) through (a)(1)(iv) of this section:

(i) *De minimis transactions.* The requirements of paragraphs (c)(2) through (c)(4) and paragraphs (e)(1) through (e)(3) of this section shall not apply to banks having an average of less than 200 securities transactions per year for customers over the prior three calendar year period, exclusive of transactions in government securities;

(ii) *Government securities.* The recordkeeping requirements of paragraph (c) of this section shall not apply to banks effecting fewer than 500 government securities brokerage transactions per year; provided that this exception shall not apply to government securities transactions by a State member bank that has filed a written notice, or is required to file notice, with the Federal Reserve Board that it acts as a government securities broker or a government securities dealer;

(iii) *Municipal securities.* The municipal securities activities of a State member bank that are subject to regulations promulgated by the Municipal Securities Rulemaking Board shall not be subject to the requirements of this section; and

(iv) *Foreign branches.* The requirements of this section shall not apply to the activities of foreign branches of a State member bank.

(2) Every State member bank qualifying for an exemption under paragraph (a)(1) of this section that conducts securities transactions for customers shall, to ensure safe and sound operations, maintain effective systems of records and controls regarding its customer securities transactions that clearly and accurately reflect appropriate information and provide an adequate basis for an audit of the information.

(b) *Definitions.* For purposes of this section:

(1) *Asset-backed security* shall mean a security that is serviced primarily by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders.

(2) *Collective investment fund* shall mean funds held by a State member bank as fiduciary and, consistent with local law, invested collectively as follows:

(i) In a common trust fund maintained by such bank exclusively for the collective investment and reinvestment of monies contributed thereto by the bank in its capacity as trustee, executor, administrator, guardian, or custodian under the Uniform Gifts to Minors Act; or

(ii) In a fund consisting solely of assets of retirement, pension, profit sharing, stock bonus or similar trusts which are exempt from Federal income taxation under the Internal Revenue Code (26 U.S.C.).

(3) *Completion of the transaction* effected by or through a state member bank shall mean:

(i) For purchase transactions, the time when the customer pays the bank any part of the purchase price (or the time when the bank makes the book-entry for any part of the purchase price if applicable); however, if the customer pays for the security prior to the time payment is requested or becomes due, then the transaction shall be completed when the bank transfers the security into the account of the customer; and

(ii) For sale transactions, the time when the bank transfers the security out of the account of the customer or, if the security is not in the bank's custody, then the time when the security is delivered to the bank; however, if the customer delivers the security to the bank prior to the time delivery is requested or becomes due then the transaction shall be completed when the banks makes payment into the account of the customer.

(4) *Crossing of buy and sell orders* shall mean a security transaction in which the same bank acts as agent for both the buyer and the seller.

(5) *Customer* shall mean any person or account, including any agency, trust, estate, guardianship, or other fiduciary account, for which a State member bank effects or participates in effecting the purchase or sale of securities, but shall not include a broker, dealer, bank acting as a broker or dealer, municipal securities broker or dealer, or issuer of the securities which are the subject of the transactions.

(6) *Debt security* as used in paragraph (c) of this section shall mean any security, such as a bond, debenture, note or any other similar instrument which evidences a liability of the issuer (including any security of this type that is convertible into stock or similar security) and fractional or participation interests in one or more of any of the foregoing; provided, however, that securities issued by an investment company registered under the Investment Company Act of 1940, 15 U.S.C. 80a-1 *et seq.*, shall not be included in this definition.

(7) *Government security* shall mean:

(i) A security that is a direct obligation of, or obligation guaranteed as to principal and interest by, the United States;

(ii) A security that is issued or guaranteed by a corporation in which the United States has a direct or indirect interest and which is designated by the Secretary of the Treasury for exemption as necessary or appropriate in the public interest or for the protection of investors;

(iii) A security issued or guaranteed as to principal and interest by any corporation whose securities are designated, by statute specifically naming the corporation, to constitute exempt securities within the meaning of the laws administered by the Securities and Exchange Commission; or

(iv) Any put, call, straddle, option, or privilege on a security as described in paragraphs (b)(7)(i), (ii), or (iii) of this section other than a put, call, straddle, option, or privilege that is traded on one or more national securities exchanges, or for which quotations are disseminated though an automated quotation system operated by a registered securities association.

(8) *Investment discretion* with respect to an account shall mean if the State member bank, directly or indirectly, is authorized to determine what securities or other property shall be purchased or sold by or for the account, or makes decisions as to what securities or other property shall be purchased or sold by or for the account even though some other person may have responsibility for such investment decisions.

(9) *Municipal security* shall mean a security which is a direct obligation of, or obligation guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more States, or any security which is an industrial development bond (as defined in 26 U.S.C. 103(c)(2) the interest on which is excludable from gross income under 26 U.S.C. 103(a) by reason of the application of paragraph (4) or (6) of 26 U.S.C. 103(c) (determined as if paragraphs (4)(A), (5) and (7) were not included in 26 U.S.C. 103(c), paragraph (1) of 26 U.S.C. 103(c) does not apply to such security.

(10) *Periodic plan* shall mean:

(i) A written authorization for a State member bank to act as agent to purchase or sell for a customer a specific security or securities, in a specific amount (calculated in security units or dollars) or to the extent of dividends and funds available, at specific time intervals, and setting forth the commission or charges to be paid by the customer or the manner of calculating them (including dividend reinvestment plans, automatic investment plans, and employee stock purchase plans); or

(ii) Any prearranged, automatic transfer or sweep of funds from a deposit account to purchase a security, or any prearranged, automatic redemption or sale of a security with the funds being transferred into a deposit account (including cash management sweep services).

(11) *Security* shall mean:

(i) Any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, for a security, any put, call, straddle, option, or privilege on any security, or group or index of securities (including any interest therein or based on the value thereof), any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing;

(ii) But does not include a deposit or share account in a federally or state insured depository institution, a loan participation, a letter of credit or other form of bank indebtedness incurred in the ordinary course of business, currency, any note, draft, bill of exchange, or bankers acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited, units of a collective investment fund, interests in a variable amount (master) note of a borrower of prime credit, or U.S. Savings Bonds.

(c) *Recordkeeping.* Except as provided in paragraph (a) of this section, every State member bank effecting securities transactions for customers, including transactions in government securities, and municipal securities transactions by banks not subject to registration as municipal securities dealers, shall maintain the following records with respect to such transactions for at least three years. Nothing contained in this section shall require a bank to maintain the records required by this paragraph in any given manner, provided that the information required to be shown is clearly and accurately reflected and provides an adequate basis for the audit of such information. Records may be maintained in hard copy, automated, or electronic form provided the records are easily retrievable, readily available for inspection, and capable of being reproduced in a hard copy. A bank may contract with third party service providers, including broker/dealers, to maintain records required under this part.

(1) Chronological records of original entry containing an itemized daily record of all purchases and sales of securities. The records of original entry shall show the account or customer for which each such transaction was effected, the description of the securities, the unit and aggregate purchase or sale price (if any), the trade date and the name or other designation of the broker/dealer or other person from whom purchased or to whom sold;

(2) Account records for each customer which shall reflect all purchases and sales of securities, all receipts and deliveries of securities, and all receipts and disbursements of cash with respect to transactions in securities for such account and all other debits and credits pertaining to transactions in securities;

(3) A separate memorandum (order ticket) of each order to purchase or sell securities (whether executed or cancelled), which shall include:

(i) The account(s) for which the transaction was effected;

(ii) Whether the transaction was a market order, limit order, or subject to special instructions;

(iii) The time the order was received by the trader or other bank employee responsible for effecting the transaction;

(iv) The time the order was placed with the broker/dealer, or if there was no broker/dealer, the time the order was executed or canceled;

(v) The price at which the order was executed; and

(vi) The broker/dealer utilized;

(4) A record of all broker/dealers selected by the bank to effect securities transactions and the amount of commissions paid or allocated to each such broker during the calendar year; and

(5) A copy of the written notification required by paragraphs (c) and (d) of this section.

(d) *Content and time of notification.* Every State member bank effecting a securities transaction for a customer shall give or send to such customer either of the following types of notifications at or before completion of the transaction or; if the bank uses a broker/dealer's confirmation, within one business day from the bank's receipt of the broker/dealer's confirmation:

(1) A copy of the confirmation of a broker/dealer relating to the securities transaction; and if the bank is to receive remuneration from the customer or any other source in connection with the transaction, and the remuneration is not determined pursuant to a prior written agreement between the bank and the customer, a statement of the source and the amount of any remuneration to be received; or

(2) A written notification disclosing:

(i) The name of the bank;

(ii) The name of the customer;

(iii) Whether the bank is acting as agent for such customer, as agent for both such customer and some other person, as principal for its own account, or in any other capacity;

(iv) The date of execution and a statement that the time of execution will be furnished within a reasonable time upon written request of such customer specifying the identity, price and number of shares or units (or principal amount in the case of debt securities) of such security purchased or sold by such customer;

(v) The amount of any remuneration received or to be received, directly or indirectly, by any broker/dealer from such customer in connection with the transaction;

(vi) The amount of any remuneration received or to be received by the bank from the customer and the source and amount of any other remuneration to be received by the bank in connection with the transaction, unless remuneration is determined pursuant to a written agreement between the bank and the customer, provided, however, in the case of Government securities and municipal securities, this paragraph (d)(2)(vi) shall apply only with respect to remuneration received by the bank in an agency transaction. If the bank elects not to disclose the source and amount of remuneration it has or will receive from a party other than the customer pursuant to this paragraph (d)(2)(vi), the written notification must disclose whether the bank has received or will receive remuneration from a party other than the customer, and that the bank will furnish within a reasonable time the source and amount of this remuneration upon written request of the customer. This election is not available, however, if, with respect to a purchase, the bank was participating in a distribution of that security; or with respect to a sale, the bank was participating in a tender offer for that security;

(vii) The name of the broker/dealer utilized; or, where there is no broker/dealer, the name of the person from whom the security was purchased or to whom it was sold, or the fact that such information will be furnished within a reasonable time upon written request;

(viii) In the case of a transaction in a debt security subject to redemption before maturity, a statement to the effect that the debt security may be redeemed in whole or in part before maturity, that the redemption could affect the yield represented and that additional information is available on request;

(ix) In the case of a transaction in a debt security effected exclusively on the basis of a dollar price:

(A) The dollar price at which the transaction was effected;

(B) The yield to maturity calculated from the dollar price; provided, however, that this paragraph (c)(2)(ix)(B) shall not apply to a transaction in a debt security that either has a maturity date that may be extended by the issuer with a variable interest payable thereon, or is an asset-backed security that represents an interest in or is secured by a pool of receivables or other financial assets that are subject to continuous prepayment;

(x) In the case of a transaction in a debt security effected on the basis of yield:

(A) The yield at which the transaction was effected, including the percentage amount and its characterization (*e.g.*, current yield, yield to maturity, or yield to call) and if effected at yield to call, the type of call, the call date, and the call price; and

(B) The dollar price calculated from the yield at which the transaction was effected; and

(C) If effected on a basis other than yield to maturity and the yield to maturity is lower than the represented yield, the yield to maturity as well as the represented yield; provided, however, that this paragraph (c)(2)(x)(C) shall not apply to a transaction in a debt security that either has a maturity date that may be extended by the issuer with a variable interest rate payable thereon, or is an asset-backed security that represents an interest in or is secured by a pool of receivables or other financial assets that are subject to continuous prepayment;

(xi) In the case of a transaction in a debt security that is an asset-backed security which represents an interest in or is secured by a pool of receivables or other financial assets that are subject continuously to prepayment, a statement indicating that the actual yield of such asset-backed security may vary according to the rate at which the underlying receivables or other financial assets are prepaid and a statement of the fact that information concerning the factors that affect yield (including at a minimum, the estimated yield, weighted average life, and the prepayment assumptions underlying yield) will be furnished upon written request of such customer; and

(xii) In the case of a transaction in a debt security, other than a government security, that the security is unrated by a nationally recognized statistical rating organization, if that is the case.

(e) *Notification by agreement; alternative forms and times of notification.* A State member bank may elect to use the following alternative procedures if a transaction is effected for:

(1) Accounts (except periodic plans) where the bank does not exercise investment discretion and the bank and the customer agree in writing to a different arrangement as to the time and content of the notification; provided, however, that such agreement makes clear the customer's right to receive the written notification pursuant to paragraph (c) of this section at no additional cost to the customer;

(2) Accounts (except collective investment funds) where the bank exercises investment discretion in other than an agency capacity, in which instance the bank shall, upon request of the person having the power to terminate the account or, if there is no such person, upon the request of any person holding a vested beneficial interest in such account, give or send to such person the written notification within a reasonable time. The bank may charge such person a reasonable fee for providing this information;

(3) Accounts, where the bank exercises investment discretion in an agency capacity, in which instance:

(i) The bank shall give or send to each customer not less frequently than once every three months an itemized statement which shall specify the funds and securities in the custody or possession of the bank at the end of such period and all debits, credits and transactions in the customer's accounts during such period; and

(ii) If requested by the customer, the bank shall give or send to each customer within a reasonable time the written notification described in paragraph (c) of this section. The bank may charge a reasonable fee for providing the information described in paragraph (c) of this section;

(4) A collective investment fund, in which instance the bank shall at least annually furnish a copy of a financial report of the fund, or provide notice that a copy of such report is available and will be furnished upon request, to each person to whom a regular periodic accounting would ordinarily be rendered with respect to each participating account. This report shall be based upon an audit made by independent public accountants or internal au-

ditors responsible only to the board of directors of the bank;

(5) A periodic plan, in which instance the bank:

(i) Shall (except for a cash management sweep service) give or send to the customer a written statement not less than every three months if there are no securities transactions in the account, showing the customer's funds and securities in the custody or possession of the bank; all service charges and commissions paid by the customer in connection with the transaction; and all other debits and credits of the customer's account involved in the transaction; or

(ii) Shall for a cash management sweep service or similar periodic plan as defined in section 208.24(b)(10)(ii) give or send its customer a written statement in the same form as prescribed in paragraph (e)(i) above for each month in which a purchase or sale of a security takes place in a deposit account and not less than once every three months if there are no securities transactions in the account subject to any other applicable laws or regulations;

(6) Upon the written request of the customer the bank shall furnish the information described in paragraph (c) of this section, except that any such information relating to remuneration paid in connection with the transaction need not be provided to the customer when paid by a source other than the customer. The bank may charge a reasonable fee for providing the information described in paragraph (d) of this section.

(f) *Settlement of securities transactions.* All contracts for the purchase or sale of a security shall provide for completion of the transaction within the number of business days in the standard settlement cycle for the security followed by registered broker dealers in the United States unless otherwise agreed to by the parties at the time of the transaction.

(g) *Securities trading policies and procedures.* Every State member bank effecting securities transactions for customers shall establish written policies and procedures providing:

(1) Assignment of responsibility for supervision of all officers or employees who:

(i) Transmit orders to or place orders with broker/dealers;

(ii) Execute transactions in securities for customers; or

(iii) Process orders for notification and/or settlement purposes, or perform other back office functions with respect to securities transactions effected for customers; provided that procedures established under this paragraph (g)(1)(iii) should provide for supervision and reporting lines that are separate from supervision of personnel under paragraphs (g)(1)(i) and (g)(1)(ii) of this section;

(2) For the fair and equitable allocation of securities and prices to accounts when orders for the same security are received at approximately the same time and are placed for execution either individually or in combination;

(3) Where applicable and where permissible under local law, for the crossing of buy and sell orders on a fair and equitable basis to the parties to the transaction; and

(4) That bank officers and employees who make investment recommendations or decisions for the accounts of customers, who participate in the determination of such recommendations or decisions, or who, in connection with their duties, obtain information concerning which securities are being purchased or sold or recommended for such action, must report to the bank, within ten days after the end of the calendar quarter, all transactions in securities made by them or on their behalf, either at the bank or elsewhere in which they have a beneficial interest. The report shall identify the securities purchased or sold and indicate the dates of the transactions and whether the transactions were purchases or sales. Excluded from this requirement are transactions for the benefit of the officer or employee over which the officer or employee has no direct or indirect influence or control, transactions in mutual fund shares, and all transactions involving in the aggregate $10,000 or less during the calendar quarter. For purposes of this paragraph (g)(4), the term securities does not include government securities.

Final Rule — Amendment to Regulation Y

The Board of Governors is amending 12 C.F.R. Part 225, its Regulation Y (Bank Holding Companies and Change in Bank Control). The Board has adopted comprehensive amendments to Regulation Y that improve the competitiveness of bank holding companies by eliminating unnecessary regulatory burden and operating restrictions, and by streamlining the application/notice process. Among other revisions, the final rule incorporates a streamlined and expedited review process for bank acquisition proposals by well-run bank holding companies with a number of modifications intended to broaden and improve public notice of bank acquisition proposals, to assure that the regulatory filing is made well within the public comment period, and to better assure that proposals reviewed under the streamlined procedures do not raise issues under the statutory factors in the Bank Holding Company Act.

The final rule also implements the changes enacted in the Economic Growth and Regulatory Paperwork Reduction Act of 1996 that eliminate certain notice and approval requirements and streamline others that involve nonbanking proposals by well-run bank holding companies. The final rule also includes a reorganized and expanded regulatory list of permissible nonbanking activities and removes a number of restrictions on those activities that are outmoded, have been superseded by Board order or do not apply to insured banks that conduct the same activity.

In addition, the final rule incorporates several amendments to the tying restrictions, including removal of the regulatory extension of those restrictions to bank holding companies and their nonbank subsidiaries. A number of other changes have also been included to eliminate unnecessary regulatory burden and to streamline and modernize

Regulation Y, including changes to the provisions implementing the Change in Bank Control Act and section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Effective April 21, 1997, 12 C.F.R. Part 225 is amended as follows:

Part 225—Bank Holding Companies and Change in Bank Control (Regulation Y)

1. The authority citation for Part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1831i, 1831p-1, 1843(c)(8), 1844(b), 1972(l), 3106, 3108, 3310, 3331-3351, 3907, and 3909.

2. Subpart A is revised to read as follows:

Subpart A—General Provisions

Section

Subpart A—General Provisions

Section 225.1 Authority, purpose, and scope.

(a) *Authority*. This part[1] (Regulation Y) is issued by the Board of Governors of the Federal Reserve System (*Board*) under section 5(b) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1844(b)) (*BHC Act*); sections 8 and 13(a) of the International Banking Act of 1978 (12 U.S.C. 3106 and 3108); section 7(j)(13) of the Federal Deposit Insurance Act, as amended by the Change in Bank Control Act of 1978 (12 U.S.C. 1817(j)(13)) (*Bank Control Act*); section 8(b) of the Federal Deposit Insurance Act (12 U.S.C. 1818(b)); section 914 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (12 U.S.C. 1831i); section 106 of the Bank Holding Company Act Amendments of 1970 (12 U.S.C. 1972); and the International Lending Supervision Act of 1983 (Pub. L. 98–181, title IX). The BHC Act is codified at 12 U.S.C. 1841, *et seq.*

(b) *Purpose*. The principal purposes of this part are to:

(1) Regulate the acquisition of control of banks by companies and individuals;

(2) Define and regulate the nonbanking activities in which bank holding companies and foreign banking organizations with United States operations may engage; and

(3) Set forth the procedures for securing approval for these transactions and activities.

(c) *Scope* — (1) *Subpart A* contains general provisions and definitions of terms used in this regulation.

(2) *Subpart B* governs acquisitions of bank or bank holding company securities and assets by bank holding companies or by any company that will become a bank holding company as a result of the acquisition.

(3) *Subpart C* defines and regulates the nonbanking activities in which bank holding companies and foreign banking organizations may engage directly or through a subsidiary. The Board's Regulation K governs certain nonbanking activities conducted by foreign banking organizations and certain foreign activities conducted by bank holding companies (12 C.F.R. Part 211, International Banking Operations).

(4) *Subpart D* specifies situations in which a company is presumed to control voting securities or to have the power to exercise a controlling influence over the management or policies of a bank or other company; sets forth the procedures for making a control determination; and provides rules governing the effectiveness of divestitures by bank holding companies.

(5) *Subpart E* governs changes in bank control resulting from the acquisition by individuals or companies (other than bank holding companies) of voting securities of a bank holding company or state member bank of the Federal Reserve System.

(6) *Subpart F* specifies the limitations that govern companies that control so-called nonbank banks and the activities of nonbank banks.

(7) *Subpart G* prescribes minimum standards that apply to the performance of real estate appraisals and identifies transactions that require state certified appraisers.

(8) *Subpart H* identifies the circumstances when written notice must be provided to the Board prior to the appointment of a director or senior officer of a bank holding company and establishes procedures for obtaining the required Board approval.

(9) *Appendix A* to the regulation contains the Board's Risk-Based Capital Adequacy Guidelines for bank holding companies.

(10) *Appendix B* contains the Board's Capital Adequacy Guidelines for measuring leverage for bank holding companies and state member banks.

(11) *Appendix C* contains the Board's policy statement governing small bank holding companies.

(12) *Appendix D* contains the Board's Capital Adequacy Guidelines for measuring tier 1 leverage for bank holding companies.

(13) *Appendix E* contains the Board's Capital Adequacy Guidelines for measuring market risk of bank holding companies.

1. Code of Federal Regulations, title 12, chapter II, part 225.

Section 225.2—Definitions.

Except as modified in this regulation or unless the context otherwise requires, the terms used in this regulation have the same meaning as set forth in the relevant statutes.

(a) *Affiliate* means any company that controls, is controlled by, or is under common control with, another company.

(b)(1) *Bank* means:

(i) An insured bank as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)); or

(ii) An institution organized under the laws of the United States which both:

(A) Accepts demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others; and

(B) Is engaged in the business of making commercial loans.

(2) *Bank* does not include those institutions qualifying under the exceptions listed in section 2(c)(2) of the BHC Act (12 U.S.C. 1841(c)(2)).

(c)(1) Bank holding company means any company (including a bank) that has direct or indirect control of a bank, other than control that results from the ownership or control of:

(i) Voting securities held in good faith in a fiduciary capacity (other than as provided in paragraphs (e)(2)(ii) and (iii) of this section) without sole discretionary voting authority, or as otherwise exempted under section 2(a)(5)(A) of the BHC Act;

(ii) Voting securities acquired and held only for a reasonable period of time in connection with the underwriting of securities, as provided in section 2(a)(5)(B) of the BHC Act;

(iii) Voting rights to voting securities acquired for the sole purpose and in the course of participating in a proxy solicitation, as provided in section 2(a)(5)(C) of the BHC Act;

(iv) Voting securities acquired in satisfaction of debts previously contracted in good faith, as provided in section 2(a)(5)(D) of the BHC Act, if the securities are divested within two years of acquisition (or such later period as the Board may permit by order); or

(v) Voting securities of certain institutions owned by a thrift institution or a trust company, as provided in sections 2(a)(5)(E) and (F) of the BHC Act.

(2) Except for the purposes of section 225.4(b) of this subpart and subpart E of this part, or as otherwise provided in this regulation, *bank holding company* includes a foreign banking organization. For the purposes of subpart B of this part, *bank holding company* includes a foreign banking organization only if it owns or controls a bank in the United States.

(d)(1) *Company* includes any bank, corporation, general or limited partnership, association or similar organization, business trust, or any other trust unless by its terms it must terminate either within 25 years, or within 21 years and 10 months after the death of individuals living on the effective date of the trust.

(2) *Company* does not include any organization, the majority of the voting securities of which are owned by the United States or any state.

(3) *Testamentary trusts exempt.* Unless the Board finds that the trust is being operated as a business trust or company, a trust is presumed not to be a company if the trust:

(i) Terminates within 21 years and 10 months after the death of grantors or beneficiaries of the trust living on the effective date of the trust or within 25 years;

(ii) Is a testamentary or *inter vivos* trust established by an individual or individuals for the benefit of natural persons (or trusts for the benefit of natural persons) who are related by blood, marriage or adoption;

(iii) Contains only assets previously owned by the individual or individuals who established the trust;

(iv) Is not a Massachusetts business trust; and

(v) Does not issue shares, certificates, or any other evidence of ownership.

(4) Qualified limited partnerships exempt. Company does not include a qualified limited partnership, as defined in section 2(o)(10) of the BHC Act.

(e) (1) *Control* of a bank or other company means (except for the purposes of subpart E of this part):

(i) Ownership, control, or power to vote 25 percent or more of the outstanding shares of any class of voting securities of the bank or other company, directly or indirectly or acting through one or more other persons;

(ii) Control in any manner over the election of a majority of the directors, trustees, or general partners (or individuals exercising similar functions) of the bank or other company;

(iii) The power to exercise, directly or indirectly, a controlling influence over the management or policies of the bank or other company, as determined by the Board after notice and opportunity for hearing in accordance with section 225.31 of subpart D of this part; or

(iv) Conditioning in any manner the transfer of 25 percent or more of the outstanding shares of any class of voting securities of a bank or other company upon the transfer of 25 percent or more of the outstanding shares of any class of voting securities of another bank or other company.

(2) A bank or other company is deemed to control voting securities or assets owned, controlled, or held, directly or indirectly:

(i) By any subsidiary of the bank or other company;

(ii) In a fiduciary capacity (including by pension and profit-sharing trusts) for the benefit of the shareholders, members, or employees (or individuals serving in similar capacities) of the bank or other company or any of its subsidiaries; or

(iii) In a fiduciary capacity for the benefit of the bank or other company or any of its subsidiaries.

(f) *Foreign banking organization* and *qualifying foreign banking organization* have the same meanings as provided

in section 211.21(n) and section 211.23 of the Board's Regulation K (12 C.F.R. 211.21(n) and 211.23).
(g) *Insured depository institution* includes an insured bank as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)) and a savings association.
(h) *Lead insured depository institution* means the largest insured depository institution controlled by the bank holding company as of the quarter ending immediately prior to the proposed filing, based on a comparison of the average total risk-weighted assets controlled during the previous 12-month period by each insured depository institution subsidiary of the holding company.
(i) *Management official* means any officer, director (including honorary or advisory directors), partner, or trustee of a bank or other company, or any employee of the bank or other company with policy-making functions.
(j) *Nonbank bank* means any institution that:
(1) Became a bank as a result of enactment of the Competitive Equality Amendments of 1987 (Pub. L. 100–86), on the date of enactment (August 10, 1987); and
(2) Was not controlled by a bank holding company on the day before the enactment of the Competitive Equality Amendments of 1987 (August 9, 1987).
(k) *Outstanding shares* means any voting securities, but does not include securities owned by the United States or by a company wholly owned by the United States.
(l) *Person* includes an individual, bank, corporation, partnership, trust, association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization, or any other form of entity.
(m) *Savings association* means:
(1) Any federal savings association or federal savings bank;
(2) Any building and loan association, savings and loan association, homestead association, or cooperative bank if such association or cooperative bank is a member of the Savings Association Insurance Fund; and
(3) Any savings bank or cooperative that is deemed by the director of the Office of Thrift Supervision to be a savings association under section 10(l) of the Home Owners Loan Act.
(n) *Shareholder*—(1) Controlling shareholder means a person that owns or controls, directly or indirectly, 25 percent or more of any class of voting securities of a bank or other company.
(2) *Principal shareholder* means a person that owns or controls, directly or indirectly, 10 percent or more of any class of voting securities of a bank or other company, or any person that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of a bank or other company.
(o) *Subsidiary* means a bank or other company that is controlled by another company, and refers to a direct or indirect subsidiary of a bank holding company. An indirect subsidiary is a bank or other company that is controlled by a subsidiary of the bank holding company.
(p) *United States* means the United States and includes any state of the United States, the District of Columbia, any territory of the United States, Puerto Rico, Guam, American Samoa, and the Virgin Islands.
(q)(1) *Voting securities* means shares of common or preferred stock, general or limited partnership shares or interests, or similar interests if the shares or interest, by statute, charter, or in any manner, entitle the holder:
(i) To vote for or to select directors, trustees, or partners (or persons exercising similar functions of the issuing company); or
(ii) To vote on or to direct the conduct of the operations or other significant policies of the issuing company.
(2) *Nonvoting shares.* Preferred shares, limited partnership shares or interests, or similar interests are not voting securities if:
(i) Any voting rights associated with the shares or interest are limited solely to the type customarily provided by statute with regard to matters that would significantly and adversely affect the rights or preference of the security or other interest, such as the issuance of additional amounts or classes of senior securities, the modification of the terms of the security or interest, the dissolution of the issuing company, or the payment of dividends by the issuing company when preferred dividends are in arrears;
(ii) The shares or interest represent an essentially passive investment or financing device and do not otherwise provide the holder with control over the issuing company; and
(iii) The shares or interest do not entitle the holder, by statute, charter, or in any manner, to select or to vote for the selection of directors, trustees, or partners (or persons exercising similar functions) of the issuing company.
(3) *Class of voting shares.* Shares of stock issued by a single issuer are deemed to be the same class of voting shares, regardless of differences in dividend rights or liquidation preference, if the shares are voted together as a single class on all matters for which the shares have voting rights other than matters described in paragraph (o)(2)(i) of this section that affect solely the rights or preferences of the shares.
(r) *Well-Capitalized*—(1) *Bank holding company.* In the case of a bank holding company,[2] *well-capitalized* means that:
(i) On a consolidated basis, the bank holding company maintains a total risk-based capital ratio of 10.0 percent or greater, as defined in Appendix A of this part;
(ii) On a consolidated basis, the bank holding company maintains a Tier 1 risk-based capital ratio of

2. For purposes of this subpart and subparts B and C of this part, a bank holding company with consolidated assets under $150 million that is subject to the Small Bank Holding Company Policy Statement in Appendix C of this part will be deemed to be "well-capitalized" if the bank holding company meets the requirements for expedited/waived processing in Appendix C.

6.0 percent or greater, as defined in Appendix A of this part; and

(iii) The bank holding company is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Board to meet and maintain a specific capital level for any capital measure.

(2) *Insured depository institution.* In the case of an insured depository institution, well-capitalized means that the institution maintains at least the capital levels required to be "well-capitalized" under the capital adequacy regulations or guidelines applicable to the institution that have been adopted by the appropriate federal banking agency for the institution under section 38 of the Federal Deposit Insurance Act (12 U.S.C. 1831o).

(3) *Foreign banks*—(i) *Standards applied.* For purposes of determining whether a foreign banking organization qualifies under paragraph (r)(1) of this section:

(A) A foreign banking organization whose home country supervisor, as defined in section 211.21 of the Board's Regulation K (12 C.F.R. 211.21), has adopted capital standards consistent in all respects with the Capital Accord of the Basle Committee on Banking Supervision (Basle Accord) may calculate its capital ratios under the home country standard; and

(B) A foreign banking organization whose home country supervisor has not adopted capital standards consistent in all respects with the Basle Accord shall obtain a determination from the Board that its capital is equivalent to the capital that would be required of a U.S. banking organization under paragraph (r)(1) of this section.

(ii) *Branches and agencies.* For purposes of determining, under paragraph (r)(1) of this section, whether a branch or agency of a foreign banking organization is well-capitalized, the branch or agency shall be deemed to have the same capital ratios as the foreign banking organization.

(s) *Well-managed*—(1) *In general.* A company, insured depository institution, or branch or agency of a foreign banking organization is *well-managed* if:

(i) At its most recent inspection or examination or subsequent review by the appropriate federal banking agency for the company or institution, the company or institution received:

(A) At least a satisfactory composite rating; and

(B) At least a satisfactory rating for management and for compliance, if such a rating is given; or

(ii) In the case of a company or insured depository institution that has not received an examination rating, the Board has determined, after a review of the managerial and other resources of the company or depository institution, that the company or institution qualifies for the streamlined procedures in this subpart, and subparts B and C of this part.

(2) *Foreign banking organizations.* A foreign banking organization shall qualify under this paragraph if the combined operations of the foreign banking organization in the United States have received at least a satisfactory composite rating at the most recent annual assessment.

Section 225.3—Administration.

(a) *Delegation of authority.* Designated Board members and officers and the Federal Reserve Banks are authorized by the Board to exercise various functions prescribed in this regulation and in the Board's Rules Regarding Delegation of Authority (12 C.F.R. Part 265) and the Board's Rules of Procedure (12 C.F.R. Part 262).

(b) *Appropriate Federal Reserve Bank.* In administering this regulation, unless a different Federal Reserve Bank is designated by the Board, the appropriate Federal Reserve Bank is as follows:

(1) For a bank holding company (or a company applying to become a bank holding company): the Reserve Bank of the Federal Reserve district in which the company's banking operations are principally conducted, as measured by total domestic deposits in its subsidiary banks on the date it became (or will become) a bank holding company;

(2) For a foreign banking organization that has no subsidiary bank and is not subject to paragraph (b)(1) of this section: the Reserve Bank of the Federal Reserve district in which the total assets of the organization's United States branches, agencies, and commercial lending companies are the largest as of the later of January 1, 1980, or the date it becomes a foreign banking organization;

(3) For an individual or company submitting a notice under subpart E of this part: the Reserve Bank of the Federal Reserve district in which the banking operations of the bank holding company or state member bank to be acquired are principally conducted, as measured by total domestic deposits on the date the notice is filed.

Section 225.4—Corporate practices.

(a) *Bank holding company policy and operations.* (1) A bank holding company shall serve as a source of financial and managerial strength to its subsidiary banks and shall not conduct its operations in an unsafe or unsound manner.

(2) Whenever the Board believes an activity of a bank holding company or control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) constitutes a serious risk to the financial safety, soundness, or stability of a subsidiary bank of the bank holding company and is inconsistent with sound banking principles or the purposes of the BHC Act or the Financial Institutions Supervisory Act of 1966, as amended (12 U.S.C. 1818(b) *et seq.*), the Board may require the bank holding company to terminate the activity or to terminate control of the subsidiary, as provided in section 5(e) of the BHC Act.

(b) *Purchase or redemption by bank holding company of its own securities*—(1) *Filing notice.* Except as provided in paragraph (b)(6) of this section, a bank holding company shall give the Board prior written notice before purchasing or redeeming its equity securities if the gross consideration for the purchase or redemption, when aggregated with the net consideration paid by the company for all such purchases or redemptions during the preceding 12 months, is equal to 10 percent or more of the company's consolidated net worth. For the purposes of this section, "net consideration" is the gross consideration paid by the company for all of its equity securities purchased or redeemed during the period minus the gross consideration received for all of its equity securities sold during the period.

(2) *Contents of notice.* Any notice under this section shall be filed with the appropriate Reserve Bank and shall contain the following information:

(i) The purpose of the transaction, a description of the securities to be purchased or redeemed, the total number of each class outstanding, the gross consideration to be paid, and the terms and sources of funding for the transaction;

(ii) A description of all equity securities redeemed within the preceding 12 months, the net consideration paid, and the terms of any debt incurred in connection with those transactions; and

(iii)(A) If the bank holding company has consolidated assets of $150 million or more, consolidated pro forma risk-based capital and leverage ratio calculations for the bank holding company as of the most recent quarter, and, if the redemption is to be debt funded, a parent-only *pro forma* balance sheet as of the most recent quarter; or

(B) If the bank holding company has consolidated assets of less than $150 million, a *pro forma* parent-only balance sheet as of the most recent quarter, and, if the redemption is to be debt funded, one-year income statement and cash flow projections.

(3) *Acting on notice.* Within 15 calendar days of receipt of a notice under this section, the appropriate Reserve Bank shall either approve the transaction proposed in the notice or refer the notice to the Board for decision. If the notice is referred to the Board for decision, the Board shall act on the notice within 30 calendar days after the Reserve Bank receives the notice.

(4) *Factors considered in acting on notice.* (i) The Board may disapprove a proposed purchase or redemption if it finds that the proposal would constitute an unsafe or unsound practice, or would violate any law, regulation, Board order, directive, or any condition imposed by, or written agreement with, the Board.

(ii) In determining whether a proposal constitutes an unsafe or unsound practice, the Board shall consider whether the bank holding company's financial condition, after giving effect to the proposed purchase or redemption, meets the financial standards applied by the Board under section 3 of the BHC Act, including the Board's Capital Adequacy Guidelines (Appendix A) of this part and the Board's Policy Statement for Small Bank Holding Companies (Appendix C) of this part.

(5) *Disapproval and hearing.* (i) The Board shall notify the bank holding company in writing of the reasons for a decision to disapprove any proposed purchase or redemption. Within 10 calendar days of receipt of a notice of disapproval by the Board, the bank holding company may submit a written request for a hearing.

(ii) The Board shall order a hearing within 10 calendar days of receipt of the request if it finds that material facts are in dispute, or if it otherwise appears appropriate. Any hearing conducted under this paragraph shall be held in accordance with the Board's Rules of Practice for Formal Hearings (12 C.F.R. Part 263).

(iii) At the conclusion of the hearing, the Board shall by order approve or disapprove the proposed purchase or redemption on the basis of the record of the hearing.

(6) *Exception for well-capitalized bank holding companies.* A bank holding company is not required to obtain prior Board approval for the redemption or purchase of its equity securities under this section provided:

(i) Both before and immediately after the redemption, the bank holding company is well-capitalized;

(ii) The bank holding company is well-managed; and

(iii) The bank holding company is not the subject of any unresolved supervisory issues.

(c) *Deposit insurance.* Every bank that is a bank holding company or a subsidiary of a bank holding company shall obtain Federal Deposit Insurance and shall remain an insured bank as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)).

(d) *Acting as transfer agent, municipal securities dealer, or clearing agent.* A bank holding company or any nonbanking subsidiary that is a "bank," as defined in section 3(a)(6) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(6)), and that is a transfer agent of securities, a municipal securities dealer, a clearing agency, or a participant in a clearing agency (as those terms are defined in section 3(a) of the Securities Exchange Act (15 U.S.C. 78c(a)), shall be subject to sections 208.8(f)-(j) of the Board's Regulation H (12 C.F.R. 208.8(f)-(j)) as if it were a state member bank.

(e) *Reporting requirement for credit secured by certain bank holding company stock.* Each executive officer or director of a bank holding company the shares of which are not publicly traded shall report annually to the board of directors of the bank holding company the outstanding amount of any credit that was extended to the executive officer or director and that is secured by shares of the bank holding company. For purposes of this paragraph, the terms "executive officer" and "director" shall have the meaning given in section 215.2 of Regulation O (12 C.F.R. 215.2).

(f) *Suspicious activity report.* A bank holding company or any nonbank subsidiary thereof, or a foreign bank that is subject to the BHC Act or any nonbank subsidiary of such foreign bank operating in the United States, shall file a suspicious activity report in accordance with the provisions of section 208.20 of the Board's Regulation H (12 C.F.R. 208.20).

Section 225.5—Registration, reports, and inspections.

(a) *Registration of bank holding companies.* Each company shall register within 180 days after becoming a bank holding company by furnishing information in the manner and form prescribed by the Board. A company that receives the Board's prior approval under subpart B of this part to become a bank holding company may complete this registration requirement through submission of its first annual report to the Board as required by paragraph (b) of this section.
(b) *Reports of bank holding companies.* Each bank holding company shall furnish, in the manner and form prescribed by the Board, an annual report of the company's operations for the fiscal year in which it becomes a bank holding company, and for each fiscal year during which it remains a bank holding company. Additional information and reports shall be furnished as the Board may require.
(c) *Examinations and inspections.* The Board may examine or inspect any bank holding company and each of its subsidiaries and prepare a report of their operations and activities. With respect to a foreign banking organization, the Board may also examine any branch or agency of a foreign bank in any state of the United States and may examine or inspect each of the organization's subsidiaries in the United States and prepare reports of their operations and activities. The Board shall rely, as far as possible, on the reports of examination made by the primary federal or state supervisor of the subsidiary bank of the bank holding company or of the branch or agency of the foreign bank.

Section 225.6—Penalties for violations.

(a) *Criminal and civil penalties.* (1) Section 8 of the BHC Act provides criminal penalties for willful violation, and civil penalties for violation, by any company or individual, of the BHC Act or any regulation or order issued under it, or for making a false entry in any book, report, or statement of a bank holding company.
(2) Civil money penalty assessments for violations of the BHC Act shall be made in accordance with subpart C of the Board's Rules of Practice for Hearings (12 C.F.R. Part 263, subpart C). For any willful violation of the Bank Control Act or any regulation or order issued under it, the Board may assess a civil penalty as provided in 12 U.S.C. 1817(j)(15).
(b) *Cease-and-desist proceedings.* For any violation of the BHC Act, the Bank Control Act, this regulation, or any order or notice issued thereunder, the Board may institute a cease-and-desist proceeding in accordance with the Financial Institutions Supervisory Act of 1966, as amended (12 U.S.C. 1818(b) *et seq.*).

Section 225.7—Exceptions to tying restrictions.

(a) *Purpose.* This section establishes exceptions to the anti-tying restrictions of section 106 of the Bank Holding Company Act Amendments of 1970 (12 U.S.C. 1971, 1972(1)). These exceptions are in addition to those in section 106. The section also restricts tying of electronic benefit transfer services by bank holding companies and their nonbank subsidiaries.
(b) *Exceptions to statute.* Subject to the limitations of paragraph (c) of this section, a bank may:
(1) *Extension to affiliates of statutory exceptions preserving traditional banking relationships.* Extend credit, lease or sell property of any kind, or furnish any service, or fix or vary the consideration for any of the foregoing, on the condition or requirement that a customer:
(i) Obtain a loan, discount, deposit, or trust service from an affiliate of the bank; or
(ii) Provide to an affiliate of the bank some additional credit, property, or service that the bank could require to be provided to itself pursuant to section 106(b)(1)(C) of the Bank Holding Company Act Amendments of 1970 (12 U.S.C. 1972(1)(C)).
(2) *Safe harbor for combined-balance discounts.* Vary the consideration for any product or package of products based on a customer's maintaining a combined minimum balance in certain products specified by the bank (eligible products), if:
(i) The bank offers deposits, and all such deposits are eligible products; and
(ii) Balances in deposits count at least as much as nondeposit products toward the minimum balance.
(3) *Safe harbor for foreign transactions.* Engage in any transaction with a customer if that customer is:
(i) A corporation, business, or other person (other than an individual) that:
(A) Is incorporated, chartered, or otherwise organized outside the United States; and
(B) Has its principal place of business outside the United States; or
(ii) An individual who is a citizen of a foreign country and is not resident in the United States.
(c) *Limitations on exceptions.* Any exception granted pursuant to this section shall terminate upon a finding by the Board that the arrangement is resulting in anti-competitive practices. The eligibility of a bank to operate under any exception granted pursuant to this section shall terminate upon a finding by the Board that its exercise of this authority is resulting in anti-competitive practices.
(d) *Extension of statute to electronic benefit transfer services.* A bank holding company or nonbank subsidiary of a bank holding company that provides electronic benefit transfer services shall be subject to the anti-tying restrictions applicable to such services set forth in section 7(i)(11) of the Food Stamp Act of 1977 (7 U.S.C. 2016(i)(11)).
(e) For purposes of this section, *bank* has the meaning given that term in section 106(a) of the Bank Holding Company Act Amendments of 1970 (12 U.S.C. 1971), but shall also include a United States branch, agency, or commercial lending company subsidiary of a foreign bank that is subject to section 106 pursuant to section 8(d) of the International Banking Act of 1978 (12 U.S.C. 3106(d)), and any company made subject to section 106 by section 4(f)(9) or 4(h) of the BHC Act.

3. Subpart B is revised to read as follows:

Subpart B—Acquisition of Bank Securities or Assets

Section

Subpart B—Acquisition of Bank Securities or Assets

Section 225.11—Transactions requiring Board approval

The following transactions require the Board's prior approval under section 3 of the Bank Holding Company Act except as exempted under section 225.12 or as otherwise covered by section 225.17 of this subpart:

(a) *Formation of bank holding company.* Any action that causes a bank or other company to become a bank holding company.
(b) *Acquisition of subsidiary bank.* Any action that causes a bank to become a subsidiary of a bank holding company.
(c) *Acquisition of control of bank or bank holding company securities.*
(1) The acquisition by a bank holding company of direct or indirect ownership or control of any voting securities of a bank or bank holding company, if the acquisition results in the company's control of more than 5 percent of the outstanding shares of any class of voting securities of the bank or bank holding company.
(2) An acquisition includes the purchase of additional securities through the exercise of preemptive rights, but does not include securities received in a stock dividend or stock split that does not alter the bank holding company's proportional share of any class of voting securities.
(d) *Acquisition of bank assets.* The acquisition by a bank holding company or by a subsidiary thereof (other than a bank) of all or substantially all of the assets of a bank.
(e) *Merger of bank holding companies.* The merger or consolidation of bank holding companies, including a merger through the purchase of assets and assumption of liabilities.
(f) *Transactions by foreign banking organization.* Any transaction described in paragraphs (a) through (e) of this section by a foreign banking organization that involves the acquisition of an interest in a U.S. bank or in a bank holding company for which application would be required if the foreign banking organization were a bank holding company.

Section 225.12 Transactions not requiring Board approval.

The following transactions do not require the Board's approval under section 225.11 of this subpart:

(a) *Acquisition of securities in fiduciary capacity.* The acquisition by a bank or other company (other than a trust that is a company) of control of voting securities of a bank or bank holding company in good faith in a fiduciary capacity, unless:
(1) The acquiring bank or other company has sole discretionary authority to vote the securities and retains this authority for more than two years; or
(2) The acquisition is for the benefit of the acquiring bank or other company, or its shareholders, employees, or subsidiaries.
(b) *Acquisition of securities in satisfaction of debts previously contracted.* The acquisition by a bank or other company of control of voting securities of a bank or bank holding company in the regular course of securing or collecting a debt previously contracted in good faith, if the acquiring bank or other company divests the securities within two years of acquisition. The Board or Reserve Bank may grant requests for up to three one-year extensions.
(c) *Acquisition of securities by bank holding company with majority control.* The acquisition by a bank holding company of additional voting securities of a bank or bank holding company if more than 50 percent of the outstanding voting securities of the bank or bank holding company is lawfully controlled by the acquiring bank holding company prior to the acquisition.
(d) *Acquisitions involving bank mergers and internal corporate reorganizations* — (1) *Transactions subject to Bank Merger Act.* The merger or consolidation of a subsidiary bank of a bank holding company with another bank, or the purchase of assets by the subsidiary bank, or a similar transaction involving subsidiary banks of a bank holding company, if the transaction requires the prior approval of a federal supervisory agency under the Bank Merger Act (12 U.S.C. 1828(c)) and does not involve the acquisition of shares of a bank. This exception does not include:
(i) The merger of a nonsubsidiary bank and a nonoperating subsidiary bank formed by a company for the purpose of acquiring the nonsubsidiary bank; or
(ii) Any transaction requiring the Board's prior approval under section 225.11(e) of this subpart. The Board may require an application under this subpart if it determines that the merger or consolidation would have a significant adverse impact on the financial condition of the bank holding company, or otherwise requires approval under section 3 of the BHC Act.
(2) *Certain acquisitions subject to Bank Merger Act.* The acquisition by a bank holding company of shares of a

bank or company controlling a bank or the merger of a company controlling a bank with the bank holding company, if the transaction is part of the merger or consolidation of the bank with a subsidiary bank (other than a nonoperating subsidiary bank) of the acquiring bank holding company, or is part of the purchase of substantially all of the assets of the bank by a subsidiary bank (other than a nonoperating subsidiary bank) of the acquiring bank holding company, and if:

(i) The bank merger, consolidation, or asset purchase occurs simultaneously with the acquisition of the shares of the bank or bank holding company or the merger of holding companies, and the bank is not operated by the acquiring bank holding company as a separate entity other than as the survivor of the merger, consolidation, or asset purchase;

(ii) The transaction requires the prior approval of a federal supervisory agency under the Bank Merger Act (12 U.S.C. 1828(c));

(iii) The transaction does not involve the acquisition of any nonbank company that would require prior approval under section 4 of the BHC Act (12 U.S.C. 1843);

(iv) Both before and after the transaction, the acquiring bank holding company meets the Board's Capital Adequacy Guidelines (Appendixes A, B, C, D, and E of this part);

(v) At least 10 days prior to the transaction, the acquiring bank holding company has provided to the Reserve Bank written notice of the transaction that contains:

(A) A copy of the filing made to the appropriate federal banking agency under the Bank Merger Act; and

(B) A description of the holding company's involvement in the transaction, the purchase price, and the source of funding for the purchase price; and

(vi) Prior to expiration of the period provided in paragraph (d)(2)(v) of this section, the Reserve Bank has not informed the bank holding company that an application under section 225.11 is required.

(3) *Internal corporate reorganizations.*

(i) Subject to paragraph (d)(3)(ii) of this section, any of the following transactions performed in the United States by a bank holding company:

(A) The merger of holding companies that are subsidiaries of the bank holding company;

(B) The formation of a subsidiary holding company;[1]

(C) The transfer of control or ownership of a subsidiary bank or a subsidiary holding company between one subsidiary holding company and another subsidiary holding company or the bank holding company.

(ii) A transaction described in paragraph (d)(3)(i) of this section qualifies for this exception if:

(A) The transaction represents solely a corporate reorganization involving companies and insured depository institutions that, both preceding and following the transaction, are lawfully controlled and operated by the bank holding company;

(B) The transaction does not involve the acquisition of additional voting shares of an insured depository institution that, prior to the transaction, was less than majority owned by the bank holding company;

(C) The bank holding company is not organized in mutual form; and

(D) Both before and after the transaction, the bank holding company meets the Board's Capital Adequacy Guidelines (Appendixes A, B, C, D, and E of this part).

(e) *Holding securities in escrow.* The holding of any voting securities of a bank or bank holding company in an escrow arrangement for the benefit of an applicant pending the Board's action on an application for approval of the proposed acquisition, if title to the securities and the voting rights remain with the seller and payment for the securities has not been made to the seller.

(f) *Acquisition of foreign banking organization.* The acquisition of a foreign banking organization where the foreign banking organization does not directly or indirectly own or control a bank in the United States, unless the acquisition is also by a foreign banking organization and otherwise subject to section 225.11(f) of this subpart.

Section 225.13—Factors considered in acting on bank acquisition proposals.

(a) *Factors requiring denial.* As specified in section 3(c) of the BHC Act, the Board may not approve any application under this subpart if:

(1) The transaction would result in a monopoly or would further any combination or conspiracy to monopolize, or to attempt to monopolize, the business of banking in any part of the United States;

(2) The effect of the transaction may be substantially to lessen competition in any section of the country, tend to create a monopoly, or in any other manner be in restraint of trade, unless the Board finds that the transaction's anti-competitive effects are clearly outweighed by its probable effect in meeting the convenience and needs of the community;

(3) The applicant has failed to provide the Board with adequate assurances that it will make available such information on its operations or activities, and the operations or activities of any affiliate of the applicant, that the Board deems appropriate to determine and enforce compliance with the BHC Act and other applicable federal banking statutes, and any regulations thereunder; or

(4) In the case of an application involving a foreign banking organization, the foreign banking organization

1. In the case of a transaction that results in the formation or designation of a new bank holding company, the new bank holding company must complete the registration requirements described in section 225.5.

is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, as provided in section 211.24(c)(1)(ii) of the Board's Regulation K (12 C.F.R. 211.24(c)(1)(ii)).

(b) *Other factors.* In deciding applications under this subpart, the Board also considers the following factors with respect to the applicant, its subsidiaries, any banks related to the applicant through common ownership or management, and the bank or banks to be acquired:

(1) *Financial condition.* Their financial condition and future prospects, including whether current and projected capital positions and levels of indebtedness conform to standards and policies established by the Board.

(2) *Managerial resources.* The competence, experience, and integrity of the officers, directors, and principal shareholders of the applicant, its subsidiaries, and the banks and bank holding companies concerned; their record of compliance with laws and regulations; and the record of the applicant and its affiliates of fulfilling any commitments to, and any conditions imposed by, the Board in connection with prior applications.

(3) *Convenience and needs of community.* The convenience and needs of the communities to be served, including the record of performance under the Community Reinvestment Act of 1977 (12 U.S.C. 2901 *et seq.*) and regulations issued thereunder, including the Board's Regulation BB (12 C.F.R. Part 228).

(c) *Interstate transactions.* The Board may approve any application or notice under this subpart by a bank holding company to acquire control of all or substantially all of the assets of a bank located in a state other than the home state of the bank holding company, without regard to whether the transaction is prohibited under the law of any state, if the transaction complies with the requirements of section 3(d) of the BHC Act (12 U.S.C. 1842(d)).

(d) *Conditional approvals.* The Board may impose conditions on any approval, including conditions to address competitive, financial, managerial, safety and soundness, convenience and needs, compliance or other concerns, to ensure that approval is consistent with the relevant statutory factors and other provisions of the BHC Act.

Section 225.14—Expedited action for certain bank acquisitions by well-run bank holding companies.

(a) *Filing of notice*—(1) *Information required and public notice.* As an alternative to the procedure provided in section 225.15, a bank holding company that meets the requirements of paragraph (c) of this section may satisfy the prior approval requirements of section 225.11 in connection with the acquisition of shares, assets or control of a bank, or a merger or consolidation between bank holding companies, by providing the appropriate Reserve Bank with a written notice containing the following:

(i) A certification that all of the criteria in paragraph (c) of this section are met;

(ii) A description of the transaction that includes identification of the companies and insured depository institutions involved in the transaction[2] and identification of each banking market affected by the transaction;

(iii) A description of the effect of the transaction on the convenience and needs of the communities to be served and of the actions being taken by the bank holding company to improve the CRA performance of any insured depository institution subsidiary that does not have at least a satisfactory CRA performance rating at the time of the transaction;

(iv) Evidence that notice of the proposal has been published in accordance with section 225.16(b)(1);

(v)(A) If the bank holding company has consolidated assets of $150 million or more, an abbreviated consolidated *pro forma* balance sheet as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction, consolidated pro forma risk-based capital ratios for the acquiring bank holding company as of the most recent quarter, and a description of the purchase price and the terms and sources of funding for the transaction;

(B) If the bank holding company has consolidated assets of less than $150 million, a *pro forma* parent-only balance sheet as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction, and a description of the purchase price, the terms and sources of funding for the transaction, and the sources and schedule for retiring any debt incurred in the transaction;

(vi) If the bank holding company has consolidated assets of less than $300 million, a list of and biographical information regarding any directors or senior executive officers of the resulting bank holding company that are not directors or senior executive officers of the acquiring bank holding company or of a company or institution to be acquired;

(vii) For each insured depository institution whose Tier 1 capital, total capital, total assets or risk-weighted assets change as a result of the transaction, the total risk-weighted assets, total assets, Tier 1 capital and total capital of the institution on a *pro forma* basis; and

(viii) The market indexes for each relevant banking market reflecting the *pro forma* effect of the transaction.

2. If, in connection with a transaction under this subpart, any person or group of persons proposes to acquire control of the acquiring bank holding company for purposes of the Bank Control Act or section 225.41, the person or group of persons may fulfill the notice requirements of the Bank Control Act and section 225.43 by providing, as part of the submission by the acquiring bank holding company under this subpart, identifying and biographical information required in paragraph (6)(A) of the Bank Control Act (12 U.S.C. 1817(j)(6)(A)), as well as any financial or other information requested by the Reserve Bank under section 225.43.

(2) *Waiver of unnecessary information.* The Reserve Bank may reduce the information requirements in paragraph (a)(1) (v) through (viii) as appropriate.

(b)(1) *Action on proposals under this section.* The Board or the appropriate Reserve Bank shall act on a proposal submitted under this section or notify the bank holding company that the transaction is subject to the procedure in section 225.15 within 5 business days after the close of the public comment period. The Board and the Reserve Bank shall not approve any proposal under this section prior to the third business day following the close of the public comment period, unless an emergency exists that requires expedited or immediate action. The Board may extend the period for action under this section for up to 5 business days.

(2) *Acceptance of notice in event expedited procedure not available.* In the event that the Board or the Reserve Bank determines after the filing of a notice under this section that a bank holding company may not use the procedure in this section and must file an application under section 225.15, the application shall be deemed accepted for purposes of section 225.15 as of the date that the notice was filed under this section.

(c) *Criteria for use of expedited procedure.* The procedure in this section is available only if:

(1) *Well-capitalized organization*—(i) *Bank holding company.* Both at the time of and immediately after the proposed transaction, the acquiring bank holding company is well-capitalized;

(ii) *Insured depository institutions.* Both at the time of and immediately after the proposed transaction:

(A) The lead insured depository institution of the acquiring bank holding company is well-capitalized;

(B) Well-capitalized insured depository institutions control at least 80 percent of the total risk-weighted assets of insured depository institutions controlled by the acquiring bank holding company; and

(C) No insured depository institution controlled by the acquiring bank holding company is undercapitalized;

(2) *Well-managed organization.* (i) *Satisfactory examination ratings.* At the time of the transaction, the acquiring bank holding company, its lead insured depository institution, and insured depository institutions that control at least 80 percent of the total risk-weighted assets of insured depository institutions controlled by the holding company are well-managed;

(ii) *No poorly managed institutions.* No insured depository institution controlled by the acquiring bank holding company has received 1 of the 2 lowest composite ratings at the later of the institution's most recent examination or subsequent review by the appropriate federal banking agency for the institution;

(iii) *Recently acquired institutions excluded.* Any insured depository institution that has been acquired by the bank holding company during the 12-month period preceding the date on which written notice is filed under paragraph (a) of this section may be excluded for purposes of paragraph (c)(2)(ii) if:

(A) The bank holding company has developed a plan acceptable to the appropriate federal banking agency for the institution to restore the capital and management of the institution; and

(B) All insured depository institutions excluded under this paragraph represent, in the aggregate, less than 10 percent of the aggregate total risk-weighted assets of all insured depository institutions controlled by the bank holding company;

(3) *Convenience and needs criteria*—(i) *Effect on the community.* The record indicates that the proposed transaction would meet the convenience and needs of the community standard in the BHC Act; and

(ii) *Established CRA performance record.* At the time of the transaction, the lead insured depository institution of the acquiring bank holding company and insured depository institutions that control at least 80 percent of the total risk-weighted assets of insured institutions controlled by the holding company have received a satisfactory or better composite rating at the most recent examination under the Community Reinvestment Act;

(4) *Public comment.* No comment that is timely and substantive as provided in section 225.16 is received by the Board or the appropriate Reserve Bank other than a comment that supports approval of the proposal;

(5) *Competitive criteria*—(i) *Competitive screen.* Without regard to any divestitures proposed by the acquiring bank holding company, the acquisition does not cause:

(A) Insured depository institutions controlled by the acquiring bank holding company to control in excess of 35 percent of market deposits in any relevant banking market; or

(B) The Herfindahl–Hirschman index to increase by more than 200 points in any relevant banking market with a post-acquisition index of at least 1800; and

(ii) *Department of Justice.* The Department of Justice has not indicated to the Board that consummation of the transaction is likely to have a significantly adverse effect on competition in any relevant banking market;

(6) *Size of acquisition* — (i) *In general* — (A) *Limited growth.* Except as provided in paragraph (c)(6)(ii), the sum of the aggregate risk-weighted assets to be acquired in the proposal and the aggregate risk-weighted assets acquired by the acquiring bank holding company in all other qualifying transactions does not exceed 35 percent of the consolidated risk-weighted assets of the acquiring bank holding company. For purposes of this paragraph "other qualifying transactions" means any transaction approved under this section or section 225.23 during the 12 months prior to filing the notice under this section; and

(B) *Individual size limitation.* The total risk- weighted assets to be acquired do not exceed $7.5 billion;

(ii) *Small bank holding companies.* Paragraph (c)(6)(i)(A) shall not apply if, immediately following consummation of the proposed transaction, the consolidated risk-weighted assets of the acquiring bank holding company are less than $300 million;

(7) *Supervisory actions.* During the 12-month period ending on the date on which the bank holding company proposes to consummate the proposed transaction, no formal administrative order, including a written agreement, cease and desist order, capital directive, prompt corrective action directive, asset maintenance agreement, or other formal enforcement action, is or was outstanding against the bank holding company or any insured depository institution subsidiary of the holding company, and no formal administrative enforcement proceeding involving any such enforcement action, order, or directive is or was pending;

(8) *Interstate acquisitions.* Board approval of the transaction is not prohibited under section 3(d) of the BHC Act;

(9) *Other supervisory considerations.* Board approval of the transaction is not prohibited under the informational sufficiency or comprehensive home country supervision standards set forth in section 3(c)(3) of the BHC Act; and

(10) *Notification.* The acquiring bank holding company has not been notified by the Board, in its discretion, prior to the expiration of the period in paragraph (b)(1) of this section that an application under section 225.15 is required in order to permit closer review of any financial, managerial, competitive, convenience and needs or other matter related to the factors that must be considered under this part.

(d) *Comment by primary banking supervisor* — (1) *Notice.* Upon receipt of a notice under this section, the appropriate Reserve Bank shall promptly furnish notice of the proposal and a copy of the information filed pursuant to paragraph (a) of this section to the primary banking supervisor of the insured depository institutions to be acquired.

(2) *Comment period.* The primary banking supervisor shall have 30 calendar days (or such shorter time as agreed to by the primary banking supervisor) from the date of the letter giving notice in which to submit its views and recommendations to the Board.

(3) *Action subject to supervisor's comment.* Action by the Board or the Reserve Bank on a proposal under this section is subject to the condition that the primary banking supervisor not recommend in writing to the Board disapproval of the proposal prior to the expiration of the comment period described in paragraph (d)(2) of this section. In such event, any approval given under this section shall be revoked and, if required by section 3(b) of the BHC Act, the Board shall order a hearing on the proposal.

(4) *Emergencies.* Notwithstanding paragraphs (d)(2) and (d)(3) of this section, the Board may provide the primary banking supervisor with 10 calendar days' notice of a proposal under this section if the Board finds that an emergency exists requiring expeditious action, and may act during the notice period or without providing notice to the primary banking supervisor if the Board finds that it must act immediately to prevent probable failure.

(5) *Primary banking supervisor.* For purposes of this section and section 225.15(b), the primary banking supervisor for an institution is:

(i) The Office of the Comptroller of the Currency, in the case of a national banking association or District bank;

(ii) The appropriate supervisory authority for the State in which the bank is chartered, in the case of a State bank;

(iii) The Director of the Office of Thrift Supervision, in the case of a savings association.

(e) *Branches and agencies of foreign banking organizations.* For purposes of this section, a U.S. branch or agency of a foreign banking organization shall be considered to be an insured depository institution. A U.S. branch or agency of a foreign banking organization shall be subject to paragraph (c)(3)(ii) of this section only to the extent it is insured by the Federal Deposit Insurance Corporation in accordance with section 6 of the International Banking Act of 1978 (12 U.S.C. 3104).

Section 225.15—Procedures for other bank acquisition proposals.

(a) *Filing application.* Except as provided in section 225.14, an application for the Board's prior approval under this subpart shall be governed by the provisions of this section and shall be filed with the appropriate Reserve Bank on the designated form.

(b) *Notice to primary banking supervisor.* Upon receipt of an application under this subpart, the Reserve Bank shall promptly furnish notice and a copy of the application to the primary banking supervisor of each bank to be acquired. The primary supervisor shall have 30 calendar days from the date of the letter giving notice in which to submit its views and recommendations to the Board.

(c) *Accepting application for processing.* Within 7 calendar days after the Reserve Bank receives an application under this section, the Reserve Bank shall accept it for processing as of the date the application was filed or return the application if it is substantially incomplete. Upon accepting an application, the Reserve Bank shall immediately send copies to the Board. The Reserve Bank or the Board may request additional information necessary to complete the record of an application at any time after accepting the application for processing.

(d) *Action on applications*—(1) *Action under delegated authority.* The Reserve Bank shall approve an application under this section within 30 calendar days after the acceptance date for the application, unless the Reserve Bank, upon notice to the applicant, refers the application to the Board for decision because action under delegated authority is not appropriate.

(2) *Board action.* The Board shall act on an application under this subpart that is referred to it for decision

within 60 calendar days after the acceptance date for the application, unless the Board notifies the applicant that the 60-day period is being extended for a specified period and states the reasons for the extension. In no event may the extension exceed the 91-day period provided in section 225.16(f). The Board may, at any time, request additional information that it believes is necessary for its decision.

Section 225.16—Public notice, comments, hearings, and other provisions governing applications and notices.

(a) *In general.* The provisions of this section apply to all notices and applications filed under section 225.14 and section 225.15.

(b) *Public notice*—(1) *Newspaper publication*—(i) *Location of publication.* In the case of each notice or application submitted under section 225.14 or section 225.15, the applicant shall publish a notice in a newspaper of general circulation, in the form and at the locations specified in section 262.3 of the Rules of Procedure (12 C.F.R. 262.3);

(ii) *Contents of notice.* A newspaper notice under this paragraph shall provide an opportunity for interested persons to comment on the proposal for a period of at least 30 calendar days;

(iii) *Timing of publication.* Each newspaper notice published in connection with a proposal under this paragraph shall be published no more than 15 calendar days before and no later than 7 calendar days following the date that a notice or application is filed with the appropriate Reserve Bank.

(2) *Federal Register notice.* (i) *Publication by Board.* Upon receipt of a notice or application under section 225.14 or section 225.15, the Board shall promptly publish notice of the proposal in the *Federal Register* and shall provide an opportunity for interested persons to comment on the proposal for a period of no more than 30 days;

(ii) *Request for advance publication.* A bank holding company may request that, during the 15-day period prior to filing a notice or application under section 225.14 or section 225.15, the Board publish notice of a proposal in the *Federal Register.* A request for advance *Federal Register* publication shall be made in writing to the appropriate Reserve Bank and shall contain the identifying information prescribed by the Board for *Federal Register* publication;

(3) *Waiver or shortening of notice.* The Board may waive or shorten the required notice periods under this section if the Board determines that an emergency exists requiring expeditious action on the proposal, or if the Board finds that immediate action is necessary to prevent the probable failure of an insured depository institution.

(c) *Public comment*—(1) *Timely comments.* Interested persons may submit information and comments regarding a proposal filed under this subpart. A comment shall be considered timely for purposes of this subpart if the comment, together with all supplemental information, is submitted in writing in accordance with the Board's Rules of Procedure and received by the Board or the appropriate Reserve Bank prior to the expiration of the latest public comment period provided in paragraph (b) of this section.

(2) *Extension of comment period*—(i) *In general.* The Board may, in its discretion, extend the public comment period regarding any proposal submitted under this subpart.

(ii) *Requests in connection with obtaining application or notice.* In the event that an interested person has requested a copy of a notice or application submitted under this subpart, the Board may, in its discretion and based on the facts and circumstances, grant such person an extension of the comment period for up to 15 calendar days.

(iii) *Joint requests by interested person and acquiring company.* The Board will grant a joint request by an interested person and the acquiring bank holding company for an extension of the comment period for a reasonable period for a purpose related to the statutory factors the Board must consider under this subpart.

(3) *Substantive comment.* A comment will be considered substantive for purposes of this subpart unless it involves individual complaints, or raises frivolous, previously-considered or wholly unsubstantiated claims or irrelevant issues.

(d) *Notice to Attorney General.* The Board or Reserve Bank shall immediately notify the United States Attorney General of approval of any notice or application under section 225.14 or section 225.15.

(e) *Hearings.* As provided in section 3(b) of the BHC Act, the Board shall order a hearing on any application or notice under section 225.15 if the Board receives from the primary supervisor of the bank to be acquired, within the 30-day period specified in section 225.15(b), a written recommendation of disapproval of an application. The Board may order a formal or informal hearing or other proceeding on the application or notice, as provided in section 262.3(i)(2) of the Board's Rules of Procedure. Any request for a hearing (other than from the primary supervisor) shall comply with section 262.3(e) of the Rules of Procedure (12 C.F.R. Part 262.3(e)).

(f) *Approval through failure to act*—(1) *Ninety-one day rule.* An application or notice under section 225.14 or section 225.15 shall be deemed approved if the Board fails to act on the application or notice within 91 calendar days after the date of submission to the Board of the complete record on the application. For this purpose, the Board acts when it issues an order stating that the Board has approved or denied the application or notice, reflecting the votes of the members of the Board, and indicating that a statement of the reasons for the decision will follow promptly.

(2) *Complete record.* For the purpose of computing the

commencement of the 91-day period, the record is complete on the latest of:

(i) The date of receipt by the Board of an application or notice that has been accepted by the Reserve Bank;

(ii) The last day provided in any notice for receipt of comments and hearing requests on the application or notice;

(iii) The date of receipt by the Board of the last relevant material regarding the application or notice that is needed for the Board's decision, if the material is received from a source outside of the Federal Reserve System; or

(iv) The date of completion of any hearing or other proceeding.

(g) *Exceptions to notice and hearing requirements.*

(1) *Probable bank failure.* If the Board finds it must act immediately on an application or notice in order to prevent the probable failure of a bank or bank holding company, the Board may modify or dispense with the notice and hearing requirements of this section.

(2) *Emergency.* If the Board finds that, although immediate action on an application or notice is not necessary, an emergency exists requiring expeditious action, the Board shall provide the primary supervisor 10 days to submit its recommendation. The Board may act on such an application or notice without a hearing and may modify or dispense with the other notice and hearing requirements of this section.

(h) *Waiting period.* A transaction approved under section 225.14 or section 225.15 shall not be consummated until 30 days after the date of approval of the application, except that a transaction may be consummated:

(1) Immediately upon approval, if the Board has determined under paragraph (g) of this section that the application or notice involves a probable bank failure;

(2) On or after the 5th calendar day following the date of approval, if the Board has determined under paragraph (g) of this section that an emergency exists requiring expeditious action; or

(3) On or after the 15th calendar day following the date of approval, if the Board has not received any adverse comments from the United States Attorney General relating to the competitive factors and the Attorney General has consented to the shorter waiting period.

Section 225.17—Notice procedure for one-bank holding company formations.

(a) *Transactions that qualify under this section.* An acquisition by a company of control of a bank may be consummated 30 days after providing notice to the appropriate Reserve Bank in accordance with paragraph (b) of this section, provided that all of the following conditions are met:

(1) The shareholder or shareholders who control at least 67 percent of the shares of the bank will control, immediately after the reorganization, at least 67 percent of the shares of the holding company in substantially the same proportion, except for changes in shareholders' interests resulting from the exercise of dissenting shareholders' rights under state or federal law;[3]

(2) No shareholder, or group of shareholders acting in concert, will, following the reorganization, own or control 10 percent or more of any class of voting shares of the bank holding company, unless that shareholder or group of shareholders was authorized, after review under the Change in Bank Control Act of 1978 (12 U.S.C. 1817(j)) by the appropriate federal banking agency for the bank, to own or control 10 percent or more of any class of voting shares of the bank;[4]

(3) The bank is adequately capitalized (as defined in section 38 of the Federal Deposit Insurance Act (12 U.S.C. 1831o));

(4) The bank received at least a composite "satisfactory" rating at its most recent examination, in the event that the bank was examined;

(5) At the time of the reorganization, neither the bank nor any of its officers, directors, or principal shareholders is involved in any unresolved supervisory or enforcement matters with any appropriate federal banking agency;

(6) The company demonstrates that any debt that it incurs at the time of the reorganization, and the proposed means of retiring this debt, will not place undue burden on the holding company or its subsidiary on a *pro forma* basis;[5]

(7) The holding company will not, as a result of the reorganization, acquire control of any additional bank or engage in any activities other than those of managing and controlling banks; and

(8) During this period, neither the appropriate Reserve Bank nor the Board objected to the proposal or required the filing of an application under section 225.15 of this subpart.

(b) *Contents of notice.* A notice filed under this paragraph shall include:

(1) Certification by the notificant's board of directors that the requirements of 12 U.S.C. 1842(a)(C) and this section are met by the proposal;

(2) A list identifying all principal shareholders of the bank prior to the reorganization and of the holding company following the reorganization, and specifying

3. A shareholder of a bank in reorganization will be considered to have the same proportional interest in the holding company if the shareholder interest increases, on a *pro rata* basis, as a result of either the redemption of shares from dissenting shareholders by the bank or bank holding company, or the acquisition of shares of dissenting shareholders by the remaining shareholders.

4. This procedure is not available in cases in which the exercise of dissenting shareholders' rights would cause a company that is not a bank holding company (other than the company in formation) to be required to register as a bank holding company. This procedure also is not available for the formation of a bank holding company organized in mutual form.

5. For a banking organization with consolidated assets, on a *pro forma* basis, of less than $150 million (other than a banking organization that will control a *de novo* bank), this requirement is satisfied if the proposal complies with the Board's policy statement on small bank holding companies (Appendix C of this part).

the percentage of shares held by each principal shareholder in the bank and proposed to be held in the new holding company;

(3) A description of the resulting management of the proposed bank holding company and its subsidiary bank, including:

(i) Biographical information regarding any senior officers and directors of the resulting bank holding company who were not senior officers or directors of the bank prior to the reorganization; and

(ii) A detailed history of the involvement of any officer, director, or principal shareholder of the resulting bank holding company in any administrative or criminal proceeding; and

(4) *Pro forma* financial statements for the holding company, and a description of the amount, source, and terms of debt, if any, that the bank holding company proposes to incur, and information regarding the sources and timing for debt service and retirement.

(c) *Acknowledgment of notice.* Within 7 calendar days following receipt of a notice under this section, the Reserve Bank shall provide the notificant with a written acknowledgment of receipt of the notice. This written acknowledgment shall indicate that the transaction described in the notice may be consummated on the 30th calendar day after the date of receipt of the notice if the Reserve Bank or the Board has not objected to the proposal during that time.

(d) *Application required upon objection.* The Reserve Bank or the Board may object to a proposal during the notice period by providing the bank holding company with a written explanation of the reasons for the objection. In such case, the bank holding company may file an application for prior approval of the proposal pursuant to section 225.15 of this subpart.

4. Subpart C is revised to read as follows:

Subpart C—Nonbanking Activities and Acquisitions by Bank Holding Companies

Section

Subpart C—Nonbanking Activities and Acquisitions by Bank Holding Companies

Section 225.21—Prohibited Nonbanking Activities and Acquisitions; Exempt Bank Holding Companies.

(a) *Prohibited nonbanking activities and acquisitions.* Except as provided in section 225.22 of this subpart, a bank holding company or a subsidiary may not engage in, or acquire or control, directly or indirectly, voting securities or assets of a company engaged in, any activity other than:

(1) Banking or managing or controlling banks and other subsidiaries authorized under the BHC Act; and

(2) An activity that the Board determines to be so closely related to banking, or managing or controlling banks as to be a proper incident thereto, including any incidental activities that are necessary to carry on such an activity, if the bank holding company has obtained the prior approval of the Board for that activity in accordance with the requirements of this regulation.

(b) *Exempt bank holding companies.* The following bank holding companies are exempt from the provisions of this subpart:

(1) *Family-owned companies.* Any company that is a "company covered in 1970" (as defined in section 2(b) of the BHC Act), more than 85 percent of the voting securities of which was collectively owned on June 30, 1968, and continuously thereafter, by members of the same family (or their spouses) who are lineal descendants of common ancestors.

(2) *Labor, agricultural, and horticultural organizations.* Any company that was on January 4, 1977, both a bank holding company and a labor, agricultural, or horticultural organization exempt from taxation under section 501 of the Internal Revenue Code (26 U.S.C. 501(c)).

(3) *Companies granted hardship exemption.* Any bank holding company that has controlled only one bank since before July 1, 1968, and that has been granted an exemption by the Board under section 4(d) of the BHC Act, subject to any conditions imposed by the Board.

(4) *Companies granted exemption on other grounds.* Any company that acquired control of a bank before December 10, 1982, without the Board's prior approval under section 3 of the BHC Act, on the basis of a narrow interpretation of the term *demand deposit* or commercial loan, if the Board has determined that:

(i) Coverage of the company as a bank holding company under this subpart would be unfair or represent an unreasonable hardship; and

(ii) Exclusion of the company from coverage under this regulation is consistent with the purposes of the BHC Act and section 106 of the Bank Holding Company Act Amendments of 1970 (12 U.S.C. 1971, 1972(1)). The provisions of section 225.4 of subpart A of this part do not apply to a company exempt under this paragraph.

Section 225.22—Exempt nonbanking activities and acquisitions.

(a) *Certain de novo activities.* A bank holding company may, either directly or indirectly, engage *de novo* in any nonbanking activity listed in section 225.28(b) (other than operation of an insured depository institution) without obtaining the Board's prior approval if the bank holding company:

(1) Meets the requirements of paragraphs (c)(1), (2), and (6) of section 225.23;

(2) Conducts the activity in compliance with all Board orders and regulations governing the activity; and

(3) Within 10 business days after commencing the activity, provides written notice to the appropriate Reserve Bank describing the activity, identifying the company or companies engaged in the activity, and certifying that the activity will be conducted in accordance with the Board's orders and regulations and that the bank holding company meets the requirements of paragraphs (c)(1), (2), and (6) of section 225.23.

(b) *Servicing activities.* A bank holding company may, without the Board's prior approval under this subpart, furnish services to or perform services for, or establish or acquire a company that engages solely in servicing activities for:

(1) The bank holding company or its subsidiaries in connection with their activities as authorized by law, including services that are necessary to fulfill commitments entered into by the subsidiaries with third parties, if the bank holding company or servicing company complies with the Board's published interpretations and does not act as principal in dealing with third parties; and

(2) The internal operations of the bank holding company or its subsidiaries. Services for the internal operations of the bank holding company or its subsidiaries include, but are not limited to:

(i) Accounting, auditing, and appraising;

(ii) Advertising and public relations;

(iii) Data processing and data transmission services, data bases, or facilities;

(iv) Personnel services;

(v) Courier services;

(vi) Holding or operating property used wholly or substantially by a subsidiary in its operations or for its future use;

(vii) Liquidating property acquired from a subsidiary;

(viii) Liquidating property acquired from any sources either prior to May 9, 1956, or the date on which the company became a bank holding company, whichever is later; and

(ix) Selling, purchasing, or underwriting insurance, such as blanket bond insurance, group insurance for employees, and property and casualty insurance.

(c) *Safe deposit business.* A bank holding company or nonbank subsidiary may, without the Board's prior approval, conduct a safe deposit business, or acquire voting securities of a company that conducts such a business.

(d) *Nonbanking acquisitions not requiring prior Board approval.* The Board's prior approval is not required under this subpart for the following acquisitions:

(1) *DPC acquisitions.* (i) Voting securities or assets, acquired by foreclosure or otherwise, in the ordinary course of collecting a debt previously contracted (DPC property) in good faith, if the DPC property is divested within two years of acquisition.

(ii) The Board may, upon request, extend this two-year period for up to three additional years. The Board may permit additional extensions for up to 5 years (for a total of 10 years), for shares, real estate or other assets where the holding company demonstrates that each extension would not be detrimental to the public interest and either the bank holding company has made good faith attempts to dispose of such shares, real estate or other assets or disposal of the shares, real estate or other assets during the initial period would have been detrimental to the company.

(iii) Transfers of DPC property within the bank holding company system do not extend any period for divestiture of the property.

(2) *Securities or assets required to be divested by subsidiary.* Voting securities or assets required to be divested by a subsidiary at the request of an examining federal or state authority (except by the Board under the BHC Act or this regulation), if the bank holding company divests the securities or assets within two years from the date acquired from the subsidiary.

(3) *Fiduciary investments.* Voting securities or assets acquired by a bank or other company (other than a trust that is a company) in good faith in a fiduciary capacity, if the voting securities or assets are:

(i) Held in the ordinary course of business; and

(ii) Not acquired for the benefit of the company or its shareholders, employees, or subsidiaries.

(4) *Securities eligible for investment by national bank.* Voting securities of the kinds and amounts explicitly eligible by federal statute (other than section 4 of the Bank Service Corporation Act, 12 U.S.C. 1864) for investment by a national bank, and voting securities acquired prior to June 30, 1971, in reliance on section 4(c)(5) of the BHC Act and interpretations of the Comptroller of the Currency under section 5136 of the Revised Statutes (12 U.S.C. 24(7)).

(5) *Securities or property representing 5 percent or less of a company.* Voting securities of a company or property that, in the aggregate, represent 5 percent or less of the outstanding shares of any class of voting securities of a company, or that represent a 5 percent interest or less in the property, subject to the provisions of 12 C.F.R. 225.137.

(6) *Securities of investment company.* Voting securities of an investment company that is solely engaged in investing in securities and that does not own or control more than 5 percent of the outstanding shares of any class of voting securities of any company.

(7) *Assets acquired in ordinary course of business.* As-

sets of a company acquired in the ordinary course of business, subject to the provisions of 12 C.F.R. 225.132, if the assets relate to activities in which the acquiring company has previously received Board approval under this regulation to engage.

(8) *Asset acquisitions by lending company or industrial bank.* Assets of an office(s) of a company, all or substantially all of which relate to making, acquiring, or servicing loans if:

(i) The acquiring company has previously received Board approval under this regulation or is not required to obtain prior Board approval under this regulation to engage in lending activities or industrial banking activities;

(ii) The assets acquired during any 12-month period do not represent more than 50 percent of the risk-weighted assets (on a consolidated basis) of the acquiring lending company or industrial bank, or more than $100 million, whichever amount is less;

(iii) The assets acquired do not represent more than 50 percent of the selling company's consolidated assets that are devoted to lending activities or industrial banking business;

(iv) The acquiring company notifies the Reserve Bank of the acquisition within 30 days after the acquisition; and

(v) The acquiring company, after giving effect to the transaction, meets the Board's Capital Adequacy Guidelines (Appendix A of this part), and the Board has not previously notified the acquiring company that it may not acquire assets under the exemption in this paragraph.

(e) *Acquisition of securities by subsidiary banks*—

(1) *National bank.* A national bank or its subsidiary may, without the Board's approval under this subpart, acquire or retain securities on the basis of section 4(c)(5) of the BHC Act in accordance with the regulations of the Comptroller of the Currency.

(2) *State bank.* A state-chartered bank or its subsidiary may, insofar as federal law is concerned, and without the Board's prior approval under this subpart:

(i) Acquire or retain securities, on the basis of section 4(c)(5) of the BHC Act, of the kinds and amounts explicitly eligible by federal statute for investment by a national bank; or

(ii) Acquire or retain all (but, except for directors' qualifying shares, not less than all) of the securities of a company that engages solely in activities in which the parent bank may engage, at locations at which the bank may engage in the activity, and subject to the same limitations as if the bank were engaging in the activity directly.

(f) *Activities and securities of new bank holding companies.* A company that becomes a bank holding company may, for a period of two years, engage in nonbanking activities and control voting securities or assets of a nonbank subsidiary, if the bank holding company engaged in such activities or controlled such voting securities or assets on the date it became a bank holding company. The Board may grant requests for up to three one-year extensions of the two-year period.

(g) *Grandfathered activities and securities.* Unless the Board orders divestiture or termination under section 4(a)(2) of the BHC Act, a "company covered in 1970," as defined in section 2(b) of the BHC Act, may:

(1) Retain voting securities or assets and engage in activities that it has lawfully held or engaged in continuously since June 30, 1968; and

(2) Acquire voting securities of any newly formed company to engage in such activities.

(h) *Securities or activities exempt under Regulation K.* A bank holding company may acquire voting securities or assets and engage in activities as authorized in Regulation K (12 C.F.R. Part 211).

Section 225.23—Expedited action for certain nonbanking proposals by well-run bank holding companies.

(a) *Filing of notice*—(1) *Information required.* A bank holding company that meets the requirements of paragraph (c) of this section may satisfy the notice requirement of this subpart in connection with the acquisition of voting securities or assets of a company engaged in nonbanking activities that the Board has permitted by order or regulation (other than an insured depository institution),[1] or a proposal to engage *de novo*, either directly or indirectly, in a nonbanking activity that the Board has permitted by order or by regulation, by providing the appropriate Reserve Bank with a written notice containing the following:

(i) A certification that all of the criteria in paragraph (c) of this section are met;

(ii) A description of the transaction that includes identification of the companies involved in the transaction, the activities to be conducted, and a commitment to conduct the proposed activities in conformity with the Board's regulations and orders governing the conduct of the proposed activity;

(iii) If the proposal involves an acquisition of a going concern:

(A) If the bank holding company has consolidated assets of $150 million or more, an abbreviated consolidated *pro forma* balance sheet for the acquiring bank holding company as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction, consolidated *pro forma* risk-based capital ratios for the acquiring bank holding company as of the most recent quarter, a description of the purchase price and the

1. A bank holding company may acquire voting securities or assets of a savings association or other insured depository institution that is not a bank by using the procedures in section 225.14 of subpart B if the bank holding company and the proposal qualify under that section as if the savings association or other institution were a bank for purposes of that section.

terms and sources of funding for the transaction, and the total revenue and net income of the company to be acquired;

(B) If the bank holding company has consolidated assets of less than $150 million, a *pro forma* parent-only balance sheet as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction, a description of the purchase price and the terms and sources of funding for the transaction and the sources and schedule for retiring any debt incurred in the transaction, and the total assets, off-balance sheet items, revenue and net income of the company to be acquired;

(C) For each insured depository institution whose Tier 1 capital, total capital, total assets or risk-weighted assets change as a result of the transaction, the total risk-weighted assets, total assets, Tier 1 capital and total capital of the institution on a *pro forma* basis;

(iv) Identification of the geographic markets in which competition would be affected by the proposal, a description of the effect of the proposal on competition in the relevant markets, a list of the major competitors in that market in the proposed activity if the affected market is local in nature, and, if requested, the market indexes for the relevant market; and

(v) A description of the public benefits that can reasonably be expected to result from the transaction.

(2) *Waiver of unnecessary information.* The Reserve Bank may reduce the information requirements in paragraphs (1)(iii) and (iv) as appropriate.

(b)(1) *Action on proposals under this section.* The Board or the appropriate Reserve Bank shall act on a proposal submitted under this section, or notify the bank holding company that the transaction is subject to the procedure in section 225.24, within 12 business days following the filing of all of the information required in paragraph (a) of this section.

(2) *Acceptance of notice if expedited procedure not available.* If the Board or the Reserve Bank determines, after the filing of a notice under this section, that a bank holding company may not use the procedure in this section and must file a notice under section 225.24, the notice shall be deemed accepted for purposes of section 225.24 as of the date that the notice was filed under this section.

(c) *Criteria for use of expedited procedure.* The procedure in this section is available only if:

(1) *Well-capitalized organization*—(i) *Bank holding company.* Both at the time of and immediately after the proposed transaction, the acquiring bank holding company is well-capitalized;

(ii) *Insured depository institutions.* Both at the time of and immediately after the transaction:

(A) The lead insured depository institution of the acquiring bank holding company is well-capitalized;

(B) Well-capitalized insured depository institutions control at least 80 percent of the total risk-weighted assets of insured depository institutions controlled by the acquiring bank holding company; and

(C) No insured depository institution controlled by the acquiring bank holding company is undercapitalized;

(2) *Well-managed organization*—(i) *Satisfactory examination ratings.* At the time of the transaction, the acquiring bank holding company, its lead insured depository institution, and insured depository institutions that control at least 80 percent of the total risk-weighted assets of insured depository institutions controlled by such holding company are well-managed;

(ii) *No poorly managed institutions.* No insured depository institution controlled by the acquiring bank holding company has received one of the two lowest composite ratings at the later of the institution's most recent examination or subsequent review by the appropriate federal banking agency for the institution.

(iii) *Recently acquired institutions excluded.* Any insured depository institution that has been acquired by the bank holding company during the 12-month period preceding the date on which written notice is filed under paragraph (a) of this section may be excluded for purposes of paragraph (c)(2)(ii) of this section if:

(A) The bank holding company has developed a plan acceptable to the appropriate federal banking agency for the institution to restore the capital and management of the institution; and

(B) All insured depository institutions excluded under this paragraph represent, in the aggregate, less than 10 percent of the aggregate total risk-weighted assets of all insured depository institutions controlled by the bank holding company;

(3) *Pemissible activity.* (i) The Board has determined by regulation or order that each activity proposed to be conducted is so closely related to banking, or managing or controlling banks, as to be a proper incident thereto; and

(ii) The Board has not indicated that proposals to engage in the activity are subject to the notice procedure provided in section 225.24;

(4) *Competitive criteria*—(i) *Competitive screen.* In the case of the acquisition of a going concern, the acquisition, without regard to any divestitures proposed by the acquiring bank holding company, does not cause:

(A) The acquiring bank holding company to control in excess of 35 percent of the market share in any relevant market; or

(B) The Herfindahl–Hirschman index to increase by more than 200 points in any relevant market with a post-acquisition index of at least 1800; and

(ii) *Other competitive factors.* The Board has not indicated that the transaction is subject to close scrutiny on competitive grounds;

(5) *Size of acquisition*—(i) *In general*—(A) *Limited growth.* Except as provided in paragraph (c)(5)(ii), the sum of aggregate risk-weighted assets to be

acquired in the proposal and the aggregate risk-weighted assets acquired by the acquiring bank holding company in all other qualifying transactions does not exceed 35 percent of the consolidated risk-weighted assets of the acquiring bank holding company. For purposes of this paragraph, "other qualifying transactions" means any transaction approved under this section or section 225.14 during the 12 months prior to filing the notice under this section;

(B) *Consideration paid.* The gross consideration to be paid by the acquiring bank holding company in the proposal does not exceed 15 percent of the consolidated Tier 1 capital of the acquiring bank holding company; and

(C) *Individual size limitation.* The total risk-weighted assets to be acquired do not exceed $7.5 billion;

(ii) *Small bank holding companies.* Paragraph (c)(5)(i)(A) shall not apply if, immediately following consummation of the proposed transaction, the consolidated risk-weighted assets of the acquiring bank holding company are less than $300 million;

(6) *Supervisory actions.* During the 12-month period ending on the date on which the bank holding company proposes to consummate the proposed transaction, no formal administrative order, including a written agreement, cease and desist order, capital directive, prompt corrective action directive, asset maintenance agreement, or other formal enforcement order is or was outstanding against the bank holding company or any insured depository institution subsidiary of the holding company, and no formal administrative enforcement proceeding involving any such enforcement action, order, or directive is or was pending; and

(7) *Notification.* The bank holding company has not been notified by the Board, in its discretion, prior to the expiration of the period in paragraph (b) that a notice under section 225.24 is required in order to permit closer review of any potential adverse effect or other matter related to the factors that must be considered under this part.

(d) *Branches and agencies of foreign banking organizations.* For purposes of this section, a U.S. branch or agency of a foreign banking organization shall be considered to be an insured depository institution.

Section 225.24—Procedures for other nonbanking proposals.

(a) *Notice required for nonbanking activities.* Except as provided in section 225.22 and section 225.23, a notice for the Board's prior approval under section 225.21(a) to engage in or acquire a company engaged in a nonbanking activity shall be filed by a bank holding company (including a company seeking to become a bank holding company) with the appropriate Reserve Bank in accordance with this section and the Board's Rules of Procedure (12 C.F.R. 262.3).

(1) *Engaging de novo in listed activities.* A bank holding company seeking to commence or to engage *de novo*, either directly or through a subsidiary, in a nonbanking activity listed in section 225.28 shall file a notice containing a description of the activities to be conducted and the identity of the company that will conduct the activity.

(2) *Acquiring company engaged in listed activities.* A bank holding company seeking to acquire or control voting securities or assets of a company engaged in a nonbanking activity listed in section 225.28 shall file a notice containing the following:

(i) A description of the proposal, including a description of each proposed activity, and the effect of the proposal on competition among entities engaging in each proposed activity in each relevant market with relevant market indexes;

(ii) The identity of any entity involved in the proposal, and, if the notificant proposes to conduct the activity through an existing subsidiary, a description of the existing activities of the subsidiary;

(iii) A statement of the public benefits that can reasonably be expected to result from the proposal;

(iv) If the bank holding company has consolidated assets of $150 million or more:

(A) Parent company and consolidated *pro forma* balance sheets for the acquiring bank holding company as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction;

(B) Consolidated *pro forma* risk-based capital and leverage ratio calculations for the acquiring bank holding company as of the most recent quarter; and

(C) A description of the purchase price and the terms and sources of funding for the transaction;

(v) If the bank holding company has consolidated assets of less than $150 million:

(A) A *pro forma* parent-only balance sheet as of the most recent quarter showing credit and debit adjustments that reflect the proposed transaction; and

(B) A description of the purchase price and the terms and sources of funding for the transaction and, if the transaction is debt funded, one-year income statement and cash flow projections for the parent company, and the sources and schedule for retiring any debt incurred in the transaction;

(vi) For each insured depository institution whose Tier 1 capital, total capital, total assets or risk-weighted assets change as a result of the transaction, the total risk-weighted assets, total assets, Tier 1 capital and total capital of the institution on a *pro forma* basis; and

(vii) A description of the management expertise, internal controls and risk management systems that will be utilized in the conduct of the proposed activities; and

(viii) A copy of the purchase agreements, and balance sheet and income statements for the most recent quarter and year-end for any company to be acquired.

(3) *Engaging in or acquiring company to engage in*

unlisted activities. A bank holding company seeking to engage *de novo* in, or to acquire or control voting securities or assets of a company engaged in, any activity not listed in section 225.28 shall file a notice containing the following:

(i) Evidence that the proposed activity is so closely related to banking or managing or controlling banks as to be a proper incident thereto, or, if the Board previously determined by order that the activity is permissible for a bank holding company to conduct, a commitment to comply with all the conditions and limitations established by the Board governing the activity; and

(ii) The information required in paragraphs (a)(1) or (a)(2) of this section, as appropriate.

(b) *Notice provided to Board.* The Reserve Bank shall immediately send to the Board a copy of any notice received under paragraphs (a)(2) or (a)(3) of this section.

(c) *Notice to public*—(1) *Listed activities and activities approved by order*—(i) In a case involving an activity listed in section 225.28 or previously approved by the Board by order, the Reserve Bank shall notify the Board for publication in the *Federal Register* immediately upon receipt by the Reserve Bank of:

(A) A notice under this section; or

(B) A written request that notice of a proposal under this section or section 225.23 be published in the *Federal Register.* Such a request may request that *Federal Register* publication occur up to 15 calendar days prior to submission of a notice under this subpart.

(ii) The *Federal Register* notice published under this paragraph shall invite public comment on the proposal, generally for a period of 15 days.

(2) *New activities*—(i) *In general.* In the case of a notice under this subpart involving an activity that is not listed in section 225.28 and that has not been previously approved by the Board by order, the Board shall send notice of the proposal to the *Federal Register* for publication, unless the Board determines that the notificant has not demonstrated that the activity is so closely related to banking or to managing or controlling banks as to be a proper incident thereto. The *Federal Register* notice shall invite public comment on the proposal for a reasonable period of time, generally for 30 days.

(ii) *Time for publication.* The Board shall send the notice required under this paragraph to the *Federal Register* within 10 business days of acceptance by the Reserve Bank. The Board may extend the 10-day period for an additional 30 calendar days upon notice to the notificant. In the event notice of a proposal is not published for comment, the Board shall inform the notificant of the reasons for the decision.

(d) *Action on notices*—(1) *Reserve Bank action*—(i) *In general.* Within 30 calendar days after receipt by the Reserve Bank of a notice filed pursuant to paragraphs (a)(1) or (a)(2) of this section, the Reserve Banks shall:

(A) Approve the notice; or

(B) Refer the notice to the Board for decision because action under delegated authority is not appropriate.

(ii) *Return of incomplete notice.* Within 7 calendar days of receipt, the Reserve Bank may return any notice as informationally incomplete that does not contain all of the information required by this subpart. The return of such a notice shall be deemed action on the notice.

(iii) *Notice of action.* The Reserve Bank shall promptly notify the bank holding company of any action or referral under this paragraph.

(iv) *Close of public comment period.* The Reserve Bank shall not approve any notice under this paragraph (1) of this section prior to the third business day after the close of the public comment period, unless an emergency exists that requires expedited or immediate action.

(2) *Board action*—(i) *Internal schedule.* The Board seeks to act on every notice referred to it for decision within 60 days of the date that the notice is filed with the Reserve Bank. If the Board is unable to act within this period, the Board shall notify the notificant and explain the reasons and the date by which the Board expects to act.

(ii) *Extension of required period for action* —

(A) *In general.* The Board may extend the 60-day period required for Board action under paragraph (d)(2)(i) of this section for an additional 30 days upon notice to the notificant.

(B) *Unlisted activities.* If a notice involves a proposal to engage in an activity that is not listed in section 225.28, the Board may extend the period required for Board action under paragraph (d)(2)(i) of this section for an additional 90 days. This 90-day extension is in addition to the 30-day extension period provided in paragraph (d)(2)(ii)(A) of this section. The Board shall notify the notificant that the notice period has been extended and explain the reasons for the extension.

(3) *Requests for additional information.* The Board or the Reserve Bank may modify the information requirements under this section or at any time request any additional information that either believes is needed for a decision on any notice under this section.

(4) *Tolling of period.* The Board or the Reserve Bank may at any time extend or toll the time period for action on a notice for any period with the consent of the notificant.

Section 225.25—Hearings, alteration of activities, and other matters.

(a) *Hearings*—(1) *Procedure to request hearing.* Any request for a hearing on a notice under this subpart shall comply with the provisions of 12 C.F.R. 262.3(e).

(2) *Determination to hold hearing.* The Board may order a formal or informal hearing or other proceeding on a

notice as provided in 12 C.F.R. 262.3(i)(2). The Board shall order a hearing only if there are disputed issues of material fact that cannot be resolved in some other manner.

(3) *Extension of period for hearing.* The Board may extend the time for action on any notice for such time as is reasonably necessary to conduct a hearing and evaluate the hearing record. Such extension shall not exceed 91 calendar days after the date of submission to the Board of the complete record on the notice. The procedures for computation of the 91-day rule as set forth in section 225.16(f) apply to notices under this subpart that involve hearings.

(b) *Approval through failure to act.* (1) Except as provided in paragraph (a) of this section or section 225.24(d)(4), a notice under this subpart shall be deemed to be approved at the conclusion of the period that begins on the date the complete notice is received by the Reserve Bank or the Board and that ends 60 calendar days plus any applicable extension and tolling period thereafter.

(2) *Complete notice.* For purposes of paragraph (b)(1) of this section, a notice shall be deemed complete at such time as it contains all information required by this subpart and all other information requested by the Board or the Reserve Bank.

(c) *Notice to expand or alter nonbanking activities*—

(1) *De novo expansion.* A notice under this subpart is required to open a new office or to form a subsidiary to engage in, or to relocate an existing office engaged in, a nonbanking activity that the Board has previously approved for the bank holding company under this regulation, only if:

(i) The Board's prior approval was limited geographically;

(ii) The activity is to be conducted in a country outside of the United States and the bank holding company has not previously received prior Board approval under this regulation to engage in the activity in that country; or

(iii) The Board or appropriate Reserve Bank has notified the company that a notice under this subpart is required.

(2) *Activities outside United States.* With respect to activities to be engaged in outside the United States that require approval under this subpart, the procedures of this section apply only to activities to be engaged in directly by a bank holding company that is not a qualifying foreign banking organization, or by a nonbank subsidiary of a bank holding company approved under this subpart. Regulation K (12 C.F.R. 211) governs other international operations of bank holding companies.

(3) *Alteration of nonbanking activity.* Unless otherwise permitted by the Board, a notice under this subpart is required to alter a nonbanking activity in any material respect from that considered by the Board in acting on the application or notice to engage in the activity.

(d) *Emergency savings association acquisitions.* In the case of a notice to acquire a savings association, the Board may modify or dispense with the public notice and hearing requirements of this subpart if the Board finds that an emergency exists that requires the Board to act immediately and the primary federal regulator of the institution concurs.

Section 225.26—Factors Considered in Acting on Nonbanking Proposals.

(a) *In general.* In evaluating a notice under section 225.23 or section 225.24, the Board shall consider whether the notificant's performance of the activities can reasonably be expected to produce benefits to the public (such as greater convenience, increased competition, and gains in efficiency) that outweigh possible adverse effects (such as undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices).

(b) *Financial and managerial resources.* Consideration of the factors in paragraph (a) of this section includes an evaluation of the financial and managerial resources of the notificant, including its subsidiaries and any company to be acquired, the effect of the proposed transaction on those resources, and the management expertise, internal control and risk-management systems, and capital of the entity conducting the activity.

(c) *Competitive effect of de novo proposals.* Unless the record demonstrates otherwise, the commencement or expansion of a nonbanking activity *de novo* is presumed to result in benefits to the public through increased competition.

(d) *Denial for lack of information.* The Board may deny any notice submitted under this subpart if the notificant neglects, fails, or refuses to furnish all information required by the Board.

(e) *Conditional approvals.* The Board may impose conditions on any approval, including conditions to address permissibility, financial, managerial, safety and soundness, competitive, compliance, conflicts of interest, or other concerns to ensure that approval is consistent with the relevant statutory factors and other provisions of the BHC Act.

Section 225.27—Procedures for determining scope of nonbanking activities.

(a) *Advisory opinions regarding scope of previously approved nonbanking activities*—(1) *Request for advisory opinion.* Any person may submit a request to the Board for an advisory opinion regarding the scope of any permissible nonbanking activity. The request shall be submitted in writing to the Board and shall identify the proposed parameters of the activity, or describe the service or product that will be provided, and contain an explanation supporting an interpretation regarding the scope of the permissible nonbanking activity.

(2) *Response to request.* The Board shall provide an advisory opinion within 45 days of receiving a written request under this paragraph.

(b) *Procedure for consideration of new activities*—

(1) *Initiation of proceeding.* The Board may, at any time,

on its own initiative or in response to a written request from any person, initiate a proceeding to determine whether any activity is so closely related to banking or managing or controlling banks as to be a proper incident thereto.
(2) *Requests for determination.* Any request for a Board determination that an activity is so closely related to banking or managing or controlling banks as to be a proper incident thereto, shall be submitted to the Board in writing, and shall contain evidence that the proposed activity is so closely related to banking or managing or controlling banks as to be a proper incident thereto.
(3) *Publication.* The Board shall publish in the *Federal Register* notice that it is considering the permissibility of a new activity and invite public comment for a period of at least 30 calendar days. In the case of a request submitted under paragraph (b) of this section, the Board may determine not to publish notice of the request if the Board determines that the requester has provided no reasonable basis for a determination that the activity is so closely related to banking, or managing or controlling banks as to be a proper incident thereto, and notifies the requester of the determination.
(4) *Comments and hearing requests.* Any comment and any request for a hearing regarding a proposal under this section shall comply with the provisions of section 262.3(e) of the Board's Rules of Procedure (12 C.F.R. 262.3(e)).

Section 225.28—List of permissible nonbanking activities.

(a) *Closely related nonbanking activities.* The activities listed in paragraph (b) of this section are so closely related to banking or managing or controlling banks as to be a proper incident thereto, and may be engaged in by a bank holding company or its subsidiary in accordance with the requirements of this regulation.
(b) *Activities determined by regulation to be permissible* —
(1) *Extending credit and servicing loans.* Making, acquiring, brokering, or servicing loans or other extensions of credit (including factoring, issuing letters of credit and accepting drafts) for the company's account or for the account of others.
(2) *Activities related to extending credit.* Any activity usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit, as determined by the Board. The Board has determined that the following activities are usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit:
(i) *Real estate and personal property appraising.* Performing appraisals of real estate and tangible and intangible personal property, including securities.
(ii) *Arranging commercial real estate equity financing.* Acting as intermediary for the financing of commercial or industrial income-producing real estate by arranging for the transfer of the title, control, and risk of such a real estate project to one or more investors, if the bank holding company and its affiliates do not have an interest in, or participate in managing or developing, a real estate project for which it arranges equity financing, and do not promote or sponsor the development of the property.
(iii) *Check-guaranty services.* Authorizing a subscribing merchant to accept personal checks tendered by the merchant's customers in payment for goods and services, and purchasing from the merchant validly authorized checks that are subsequently dishonored.
(iv) *Collection agency services.* Collecting overdue accounts receivable, either retail or commercial.
(v) *Credit bureau services.* Maintaining information related to the credit history of consumers and providing the information to a credit grantor who is considering a borrower's application for credit or who has extended credit to the borrower.
(vi) *Asset management, servicing, and collection activities.* Engaging under contract with a third party in asset management, servicing, and collection[2] of assets of a type that an insured depository institution may originate and own, if the company does not engage in real property management or real estate brokerage services as part of these services.
(vii) *Acquiring debt in default.* Acquiring debt that is in default at the time of acquisition, if the company:
(A) Divests shares or assets securing debt in default that are not permissible investments for bank holding companies, within the time period required for divestiture of property acquired in satisfaction of a debt previously contracted under section 225.12(b);[3]
(B) Stands only in the position of a creditor and does not purchase equity of obligors of debt in default (other than equity that may be collateral for such debt); and
(C) Does not acquire debt in default secured by shares of a bank or bank holding company.
(viii) *Real estate settlement servicing.* Providing real estate settlement services.[4]
(3) *Leasing personal or real property.* Leasing personal or real property or acting as agent, broker, or adviser in leasing such property if:
(i) The lease is on a nonoperating basis;[5]
(ii) The initial term of the lease is at least 90 days;

2. Asset management services include acting as agent in the liquidation or sale of loans and collateral for loans, including real estate and other assets acquired through foreclosure or in satisfaction of debts previously contracted.

3. For this purpose, the divestiture period for property begins on the date that the debt is acquired, regardless of when legal title to the property is acquired.

4. For purposes of this section, real estate settlement services do not include providing title insurance as principal, agent, or broker.

5. The requirement that the lease be on a nonoperating basis means that the bank holding company may not, directly or indirectly, engage in operating, servicing, maintaining, or repairing leased property during the lease term. For purposes of the leasing of automobiles, the requirement that the lease be on a nonoperating basis means that the bank holding company may not, directly or indirectly:

(iii) In the case of leases involving real property:

(A) At the inception of the initial lease, the effect of the transaction will yield a return that will compensate the lessor for not less than the lessor's full investment in the property plus the estimated total cost of financing the property over the term of the lease from rental payments, estimated tax benefits, and the estimated residual value of the property at the expiration of the initial lease; and

(B) The estimated residual value of property for purposes of paragraph (b)(3)(iii)(A) of this section shall not exceed 25 percent of the acquisition cost of the property to the lessor.

(4) *Operating nonbank depository institutions* —

(i) *Industrial banking.* Owning, controlling, or operating an industrial bank, Morris Plan bank, or industrial loan company, so long as the institution is not a bank.

(ii) *Operating savings association.* Owning, controlling, or operating a savings association, if the savings association engages only in deposit-taking activities, lending, and other activities that are permissible for bank holding companies under this subpart C.

(5) *Trust company functions.* Performing functions or activities that may be performed by a trust company (including activities of a fiduciary, agency, or custodial nature), in the manner authorized by federal or state law, so long as the company is not a bank for purposes of section 2(c) of the Bank Holding Company Act.

(6) *Financial and investment advisory activities.* Acting as investment or financial advisor to any person, including (without, in any way, limiting the foregoing):

(i) Serving as investment adviser (as defined in section 2(a)(20) of the Investment Company Act of 1940, 15 U.S.C. 80a-2(a)(20)), to an investment company registered under that act, including sponsoring, organizing, and managing a closed-end investment company;

(ii) Furnishing general economic information and advice, general economic statistical forecasting services, and industry studies;

(iii) Providing advice in connection with mergers, acquisitions, divestitures, investments, joint ventures, leveraged buyouts, recapitalizations, capital structurings, financing transactions and similar transactions, and conducting financial feasibility studies;[6]

(iv) Providing information, statistical forecasting, and advice with respect to any transaction in foreign exchange, swaps, and similar transactions, commodities, and any forward contract, option, future, option on a future, and similar instruments;

(v) Providing educational courses, and instructional materials to consumers on individual financial management matters; and

(vi) Providing tax-planning and tax-preparation services to any person.

(7) *Agency transactional services for customer investments*—(i) *Securities brokerage.* Providing securities brokerage services (including securities clearing and/or securities execution services on an exchange), whether alone or in combination with investment advisory services, and incidental activities (including related securities credit activities and custodial services), if the securities brokerage services are restricted to buying and selling securities solely as agent for the account of customers and do not include securities underwriting or dealing.

(ii) *Riskless principal transactions.* Buying and selling in the secondary market all types of securities on the order of customers as a "riskless principal" to the extent of engaging in a transaction in which the company, after receiving an order to buy (or sell) a security from a customer, purchases (or sells) the security for its own account to offset a contemporaneous sale to (or purchase from) the customer. This does not include:

(A) Selling bank-ineligible securities[7] at the order of a customer that is the issuer of the securities, or selling bank-ineligible securities in any transaction where the company has a contractual agreement to place the securities as agent of the issuer; or

(B) Acting as a riskless principal in any transaction involving a bank-ineligible security for which the company or any of its affiliates acts as underwriter (during the period of the underwriting or for 30 days thereafter) or dealer.[8]

(iii) *Private placement services.* Acting as agent for the private placement of securities in accordance with the requirements of the Securities Act of 1933 (1933

(1) Provide servicing, repair, or maintenance of the leased vehicle during the lease term;

(2) Purchase parts and accessories in bulk or for an individual vehicle after the lessee has taken delivery of the vehicle;

(3) Provide the loan of an automobile during servicing of the leased vehicle;

(4) Purchase insurance for the lessee; or

(5) Provide for the renewal of the vehicle's license merely as a service to the lessee where the lessee could renew the license without authorization from the lessor.

The bank holding company may arrange for a third party to provide these services or products.

6. Feasibility studies do not include assisting management with the planning or marketing for a given project or providing general operational or management advice.

7. A bank-ineligible security is any security that a State member bank is not permitted to underwrite or deal in under 12 U.S.C. 24 and 335.

8. A company or its affiliates may not enter quotes for specific bank-ineligible securities in any dealer quotation system in connection with the company's riskless principal transactions; except that the company or its affiliates may enter "bid" or "ask" quotations, or publish "offering wanted" or "bid wanted" notices on trading systems other than NASDAQ or an exchange, if the company or its affiliate does not enter price quotations on different sides of the market for a particular security during any two-day period.

Act) and the rules of the Securities and Exchange Commission, if the company engaged in the activity does not purchase or repurchase for its own account the securities being placed, or hold in inventory unsold portions of issues of these securities.

(iv) *Futures commission merchant.* Acting as a futures commission merchant (FCM) for unaffiliated persons in the execution, clearance, or execution and clearance of any futures contract and option on a futures contract traded on an exchange in the United States or abroad if:

(A) The activity is conducted through a separately incorporated subsidiary of the bank holding company, which may engage in activities other than FCM activities (including, but not limited to, permissible advisory and trading activities); and

(B) The parent bank holding company does not provide a guarantee or otherwise become liable to the exchange or clearing association other than for those trades conducted by the subsidiary for its own account or for the account of any affiliate.

(v) *Other transactional services.* Providing to customers as agent transactional services with respect to swaps and similar transactions, any transaction described in paragraph (b)(8) of this section, any transaction that is permissible for a state member bank, and any other transaction involving a forward contract, option, futures, option on a futures or similar contract (whether traded on an exchange or not) relating to a commodity that is traded on an exchange.

(8) *Investment transactions as principal*—

(i) *Underwriting and dealing in government obligations and money market instruments.* Underwriting and dealing in obligations of the United States, general obligations of states and their political subdivisions, and other obligations that state member banks of the Federal Reserve System may be authorized to underwrite and deal in under 12 U.S.C. 24 and 335, including banker's acceptances and certificates of deposit, under the same limitations as would be applicable if the activity were performed by the bank holding company's subsidiary member banks or its subsidiary nonmember banks as if they were member banks.

(ii) *Investing and trading activities.* Engaging as principal in:

(A) Foreign exchange;

(B) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on any rate, price, financial asset (including gold, silver, platinum, palladium, copper, or any other metal approved by the Board), nonfinancial asset, or group of assets, other than a bank-ineligible security,[9] if:

(*1*) A state member bank is authorized to invest in the asset underlying the contract;

(*2*) The contract requires cash settlement; or

(*3*) The contract allows for assignment, termination, or offset prior to delivery or expiration, and the company makes every reasonable effort to avoid taking or making delivery; and

(C) Forward contracts, options,[10] futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on an index of a rate, a price, or the value of any financial asset, nonfinancial asset, or group of assets, if the contract requires cash settlement.

(iii) *Buying and selling bullion, and related activities.* Buying, selling and storing bars, rounds, bullion, and coins of gold, silver, platinum, palladium, copper, and any other metal approved by the Board, for the company's own account and the account of others, and providing incidental services such as arranging for storage, safe custody, assaying, and shipment.

(9) *Management consulting and counseling activities* —

(i) *Management consulting.*

(A) Providing management consulting advice:[11]

(*1*) On any matter to unaffiliated depository institutions, including commercial banks, savings and loan associations, savings banks, credit unions, industrial banks, Morris Plan banks, cooperative banks, industrial loan companies, trust companies, and branches or agencies of foreign banks;

(*2*) On any financial, economic, accounting, or audit matter to any other company.

(B) A company conducting management consulting activities under this subparagraph and any affiliate of such company may not:

(*1*) Own or control, directly or indirectly, more than 5 percent of the voting securities of the client institution; and

(*2*) Allow a management official, as defined in 12 C.F.R. 212.2(h), of the company or any of its affiliates to serve as a management official of the client institution, except where such interlocking relationship is permitted pursuant to an exemption granted under 12 C.F.R. 212.4(b) or otherwise permitted by the Board.

9. A bank-ineligible security is any security that a state member bank is not permitted to underwrite or deal in under 12 U.S.C. 24 and 335.

10. This reference does not include acting as a dealer in options based on indices of bank-ineligible securities when the options are traded on securities exchanges. These options are securities for purposes of the federal securities laws and bank-ineligible securities for purposes of section 20 of the Glass–Steagall Act, 12 U.S.C. 337. Similarly, this reference does not include acting as a dealer in any other instrument that is a bank-ineligible security for purposes of section 20. A bank holding company may deal in these instruments in accordance with the Board's orders on dealing in bank-ineligible securities.

11. In performing this activity, bank holding companies are not authorized to perform tasks or operations or provide services to client institutions either on a daily or continuing basis, except as necessary to instruct the client institution on how to perform such services for itself. *See also* the Board's interpretation of bank management consulting advice (12 C.F.R. 225.131).

(C) A company conducting management consulting activities may provide management consulting services to customers not described in paragraph (b)(9)(i)(A)(1) of this section or regarding matters not described in paragraph (b)(9)(i)(A)(2) of this section, if the total annual revenue derived from those management consulting services does not exceed 30 percent of the company's total annual revenue derived from management consulting activities.

(ii) *Employee benefits consulting services.* Providing consulting services to employee benefit, compensation and insurance plans, including designing plans, assisting in the implementation of plans, providing administrative services to plans, and developing employee communication programs for plans.

(iii) *Career counseling services.* Providing career counseling services to:

(A) A financial organization[12] and individuals currently employed by, or recently displaced from, a financial organization;

(B) Individuals who are seeking employment at a financial organization; and

(C) Individuals who are currently employed in or who seek positions in the finance, accounting, and audit departments of any company.

(10) *Support services*—(i) *Courier services.* Providing courier services for:

(A) Checks, commercial papers, documents, and written instruments (excluding currency or bearer-type negotiable instruments) that are exchanged among banks and financial institutions; and

(B) Audit and accounting media of a banking or financial nature and other business records and documents used in processing such media.[13]

(ii) *Printing and selling MICR-encoded items.* Printing and selling checks and related documents, including corporate image checks, cash tickets, voucher checks, deposit slips, savings withdrawal packages, and other forms that require Magnetic Ink Character Recognition (MICR) encoding.

(11) *Insurance agency and underwriting*—(i) *Credit insurance.* Acting as principal, agent, or broker for insurance (including home mortgage redemption insurance) that is:

(A) Directly related to an extension of credit by the bank holding company or any of its subsidiaries; and

(B) Limited to ensuring the repayment of the outstanding balance due on the extension of credit[14] in the event of the death, disability, or involuntary unemployment of the debtor.

(ii) *Finance company subsidiary.* Acting as agent or broker for insurance directly related to an extension of credit by a finance company[15] that is a subsidiary of a bank holding company, if:

(A) The insurance is limited to ensuring repayment of the outstanding balance on such extension of credit in the event of loss or damage to any property used as collateral for the extension of credit; and

(B) The extension of credit is not more than $10,000, or $25,000 if it is to finance the purchase of a residential manufactured home[16] and the credit is secured by the home; and

(C) The applicant commits to notify borrowers in writing that:

(*1*) They are not required to purchase such insurance from the applicant;

(*2*) Such insurance does not insure any interest of the borrower in the collateral; and

(*3*) The applicant will accept more comprehensive property insurance in place of such single-interest insurance.

(iii) *Insurance in small towns.* Engaging in any insurance agency activity in a place where the bank holding company or a subsidiary of the bank holding company has a lending office and that:

(A) Has a population not exceeding 5,000 (as shown in the preceding decennial census); or

(B) Has inadequate insurance agency facilities, as determined by the Board, after notice and opportunity for hearing.

(iv) *Insurance-agency activities conducted on May 1, 1982.* Engaging in any specific insurance-agency activity[17] if the bank holding company, or subsidiary conducting the specific activity, conducted such activity on May 1, 1982, or received Board approval to

12. *Financial organization* refers to insured depository institution holding companies and their subsidiaries, other than nonbanking affiliates of diversified savings and loan holding companies that engage in activities not permissible under section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1842(c)(8)).

13. *See also* the Board's interpretation on courier activities (12 C.F.R. 225.129), which sets forth conditions for bank holding company entry into the activity.

14. *Extension of credit* includes direct loans to borrowers, loans purchased from other lenders, and leases of real or personal property so long as the leases are nonoperating and full-payout leases that meet the requirements of paragraph (b)(3) of this section.

15. *Finance company* includes all non-deposit-taking financial institutions that engage in a significant degree of consumer lending (excluding lending secured by first mortgages) and all financial institutions specifically defined by individual states as finance companies and that engage in a significant degree of consumer lending.

16. These limitations increase at the end of each calendar year, beginning with 1982, by the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers published by the Bureau of Labor Statistics.

17. Nothing contained in this provision shall preclude a bank holding company subsidiary that is authorized to engage in a specific insurance-agency activity under this clause from continuing to engage in the particular activity after merger with an affiliate, if the merger is for legitimate business purposes and prior notice has been provided to the Board.

conduct such activity on or before May 1, 1982.[18] A bank holding company or subsidiary engaging in a specific insurance agency activity under this clause may:

(A) Engage in such specific insurance agency activity only at locations:

(*1*) In the state in which the bank holding company has its principal place of business (as defined in 12 U.S.C. 1842(d));

(*2*) In any state or states immediately adjacent to such state; and

(*3*) In any state in which the specific insurance-agency activity was conducted (or was approved to be conducted) by such bank holding company or subsidiary thereof or by any other subsidiary of such bank holding company on May 1, 1982; and

(B) Provide other insurance coverages that may become available after May 1, 1982, so long as those coverages insure against the types of risks as (or are otherwise functionally equivalent to) coverages sold or approved to be sold on May 1, 1982, by the bank holding company or subsidiary.

(v) *Supervision of retail insurance agents.* Supervising on behalf of insurance underwriters the activities of retail insurance agents who sell:

(A) Fidelity insurance and property and casualty insurance on the real and personal property used in the operations of the bank holding company or its subsidiaries; and

(B) Group insurance that protects the employees of the bank holding company or its subsidiaries.

(vi) *Small bank holding companies.* Engaging in any insurance-agency activity if the bank holding company has total consolidated assets of $50 million or less. A bank holding company performing insurance-agency activities under this paragraph may not engage in the sale of life insurance or annuities except as provided in paragraphs (b)(11)(i) and (iii) of this section, and it may not continue to engage in insurance-agency activities pursuant to this provision more than 90 days after the end of the quarterly reporting period in which total assets of the holding company and its subsidiaries exceed $50 million.

(vii) *Insurance-agency activities conducted before 1971.* Engaging in any insurance-agency activity performed at any location in the United States directly or indirectly by a bank holding company that was engaged in insurance-agency activities prior to January 1, 1971, as a consequence of approval by the Board prior to January 1, 1971.

18. For the purposes of this paragraph, activities engaged in on May 1, 1982, include activities carried on subsequently as the result of an application to engage in such activities pending before the Board on May 1, 1982, and approved subsequently by the Board or as the result of the acquisition by such company pursuant to a binding written contract entered into on or before May 1, 1982, of another company engaged in such activities at the time of the acquisition.

(12) *Community development activities*—(i) *Financing and investment activities.* Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents.

(ii) *Advisory activities.* Providing advisory and related services for programs designed primarily to promote community welfare.

(13) *Money orders, savings bonds, and traveler's checks.* The issuance and sale at retail of money orders and similar consumer-type payment instruments; the sale of U.S. savings bonds; and the issuance and sale of traveler's checks.

(14) *Data processing.* (i) Providing data processing and data transmission services, facilities (including data processing and data transmission hardware, software, documentation, or operating personnel), data bases, advice, and access to such services, facilities, or data bases by any technological means, if:

(A) The data to be processed or furnished are financial, banking, or economic; and

(B) The hardware provided in connection therewith is offered only in conjunction with software designed and marketed for the processing and transmission of financial, banking, or economic data, and where the general purpose hardware does not constitute more than 30 percent of the cost of any packaged offering.

(ii) A company conducting data processing and data transmission activities may conduct data processing and data transmission activities not described in paragraph (b)(14)(i) of this section if the total annual revenue derived from those activities does not exceed 30 percent of the company's total annual revenues derived from data processing and data transmission activities.

5. Subpart D is amended as follows:

(A) Section 225.31, paragraph (d)(2)(ii), is amended by removing the words "as defined in 12 C.F.R. 206.2(k)"; and

(B) Section 225.32 is removed.

6. Subpart E is revised to read as follows:

Subpart E—Change in Bank Control

Section

Subpart E—Change in Bank Control

Section 225.41—Transactions requiring prior notice.

(a) *Prior notice requirement.* Any person acting directly or indirectly, or through or in concert with one or more persons, shall give the Board 60 days' written notice, as specified in section 225.43 of this subpart, before acquiring control of a state member bank or bank holding company, unless the acquisition is exempt under section 225.42.

(b) *Definitions (1) Acquisition* includes a purchase, assignment, transfer, or pledge of voting securities, or an increase in percentage ownership of a state member bank or a bank holding company resulting from a redemption of voting securities.

(2) *Acting in concert* includes knowing participation in a joint activity or parallel action towards a common goal of acquiring control of a state member bank or bank holding company whether or not pursuant to an express agreement.

(3) *Immediate family* includes a person's father, mother, stepfather, stepmother, brother, sister, stepbrother, stepsister, son, daughter, stepson, stepdaughter, grandparent, grandson, granddaughter, father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, the spouse of any of the foregoing, and the person's spouse.

(c) *Acquisitions requiring prior notice* — (1) *Acquisition of control.* The acquisition of voting securities of a state member bank or bank holding company constitutes the acquisition of control under the Bank Control Act, requiring prior notice to the Board, if, immediately after the transaction, the acquiring person (or persons acting in concert) will own, control, or hold with power to vote 25 percent or more of any class of voting securities of the institution.

(2) *Rebuttable presumption of control.* The Board presumes that an acquisition of voting securities of a state member bank or bank holding company constitutes the acquisition of control under the Bank Control Act, requiring prior notice to the Board, if, immediately after the transaction, the acquiring person (or persons acting in concert) will own, control, or hold with power to vote 10 percent or more of any class of voting securities of the institution, and if:

(i) The institution has registered securities under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78l); or

(ii) No other person will own, control, or hold the power to vote a greater percentage of that class of voting securities immediately after the transaction.[1]

(d) *Rebuttable presumption of concerted action.* The following persons shall be presumed to be acting in concert for purposes of this subpart:

(1) A company and any controlling shareholder, partner, trustee, or management official of the company, if both the company and the person own voting securities of the state member bank or bank holding company;

(2) An individual and the individual's immediate family;

(3) Companies under common control;

(4) Persons that are parties to any agreement, contract, understanding, relationship, or other arrangement, whether written or otherwise, regarding the acquisition, voting, or transfer of control of voting securities of a state member bank or bank holding company, other than through a revocable proxy as described in section 225.42(a)(5) of this subpart;

(5) Persons that have made, or propose to make, a joint filing under sections 13 or 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78n), and the rules promulgated thereunder by the Securities and Exchange Commission; and

(6) A person and any trust for which the person serves as trustee.

(e) *Acquisitions of loans in default.* The Board presumes an acquisition of a loan in default that is secured by voting securities of a state member bank or bank holding company to be an acquisition of the underlying securities for purposes of this section.

(f) *Other transactions.* Transactions other than those set forth in paragraph (c) of this section resulting in a person's control of less than 25 percent of a class of voting securities of a state member bank or bank holding company are not deemed by the Board to constitute control for purposes of the Bank Control Act.

(g) *Rebuttal of presumptions.* Prior notice to the Board is not required for any acquisition of voting securities under the presumption of control set forth in this section, if the Board finds that the acquisition will not result in control. The Board shall afford any person seeking to rebut a presumption in this section an opportunity to present views in writing or, if appropriate, orally before its designated representatives at an informal conference.

Section 225.42—Transactions not requiring prior notice.

(a) *Exempt transactions.* The following transactions do not require notice to the Board under this subpart:

(1) *Existing control relationships.* The acquisition of additional voting securities of a state member bank or bank holding company by a person who:

(i) Continuously since March 9, 1979 (or since the institution commenced business, if later), held power to vote 25 percent or more of any class of voting securities of the institution; or

(ii) Is presumed, under section 225.41(c)(2) of this subpart, to have controlled the institution continuously since March 9, 1979, if the aggregate amount of voting securities held does not exceed 25 percent or

1. If two or more persons, not acting in concert, each propose to acquire simultaneously equal percentages of 10 percent or more of a class of voting securities of the state member bank or bank holding company, each person must file prior notice to the Board.

more of any class of voting securities of the institution or, in other cases, where the Board determines that the person has controlled the bank continuously since March 9, 1979;

(2) *Increase of previously authorized acquisitions.* Unless the Board or the Reserve Bank otherwise provides in writing, the acquisition of additional shares of a class of voting securities of a state member bank or bank holding company by any person (or persons acting in concert) who has lawfully acquired and maintained control of the institution (for purposes of section 225.41(c) of this subpart), after complying with the procedures and receiving approval to acquire voting securities of the institution under this subpart, or in connection with an application approved under section 3 of the BHC Act (12 U.S.C. 1842; section 225.11 of subpart B of this part) or section 18(c) of the Federal Deposit Insurance Act (Bank Merger Act, 12 U.S.C. 1828(c));

(3) *Acquisitions subject to approval under BHC Act or Bank Merger Act.* Any acquisition of voting securities subject to approval under section 3 of the BHC Act (12 U.S.C. 1842; section 225.11 of subpart B of this part), or section 18(c) of the Federal Deposit Insurance Act (Bank Merger Act, 12 U.S.C. 1828(c));

(4) *Transactions exempt under BHC Act.* Any transaction described in sections 2(a)(5), 3(a)(A), or 3(a)(B) of the BHC Act (12 U.S.C. 1841(a)(5), 1842(a)(A), and 1842(a)(B)), by a person described in those provisions;

(5) *Proxy solicitation.* The acquisition of the power to vote securities of a state member bank or bank holding company through receipt of a revocable proxy in connection with a proxy solicitation for the purposes of conducting business at a regular or special meeting of the institution, if the proxy terminates within a reasonable period after the meeting;

(6) *Stock dividends.* The receipt of voting securities of a state member bank or bank holding company through a stock dividend or stock split if the proportional interest of the recipient in the institution remains substantially the same; and

(7) *Acquisition of foreign banking organization.* The acquisition of voting securities of a qualifying foreign banking organization. (This exemption does not extend to the reports and information required under paragraphs 9, 10, and 12 of the Bank Control Act (12 U.S.C. 1817(j)(9), (10), and (12)) and section 225.44 of this subpart.)

(b) *Prior notice exemption.* (1) The following acquisitions of voting securities of a state member bank or bank holding company, which would otherwise require prior notice under this subpart, are not subject to the prior notice requirements if the acquiring person notifies the appropriate Reserve Bank within 90 calendar days after the acquisition and provides any relevant information requested by the Reserve Bank:

(i) Acquisition of voting securities through inheritance;

(ii) Acquisition of voting securities as a *bona fide* gift; and

(iii) Acquisition of voting securities in satisfaction of a debt previously contracted (DPC) in good faith.

(2) The following acquisitions of voting securities of a state member bank or bank holding company, which would otherwise require prior notice under this subpart, are not subject to the prior notice requirements if the acquiring person does not reasonably have advance knowledge of the transaction, and provides the written notice required under section 225.43 to the appropriate Reserve Bank within 90 calendar days after the transaction occurs:

(i) Acquisition of voting securities resulting from a redemption of voting securities by the issuing bank or bank holding company; and

(ii) Acquisition of voting securities as a result of actions (including the sale of securities) by any third party that is not within the control of the acquiror.

(3) Nothing in paragraphs (b)(1) or (b)(2) of this section limits the authority of the Board to disapprove a notice pursuant to section 225.43(h) of this subpart.

Section 225.43—Procedures for filing, processing, publishing, and acting on notices.

(a) *Filing notice.* (1) A notice required under this subpart shall be filed with the appropriate Reserve Bank and shall contain all the information required by paragraph 6 of the Bank Control Act (12 U.S.C. 1817(j)(6)), or prescribed in the designated Board form.

(2) The Board may waive any of the informational requirements of the notice if the Board determines that it is in the public interest.

(3) A notificant shall notify the appropriate Reserve Bank or the Board immediately of any material changes in a notice submitted to the Reserve Bank, including changes in financial or other conditions.

(4) When the acquiring person is an individual, or group of individuals acting in concert, the requirement to provide personal financial data may be satisfied by a current statement of assets and liabilities and an income summary, as required in the designated Board form, together with a statement of any material changes since the date of the statement or summary. The Reserve Bank or the Board, nevertheless, may request additional information, if appropriate.

(b) *Acceptance of notice.* The 60-day notice period specified in section 225.41 of this subpart begins on the date of receipt of a complete notice. The Reserve Bank shall notify the person or persons submitting a notice under this subpart in writing of the date the notice is or was complete and thereby accepted for processing. The Reserve Bank or the Board may request additional relevant information at any time after the date of acceptance.

(c) *Publication*—(1) *Newspaper announcement.* Any person(s) filing a notice under this subpart shall publish, in a form prescribed by the Board, an announcement soliciting public comment on the proposed acquisition. The announcement shall be published in a newspaper of general circulation in the community in which the head office of the state member bank to be acquired is located or, in the case of a proposed acquisition of a bank holding company, in the community in which its head office is located and in the community in which the head office of each of its subsidiary banks is located. The announcement shall be published no earlier than 15 calendar days before the filing of the notice with the appropriate Reserve Bank and no later than 10 calendar days after the filing date; and the publisher's affidavit of a publication shall be provided to the appropriate Reserve Bank.

(2) *Contents of newspaper announcement.* The newspaper announcement shall state:

(i) The name of each person identified in the notice as a proposed acquiror of the bank or bank holding company;

(ii) The name of the bank or bank holding company to be acquired, including the name of each of the bank holding company's subsidiary banks; and

(iii) A statement that interested persons may submit comments on the notice to the Board or the appropriate Reserve Bank for a period of 20 days, or such shorter period as may be provided, pursuant to paragraph (c)(5) of this section.

(3) *Federal Register announcement.* The Board shall, upon filing of a notice under this subpart, publish announcement in the *Federal Register* of receipt of the notice. The *Federal Register* announcement shall contain the information required under paragraphs (c)(2)(i) and (c)(2)(ii) of this section and a statement that interested persons may submit comments on the proposed acquisition for a period of 15 calendar days, or such shorter period as may be provided, pursuant to paragraph (c)(5) of this section. The Board may waive publication in the *Federal Register*, if the Board determines that such action is appropriate.

(4) *Delay of publication.* The Board may permit delay in the publication required under paragraphs (c)(1) and (c)(3) of this section if the Board determines, for good cause shown, that it is in the public interest to grant such delay. Requests for delay of publication may be submitted to the appropriate Reserve Bank.

(5) *Shortening or waiving notice.* The Board may shorten or waive the public comment or newspaper publication requirements of this paragraph, or act on a notice before the expiration of a public comment period, if it determines in writing that an emergency exists, or that disclosure of the notice, solicitation of public comment, or delay until expiration of the public comment period would seriously threaten the safety or soundness of the bank or bank holding company to be acquired.

(6) *Consideration of public comments.* In acting upon a notice filed under this subpart, the Board shall consider all public comments received in writing within the period specified in the newspaper or *Federal Register* announcement, whichever is later. At the Board's option, comments received after this period may, but need not, be considered.

(7) *Standing.* No person (other than the acquiring person) who submits comments or information on a notice filed under this subpart shall thereby become a party to the proceeding or acquire any standing or right to participate in the Board's consideration of the notice or to appeal or otherwise contest the notice or the Board's action regarding the notice.

(d) *Time period for Board action*—(1) *Consummation of acquisition* —

(i) The notificant(s) may consummate the proposed acquisition 60 days after submission to the Reserve Bank of a complete notice under paragraph (a) of this section, unless within that period the Board disapproves the proposed acquisition or extends the 60-day period, as provided under paragraph (d)(2) of this section.

(ii) The notificant(s) may consummate the proposed transaction before the expiration of the 60-day period if the Board notifies the notificant(s) in writing of the Board's intention not to disapprove the acquisition.

(2) *Extensions of time period.* (i) The Board may extend the 60-day period in paragraph (d)(1) of this section for an additional 30 days by notifying the acquiring person(s).

(ii) The Board may further extend the period during which it may disapprove a notice for two additional periods of not more than 45 days each, if the Board determines that:

(A) Any acquiring person has not furnished all the information required under paragraph (a) of this section;

(B) Any material information submitted is substantially inaccurate;

(C) The Board is unable to complete the investigation of an acquiring person because of inadequate cooperation or delay by that person; or

(D) Additional time is needed to investigate and determine that no acquiring person has a record of failing to comply with the requirements of the Bank Secrecy Act, subchapter II of Chapter 53 of Title 31, United States Code.

(iii) If the Board extends the time period under this paragraph, it shall notify the acquiring person(s) of the reasons therefor and shall include a statement of the information, if any, deemed incomplete or inaccurate.

(e) *Advice to bank supervisory agencies.* (1) Upon accepting a notice relating to acquisition of securities of a state member bank, the Reserve Bank shall send a copy of the notice to the appropriate state bank supervisor, which shall have 30 calendar days from the date the notice is sent in which to submit its views and recommendations to the Board. The Reserve Bank also shall send a copy of any notice to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision.

(2) If the Board finds that it must act immediately in order to prevent the probable failure of the bank or bank holding company involved, the Board may dispense

with or modify the requirements for notice to the state supervisor.

(f) *Investigation and report.* (1) After receiving a notice under this subpart, the Board or the appropriate Reserve Bank shall conduct an investigation of the competence, experience, integrity, and financial ability of each person by and for whom an acquisition is to be made. The Board shall also make an independent determination of the accuracy and completeness of any information required to be contained in a notice under paragraph (a) of this section. In investigating any notice accepted under this subpart, the Board or Reserve Bank may solicit information or views from any person, including any bank or bank holding company involved in the notice, and any appropriate state, federal, or foreign governmental authority.

(2) The Board or the appropriate Reserve Bank shall prepare a written report of its investigation, which shall contain, at a minimum, a summary of the results of the investigation.

(g) *Factors considered in acting on notices.* In reviewing a notice filed under this subpart, the Board shall consider the information in the record, the views and recommendations of the appropriate bank supervisor, and any other relevant information obtained during any investigation of the notice.

(h) *Disapproval and hearing*—(1) *Disapproval of notice.* The Board may disapprove an acquisition if it finds adverse effects with respect to any of the factors set forth in paragraph 7 of the Bank Control Act (12 U.S.C. 1817(j)(7)) (*i.e.*, competitive, financial, managerial, banking, or incompleteness of information).

(2) *Disapproval notification.* Within three days after its decision to issue a notice of intent to disapprove any proposed acquisition, the Board shall notify the acquiring person in writing of the reasons for the action.

(3) *Hearing.* Within 10 calendar days of receipt of the notice of the Board's intent to disapprove, the acquiring person may submit a written request for a hearing. Any hearing conducted under this paragraph shall be in accordance with the Rules of Practice for Formal Hearings (12 C.F.R. Part 263). At the conclusion of the hearing, the Board shall, by order, approve or disapprove the proposed acquisition on the basis of the record of the hearing. If the acquiring person does not request a hearing, the notice of intent to disapprove becomes final and unappealable.

Section 225.44—Reporting of stock loans.

(a) *Requirements.* (1) Any foreign bank or affiliate of a foreign bank that has credit outstanding to any person or group of persons, in the aggregate, which is secured, directly or indirectly, by 25 percent or more of any class of voting securities of a state member bank, shall file a consolidated report with the appropriate Reserve Bank for the state member bank.

(2) The foreign bank or its affiliate also shall file a copy of the report with its appropriate Federal banking agency.

(3) Any shares of the state member bank held by the foreign bank or any affiliate of the foreign bank as principal must be included in the calculation of the number of shares in which the foreign bank or its affiliate has a security interest for purposes of paragraph (a) of this section.

(b) *Definitions.* For purposes of paragraph (a) of this section:

(1) *Foreign bank* shall have the same meaning as in section 1(b) of the International Banking Act of 1978 (12 U.S.C. 3101).

(2) *Credit outstanding* includes any loan or extension of credit; the issuance of a guarantee, acceptance, or letter of credit, including an endorsement or standby letter of credit; and any other type of transaction that extends credit or financing to the person or group of persons.

(3) *Group of persons* includes any number of persons that the foreign bank or any affiliate of a foreign bank has reason to believe:

(i) Are acting together, in concert, or with one another to acquire or control shares of the same insured depository institution, including an acquisition of shares of the same depository institution at approximately the same time under substantially the same terms; or

(ii) Have made, or propose to make, a joint filing under section 13 or 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78n), and the rules promulgated thereunder by the Securities and Exchange Commission regarding ownership of the shares of the same insured depository institution.

(c) *Exceptions.* Compliance with paragraph (a) of this section is not required if:

(1) The person or group of persons referred to in that paragraph has disclosed the amount borrowed and the security interest therein to the Board or appropriate Reserve Bank in connection with a notice filed under section 225.41 of this subpart, or another application filed with the Board or Reserve Bank as a substitute for a notice under section 225.41 of this subpart, including an application filed under section 3 of the BHC Act (12 U.S.C. 1842) or section 18(c) of the Federal Deposit Insurance Act (Bank Merger Act, 12 U.S.C. 1828(c)), or an application for membership in the Federal Reserve System; or

(2) The transaction involves a person or group of persons that has been the owner or owners of record of the stock for a period of one year or more; or, if the transaction involves stock issued by a newly chartered bank, before the bank is opened for business.

(d) *Report requirements.* (1) The consolidated report shall indicate the number and percentage of shares securing each applicable extension of credit, the identity of the borrower, and the number of shares held as principal by the foreign bank and any affiliate thereof.

(2) A foreign bank, or any affiliate of a foreign bank, shall file the consolidated report in writing within

30 days of the date on which the foreign bank or affiliate first believes that the security for any outstanding credit consists of 25 percent or more of any class of voting securities of a state member bank.

(e) *Other reporting requirements.* A foreign bank, or any affiliate thereof, that is supervised by the System and is required to report credit outstanding that is secured by the shares of an insured depository institution to another Federal banking agency also shall file a copy of the report with the appropriate Reserve Bank.

7. Subpart F is amended by removing section 225.51.

Section 225.51—[Removed]

8. Subpart G is amended by revising the heading to read as follows:

Subpart G—Appraisal Standards for Federally Related Transactions

9. Subpart H, consisting of sections 225.71 through 225.73, is revised to read as follows:

Subpart H—Notice of Addition or Change of Directors and Senior Executive Officers

Section

225.71 Definitions.
225.72 Director and officer appointments; prior notice requirement.
225.73 Procedures for filing, processing, and acting on notices; standards for disapproval; waiver of notice.

Section 225.71—Definitions.

(a) *Director* means a person who serves on the board of directors of a regulated institution, except that this term does not include an advisory director who:

(1) Is not elected by the shareholders of the regulated institution;

(2) Is not authorized to vote on any matters before the board of directors or any committee thereof;

(3) Solely provides general policy advice to the board of directors and any committee thereof; and

(4) Has not been identified by the Board or Reserve Bank as a person who performs the functions of a director for purposes of this subpart.

(b) *Regulated institution* means a state member bank or a bank holding company.

(c) *Senior executive officer* means a person who holds the title or, without regard to title, salary, or compensation, performs the function of one or more of the following positions: president, chief executive officer, chief operating officer, chief financial officer, chief lending officer, or chief investment officer. *Senior executive officer* also includes any other person identified by the Board or Reserve Bank, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the regulated institution.

(d) *Troubled condition* for a regulated institution means an institution that:

(1) Has a composite rating, as determined in its most recent report of examination or inspection, of 4 or 5 under the Uniform Financial Institutions Rating System or under the Federal Reserve Bank Holding Company Rating System;

(2) Is subject to a cease-and-desist order or formal written agreement that requires action to improve the financial condition of the institution, unless otherwise informed in writing by the Board or Reserve Bank; or

(3) Is informed in writing by the Board or Reserve Bank that it is in troubled condition for purposes of the requirements of this subpart on the basis of the institution's most recent report of condition or report of examination or inspection, or other information available to the Board or Reserve Bank.

Section 225.72—Director and officer appointments; prior notice requirement.

(a) *Prior notice by regulated institution.* A regulated institution shall give the Board 30 days' written notice, as specified in section 225.73, before adding or replacing any member of its board of directors, employing any person as a senior executive officer of the institution, or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive officer position, if:

(1) The regulated institution is not in compliance with all minimum capital requirements applicable to the institution as determined on the basis of the institution's most recent report of condition or report of examination or inspection;

(2) The regulated institution is in troubled condition; or

(3) The Board determines, in connection with its review of a capital restoration plan required under section 38 of the Federal Deposit Insurance Act or subpart B of the Board's Regulation H, or otherwise, that such notice is appropriate.

(b) *Prior notice by individual.* The prior notice required by paragraph (a) of this section may be provided by an individual seeking election to the board of directors of a regulated institution.

Section 225.73—Procedures for filing, processing, and acting on notices; standards for disapproval; waiver of notice.

(a) *Filing notice*—(1) *Content.* The notice required in section 225.72 shall be filed with the appropriate Reserve Bank and shall contain:

(i) The information required by paragraph 6(A) of the

Change in Bank Control Act (12 U.S.C. 1817(j)(6)(A)) as may be prescribed in the designated Board form;

(ii) Additional information consistent with the Federal Financial Institutions Examination Council's Joint Statement of Guidelines on Conducting Background Checks and Change in Control Investigations, as set forth in the designated Board form; and

(iii) Such other information as may be required by the Board or Reserve Bank.

(2) *Modification.* The Reserve Bank may modify or accept other information in place of the requirements of section 225.73(a)(1) for a notice filed under this subpart.

(3) *Acceptance and processing of notice.* The 30-day notice period specified in section 225.72 shall begin on the date all information required to be submitted by the notificant pursuant to section 225.73(a)(1) is received by the appropriate Reserve Bank. The Reserve Bank shall notify the regulated institution or individual submitting the notice of the date on which all required information is received and the notice is accepted for processing, and of the date on which the 30-day notice period will expire. The Board or Reserve Bank may extend the 30-day notice period for an additional period of not more than 60 days by notifying the regulated institution or individual filing the notice that the period has been extended and stating the reason for not processing the notice within the 30-day notice period.

(b) *Commencement of service*—(1) *At expiration of period.* A proposed director or senior executive officer may begin service after the end of the 30-day period and any extension as provided under paragraph (a)(3) of this section, unless the Board or Reserve Bank disapproves the notice before the end of the period.

(2) *Prior to expiration of period.* A proposed director or senior executive officer may begin service before the end of the 30-day period and any extension as provided under paragraph (a)(3) of this section, if the Board or the Reserve Bank notifies in writing the regulated institution or individual submitting the notice of the Board's or Reserve Bank's intention not to disapprove the notice.

(c) *Notice of disapproval.* The Board or Reserve Bank shall disapprove a notice under section 225.72 if the Board or Reserve Bank finds that the competence, experience, character, or integrity of the individual with respect to whom the notice is submitted indicates that it would not be in the best interests of the depositors of the regulated institution or in the best interests of the public to permit the individual to be employed by, or associated with, the regulated institution. The notice of disapproval shall contain a statement of the basis for disapproval and shall be sent to the regulated institution and the disapproved individual.

(d) *Appeal of a notice of disapproval*—(1) A disapproved individual or a regulated institution that has submitted a notice that is disapproved under this section may appeal the disapproval to the Board within 15 days of the effective date of the notice of disapproval. An appeal shall be in writing and explain the reasons for the appeal and include all facts, documents, and arguments that the appealing party wishes to be considered in the appeal, and state whether the appealing party is requesting an informal hearing.

(2) Written notice of the final decision of the Board shall be sent to the appealing party within 60 days of the receipt of an appeal, unless the appealing party's request for an informal hearing is granted.

(3) The disapproved individual may not serve as a director or senior executive officer of the state member bank or bank holding company while the appeal is pending.

(e) *Informal hearing*—(1) An individual or regulated institution whose notice under this section has been disapproved may request an informal hearing on the notice. A request for an informal hearing shall be in writing and shall be submitted within 15 days of a notice of disapproval. The Board may, in its sole discretion, order an informal hearing if the Board finds that oral argument is appropriate or necessary to resolve disputes regarding material issues of fact.

(2) An informal hearing shall be held within 30 days of a request, if granted, unless the requesting party agrees to a later date.

(3) Written notice of the final decision of the Board shall be given to the individual and the regulated institution within 60 days of the conclusion of any informal hearing ordered by the Board, unless the requesting party agrees to a later date.

(f) *Waiver of notice*—(1) *Waiver requests.* The Board or Reserve Bank may permit an individual to serve as a senior executive officer or director before the notice required under this subpart is provided, if the Board or Reserve Bank finds that:

(i) Delay would threaten the safety or soundness of the regulated institution or a bank controlled by a bank holding company;

(ii) Delay would not be in the public interest; or

(iii) Other extraordinary circumstances exist that justify waiver of prior notice.

(2) *Automatic waiver.* An individual may serve as a director upon election to the board of directors of a regulated institution before the notice required under this subpart is provided if the individual:

(i) Is not proposed by the management of the regulated institution;

(ii) Is elected as a new member of the board of directors at a meeting of the regulated institution; and

(iii) Provides to the appropriate Reserve Bank all the information required in section 225.73(a) within two (2) business days after the individual's election.

(3) *Effect on disapproval authority.* A waiver shall not affect the authority of the Board or Reserve Bank to disapprove a notice within 30 days after a waiver is granted under paragraph (f)(1) of this section or the election of an individual who has filed a notice and is serving pursuant to an automatic waiver under paragraph (f)(2) of this section.

* * * * *

10. Section 225.125 is amended by revising paragraphs (f) and (g) to read as follows:

Section 225.125—Investment adviser activities

* * * * *

(f) In the Board's opinion, the Glass–Steagall Act provisions, as interpreted by the U.S. Supreme Court, forbid a bank holding company to sponsor, organize, or control a mutual fund. However, the Board does not believe that such restrictions apply to closed-end investment companies as long as such companies are not primarily or frequently engaged in the issuance, sale, and distribution of securities. A bank holding company should not act as investment adviser to an investment company that has a name similar to the name of the holding company or any of its subsidiary banks, unless the prospectus of the investment company contains the disclosures required in paragraph (h) of this section. In no case should a bank holding company act as investment adviser to an investment company that has either the same name as the name of the holding company or any of its subsidiary banks, or a name that contains the word "bank."
(g) In view of the potential conflicts of interests that may exist, a bank holding company and its bank and nonbank subsidiaries should not purchase in their sole discretion, in a fiduciary capacity (including as managing agent), securities of any investment company for which the bank holding company acts as investment adviser unless, the purchase is specifically authorized by the terms of the instrument creating the fiduciary relationship, by court order, or by the law of the jurisdiction under which the trust is administered.

* * * * *

Section 225.145—[Amended]

11. Section 225.145, paragraph (a) the fifth sentence is amended by removing the words "increasing their assets at an annual rate exceeding 7 percent during any 12-month period after August 10, 1988," and the last sentence by removing "225.51 and".

12. Appendix C is revised to read as follows:

APPENDIX C TO PART 225—SMALL BANK HOLDING COMPANY POLICY STATEMENT

Policy Statement on Assessment of Financial and Managerial Factors

In acting on applications filed under the Bank Holding Company Act, the Board has adopted, and continues to follow, the principle that bank holding companies should serve as a source of strength for their subsidiary banks. When bank holding companies incur debt and rely upon the earnings of their subsidiary banks as the means of repaying such debt, a question arises as to the probable effect upon the financial condition of the holding company and its subsidiary bank or banks.

The Board believes that a high level of debt at the parent holding company impairs the ability of a bank holding company to provide financial assistance to its subsidiary bank(s) and, in some cases, the servicing requirements on such debt may be a significant drain on the resources of the bank(s). For these reasons, the Board has not favored the use of acquisition debt in the formation of bank holding companies or in the acquisition of additional banks. Nevertheless, the Board has recognized that the transfer of ownership of small banks often requires the use of acquisition debt. The Board, therefore, has permitted the formation and expansion of small bank holding companies with debt levels higher than would be permitted for larger holding companies. Approval of these applications has been given on the condition that small bank holding companies demonstrate the ability to service acquisition debt without straining the capital of their subsidiary banks and, further, that such companies restore their ability to serve as a source of strength for their subsidiary banks within a relatively short period of time.

In the interest of continuing its policy of facilitating the transfer of ownership in banks without compromising bank safety and soundness, the Board has, as described below, adopted the following procedures and standards for the formation and expansion of small bank holding companies subject to this policy statement.

1. Applicability of Policy Statement

This policy statement applies only to bank holding companies with *pro forma* consolidated assets of less than $150 million that:

(i) Are *not* engaged in any nonbanking activities involving significant leverage,[1] and
(ii) Do *not* have a significant amount of outstanding debt that is held by the general public.

While this policy statement primarily applies to the formation of small bank holding companies, it also applies to existing small bank holding companies that wish to acquire an additional bank or company and to transactions involving changes in control, stock redemptions, or other shareholder transactions.[2]

2. Ongoing Requirements

The following guidelines must be followed on an ongoing basis for all organizations operating under this policy statement.

1. A parent company that is engaged in significant off-balance sheet activities would generally be deemed to be engaged in activities that involve significant leverage.

2. The appropriate Reserve Bank should be contacted to determine the manner in which a specific situation may qualify for treatment under this policy statement.

A. Reduction in parent company leverage: Small bank holding companies are to reduce their parent company debt consistent with the requirement that all debt be retired within 25 years of being incurred. The Board also expects that these bank holding companies reach a debt to equity ratio of .30:1 or less within 12 years of the incurrence of the debt.[3] The bank holding company must also comply with debt servicing and other requirements imposed by its creditors.

B. Capital adequacy: Each insured depository subsidiary of a small bank holding company is expected to be well-capitalized. Any institution that is not well-capitalized is expected to become well-capitalized within a brief period of time.

C. Dividend restrictions: A small bank holding company whose debt to equity ratio is greater than 1.0:1 is not expected to pay corporate dividends until such time as it reduces its debt to equity ratio to 1.0:1 or less and otherwise meets the criteria set forth in sections 225.14(c)(1)(ii), 225.14(c)(2), and 225.14(c)(7) of Regulation Y.[4]

Small bank holding companies formed before the effective date of this policy statement may switch to a plan that adheres to the intent of this statement provided they comply with the requirements set forth above.

3. The term debt, as used in the ratio of debt to equity, means any borrowed funds (exclusive of short-term borrowings that arise out of current transactions, the proceeds of which are used for current transactions), and any securities issued by, or obligations of, the holding company that are the functional equivalent of borrowed funds.

The term *equity*, as used in the ratio of debt to equity, means the total stockholders' equity of the bank holding company as defined in accordance with generally accepted accounting principles. In determining the total amount of stockholders' equity, the bank holding company should account for its investments in the common stock of subsidiaries by the equity method of accounting.

Ordinarily the Board does not view redeemable preferred stock as a substitute for common stock in a small bank holding company. Nevertheless, to a limited degree and under certain circumstances, the Board will consider redeemable preferred stock as equity in the capital accounts of the holding company if the following conditions are met:

(1) The preferred stock is redeemable only at the option of the issuer, and

(2) The debt to equity ratio of the holding company would be at or remain below .30:1 following the redemption or retirement of any preferred stock.

Preferred stock that is convertible into common stock of the holding company may be treated as equity.

4. Dividends may be paid by small bank holding companies with debt to equity at or below 1.0:1 and otherwise meeting the requirements of sections 225.14(c)(1)(ii), 225.14(c)(2), and 225.14(c)(7) if the dividends are reasonable in amount, do not adversely affect the ability of the bank holding company to service its debt in an orderly manner, and do not adversely affect the ability of the subsidiary banks to be well-capitalized. It is expected that dividends will be eliminated if the holding company is:

(1) Not reducing its debt consistent with the requirement that the debt to equity ratio be reduced to .30:1 within 12 years of consummation of the proposal, or

(2) Not meeting the requirements of its loan agreement(s).

3. Core Requirements for All Applicants

In assessing applications or notices by organizations subject to this policy statement, the Board will continue to take into account a full range of financial and other information about the applicant, and its current and proposed subsidiaries, including the recent trend and stability of earnings, past and prospective growth, asset quality, the ability to meet debt servicing requirements without placing an undue strain on the resources of the bank(s), and the record and competency of management. In addition, the Board will require applicants to meet the following requirements:

A. Minimum down payment: The amount of acquisition debt should not exceed 75 percent of the purchase price of the bank(s) or company to be acquired. When the owner(s) of the holding company incurs debt to finance the purchase of the bank(s) or company, such debt will be considered acquisition debt even though it does not represent an obligation of the bank holding company, unless the owner(s) can demonstrate that such debt can be serviced without reliance on the resources of the bank(s) or bank holding company.

B. Ability to reduce parent company leverage: The bank holding company must clearly be able to reduce its debt to equity ratio and comply with its loan agreement(s) as set forth in paragraph 2A above.

Failure to meet the criteria in this section would normally result in denial of an application.

4. Additional Application Requirements for Expedited/Waived Processing

A. Expedited notices under sections 225.14 and 225.23 of Regulation Y: A small bank holding company proposal will be eligible for the expedited processing procedures set forth in sections 225.14 and 225.23 of Regulation Y if the bank holding company is in compliance with the ongoing requirements of this policy statement, the bank holding company meets the core requirements for all applicants noted above, and the following requirements are met:

(i) The parent bank holding company has a *pro forma* debt to equity ratio of 1.0:1 or less.

(ii) The bank holding company meets all of the criteria for expedited action set forth in sections 225.14 or 225.23 of Regulation Y.

B. Waiver of stock redemption filing: A small bank holding company will be eligible for the stock redemption filing exception for well-capitalized bank holding companies contained in section 225.4(b)(6) if the following requirements are met:

(i) The parent bank holding company has a *pro forma* debt to equity ratio of 1.0:1 or less.

(ii) The bank holding company is in compliance with the ongoing requirements of this policy statement and meets the requirements of sections 225.14(c)(1)(ii), 225.14(c)(2), and 225.14(c)(7) of Regulation Y.

Final Rule—Amendment to Regulation Z

The Board of Governors is amending 12 C.F.R. Part 226, its Regulation Z (Truth in Lending). The amendment to the official staff commentary provides guidance on issues relating to the treatment of certain fees paid in connection with mortgage loans. It addresses new tolerances for accuracy in disclosing the amount of the finance charge and other affected cost disclosures. In addition, the update discusses issues such as the treatment of debt cancellation agreements and a creditor's duties if providing periodic statements via electronic means.

Effective February 28, 1997, 12 C.F.R. Part 226 is amended as follows:

Part 226—Truth in Lending (Regulation Z)

1. The authority citation for Part 226 continues to read as follows:

Authority: 12 U.S.C. 3806; 15 U.S.C. 1604 and 1637(c)(5).

2. In Supplement I to Part 226, under Introduction, the last sentence in paragraph 5. is revised to read as follows:

Supplement I—Official Staff Interpretations

Introduction

* * * * *

5. *Comment designations.* * * * Comments to the appendices may be cited, for example, as Comment app. A-1.

* * * * *

3. Supplement I to Part 226, under *Section 226.2—Definitions and Rules of Construction, paragraph 2(a)(25)*, is amended by removing the last two sentences of the second paragraph of paragraph 6.

4. In Supplement I to Part 226, under Section 226.4—Finance Charge, the following amendments are made:

a. Under *4(a) Definition.*, paragraphs 3. and 4. are removed and paragraphs 5. through 7. are redesignated as paragraphs 3. through 5., respectively, and new paragraphs 4(a)(1), 4 (a)(2), and 4(a)(3) are added after the end of the text of 4(a);

b. *Under 4(b) Examples of finance charges.*, a new paragraph 4(b)(10) is added;

c. *Under 4(c) Charges excluded from the finance charge.*, under paragraph 4(c)(5)., paragraph 2. is revised;

d. Under 4(d), the heading is revised, and a new paragraph 4(d)(3) is added; and

e. *Under 4(e) Certain security interest charges.*, paragraphs 1.i. and 2. are revised.

The additions and revisions read as follows:

* * * * *

Subpart A—General

* * * * *

Section 226.4—Finance Charge

4(a) Definition.

* * * * *

4(a)(1) Charges by third parties.

1. *Choosing the provider of a required service.* An example of a third-party charge included in the finance charge is the cost of required mortgage insurance, even if the consumer is allowed to choose the insurer.

2. *Annuities associated with reverse mortgages.* Some creditors offer annuities in connection with a reverse mortgage transaction. The amount of the premium is a finance charge if the creditor requires the purchase of the annuity incident to the credit. Examples include the following:

(i) The credit documents reflect the purchase of an annuity from a specific provider or providers.

(ii) The creditor assesses an additional charge on consumers who do not purchase an annuity from a specific provider.

(iii) The annuity is intended to replace in whole or in part the creditor's payments to the consumer either immediately or at some future date.

4(a)(2) Special rule; closing agent charges.

1. *General.* This rule applies to charges by a third party serving as the closing agent for the particular loan. An example of a closing agent charge included in the finance charge is a courier fee where the creditor requires the use of a courier.

2. *Required closing agent.* If the creditor requires the use of a closing agent, fees charged by the closing agent are included in the finance charge only if the creditor requires the particular service, requires the imposition of the charge, or retains a portion of the charge. Fees charged by a third-party closing agent may be otherwise excluded from the finance charge under section 226.4. For example, a fee that would be paid in a comparable cash transaction may be excluded under section 226.4(a); a lump-sum fee for real-estate closing costs may be excluded under section 226.4(c)(7).

4(a)(3) Special rule; mortgage broker fees.

1. *General.* A fee charged by a mortgage broker is excluded from the finance charge if it is the type of fee that is also excluded when charged by the creditor. For example, to exclude an application fee from the finance charge under section 226.4(c)(1), a mortgage broker must charge the fee to all applicants for credit, whether or not credit is extended.

2. *Coverage.* This rule applies to charges paid by consumers to a mortgage broker in connection with a consumer credit transaction secured by real property or a dwelling.

3. *Compensation by lender.* The rule requires all mortgage broker fees to be included in the finance charge. Creditors sometimes compensate mortgage brokers under a separate arrangement with those parties. Creditors may draw on amounts paid by the consumer, such as points or closing costs, to fund their payment to the broker. Compensation paid by a creditor to a mortgage broker under an agreement is not included as a separate component of a consumer's total finance charge (although this compensation may be reflected in the finance charge if it comes from amounts paid by the consumer to the creditor that are finance charges, such as points and interest).

4(b) Examples of finance charges.

* * * * *

4(b)(10) Debt cancellation fees.

1. *Definition.* Debt cancellation coverage provides for payment or satisfaction of all or part of a debt when a specified event occurs. The term includes guaranteed automobile protection or "GAP" agreements, which pay or satisfy the remaining debt after property insurance benefits are exhausted.

4(c) Charges excluded from the finance charge.

* * * * *

Paragraph 4(c)(5).

* * * * *

2. *Other seller-paid amounts.* Mortgage insurance premiums and other finance charges are sometimes paid at or before consummation or settlement on the borrower's behalf by a noncreditor seller. The creditor should treat the payment made by the seller as seller's points and exclude it from the finance charge if, based on the seller's payment, the consumer is not legally bound to the creditor for the charge. A creditor who gives disclosures before the payment has been made should base them on the best information reasonably available.

* * * * *

4(d) Insurance and debt cancellation coverage.

* * * * *

4(d)(3) Voluntary debt cancellation fees.

1. *General.* Fees charged for the specialized form of debt cancellation agreement known as guaranteed automobile protection ("GAP") agreements must be disclosed according to section 226.4(d)(3) rather than according to section 226.4(d)(2) for property insurance.

2. *Disclosures.* Creditors can comply with section 226.4(d)(3) by providing a disclosure that refers to debt cancellation coverage whether or not the coverage is considered insurance. Creditors may use the model credit insurance disclosures only if the debt cancellation coverage constitutes insurance under state law.

4(e) Certain security interest charges.

1. *Examples.*

(i) *Excludable charges.* Sums must be actually paid to public officials to be excluded from the finance charge under section 226.4(e)(1) and (3). Examples are charges or other fees required for filing or recording security agreements, mortgages, continuation statements, termination statements, and similar documents, as well as intangible property or other taxes even when the charges or fees are imposed by the state solely on the creditor and charged to the consumer (if the tax must be paid to record a security interest). (See comment 4(a)-5 regarding the treatment of taxes, generally.)

* * * * *

2. *Itemization.* The various charges described in section 226.4(e)(1) and (3) may be totaled and disclosed as an aggregate sum, or they may be itemized by the specific fees and taxes imposed. If an aggregate sum is disclosed, a general term such as security interest fees or filing fees may be used.

* * * * *

5. In Supplement I to Part 226, under *Section 226.5—General*

Disclosure Requirements, under *Paragraph 5(b)(2)(ii).*, paragraph 3. is revised to read as follows:

* * * * *

Subpart B—Open-End Credit

Section 226.5—General Disclosure Requirements

* * * * *

5(b) Time of disclosures.

* * * * *

5(b)(2) Periodic statements.

* * * * *

Paragraph 5(b)(2)(ii).

* * * * *

3. *Calling for periodic statements.* The creditor may permit consumers to call for their periodic statements, but may not require them to do so. If the consumer wishes to pick up the statement and the plan has a free-ride period, the statement (including a statement provided by electronic means) must be made available in accordance with the 14-day rule.

* * * * *

6. In Supplement I to Part 226, under *Section 226.17—General Disclosure Requirements*, the following amendments are made:

a. Under *17(c) Basis of disclosures and use of estimates.*, text is added under 17(c)(2)(ii); and

b. Under *17(f) Early disclosures.*, paragraphs 1. introductory text, 1.i., the last sentence of 1.ii. and 1.iii. are revised and a heading is added to paragraph 1.ii; and a new paragraph 17(f)(2) is added preceding 17(g). The additions and revisions read as follows:

* * * * *

Subpart C—Closed-End Credit

Section 226.17—General Disclosure Requirements

* * * * *

17(c) Basis of disclosures and use of estimates.

* * * * *

Paragraph 17(c)(2)(ii).

1. *Per-diem interest.* This paragraph applies to any numerical amount (such as the finance charge, annual percentage rate, or payment amount) that is affected by the amount of the per-diem interest charge that will be collected at consummation. If the amount of per-diem interest used in preparing the disclosures for consummation is based on the information known to the creditor at the time the disclosure document is prepared, the disclosures are considered accurate under this rule, and affected disclosures are also considered accurate, even if the disclosures are not labeled as estimates. For example, if the amount of per-diem interest used to prepare disclosures is less than the amount of per-diem interest charged at consummation, and as a result the finance charge is understated by $200, the disclosed finance charge is considered accurate even though the understatement is not within the $100 tolerance of section 226.18(d)(1), and the finance charge was not labeled as an estimate. In this example, if in addition to the understatement related to the per-diem interest, a $90 fee is incorrectly omitted from the finance charge, causing it to be understated by a total of $290, the finance charge is considered accurate because the $90 fee is within the tolerance in section 226.18(d)(1).

* * * * *

17(f) Early disclosures.

1. *Change in rate or other terms.* Redisclosure is required for changes that occur between the time disclosures are made and consummation if the annual percentage rate in the consummated transaction exceeds the limits prescribed in this section, even if the initial disclosures would be considered accurate under the tolerances in sections 226.18(d) or 226.22(a). To illustrate:

(i) *General.*

A. If disclosures are made in a regular transaction on July 1, the transaction is consummated on July 15, and the actual annual percentage rate varies by more than ⅛ of 1 percentage point from the disclosed annual percentage rate, the creditor must either redisclose the changed terms or furnish a complete set of new disclosures before consummation. Redisclosure is required even if the disclosures made on July 1 are based on estimates and marked as such.

B. In a regular transaction, if early disclosures are marked as estimates and the disclosed annual percentage rate is within ⅛ of 1 percentage point of the rate at consummation, the creditor need not redisclose the changed terms (including the annual percentage rate).

(ii) *Nonmortgage loan.* * * * (*See* section 226.18(d)(2) of this part.)

iii. *Mortgage loan.* At the time TILA disclosures are prepared in July, the loan closing is scheduled for July 31 and the creditor does not plan to collect per-diem interest at consummation. Consummation actually occurs on August 5, and per-diem interest for the remainder of August is collected as a prepaid finance charge. Assuming there were no other changes requiring redisclosure, the creditor may rely on the disclosures prepared in July that were accurate when they were prepared. However, if the creditor prepares new disclosures in August that will be provided at consummation, the new disclosures must take into account the amount of the per-diem interest known to the creditor at that time.

* * * * *

Paragraph 17(f)(2).

1. *Irregular transactions.* For purposes of this paragraph, a transaction is deemed to be "irregular" according to the definition in footnote 46 of section 226.22(a)(3).

* * * * *

7. In Supplement I to Part 226, under *Section 226.18—Content of Disclosures*, the following amendments are made:

a. Under *18(c) Itemization of amount financed.*, paragraph 4. is revised;

b. Under *18(d) Finance charge.*, a new paragraph 18(d)(2) is added;

c. *18(n)* is amended by revising the heading and adding a new paragraph 2.

The additions and revisions read as follows:

* * * * *

Section 226.18—Content of Disclosures

* * * * *

18(c) Itemization of amount financed.

* * * * *

4. *RESPA transactions.* The Real Estate Settlement Procedures Act (RESPA) requires creditors to provide a good faith estimate of closing costs and a settlement statement listing the amounts paid by the consumer. Transactions subject to RESPA are exempt from the requirements of section 226.18(c) if the creditor complies with RESPA's requirements for a good faith estimate and settlement statement. The itemization of the amount financed need not be given, even though the content and timing of the good faith estimate and settlement statement under RESPA differ from the requirements of sections 226.18(c) and 226.19(a)(2). If a creditor chooses to substitute RESPA's settlement statement for the itemization when redisclosure is required under section 226.19(a)(2), the statement must be delivered to the consumer at or prior to consummation. The disclosures required by sections 226.18(c) and 226.19(a)(2) may appear on the same page or on the same document as the good faith estimate or the settlement statement, so long as the requirements of section 226.17(a) are met.

* * * * *

18(d) Finance charge.

* * * * *

18(d)(2) Other credit.

1. *Tolerance.* When a finance charge error results in a misstatement of the amount financed, or some other dollar amount for which the regulation provides no specific tolerance, the misstated disclosure does not violate the act or the regulation if the finance charge error is within the permissible tolerance under this paragraph.

* * * * *

18(n) Insurance and debt cancellation.

* * * * *

2. *Debt cancellation.* Creditors may use the model credit insurance disclosures only if the debt cancellation coverage constitutes insurance under state law. Otherwise, they may provide a parallel disclosure that refers to debt cancellation coverage.

* * * * *

8. In Supplement I to Part 226, under *Section 226.19—Certain Residential Mortgage and Variable-Rate Transactions*, under *19(a)(2) Redisclosure required.*, the first sentence of paragraph 1. is revised to read as follows:

* * * * *

Section 226.19—Certain Residential Mortgage and Variable-Rate Transactions

* * * * *

Paragraph 19(a)(2) Redisclosure required.

1. *Conditions for redisclosure.* Creditors must make new disclosures if the annual percentage rate at consummation differs from the estimate originally disclosed by more than ⅛ of 1 percentage point in regular transactions or ¼ of 1 percentage point in irregular transactions, as defined in footnote 46 of section 226.22(a)(3). * * *

* * * * *

9. In Supplement I to Part 226, *Section 226.22—Determination of the Annual Percentage Rate*, is amended by adding new paragraphs 22(a)(4) and 22(a)(5) to read as follows:

* * * * *

Section 226.22—Determination of the Annual Percentage Rate 22(a) Accuracy of the annual percentage rate.

* * * * *

22(a)(4) Mortgage loans.

1. *Example.* If a creditor improperly omits a $75 fee from the finance charge on a regular transaction, the understated finance charge is considered accurate under section 226.18(d)(1), and the annual percentage rate corresponding to that understated finance charge also is considered accurate even if it falls outside the tolerance of ⅛ of 1 percentage point provided under section 226.22(a)(2). Because a $75 error was made, an annual percentage rate corresponding to a $100 understatement of the finance charge would not be considered accurate.

22(a)(5) Additional tolerance for mortgage loans.

1. *Example.* This paragraph contains an additional tolerance for a disclosed annual percentage rate that is incorrect but is closer to the actual annual percentage rate than the rate that would be considered accurate under the tolerance in section 226.22(a)(4). To illustrate: in an irregular transaction subject to a ¼ of 1 percentage point tolerance, if the actual annual percentage rate is 9.00 percent and a $75 omission from the finance charge corresponds to a rate of 8.50 percent that is considered accurate under section 226.22(a)(4), a disclosed APR of 8.65 percent is within the tolerance in section 226.22(a)(5). In this example of an understated finance charge, a disclosed annual percentage rate below 8.50 or above 9.25 percent will not be considered accurate.

* * * * *

10. In Supplement I to Part 226, *Section 226.23—Right of Rescission* is amended by adding new 23(g), and 23(h) preceding the References to read as follows:

* * * * *

Section 23—Right of Rescission

* * * * *

23(g) Tolerances for accuracy.

23(g)(2) One percent tolerance.

1. *New advance.* The phrase "new advance" has the same meaning as in comment 23(f)-4.

23(h) Special Rules for Foreclosures.

1. *Rescission.* Section 226.23(h) applies only to transactions that are subject to rescission under section 226.23(a)(1).

Paragraph 23(h)(1)(i).

1. *Mortgage broker fees.* A consumer may rescind a loan in foreclosure if a mortgage broker fee that should have been included in the finance charge was omitted, without regard to the dollar amount involved. If the amount of the mortgage broker fee is included but misstated the rule in section 226.23(h)(2) applies.

23(h)(2) Tolerance for disclosures.

1. *General.* This section is based on the accuracy of the total finance charge rather than its component charges.

* * * * *

11. In Supplement I to Part 226, under *Section 226.31—General Rules*, the following amendments are made:

a. Under *Paragraph 31(c)(1)* paragraph 1. is redesignated as paragraph 1. under *Paragraph 31(c).*, and paragraph 2., under *Paragraph 31 (c)(1)* is redesignated as paragraph 1; and
b. Under *31(d)*, a new paragraph 31(d)(3) is added. The revisions and additions read as follows:

* * * * *

Subpart E—Special Rules for Certain Home Mortage Transactions

Section 226.31—General Rules

* * * * *

31(d) Basis of disclosures and use of estimates.

* * * * *

31(d)(3) Per-diem interest.

1. *Per-diem interest.* This paragraph applies to the disclosure of any numerical amount (such as the finance charge, annual percentage rate, or payment amount) that is affected by the amount of the per-diem interest charge that will be collected at consummation. If the amount of per-diem interest used in preparing the disclosures for consummation is based on the information known to the creditor at the time the disclosure document is prepared, the disclosures are considered accurate under this rule, and affected disclosures are also considered accurate, even if the disclosures were not labeled as estimates. (*See* comment 17(c)(2)(ii)-1 generally.)

* * * * *

12. In Supplement I to Part 226, under *Section 226.32—Requirements for Certain Closed-End Home Mortgages*, the following amendments are made:

a. Under *Paragraph 32(b)(1)(i).*, paragraph 1. is revised; and
b. Under *Paragraph 32(c)(3).*, a new paragraph 2. is added. The revisions and additions read as follows:

* * * * *

Section 226.32—Requirements for Certain Closed-End Home Mortgages

* * * * *

32(b) Definitions.

Paragraph 32(b)(1)(i).

1. *General.* Section 226.32(b)(1)(i) includes in the total "points and fees" items defined as finance charges under section 226.4(a) and 226.(4)(b). Items excluded from the finance charge under other provisions of section 226.4 are not included in the total "points and fees" under paragraph 32(b)(1)(i), but may be included in "points and fees" under paragraphs 32(b)(1)(ii) and 32(b)(1)(iii). Interest, including per-diem interest, is excluded from "points and fees" under section 226.32(b)(1).

* * * * *

32(c) Disclosures.

* * * * *

Paragraph 32(c)(3) Regular payment.

* * * * *

2. *Balloon payments.* If a loan with a term of five years or more provides for a balloon payment, the balloon payment must be disclosed. For a loan with a term of less than five years, a balloon payment is prohibited.

* * * * *

13. In Supplement I to Part 226, under *Section 226.33—Requirements for Reverse Mortgages*, under *Paragraph 33(a)(2)*, in paragraph 2., the third and fourth sentences are revised and a new sentence is added at the end of the paragraph to read as follows:

* * * * *

Section 226.33—Requirements for Reverse Mortgages

33(a) Definition.

* * * * *

Paragraph 33(a)(2).

* * * * *

2. *Definite term or maturity date.* * * * An obligation may state a definite maturity date or term of repayment and still meet the definition of a reverse-mortgage transaction if the maturity date or term of repayment used would not operate to cause maturity prior to the occurrence of any of the maturity events recognized in the regulation. For example, some reverse mortgage programs specify that the final maturity date is the borrower's 150th birthday; other programs include a shorter term but provide that the term is automatically extended for consecutive periods if none of the other maturity events has yet occurred. These programs would be permissible.

* * * * *

14. In Supplement I to Part 226, under *Appendices G and H—Open-end and Closed-end Model Forms and Clauses*, a new paragraph 2. is added to read as follows:

* * * * *

APPENDICES G AND H—OPEN-END AND CLOSED-END MODEL FORMS AND CLAUSES

* * * * *

2. *Debt cancellation coverage.* This regulation does not authorize creditors to characterize debt cancellation fees as insurance premiums for purposes of this regulation. Creditors may provide a disclosure that refers to debt cancellation coverage whether or not the coverage is considered insurance. Creditors may use the model credit insurance disclosures only if the debt cancellation coverage constitutes insurance under state law.

* * * * *

15. In Supplement I to Part 226, under *APPENDIX H—CLOSED-END MODEL FORMS AND CLAUSES*, a new sentence is added to the end of paragraph 11. to read as follows:

* * * * *

APPENDIX H—CLOSED-END MODEL FORMS AND CLAUSES

* * * * *

11. *Models H-8 and H-9.* * * * The prior version of model form H-9 is substantially similar to the current version and creditors may continue to use it, as appropriate. Creditors are encouraged, however, to use the current version when reordering or reprinting forms.

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

Bank of Taiwan
Taipei, Taiwan

Order Approving Retention of Shares of a Bank Holding Company and Acquisition of Shares of a Bank

Bank of Taiwan, Taipei, Taiwan ("BOT"), a foreign bank subject to the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to retain its ownership of 12.84 percent of the voting shares of First Commercial Bank, Taipei, Taiwan ("FCB"), and to thereby indirectly acquire more than 5 percent of the voting shares of FCB Taiwan California Bank, Alhambra, California ("Bank"), a *de novo* state-chartered bank. FCB separately has requested the Board's approval under section 3 of the BHC Act to acquire all the voting shares of Bank and thereby become a bank holding company.[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (61 *Federal Register* 7791 (1996)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

BOT, with total consolidated assets equivalent to $59.2 billion, is the largest commercial bank in Taiwan.[2] BOT operates a branch in Los Angeles, California, and an agency in New York, New York. Taiwan owns all the voting shares of BOT.

As noted above, BOT has filed this application in connection with FCB's proposal to establish Bank as a *de novo* state-chartered bank. Accordingly, the Board concludes that consummation of this proposal would not have a significantly adverse effect on competition or the concentration of banking resources in any relevant banking market. In addition, based on all the facts of record, the Board concludes that convenience and needs considerations are consistent with approval of the proposal.

Financial, Managerial, and Other Supervisory Considerations

Under section 3 of the BHC Act, as amended by the Foreign Bank Supervision Enhancement Act of 1991,[3] the Board may not approve an application involving a foreign bank unless the bank is "subject to comprehensive supervision or regulation on a consolidated basis by the appropri-

1. *See First Commercial Bank*, 83 *Federal Reserve Bulletin* 309 (1997).
2. Asset data are as of June 30, 1996, and reflect the exchange rate then in effect. Ranking data are as of December 31, 1995.
3. Pub. L. No. 102–242, § 201 *et seq.*, 105 Stat. 2286 (1991).

ate authorities in the bank's home country."[4] The Board previously has determined, in connection with an application by BOT under the International Banking Act (12 U.S.C. § 3101 *et seq.*) ("IBA"), that BOT was subject to comprehensive supervision on a consolidated basis by its home country authorities.[5] Based on all the facts of record, the Board has determined that the requirements of section 3(c)(3)(B) of the BHC Act regarding comprehensive supervision and regulation on a consolidated basis are met in this case.

The BHC Act also requires the Board to determine that the foreign bank has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act and the IBA. The Board has reviewed restrictions on disclosure in jurisdictions where BOT has material operations and has communicated with relevant authorities concerning access to information. BOT has committed that, to the extent not prohibited by applicable law, it will make available to the Board such information on the operations of BOT and any of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal law. BOT also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary in order to enable BOT to make any such information available to the Board. In light of these commitments and other facts of record, the Board has concluded that BOT has provided adequate assurances of access to any appropriate information that the Board may request. For these reasons, based on all the facts of record, and subject to the conditions noted below, the Board has concluded that the supervisory factors it is required to consider under section 3(c) of the BHC Act are consistent with approval.

The Board also must consider the financial and managerial resources of a foreign bank that files an application under section 3 of the BHC Act. BOT must comply with minimum capital standards that conform to the Basle Capital Accord, as implemented by Taiwan. BOT's capital exceeds the minimum standards and is equivalent to the capital that would be required of a United States banking organization. Based on these and other facts of record, including confidential examination and supervisory information, the Board concludes that financial and managerial factors are consistent with approval, as are all other supervisory factors the Board must consider under section 3 of the BHC Act.

Based on the foregoing and all other facts of record, including the commitments provided by BOT, the Board has determined that the application should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of BOT or any of its affiliates subsequently interfere with the Board's ability to determine the compliance by BOT or its affiliates with applicable federal statutes, the Board may require termination of any of BOT's or its affiliates' direct or indirect activities in the United States. The commitments and conditions relied on by the Board in reaching this decision, including the commitments discussed in this order, shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decisions, and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated before the fifteenth calendar day following the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 24, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

First Commercial Bank
Taipei, Taiwan

Order Approving the Formation of a Bank Holding Company

First Commercial Bank, Taipei, Taiwan ("FCB"), a foreign bank subject to the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to become a bank holding company by acquiring all the voting shares of FCB Taiwan California Bank, Alhambra, California ("Bank"), a *de novo* state-chartered bank.[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (60 *Federal Register* 45,485 (1995)). The time for filing comments has expired, and the Board has considered the

4. 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. *See* 12 C.F.R. 225.13(b)(5). Regulation K provides that a foreign bank may be considered subject to consolidated supervision if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the foreign bank, including the relationship of the bank and its affiliates, to assess the foreign bank's overall financial condition and compliance with law and regulation. *See* 12 C.F.R. 211.24(c)(1)(ii).

5. *See Bank of Taiwan*, 79 *Federal Reserve Bulletin* 541 (1993).

1. Bank of Taiwan, Taipei, Taiwan ("BOT"), controls 12.84 percent of the voting shares of FCB. BOT operates a branch in Los Angeles, California, and an agency in New York, New York, and is subject to the BHC Act in the same manner and to the same extent as a bank holding company. *See* 12 U.S.C. § 3106(a). Accordingly, BOT also has requested the Board's approval to acquire more than 5 percent of the voting shares of a bank holding company and a bank upon consummation of the proposal. *See Bank of Taiwan*, 83 *Federal Reserve Bulletin* 308 (1997).

application and all comments received in light of the factors set forth in section 3 of the BHC Act.

FCB, with total consolidated assets equivalent to $33 billion, is the fourth largest commercial bank in Taiwan.[2] FCB operates a branch in Los Angeles, California, and an agency in New York, New York. Taiwan directly and indirectly owns or controls approximately 71 percent of the voting shares of FCB.[3]

FCB proposes to establish Bank as a *de novo* state-chartered bank.[4] Accordingly, the Board concludes that consummation of this proposal would not have a significantly adverse effect on competition or the concentration of banking resources in any relevant banking market. In addition, based on all the facts of record, the Board concludes that convenience and needs considerations are consistent with approval of the proposal.

Financial, Managerial, and Other Supervisory Considerations

Under section 3 of the BHC Act, as amended by the Foreign Bank Supervision Enhancement Act of 1991,[5] the Board may not approve an application involving a foreign bank unless the bank is "subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country."[6] The Board previously has determined, in applications under the International Banking Act (12 U.S.C. § 3101 *et seq.*) ("IBA"), that certain Taiwan banks were subject to comprehensive supervision on a consolidated basis by their home country authorities.[7] In this case, the Board has determined that FCB is supervised on substantially the same terms and conditions as those other Taiwan banks. Based on all the facts of record, the Board has concluded that FCB is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisors.

The BHC Act also requires the Board to determine that the foreign bank has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act and the IBA. The Board has reviewed restrictions on disclosure in jurisdictions where FCB has material operations and has communicated with relevant authorities concerning access to information. FCB has committed that, to the extent not prohibited by applicable law, it will make available to the Board such information on the operations of FCB and any of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal law. FCB also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary in order to enable FCB to make any such information available to the Board. In light of these commitments and other facts of record, the Board has concluded that FCB has provided adequate assurances of access to any appropriate information that the Board may request. For these reasons, based on all the facts of record, and subject to the conditions noted below, the Board has concluded that the supervisory factors it is required to consider under section 3(c) of the BHC Act are consistent with approval.[8]

The Board also must consider the financial and managerial resources of a foreign bank that files an application under section 3 of the BHC Act. FCB must comply with minimum capital standards that conform to the Basle Capital Accord, as implemented by Taiwan. FCB's capital exceeds the minimum standards and is equivalent to the capital that would be required of a United States banking organization. Based on these and other facts of record, including confidential examination and supervisory information, the Board concludes that financial and managerial factors are consistent with approval, as are all other supervisory factors the Board must consider under section 3 of the BHC Act.

Based on the foregoing and all other facts of record, including the commitments provided by FCB, the Board has determined that the application should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of FCB or any of its affiliates subsequently interfere with the Board's ability to determine the compliance by FCB or its affiliates with applicable federal statutes, the Board may require termination of any of FCB's or its affiliates' direct or indirect activities in the United States. The commitments and conditions relied on by the Board in reaching this decision,

2. Asset data are as of June 30, 1996, and reflect the exchange rate then in effect. Ranking data are as of December 31, 1995.

3. The Taiwan authorities directly own 51 percent of FCB's shares and control another 20 percent of the bank's shares through other banks that are controlled by Taiwan.

4. The California State Banking Department and the Federal Deposit Insurance Company have approved Bank's applications for a charter and federal deposit insurance, respectively.

5. Pub. L. No. 102–242, § 201 *et seq.*, 105 Stat. 2286 (1991).

6. 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. *See* 12 C.F.R. 225.13(b)(5). Regulation K provides that a foreign bank may be considered subject to consolidated supervision if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the foreign bank, including the relationship of the bank and its affiliates, to assess the foreign bank's overall financial condition and compliance with law and regulation. *See* 12 C.F.R. 211.24(c)(1)(ii).

7. *See Taiwan Business Bank*, 81 *Federal Reserve Bulletin* 746 (1995); *The Farmers Bank of China*, 81 *Federal Reserve Bulletin* 620 (1995); *Chiao Tung Bank*, 79 *Federal Reserve Bulletin* 543 (1993); *Bank of Taiwan*, 79 *Federal Reserve Bulletin* 541 (1993); *United World Chinese Commercial Bank*, 79 *Federal Reserve Bulletin* 146 (1993); and *Taipei Bank*, 79 *Federal Reserve Bulletin* 143 (1993).

8. Because Taiwan will control Bank, transactions between Bank and other companies controlled by Taiwan will be subject to section 23A and section 23B of the Federal Reserve Act. 12 U.S.C. §§ 371c, 371c-1. FCB and Bank have committed that Bank will adopt and maintain appropriate internal control procedures and operational safeguards to assure that all transactions with, or for the benefit of, an affiliate are in compliance with the requirements of sections 23A and 23B of the Federal Reserve Act.

including the commitments discussed in this order, shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decisions, and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated before the fifteenth calendar day following the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 24, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

Susquehanna Bancshares, Inc.
Lititz, Pennsylvania

Order Approving the Acquisition of Bank Holding Companies

Susquehanna Bancshares, Inc., Lititz, Pennsylvania ("Susquehanna"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire Atcorp, Inc., Marlton, New Jersey ("AI"), and its subsidiary bank, Equity National Bank, Atco, New Jersey ("Equity Bank"); and Farmers Banc Corp. ("FBC") and its subsidiary bank, Farmers National Bank ("Farmers Bank"), both of Mullica Hill, New Jersey.[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (61 *Federal Register* 60,706 (1996)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Susquehanna, with total consolidated assets of approximately $3 billion, operates five banks and three savings associations in Pennsylvania and Maryland and engages in certain permissible nonbanking activities.[2] Susquehanna is the 12th largest commercial banking organization in Pennsylvania, controlling approximately $1.3 billion in deposits, representing less than 1 percent of total deposits in commercial banks in the state.[3] AI and FBC are, respectively, the 44th and 64th largest commercial banking organizations in New Jersey, controlling approximately $124 million and $72 million in deposits. The combined deposits of AI and FBC represent less than 1 percent of total deposits in commercial banking organizations in the state.

Interstate Analysis

Section 3(d) of the BHC Act, as amended by section 101 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company, if certain conditions are met.[4] For purposes of the BHC Act, Susquehanna's home state is Pennsylvania, and Susquehanna would acquire banks in New Jersey. The conditions for an interstate acquisition under section 3(d) are met in this case.[5] In view of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

The BHC Act prohibits the Board from approving an application if the proposal would result in a monopoly, or would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community.[6] AI and FBC compete directly in the Philadelphia, Pennsylvania, banking market.[7] On consummation of the proposal, Susquehanna would become the 23d largest commercial banking institution in the market, controlling deposits of approximately $195 million, representing less than 1 percent of total deposits in commercial banks or thrift institutions in the market.[8] Based on all the facts of record, including the small increase in market concentration as

1. Susquehanna would acquire AI and FBC separately by merging each company with a shell subsidiary corporation of Susquehanna. AI and FBC would be the surviving corporations of these mergers and would become separate subsidiary bank holding companies of Susquehanna.

2. Asset data are as of September 30, 1996.

3. Deposit data are as of June 30, 1995.

4. Pub. L. No. 103–328, 108 Stat. 2338 (1994). A bank holding company's home state is the state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

5. *See* 12 U.S.C. § 1842(d)(1)(A) and (B) and 1842(d)(2)(A) and (B). Susquehanna is adequately capitalized and adequately managed. Equity Bank and Farmers Bank have been in existence and continuously operated for more than five years. In addition, on consummation of the proposal, Susquehanna and its affiliates would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States, and less than 30 percent of the total amount of deposits of insured depository institutions in New Jersey.

6. 12 U.S.C. § 1842(c).

7. The Philadelphia banking market consists of Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties in Pennsylvania; and Burlington, Camden, and Salem Counties, the City of Trenton, and the Mercer County townships of Ewing, Hamilton, and Lawrence in New Jersey.

8. Market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See WM Bancorp*, 76 *Federal Reserve Bulletin* 788 (1990); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of

measured by the Herfindahl–Hirschman Index ("HHI")[9] and the number of competitors that would remain in the market, the Board concludes that the proposal would not have a significantly adverse effect on competition or the concentration of banking resources in the Philadelphia banking market or any other relevant banking market.

Other Factors Under the BHC Act

The BHC Act also requires the Board, in acting on an application, to consider the financial and managerial resources of the companies and banks involved, the convenience and needs of the communities to be served, and certain other supervisory factors.

A. Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of Susquehanna, AI, FBC, and their respective subsidiary banks and other supervisory factors in light of all the facts of record. The facts include supervisory reports of examination assessing the financial and managerial resources of the organizations and confidential financial information provided by Susquehanna. Based on these and all other facts of record, the Board concludes that all the supervisory factors under the BHC Act, including financial and managerial resources, weigh in favor of approval of the proposal.

B. Convenience and Needs Factor

The Board also has carefully considered the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record. As part of that review, the Board considered comments from New Jersey Citizen Action ("Protestant") alleging that Susquehanna has not taken adequate steps to assess the demographic characteristics and banking needs of neighborhoods with predominately low- and moderate-income ("LMI") and minority residents ("LMI and minority neighborhoods") served by AI and FBC and has not developed an adequate plan to serve those areas. Protestant also alleges, based on data filed under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA"), that Equity Bank, Farmers Bank, and Susquehanna's lead subsidiary bank, Farmers First Bank, Lititz, Pennsylvania ("Susquehanna Bank"), have inadequate records of lending to LMI and minority neighborhoods.

To help to address the credit needs of LMI and minority neighborhoods in the communities to be served in New Jersey, Susquehanna has developed preliminary plans for a three-year lending program at Equity Bank and Farmers Bank, including lending goals for affordable home mortgage loans to first-time LMI homebuyers, home improvement loans, and community development loans. Those goals would supplement the current lending and community development programs of Equity Bank and Farmers Bank. In addition, the record indicates that Susquehanna provides a full range of retail credit and deposit products and services, including home mortgage loans, consumer installment loans, small business loans, and lifeline checking accounts. Susquehanna has stated that these products and services, some of which are not currently offered by Equity Bank and Farmers Bank, would be offered in the markets the banks serve.

The Board also notes that Susquehanna has policies and programs in place to assist in ascertaining and meeting the credit needs of the communities served by its subsidiary banks. The Susquehanna CRA Officers Committee ("Committee") was formed in 1990 to provide oversight for the activities of Susquehanna's subsidiary banks under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA").[10] The Committee performs a variety of functions designed to exchange information and ideas involving CRA-related activities. In addition, the Committee provides services to support subsidiary banks in ascertaining and assisting to meet the credit needs of their communities, including compiling and analyzing data on CRA-related activities, reviewing community demographics and marketing techniques by using Susquehanna's Marketing Central Information File software, discussing unique aspects of and approaches to individual markets and communities, and discussing methods to assess and meet the credit needs of all members of the communities served by the bank.[11]

Performance Examinations. The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the CRA. As provided in the CRA, the Board evaluates this factor in light of examinations by the

market share on a 50-percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

9. The HHI would remain unchanged at 1390 points after consummation of the proposal. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger HHI is between 1000 and 1800 is considered to be moderately concentrated. The Justice Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other non-depository financial entities.

10. The Committee is chaired by a Susquehanna corporate officer and has as its voting members the CRA officers of each affiliate. Nonvoting members of the Committee include Susquehanna's corporate directors of marketing and compliance, the manager of its CRA/HMDA support unit, and affiliate representatives involved in marketing, lending, and compliance. The Committee meets at least quarterly, and more frequently if necessary.

11. The Committee has implemented a number of programs that support the CRA-related activities of Susquehanna subsidiary banks, including uniform formats for CRA self-assessment, CRA programs, office closing and relocation policies, and fair lending policies. The Committee also has initiated a comprehensive CRA data compilation and analytical software system and has created a CRA review task force to assist subsidiary banks in analyzing their CRA-related activities and preparing for CRA performance examinations.

primary federal supervisor of the CRA performance records of the relevant institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of an institution's overall record of performance under the CRA by its primary federal supervisor.[12]

All of Susquehanna's subsidiary banks received "outstanding" or "satisfactory" ratings for CRA performance in their most recent evaluations by their primary federal supervisor. Susquehanna Bank received an "outstanding" rating in its most recent examination as of September 1994 by the Federal Deposit Insurance Corporation ("1994 Examination"). Three of Susquehanna's four remaining subsidiary banks also received "outstanding" ratings for CRA performance in their most recent evaluations. Equity Bank received a "satisfactory" rating for CRA performance from the Office of the Comptroller of the Currency ("OCC") as of March 1996, and Farmers Bank received a "satisfactory" rating for CRA performance from the OCC as of December 1993.

The 1994 Examination concluded that Susquehanna Bank's lending activities reflected an overall responsiveness to meeting identified community credit needs. FDIC examiners commended the bank's strong efforts in ascertaining and meeting the credit needs of LMI loan applicants in the Lancaster, Pennsylvania, Metropolitan Statistical Area, noting that the bank had received applications for and originated a substantially higher percentage of housing-related loans than other area lenders in the aggregate. In addition, the 1994 Examination concluded that Susquehanna Bank had achieved a reasonable penetration of all segments of its delineated community, including LMI neighborhoods. Examiners also noted that the bank primarily promoted its credit products and services through newspaper, radio, and television advertising, including a Spanish language newspaper and a Spanish language radio station. The bank also employs bilingual personnel to facilitate communication with Hispanic customers.[13]

To respond to housing-related credit needs identified by the participation of its officers in community organizations, Susquehanna Bank established an adjustable rate home mortgage loan program to lend up to 95 percent of the property's value and initiated its participation in the Federal National Mortgage Association (Fannie Mae) Community Home Buyer's Plan, which permits the bank to employ more flexible underwriting criteria in low-income areas.[14] The 1994 Examination also found that the bank was an active lender to and investor in organizations engaged in community development activities. For example, the bank invested as a limited partner in a nonprofit housing developer that created The Umbrella Works, which rehabilitated a building in a low-income neighborhood of Lancaster to provide 82 apartments for LMI households, and Oak Bottom, which produced 54 housing units for low-income households in Quarryville, Pennsylvania.[15] Susquehanna Bank also renovated an abandoned paper mill in Lititz, Pennsylvania, to use as administrative offices and to provide additional office space for lease. In addition, the bank has extended more than $4 million in loans to local churches and participated in a $360,000 revolving loan to the Spanish American Civic Association to rehabilitate homes for LMI Hispanic residents in the City of Lancaster.[16]

HMDA Data and Record of Lending. The Board has carefully reviewed the 1994 and 1995 HMDA data reported by Susquehanna Bank, Equity Bank, and Farmers Bank in light of the Protestant's contentions about the institutions' lending records. These data generally indicate that Susquehanna Bank's origination rates for loans to applicants from LMI census tracts and minority applicants were significantly higher than the origination rates for loans to those applicants for lenders in the market in the aggregate. For example, in 1994, Susquehanna Bank originated loans to 84 percent of its LMI applicants, compared to an origination rate of 70 percent for lenders in the market in the aggregate, and during 1995 originated loans to 81 percent of its LMI applicants, compared to an origination rate of 61 percent for other area lenders. Also in 1994, Susquehanna Bank originated loans to 93 percent of its Hispanic applicants and 83 percent of its African-American applicants, compared to origination rates of 70 percent and 62 percent, respectively, for lenders in the market in the aggregate.[17]

The Board also has carefully reviewed other information, particularly the 1994 Examination and examination reports for Equity Bank and Farmers Bank, which provide an on-site evaluation of compliance with the fair lending laws. Examiners found no evidence of prohibited discrimination or other illegal credit practices at the banks, and concluded that they were in satisfactory compliance with the substantive provisions of the fair lending laws. Examiners also found no evidence of any practices by the banks

12. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act (54 *Federal Register* 13,742, 13,745 (1989)) provides that a CRA examination is an important and often controlling factor in consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process.

13. Susquehanna states that Spanish language mortgage loan documents also are available.

14. During 1996, the bank made 33 loans for $1.8 million in the aggregate under this program.

15. Since the 1994 Examination, Farmers First also has invested in a limited partnership that developed The Wagon Werks, a renovated building in Columbia, Pennsylvania, that provides housing for low-income senior citizens. As of December 31, 1996, the bank had approximately $500,000 invested in its housing-related limited partnerships.

16. Susquehanna Bank also offers two basic checking account plans that require no minimum balance and charge low fees. At the time of the 1994 Examination, Susquehanna Bank had 2,649 such accounts, which were generally held by low-income and retired customers. As of December 31, 1996, the bank had 2,983 such accounts with an average balance of $575 per account.

17. HMDA data for Equity Bank and Farmers Bank indicate that those banks also have higher origination rates for applicants in LMI census tracts and minority applicants than those of other lenders in the market in the aggregate.

that were intended to discourage applications for the types of credit listed in the institutions' CRA statements.

Conclusion on the Convenience and Needs Factor. The Board has carefully considered the entire record in its review of the convenience and needs factor under the BHC Act, including all the information provided by Protestant. Based on all the facts of record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant institutions, are consistent with approval of the approval.[18]

Conclusion

Based on all the facts of record, the Board has determined that this application should be, and hereby is, approved. The Board's approval is specifically conditioned on compliance by Susquehanna with all the commitments made in connection with this application. The commitments and conditions relied on by the Board in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The proposed acquisitions shall not be consummated before the fifteenth calendar day following the effective date of this order, and not later than three months after the effective date of this order, unless such period is extended by the Board or by the Federal Reserve Bank of Philadelphia, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 3, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer. Absent and not voting: Governors Lindsey and Yellen.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

18. Protestant requests that the Board withhold approval of the proposal until Susquehanna develops a more appropriate plan for the New Jersey communities to be served. The Board is required under applicable law and its regulations to act on applications under the BHC Act within specified time periods. The Board notes, moreover, that Protestant's comments on Susquehanna's anticipated CRA-related activities after consummation of the proposal have been carefully considered in light of all the facts of record, including Susquehanna's preliminary plans for the institutions to be acquired, its CRA-related policies and programs, and its record of ascertaining and meeting the credit needs of its service communities. Based on this review, and for the reasons discussed above, the Board concludes that the record is sufficient for the Board to act on the proposal at this time, and that delay or denial of the proposal is not warranted.

Union Planters Corporation
Memphis, Tennessee

Order Approving Acquisition of a Bank

Union Planters Corporation, Memphis, Tennessee ("Union Planters"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire at least 19 percent and up to 100 percent of the voting shares of First National Bank, Pontotoc, Mississippi ("Bank").[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (61 *Federal Register* 69,096) (1996)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Union Planters, controlling assets of $11.2 billion,[2] operates depository institutions in Tennessee, Alabama, Arkansas, Kentucky, Louisiana, Mississippi, and Missouri. Union Planters is the third largest commercial banking organization in Mississippi, controlling deposits of $2.1 billion, representing approximately 9.7 percent of total deposits in commercial banking organizations in the state.[3] Bank is the 30th largest commercial banking organization in Mississippi, controlling deposits of $115.2 million, representing less than 1 percent of total deposits in commercial banking organizations in the state. On consummation of this proposal, Union Planters would remain the third largest commercial banking organization in the state, and would control deposits of $2.2 billion, representing approximately 10.2 percent of total deposits in commercial banking organizations in the state.

Section 3(d) of the BHC Act, as amended by section 101 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company, if certain conditions are met.[4] For purposes of the BHC Act, the home state of Union Planters is Tennessee, and Union Planters proposes to acquire a bank in Mississippi. The conditions for an interstate acqui-

1. Union Planters has contracted to purchase at least 19 percent of Bank's voting shares and intends to acquire all the bank's voting stock. Union Planters also has requested approval to acquire voting shares of Bank's proposed parent holding company, Pontotoc Bancshares, Pontotoc, Mississippi, which currently is seeking the Board's approval to become a bank holding company.

2. All asset data are as of March 31, 1996.

3. All deposit data are as of June 30, 1995, adjusted to reflect acquisitions approved and mergers consummated through December 31, 1996.

4. Pub. L. No. 103-328, 108 Stat. 2338 (1994). A bank holding company's home state is that state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

sition enumerated in section 3(d) are met in this case.[5] In view of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

The BHC Act prohibits the Board from approving an application under section 3 of the BHC Act if the proposal would result in a monopoly or substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served. Union Planters and Bank do not compete with each other in any relevant banking market. Based on all the facts of record, the Board concludes that consummation of this proposal would not result in any significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market.

Other Factors Under the BHC Act

The BHC Act also requires the Board to consider the financial and managerial resources of the companies and banks involved, the convenience and needs of the communities to be served, and certain other supervisory factors.

A. Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of Union Planters and Bank, and other supervisory factors in light of all the facts of record. The facts include comments from the management of Bank opposing the acquisition by Union Planters of at least 19 percent of Bank's voting shares.[6]

In cases similar to this one, the Board has indicated that the BHC Act contemplates proposals that would allow a bank holding company to acquire less than a majority of the voting shares of a bank or bank holding company.[7] Union Planters proposes to become the largest shareholder of Bank and has the capacity to serve as a source of managerial and financial strength to Bank. Union Planters contends, moreover, that the acquisition of at least 19 percent of Bank's voting shares is a first step in acquiring control of Bank.[8] The Board has considered the financial and managerial resources of Bank in light of relevant reports of examination, and other supervisory information. Based on all the facts of record, the Board concludes that the financial and managerial resources of the organizations involved in this proposal are consistent with approval, as are the other supervisory factors that the Board is required to consider under section 3 of the BHC Act.

B. Convenience and Needs Factor

The Board also has carefully considered the effect of the proposed acquisition on the convenience and needs of the community to be served in light of all the facts of record. As part of that review, the Board has considered comments opposing the proposal from Bank's management and a number of local residents who commended the products and services offered by Bank and objected to the acquisition of a locally owned bank.[9]

In reviewing the convenience and needs considerations in the proposal, the Board notes that Union Planters provides a full range of financial services through its banking and nonbanking subsidiaries, including credit card services, housing-related loans from its mortgage subsidiary, discount brokerage and trust services, large credit limits, and an extensive ATM network. Union Planters has stated that if it acquires Bank, it would offer these services, some of which are not available through Bank, in communities currently served by Bank. Union Planters also states that if Bank were merged into a Union Planters subsidiary bank, Union Planters anticipates that operational decisions would

5. 12 U.S.C. §§ 1842(d)(1)(A) and (B) and 1842(d)(2)(A) and (B). Union Planters is adequately capitalized and adequately managed. Bank has been in existence and continuously operated for more than five years, as required by Mississippi law. Miss. Code Ann. § 81-7-19(2) (1995). On consummation, Union Planters and its affiliates would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States, and less than 25 percent of the total deposits of all offices located in Mississippi of commercial banks, savings banks, savings and loan associations, and credit unions, as required by state law. *See* Miss. Code Ann. § 81-7-19(4) (1995).

6. Bank's management contends that Union Planters' proposed approximately 19 percent interest would make Bank less attractive to prospective purchasers thereby lowering the price of the bank's stock. The Board is required to review proposals under the BHC Act in light of all the facts of record and the statutory factors specified in section 3 of the Act. Courts have concluded that issues relating only to the price received by shareholders for their voting securities, as raised by the comments in this case, do not relate to a factor required to be considered under the BHC Act. *See Western Bancshares v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973). Management also maintains that the Union Planters application is incomplete because it fails to describe how Union Planters would acquire the remaining voting shares of Bank. The Board concludes that the facts of record, including information on the financial and managerial resources of Union Planters, are sufficient for the Board to make a determination regarding the statutory factors in the BHC Act, and that these factors do not require the Board to review Union Planters' strategy for acquiring additional voting shares of Bank.

7. *See Hudson Financial Associates*, 72 *Federal Reserve Bulletin* 150 (1986); *City Holding Company*, 71 *Federal Reserve Bulletin* 575 (1985).

8. Mississippi law requires a bank holding company to acquire, within six months of acquiring an interest in a bank in Mississippi, sufficient voting shares to lawfully vote to merge the acquired institution with a subsidiary of the bank holding company, even if such merger does not occur. If an acquiring institution is unable to fulfill the requirement within the statutory time period or extension of the time period granted by the Mississippi Commissioner of Banking and Consumer Finance, the acquiring institution must reduce its interest to below 5 percent of the acquired institution's voting shares. *See* Miss. Code. Ann. § 81-7-19(3) (1995).

9. Several commenters stated that community banks acquired by Union Planters stopped providing personalized customer services.

continue to be made by local management, and that Union Planters has no current intention to alter the pricing of loans or deposits or discontinue other services provided by Bank.

The Board also has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"). As provided in the CRA, the Board evaluates this factor in light of examinations by the primary federal supervisor of the CRA performance records of the relevant institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by its primary federal supervisor.[10]

All of Union Planters's subsidiary banks that have been examined for CRA performance received "satisfactory" or better ratings from their primary federal supervisor in their most recent performance examinations. In particular, Union Planters's five subsidiary banks in Mississippi received "satisfactory" ratings in their most recent examinations for CRA performance. Bank also received a "satisfactory" rating from its primary federal supervisor, the Office of the Comptroller of the Currency ("OCC"), at its most recent examination for CRA performance.

The Board has also considered the CRA-related activities of Union Planters Bank of Northeast Mississippi, New Albany, Mississippi ("UP Northeast"), a relatively small Union Planters subsidiary that serves communities near Bank.[11] OCC examiners concluded that ascertainment efforts by UP Northeast, though limited, were generally effective in identifying credit needs within the community. The examiners particularly noted the bank's ascertainment efforts that resulted in the creation of a low-income, first-time homebuyers program to assist in addressing housing-related credit needs.

Examiners also found that UP Northeast's overall CRA-related lending efforts were sufficient to address affirmatively a significant portion of identified community credit needs through a number of products. The bank's geographic distribution of loans, applications and declinations were considered by examiners to be reasonable, and its community delineation did not exclude low- and moderate-income neighborhoods. There was no evidence of practices that were intended to discourage potential applicants, and UP Northeast was found to be in compliance with the substantive provisions of fair lending laws. Based on all the facts of record, the Board concludes that convenience and needs considerations are consistent with approval.

In light of the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.[12] The Board's approval of the proposal is conditioned on compliance by Union Planters with the commitments made in connection with the application and with the conditions stated or referenced in this order. The commitments and conditions relied on by the Board in reaching this decision shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

The acquisition shall not be consummated before the fifteenth calendar day following the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 24, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

10. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act (54 *Federal Register* 13,742 and 13,745 (1989)) provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process.

11. UP Northeast has deposits of approximately $270 million and is located 25 miles from Bank. Union Planters indicates that a merger of Bank and UP Northeast would be likely if Union Planters acquires voting shares sufficient to require the merger. UP Northeast received a "satisfactory" CRA performance rating from the OCC as of September 1994. UP Northeast was named First National Bank of New Albany at the time of the examination and changed its name in 1995.

12. Some commenters requested that the Board hold a public meeting or hearing on this application. Section 3(b) of the BHC Act does not require the Board to hold a public hearing or meeting on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the proposal. No supervisory agency has recommended denial of the proposal.

Under the Board's Rules of Procedure, the Board may, in its discretion, hold a public hearing or meeting on an application to clarify factual issues relating to the application and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 262.3(e) and 262.25(d). Commenters have had an ample opportunity to present their views, and have submitted substantial written comments that have been carefully considered by the Board. Those comments fail to demonstrate why the written submissions do not adequately present the commenters' views and what, if any, additional matters would be addressed at a hearing or meeting. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted to clarify the factual record in the proposal or otherwise warranted in this case. Accordingly, commenters' requests for a public meeting or hearing on the proposal are denied.

Orders Issued Under Section 4 of the Bank Holding Company Act

The Bank of New York Company, Inc.
New York, New York

Order Approving a Notice to Engage in Underwriting and Dealing in All Types of Debt and Equity Securities on a Limited Basis

The Bank of New York Company, Inc., New York, New York ("Bank of New York"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 C.F.R. 225.23) to expand the activities of its section 20 subsidiary, BNY Capital Markets, Inc., New York, New York ("Company"), to include underwriting and dealing in, to a limited extent, all types of debt and equity securities except ownership interests in open-end investment companies.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (62 *Federal Register* 1118 (1997)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

Bank of New York, with total consolidated assets of approximately $52.4 billion, is the 16th largest banking organization in the United States. Bank of New York's two subsidiary banks operate in New York, Delaware, New Jersey, and Connecticut.[1] Company currently engages in limited underwriting and dealing in bank-ineligible securities[2] as permitted under section 20 of the Glass–Steagall Act (12 U.S.C. § 377).[3] Company is, and will continue to be, a broker-dealer registered with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et seq.*) and is a member of the National Association of Securities Dealers, Inc. ("NASD"). Company, therefore, is subject to the record-keeping and reporting obligations, fiduciary standards, and other requirements of the Securities Exchange Act of 1934, the SEC, and the NASD.

The Board previously has determined that, subject to the prudential framework of limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices, or other adverse effects ("section 20 firewalls"), the proposed activities of underwriting and dealing in bank-ineligible securities are so closely related to banking as to be proper incidents thereto within the meaning of section 4(c)(8) of the BHC Act.[4] Bank of New York has committed that Company will conduct the proposed underwriting and dealing activities using the same methods and procedures, and subject to the same prudential limitations as those established by the Board in the Section 20 Orders and other cases.

The Board also has determined that the conduct of these securities underwriting and dealing activities is consistent with section 20 of the Glass-Steagall Act (12 U.S.C. § 377), provided that the company engages in only limited underwriting and dealing activities.[5] Effective March 6, 1997, the Board increased from 10 percent to 25 percent the amount of total revenue that a section 20 subsidiary may derive from underwriting and dealing in bank-ineligible securities.[6] Bank of New York has committed that Company will conduct its underwriting and dealing activities in bank-ineligible securities subject to the Board's revenue test.[7]

Under section 4(c)(8) of the BHC Act, the Board considers the financial and managerial resources of the notificant and its subsidiaries and the effect of the transaction on such resources.[8] The Board has reviewed the capitalization of Bank of New York and Company in accordance with the standards set forth in the Section 20 Orders and finds the capitalization of each to be consistent with approval. With respect to Company, this determination is based on all the facts of record, including Bank of New York's projections of the volume of Company's underwriting and dealing activities in bank-ineligible securities. On the basis of all the facts of record, including the foregoing, the Board has concluded that financial and managerial considerations are consistent with approval of this notice.

1. Asset and ranking data are as of September 30, 1996.

2. As used in this order, "bank-ineligible securities" refers to all types of debt and equity securities that a bank may not underwrite or deal in directly under section 16 of the Glass–Steagall Act (12 U.S.C. § 24(7)).

3. Company has authority to underwrite and deal in, to a limited extent, certain municipal revenue bonds, 1–4 family mortgage-related securities, commercial paper, and consumer-receivable-related securities. *See Bank of New York Company, Inc.*, 82 *Federal Reserve Bulletin* 748 (1996). Company also is authorized to engage in a variety of other nonbanking activities.

4. *See Canadian Imperial Bank of Commerce*, 76 *Federal Reserve Bulletin* 158 (1990); *J.P. Morgan & Co. Incorporated, et al.*, 75 *Federal Reserve Bulletin* 192 (1989), *aff'd sub nom. Securities Industries Ass'n v. Board of Governors of the Federal Reserve System*, 900 F.2d 360 (D.C. Cir. 1990); *Citicorp, et al.*, 73 *Federal Reserve Bulletin* 473 (1987), *aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir. 1988), *cert. denied*, 486 U.S. 1059 (1988) (collectively, "Section 20 Orders").

5. *See* Section 20 Orders. Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the *Order Approving Modifications to the Section 20 Orders*, 75 *Federal Reserve Bulletin* 751 (1989) and *10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 48,953 (1996) (collectively, "Modification Orders").

6. Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities, 61 *Federal Register* 68,750 (1996).

7. Company also may engage in activities that are necessary incidents to the proposed underwriting and dealing activities. Unless Company receives specific approval under section 4(c)(8) of the BHC Act to conduct the activities independently, any revenues from the incidental activities must be counted as ineligible revenues subject to the Board's revenue limitation.

8. *See* 12 C.F.R. 225.24.

In order to approve this proposal, the Board also must find that the performance of the proposed activities by Bank of New York can reasonably be expected to produce benefits that would outweigh possible adverse effects under the proper incident to banking standard of section 4(c)(8) of the BHC Act. Based on the facts of record in the notice and the framework established in prior decisions, consummation of this proposal is not likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. The Board expects that consummation of the proposal would provide added convenience to Bank of New York's customers and would increase the level of competition among existing providers of these services. Accordingly, the Board has determined that the performance of the proposed activities by Bank of New York can reasonably be expected to produce public benefits that outweigh possible adverse effects under the proper incident to banking standard of section 4(c)(8) of the BHC Act.

For the reasons set forth in this order and in the Section 20 Orders, the Board has concluded that Bank of New York's proposal to engage through Company in the proposed activities is consistent with the Glass–Steagall Act, and that the proposed activities are so closely related to banking as to be proper incidents thereto within the meaning of section 4(c)(8) of the BHC Act, provided that Bank of New York limits the activities of Company as specified in this order and the Section 20 Orders, as modified by the Modification Orders.

On the basis of the record, the Board has determined to, and hereby does, approve this notice subject to all the terms and conditions discussed in this order and in the Section 20 Orders, as modified by the Modification Orders. The Board's approval of this proposal extends only to activities conducted within the limitations of those orders and this order, including the Board's reservation of authority to establish additional limitations to ensure that Company's activities are consistent with safety and soundness, avoidance of conflicts of interests, and other relevant considerations under the BHC Act. Underwriting and dealing in any manner other than as approved in this order and the Section 20 Orders (as modified by the Modification Orders) is not authorized for Company.

Included among the conditions set forth in the Section 20 Orders is a condition that Company may not commence the proposed underwriting and dealing activities until the Board has determined that Bank of New York and Company have established policies and procedures to ensure compliance with the section 20 firewalls and the other requirements of this order and the Section 20 Orders, including computer, audit, and accounting systems, internal risk management controls, and the necessary operational and managerial infrastructure for underwriting and dealing in all types of debt and equity securities. On the basis of a recent review by the Federal Reserve Bank of New York ("Reserve Bank") and all the facts of record, the Board has determined that Bank of New York and Company have in place the managerial and operational infrastructure and other policies and procedures necessary to comply with the requirements of this order and the Section 20 Orders. Accordingly, Company may commence underwriting and dealing in all types of debt and equity securities as permitted by, and subject to the other conditions of, this order and the Section 20 Orders.

The Board's determination also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.23(g) (12 C.F.R. 225.7 and 225.23(g)), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries the Board finds necessary to assure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. The Board's decision is specifically conditioned on compliance with all the commitments made in connection with this notice, including the commitments discussed in this order and the conditions set forth in the Board regulations and orders noted above. The commitments and conditions shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

This proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 12, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Yellen. Absent and not voting: Governor Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

Canadian Imperial Bank of Commerce
Toronto, Canada

Order Approving a Notice to Engage in Certain Nonbanking Activities

Canadian Imperial Bank of Commerce, Toronto, Canada ("Canadian Imperial"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 C.F.R. 225.23) to engage *de novo* through its wholly owned subsidiary, CIBC Investment Corporation, New York, New York ("Company"), in trading for its own account, for purposes other than hedging, in futures, options, and options on futures contracts based on securities indices and money market instruments.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (62 *Federal Register* 1889 (1997)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

Canadian Imperial, with total consolidated assets of approximately $147.4 billion,[1] is the second largest banking organization in Canada.[2] In the United States, Canadian Imperial operates a branch in Chicago, Illinois; agencies in New York, New York, Los Angeles and San Francisco, California, and Atlanta, Georgia; and a representative office in Houston, Texas. Canadian Imperial also engages through its subsidiary, Wood Gundy Securities Corporation, New York, New York, in a broad range of permissible nonbanking activities in the United States, including underwriting and dealing in, to a limited extent, debt and equity securities that are not eligible to be underwritten by a member bank ("bank-ineligible securities").

Canadian Imperial proposes that Company trade for its own account, for purposes other than hedging, in options, options on futures, and futures on certain securities indices and money market instruments ("derivative contracts").[3] Canadian Imperial has stated that Company will not underwrite any securities, act as a dealer in any securities (including acting as a market-maker, specialist, or registered options trader on any exchange), purchase or sell securities on behalf of customers, or otherwise hold itself out to the public as being willing to buy and sell securities as principal.[4] Company will execute its trades through affiliated or unaffiliated broker-dealers and futures commission merchants ("FCMs").

The Board previously has determined that the proposed trading activities are closely related to banking within the meaning of section 4(c)(8) of the BHC Act.[5] In order to approve this notice, the Board also must consider whether the performance of the proposed activities is a proper incident to banking, that is, whether the activities proposed "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[6] As part of its evaluation of these factors, the Board considers the financial condition and managerial resources of the notificant and its subsidiaries and the effect the transaction would have on such resources.[7] Based on all the facts of record, including relevant reports of examination, the Board has concluded that financial and managerial considerations are consistent with approval of the proposal.

In reviewing the proposal under the proper incident to banking standard, the Board also has considered Company's proposed risk management policies and procedures. The Board notes that Canadian Imperial has substantial experience in trading derivative contracts based on securities and securities indices. The Board also notes that Company, as a registered broker/dealer, must comply with the SEC's net capital rules.[8] Canadian Imperial has committed that Company would conduct its proposed trading activities pursuant to the risk management policies and procedures that the Board has relied on in other cases to address the credit, market, and operational risks arising out of similar derivative contracts transactions.[9] The Board has carefully reviewed these policies, procedures, systems, and controls. On the basis of this review, and all of the facts of record, the Board believes that Company's risk management policies, procedures, systems, and controls include the principal components of an effective system capable of monitoring and controlling the risks inherent in the proposed activities.[10]

There is no evidence in the record to indicate that Canadian Imperial's proposal would result in any undue concentration of resources or decreased or unfair competition. In addition, the Board believes that Company's conduct of the proposed trading activities could lead to greater market efficiency and increased liquidity for the derivative contracts that Company proposes to trade. Accordingly, the Board has concluded that the balance of the public interest factors it is required to consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of this notice.

Based on the foregoing, and in light of all the facts of record, the Board has determined that the notice should be, and hereby is, approved. Approval of this notice is specifically conditioned on compliance by Canadian Imperial with all the commitments made in connection with the proposal and with the conditions stated or referred to in this order. The Board's determination also is subject to all

1. Asset data are as of October 31, 1996, and are based on the exchange rate applicable on that date.

2. Ranking data are as of December 31, 1995.

3. Certain of the derivative contracts that Company would trade are bank-ineligible securities for purposes of section 20 of the Glass–Steagall Act. *See Swiss Bank Corporation*, 82 *Federal Reserve Bulletin* 685, 687 n.8 (1996).

4. Canadian Imperial has stated that Company will be registered as a broker-dealer with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et seq.*) and will be a member of the National Association of Securities Dealers, Inc. ("NASD"). Company will, therefore, be subject to the recordkeeping and reporting obligations and other requirements of the Securities Exchange Act of 1934, the SEC, and the NASD.

5. *See Swiss Bank Corporation*, 81 *Federal Reserve Bulletin* 185 (1995) ("Swiss Bank Order"); *see also Swiss Bank Corporation*, 76 *Federal Reserve Bulletin* 759 (1991). The Board has proposed adding the trading activities proposed by Canadian Imperial to the list of permissible activities in Regulation Y. Specifically, the Board has proposed to permit bank holding companies to trade and invest in futures, options, and similar contracts based on financial or nonfinancial assets, or an index or group of such assets — provided a state member bank is authorized to invest in the asset underlying the contract; the contract requires cash settlement; or the contract allows assignment, offset or termination prior to delivery. *See* 61 *Federal Register* 47,242, 47,254, 47,275 (1996).

6. 12 U.S.C. § 1843(c)(8).

7. *See* 12 C.F.R. 225.24; *see also The Fuji Bank, Limited*, 75 *Federal Reserve Bulletin* 94 (1989); *Bayerische Vereinsbank AG*, 73 *Federal Reserve Bulletin* 155 (1987).

8. *See* 12 C.F.R. 240.15c3-1.

9. *See Swiss Bank Order* at 195 & n.57; *Long-Term Credit Bank of Japan, Limited*, 79 *Federal Reserve Bulletin* 345 (1993).

10. Because Company would not engage in investment advisory, brokerage, and other customer activities, Company would avoid the potential for conflicts of interest in conducting the proposed trading activity.

the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.23(g) (12 C.F.R. 225.7 and 225.23(g)), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. In approving the proposal, the Board has relied on all the facts of record and all the representations and commitments made by Canadian Imperial. These commitments and conditions shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decisions, and may be enforced in proceedings under applicable law.

This transaction shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 18, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

HSBC Holdings PLC
London, United Kingdom

HSBC Holdings BV
Amsterdam, The Netherlands

HSBC Americas, Inc.
Buffalo, New York

Marine Midland Bank
Buffalo, New York

Order Approving the Acquisition of a Savings Association, the Merger of Savings Association into a State Member Bank, and the Establishment of Branches

HSBC Holdings PLC, London, United Kingdom, HSBC Holdings BV, Amsterdam, The Netherlands, and HSBC Americas, Inc., Buffalo, New York ("HSAI") (collectively, "Notificant"), bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have requested the Board's approval under section 4(c)(8) of the BHC Act of 1956 (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y to acquire all the voting shares of CTUS, Inc., Wilmington, Delaware ("CTUS"), and its wholly owned subsidiary, First Federal Savings and Loan Association of Rochester, Rochester, New York ("First Federal").

Marine Midland Bank, Buffalo, New York ("Marine Bank"), a wholly owned subsidiary of HSAI, also has requested Board approval under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) ("Bank Merger Act") and section 5(d)(3) of the Federal Deposit Insurance Act (12 U.S.C. § 1815(d)(3)) ("FDI Act"), as amended by section 2201 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (Pub. L. No. 104–208, 110 Stat. 3009), to merge First Federal with and into Marine Bank, and to establish branch offices pursuant to section 9 of the Federal Reserve Act (12 U.S.C. § 321).[1]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (61 *Federal Register* 58,559 (1996)). As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General, Department of Justice ("Attorney General"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of Thrift Supervision ("OTS"). The time for filing comments has expired, and the Board has considered the applications and all the facts of record, including all comments received, in light of the factors set forth in the BHC Act, the Bank Merger Act, the FDI Act, and the Federal Reserve Act.

Marine Bank is the fifth largest depository institution in New York state, holding $14.8 billion in deposits,[2] representing approximately 4.1 percent of the total deposits in depository institutions in the state.[3] First Federal is the sixteenth largest depository institution in the state, controlling deposits of $4.3 billion. On consummation of this proposal, Marine Bank would become the fourth largest depository institution in the state, controlling deposits of $19.1 billion, representing 5.3 percent of the deposits in depository institutions in the state.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking within the meaning of section 4(c)(8) of the BHC Act.[4] In making this determination, the Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act and Regulation Y. Notificant has committed to conform the activities of First Federal and its subsidiaries to those permissible under section 4(c)(8) of the BHC Act.[5]

1. Notificant proposes to acquire CTUS, merge it into HSAI, and immediately thereafter merge First Federal into Marine Bank. On consummation of the proposal, the nonbanking subsidiaries of First Federal would become subsidiaries of Marine Bank. The branches that would be established as an incident to the First Federal/Marine Bank merger are listed in Appendix A.

2. State deposit data are as of June 30, 1996, and market data are as of June 30, 1995.

3. In this context, depository institutions include commercial banks, savings banks, and savings associations.

4. 12 C.F.R. 225.25(b)(9).

5. As noted, the nonbanking subsidiaries of First Federal would become subsidiaries of Marine Bank. Accordingly, Notificant and Marine Bank have committed to engage through these subsidiaries only in activities that are permissible for a state member bank. Notificant also has committed not to engage in activities through any inactive First Federal subsidiaries without prior Federal Reserve System approval.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly, or would substantially lessen competition in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community.[6] Marine Bank and First Federal compete directly in the following banking markets: Binghamton, Buffalo, Elmira-Corning, Ithaca, Rochester, and Syracuse, New York banking markets and the Metropolitan New York/New Jersey banking market ("Metro NY/NJ").[7] The Board has carefully reviewed the competitive effects of this proposal in these markets in light of all the facts of record, including the number of competitors that would remain in the markets, the characteristics of the markets, and the projected increase in the concentration of total deposits in depository institutions[8] in the markets ("market deposits"), as measured by the Herfindahl–Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),[9] and comments on the competitive effects of the proposal.

Two commenters maintained that the proposal would have an adverse effect on competition for mortgage loans in Buffalo, and that the geographic scope of the Rochester market as defined by the Federal Reserve Bank of New York ("Reserve Bank") is too broad.[10] Commenters alleged generally that the proposal would have an adverse effect on competition in the Buffalo, Ithaca, Elmira-Corning, Rochester, and Binghamton banking markets.[11]

The Board has long considered the cluster of products and services offered by insured institutions to be the appropriate product market for evaluating mergers and acquisitions of insured depository institutions, and the Supreme Court has indicated that it is this cluster of products and services that, as a matter of trade reality, makes banking a distinct line of commerce.[12] The courts have continued to follow this position and several recent studies support the conclusion that both businesses and households still seek to obtain this cluster of services.[13] After carefully considering all the facts of record in light of relevant Board and judicial precedents, the Board concludes that the appropriate product market in this case is the cluster of banking products and services.[14]

The Board and the courts also have concluded that the relevant banking market for analyzing the competitive effects of a proposal must reflect the commercial and banking realities and should consist of the local area where the financial institutions involved offer their services and where local customers can practicably turn for alternatives.[15] Banking markets, therefore, generally are larger than an individual institution's service area, and competing financial institutions need not serve the same set of customers in order to affect or be affected by pricing and product decisions by each other or other financial institutions,

6. 12 U.S.C. § 1828(c)(5)(B).

7. The geographic scope and market data for these banking markets are described in Appendix B. Deposit data for the appendix are as of June 30, 1995.

8. Market share data before consummation are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See WM Bancorp*, 76 *Federal Reserve Bulletin* 788 (1990); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Because the deposits of First Federal would be transferred to a commercial bank under this proposal, they are included at 100 percent in the calculation of the *pro forma* market share. *See Norwest Corporation*, 78 *Federal Reserve Bulletin* 452 (1992); *First Banks, Inc.*, 76 *Federal Reserve Bulletin* 669 (1990).

9. Under the revised DOJ Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger HHI is more than 1800 is considered highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial entities.

10. The commenters, which included the New York State Reinvestment Alliance ("NYSRA") and the Broome County CRA Coalition ("BCCRAC"), contended that the Rochester market as defined by the Reserve Bank should be disaggregated into three separate markets, but did not define the scope of such markets.

11. These commenters included NYSRA, BCCRAC, and an individual.

12. *See First Hawaiian, Inc.*, 79 *Federal Reserve Bulletin* 966, 966–68 (1993); *SouthTrust Corporation*, 78 *Federal Reserve Bulletin* 710 (1992); *United States v. Philadelphia National Bank*, 374 U.S. 321, 357 (1963) ("*Philadelphia National*"). *Accord United States v. Connecticut National Bank*, 418 U.S. 656 (1974); *United States v. Phillipsburg National Bank*, 399 U.S. 350 (1969) ("*U.S. v. Phillipsburg*").

13. *See United States v. Central State Bank*, 621 F. Supp. 1276 (W.D. Mich.1985), *aff'd per curiam*, 817 F.2d 22 (6th Cir.1987); *see also* Elliehausen and Wolken, "Banking Markets and the Use of Financial Services by Households," 78 *Federal Reserve Bulletin* 169 (1992) (households continue to purchase the unique set of services and products as a bundle); and Elliehausen and Wolken, "Banking Markets and the Use of Financial Services by Small- and Medium-Sized Businesses," 76 *Federal Reserve Bulletin* 726 (1990) (businesses tend to purchase other banking products and services from the financial institutions where they maintain their primary transaction accounts).

14. If mortgage lending were an appropriate product market, consummation of the proposal would not exceed the DOJ Guidelines. The HHI would increase by approximately 205 points to 1042 after the acquisition of First Federal. In addition, numerous other competitors would remain in the market. In this light, and based on all the facts of record, the Board concludes that consummation of the proposal would not result in significantly adverse competitive effects on mortgage lending in the Buffalo banking market or any other relevant banking market.

15. *See St. Joseph Valley Bank*, 68 *Federal Reserve Bulletin* 673, 674 (1982). The key question to be considered in making this decision "is not where the parties to the merger do business or even where they compete, but where, within the area of competitive overlap, the effect of the merger on competition will be direct and immediate." *Philadelphia National*, at 357 (1963); *U.S. v. Phillipsburg*, at 364–65.

because factors indicating economic integration transmit competitive forces over larger areas.[16]

In applying these principles, the Reserve Bank has employed a methodology that defines the retail banking market around major cities or population concentrations by identifying a market core as cities or counties that contain substantial employment opportunities and then grouping surrounding counties with significant patterns of commuting into those cores as part of the same banking market. The criteria for adding counties to the market delineation become more stringent as the counties become more remote from the core.[17] Based on all the facts of record, the Board concludes that the appropriate banking market is the Rochester banking market, which is approximated by Genesee, Livingston, Monroe, Ontario, Seneca, Wayne, and Yates Counties and parts of Allegany, Orleans, Steuben, and Wyoming Counties, all in New York.[18]

Consummation of the proposal would not exceed the threshold levels of market concentration, as measured by the HHI, in any of the seven banking markets in the state.[19] Numerous competitors also would remain in each of the markets. In addition, the Board sought comments from the Attorney General, the OTS, and the FDIC on the competitive effects of this proposal. The Attorney General has indicated that the proposal would not likely have any significantly adverse competitive effects in any of the markets in which Marine Bank and First Federal compete. The OTS and the FDIC did not object to consummation of the proposal. Based on all the facts of record, and for the reasons discussed in this order, and after carefully considering public comments on the competitive factor, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or the concentration of banking resources in any relevant banking market.

Other Factors

The Bank Merger Act also requires the Board to consider the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served.

A. Supervisory Factors

The Board has carefully considered the financial and managerial resources and the future prospects of the institutions involved in the proposal in light of all the facts of record. The facts include supervisory reports of examination assessing the financial and managerial resources of the organizations and confidential financial information provided by Marine Bank. Based on all the facts of record, the Board concludes that all supervisory factors under the Bank Merger Act, including financial and managerial resources, weigh in favor of approving the proposal.

B. Convenience and Needs Considerations

The Board also has carefully considered the effect of the proposed acquisition on the convenience and needs of the community to be served in light of all the facts of record. As part of that review, the Board has considered comments from commenters criticizing the CRA performance record of Marine Bank and First Federal.[20] Three commenters maintained that the 1995 Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA") data for Marine Bank and First Federal demonstrate a poor record of marketing and lending to low- to moderate-income ("LMI") and minority residents in some of the areas where the institutions are located.[21] Several commenters raised issues regarding potential branch closings, particularly in LMI communities.[22]

Marine Bank provides a full range of financial services, including trust, investment, management and custodial services, commercial lending, discount brokerage, and Small Business Administration ("SBA") loans and other small business deposit and loans services. Marine Bank also would provide increased access to automated teller machines (ATMs), account products, and expanded student

16. *See Pennbancorp*, 69 *Federal Reserve Bulletin* 548 (1983).

17. For a detailed discussion of the Reserve Bank's methodology defining banking markets, *see* David Holdsworth, "Definition of Banking Markets in New Jersey and New York," manuscript, Federal Reserve Bank of New York, December 1994. The Board also has considered the results of an informal survey of banks located primarily in counties outside the Rochester Metropolitan Statistical Area ("Rochester MSA"), which have been included within the Reserve Bank's definition of the Rochester banking market. The survey confirmed that those banks compete with banks that are located completely within the Rochester MSA.

18. Commenters provided no facts to support a smaller geographic market. If only the Rochester MSA were considered to be the relevant geographic market, however, consummation of the proposal would not exceed the DOJ Guidelines. The HHI in the Rochester MSA would increase by 264 points to 1288 following consummation of this proposal.

19. The changes in the HHI for each market and other market data are discussed in Appendix B.

20. Those commenters included NYSRA, BCCRAC, the Rural Opportunities, Inc. ("ROI"), and several individual commenters.

21. BCCRAC and NYSRA also contended that the 1995 HMDA data for Marine Bank in the Binghamton, Buffalo, Syracuse, Albany, Rochester and Metro NY/NJ MSAs, and for First Federal in the Binghamton, Rochester, and Metro NY/NJ MSAs, indicate disparities in the rate of denials and originations for housing-related loans by race and income levels and evidence illegal discrimination. The commenters raised similar challenges to 1995 HMDA data reported by Marine Bank's mortgage subsidiary, Marine Midland Mortgage Company ("MMMC"). The Board has reviewed this data and, for purposes of this order, refers to Marine Bank and MMMC collectively as "Marine Bank."

22. The ROI contended that the proposal would reduce the supply of affordable housing products and resources in the Rochester area. The ROI requested that the Board condition approval of the proposal on Marine Bank's becoming a member in the Federal Home Loan Bank System ("FHLBS"), which would enable the bank to obtain FHLBS funds for affordable housing purposes. Marine Bank states that it intends to become a member of the FHLBS and participate as a member in the FHLBS's affordable housing and community investment programs.

loan programs. Accordingly, the proposed acquisition and merger would result in these services, many of which are not available through First Federal, being offered in the communities currently served by First Federal.

Performance Examinations. The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA").[23] As provided in the CRA, the Board evaluates this factor in light of examinations by the primary federal supervisor of CRA performance records of the relevant institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by its primary federal supervisor.[24]

Marine Bank received a "satisfactory" rating at the most recent examination of its CRA performance by the Reserve Bank, as of May 30, 1995 ("Marine Examination"). First Federal received a "satisfactory" rating for CRA performance at its most recent examination by the OTS, as of September 3, 1996 ("First Federal Examination"). The Board also has considered confidential information concerning CRA performance examinations of Marine Midland and First Federal.

Lending Record. Marine Bank engages in housing-related and small business activities that are designed to assist in meeting the credit needs of its entire community. For example, Marine Bank offers a variety of affordable housing loan programs with flexible guidelines to meet the credit needs of LMI borrowers, including the Marine 97 2/1 Option Program, the Federal National Mortgage Association ("FNMA") Community Home Buyer Program, the FNMA Fannie 97 Program, and the Federal Home Loan Mortgage Corporation Affordable Gold Program. Those programs have lower down payment requirements, partial financing for down payments, less restrictive debt-to-income qualifying ratios, and higher minimum loan amounts to help fit the needs of individual borrowers.[25] During 1995 and the first nine months of 1996, Marine Bank extended or participated in loans totalling more than $53 million under these affordable housing loan programs.

The bank also is involved in loan programs offered by the State of New York Mortgage Agency ("SONYMA"), including the Low Interest Program, the Low Down Payment Program, and the Modest Means Program. These SONYMA programs, which are designed to increase lending to LMI borrowers, generally offer low interest rates and/or low down payment options. In 1995 and the first nine months of 1996, Marine Bank extended or participated in loans totalling more than $42 million under the SONYMA affordable housing loan programs.[26]

In addition, Marine Bank engages in a number of community development activities throughout its service communities in the state. For example, examiners noted that Marine Bank participated with other banks in providing $1.5 million in financing to two non profit corporations that provide loans and home purchase counseling in Albany, Schenectady, and Rensselear Counties. Marine Bank also extended a $4.4 million revolving line of credit to an organization in New York City that provides construction, rehabilitation and permanent mortgage financing for LMI multi-family housing in New York City, Westchester County and the lower Hudson Valley region. In addition, the bank participates in the Neighborhood Housing Services of New York City's Home Ownership Center, which provides home purchase and debt counseling to clients in Brooklyn.

Examiners noted that, in Binghamton, Marine Bank approved a $1.5 million mortgage in 1995 for renovation of a vacant downtown building and creation of a downtown technology center. The bank also participated with local banks in Broome County in issuing a loan to prevent the insolvency of the local Urban League. In addition, examiners noted that Marine Bank approved a mortgage loan to a not-for-profit day care facility in Buffalo, which provides services to approximately 220 children of LMI families. In 1995, Marine Bank approved a revolving line of credit for Rochester Neighborhood Housing Services for residential rehabilitation loans to individuals who cannot qualify under traditional bank credit standards. Examiners also noted that Marine Bank provided funding to an organization that provides affordable housing for LMI persons in the Brighton area of Syracuse.[27]

23. In acting on a proposal to acquire a savings association under section 4(c)(8) of the BHC Act, the Board also reviews the record of the relevant depository institution under the CRA.

24. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process. 54 *Federal Register* 13,742 and 13,745 (1989).

25. The Marine 97 2/1 Option program permits borrowers to finance up to 97 percent of the purchase price of a home. The buyer provides 2 percent of the remaining 3 percent down payment, and 1 percent may be a gift to or separately financed by the buyer. Marine Bank states that it intends to continue all of First Federal's residential mortgage lending programs, including those designed particularly for LMI and minority borrowers such as the Afford-a-Home Program. The Afford-A-Home Program offers flexible underwriting guidelines, such as higher debt-to-income qualifying ratios, waivers of cash reserve requirements, and minimum down payments of 5 percent of which 2 percent may come from a gift or grant.

26. The Marine Examination also found that Marine Bank was an active lender of Federal Housing Administration ("FHA") and Veterans Administration ("VA") loans. Examiners noted that in 1994 and the first quarter of 1995, the bank originated 893 FHA loans totalling more than $55 million and 375 VA loans totalling more than $28 million.

27. Marine Bank states that it will continue First Federal's participation in 19 community development projects throughout the state. Marine Bank also states that it intends to continue the construction and sale of affordable housing by First Federal's community development subsidiary, B.H.D. Properties, Inc. ("BHD"). For example, Marine Bank will continue BHD's participation with the City of Rochester in the development of First Place, a 50-unit affordable housing development in Rochester's Marketview Heights section. BHD, which is building the homes in First Place with local minority-

In addition, Marine Bank participates in a variety of small business lending programs. For example, since 1994 the bank has participated in the New York State Excelsior Linked Deposit Program, an arrangement under which Marine Bank provides low-interest loans to small businesses and, in return, the state deposits a corresponding amount of state government funds in Marine Bank time deposit accounts at a reduced interest rate. Examiners noted that, during the first quarter of 1995, Marine Bank made six loans totalling $3.1 million under this program. Marine Bank also provided capitalization funding to Ibero American Investors Corporation, a minority enterprise small business investment corporation that provides loans and investments to businesses owned by minorities and women. In addition, Marine Bank annually supports the Syracuse Area Small Business Loan Program, a non-profit corporation formed by a consortium of banks in Syracuse that acts as an agent in identifying small business loan applicants for loan requests under $50,000. Marine Bank also committed to make an equity investment in the New York Community Investment Corporation, which provides loans to small businesses that do not qualify for conventional credit. In 1996, Marine Bank provided funding to the Community Commercial Development Partnership, a cooperative loan program in Rochester designed to meet the needs of small businesses.

The Marine Examination found that Marine Bank is an active SBA lender. Examiners noted that, as of April 1995, Marine Bank had a total of 880 SBA-guaranteed loans outstanding totalling $103.5 million. In 1994 and the first three months of 1995, the bank originated 302 combined SBA (7A), SBA Low Doc, and SBA 504 guaranteed loans with a total amount of $54.2 million.[28]

The Board also has carefully reviewed the 1993, 1994, and 1995 HMDA data reported by Marine Midland and First Federal in light of the contentions about the institutions' lending records.[29] The 1995 HMDA data for Marine Bank generally indicate an increase in the number of loan applications from and loans extended to minority borrowers and borrowers who reside in LMI census tracts. In other respects, however, the data show disparities in application and origination rates to loan applicants who are minorities or residents of LMI census tracts compared to applicants who are not minorities or residents of LMI census tracts.

The Board is concerned when the record of an institution indicates such disparities, and it believes that all banks are obligated to ensure that their lending practices are based on criteria that assure not only safe and sound lending, but also assure equal access to credit by creditworthy applicants regardless of race. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending and provide limited information about the covered loans.[30] HMDA data, therefore, have limitations that make the data an inadequate basis, absent other information, for concluding that an institution has engaged in illegal discrimination in lending.

In light of the limitations of HMDA data, the Board has carefully reviewed other information, particularly examination reports that provide an on-site evaluation of compliance by Marine Bank and First Federal with the fair lending laws. Examiners found no evidence of prohibited discrimination or other illegal credit practices at Marine Bank or First Federal, and concluded that both institutions were in compliance with the substantive provisions of the fair lending laws.[31] Examiners also found no evidence of any practices by Marine Bank or First Federal that were intended to discourage applications for the types of credit listed in the institution's CRA statement. Reserve Bank examiners specifically noted that Marine Bank solicits applications from all segments of its communities, including LMI census tracts.

Marine Bank has a number of policies and procedures in place to ensure compliance with fair lending laws and the bank's underwriting guidelines. For example, Marine Bank has implemented a second review process for all denied applications, a loan denial appeal process, centralized credit centers to ensure consistent application of loan underwriting guidelines, and a quality control program. After the bank's 1995 CRA performance examination, it also revised and expanded its fair lending compliance training programs and focussed its CRA training programs on increasing loans to minorities, LMI borrowers, and to borrowers who reside in LMI census tracts.

Ascertainment and Marketing. Since the Marine Examination, Marine Bank has taken a number of steps to strengthen its program to ascertain the credit needs of, and market its products and programs to, all the bank's communities.[32] In January 1995, Marine Bank hired a Community Relations Manager to develop and monitor the bank's ascertainment of community needs. Marine Bank's man-

owned building contractors, will refer home buyer applicants to Marine Bank for the mortgage application process.

28. During 1994 and 1995, Marine Bank ranked as the second largest SBA lender in the state.

29. Two commenters contended that the percentage of loans in the 1995 HMDA data for Broome County where the race of the borrower was designated as "not applicable" is significant and, consequently, that Marine Bank may have violated HMDA reporting requirements by failing to provide the race of the borrower as required by law. The facts of record, including confidential supervisory information relating to Marine Bank's record of compliance with consumer lending laws, do not support these contentions. The Board notes, moreover, that it has sufficient supervisory authority to address any weaknesses in Marine Bank's compliance with HMDA reporting requirements.

30. The data, for example, do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income — reasons most frequently cited by a credit denial — are not available from the HMDA data.

31. Examiners noted isolated technical violations by Marine Bank that were not considered to be inconsistent with the substantive provisions of the fair lending laws, and Marine Bank has initiated steps to address those matters.

32. BCCRAC and NYSRA contended that bank's CRA policies have not shown meaningful improvement since the 1995 examination.

agement monitors the bank's ascertainment program through quarterly meetings of the Senior CRA Committee, which includes the Chief Executive Officer, the Chief Operating Officer, and the Chief Credit Officer of the bank. Since the Marine Examination, the bank has expanded its ascertainment efforts by establishing CRA Advisory Councils,[33] conducting structured community assessment surveys, implementing a more formal officer calling program, and conducting formal and informal focus groups. Marine Bank also has contracted with a marketing firm to conduct a credit needs survey in the South Bronx.

In addition, the bank has expanded its marketing efforts in order to increase loans to minorities, LMI borrowers, and borrowers residing in LMI census tracts.[34] As part of its media plan for mortgage, installment, and small business lending, Marine Bank uses advertisements on radio and in minority print media, including Spanish and Chinese language publications, to increase its lending in LMI and minority communities. Marine Bank also conducts mortgage, consumer loan, and small business seminars.[35]

Branches. Commenters have expressed concern that branch closings resulting from the proposal would adversely effect the community, particularly LMI neighborhoods.[36]

Marine Bank states that it will not have a final branch closing plan until after consummation of the proposal, pending an analysis of each office's facilities, physical characteristics, lease terms, and the needs of the customers in the office's service area. Marine Bank projects, as a general matter, that any branch closings or consolidations that might result from the proposed merger would likely be due to Marine Bank and First Federal having branches in close proximity.

Marine Bank represents that the policies and procedures for branch closings under its Branch Closure Policy Statement and Procedures ("Marine Policy") would be followed for any branch closings, consolidations or relocations resulting from the proposal. Under this policy, before a branch is considered for closure, Marine Bank must consider a variety of factors, including the availability of other financial services in the branch's service area and the banking alternatives to customers affected by the closure. The Marine Policy requires the bank, moreover, to consider actions that would minimize the impact of a branch closing on the affected neighborhood. Marine Bank also is required to give at least 90 days written notice of all branch closings subject to the Joint Agency Policy Statement on Branch Closings ("Joint Policy Statement").[37]

As part of the Marine Examination, examiners reviewed branches closed pursuant to the Marine Policy. Examiners found that Marine had complied with its branch closing policy in closing two branches since its last examination and had provided timely advance notice to the appropriate regulatory agencies, including supporting reasons for the closing, and to the affected customers. Examiners did not note any adverse effects on the communities where branches were closed.

In weighing the convenience and needs factor in this application, the Board has taken into account Marine Bank's branch closing policy and its record of closing branches as reviewed in the CRA performance examination process. Examiners have determined the policy is adequate and have found that it was consistently applied to Marine Bank's branch closings.

To ensure compliance with the Joint Policy Statement and the FDI Act and to permit the Board to monitor Marine Bank's continued efforts to serve the convenience and needs of its community, Marine Bank must provide a copy of its proposed plan for branch closures, consolidations and relocations as soon as available to the Reserve Bank. For branches to be closed in LMI or minority census tracts, Marine Bank's plan that is submitted to the Reserve Bank should indicate how Marine Bank would continue to help meet the convenience and needs of the affected community.

33. Marine Bank has CRA Advisory Councils in Albany, Brooklyn, and Buffalo, and plans to establish similar councils in Rochester, Syracuse, Newburgh, and lower Manhattan.

34. Marine Bank adopted a minority marketing plan that focuses on African-American and Hispanic customers throughout the state and Asian-American customers in New York City. Since 1993, Marine Bank has increased the percentage of its print media spending in minority publications from 3 percent to 11.5 percent. Furthermore, the number of print advertisements in minority publications as a percentage of the bank's total ad insertions, increased from 3 percent in 1993 to 20 percent through the first quarter of 1996.

35. In 1996, Marine Bank conducted or participated in more than 120 workshops and conferences relating to home ownership throughout the state.

36. Three commenters also objected that branch closing and certain other information has been improperly kept confidential by Marine Bank. As noted above, Marine Bank does not expect to have a branch closing plan until after consummation of the proposal and has requested confidential treatment for the preliminary information provided in connection with the proposal. Two commenters asserted that this information should be disclosed under the Board's application processing procedures that generally prohibit *ex parte* communications during the processing of an application. The Board notes that its rules regarding access to information under the Freedom of Information Act ("FOIA") provide the appropriate framework for considering a commenter's challenge to confidential treatment accorded an applicant's submissions. One commenter requested the confidential submissions by Marine Bank concerning its preliminary branch closing information under the FOIA. This commenter's challenges were reviewed under the Board's rules and denied. The Board's rules do not provide commenters with access to information that is otherwise exempt from disclosure under the FOIA. This commenter has been provided with all non-confidential submissions by Marine Bank that respond to particular issues raised by its comments.

37. *See Federal Register* 49,083 (1993) (interpreting section 42 of the FDI Act (12 U.S.C. § 1831r-1)). Under these provisions, all insured depository institutions are required to submit a notice of any proposed branch closing to the appropriate federal banking agency no later than 90 days before the date of closure that contains:

(1) the identity of the branch to be closed and the proposed closing date;

(2) a detailed statement of the reasons for the decision to close the branch; and

(3) statistical or other information supporting closure consistent with the institution's written policy for branch closings. Marine Bank has stated that it will follow its branch closing procedures for branches that will be consolidated or relocated, as well as for those that will be closed.

Marine Bank also must notify the Reserve Bank of any proposed changes to this plan for a period of two years or until the Reserve Bank conducts the next CRA performance examination of Marine Bank after consummation of the proposal, whichever period is shorter. The Board also will review the record of branch closures resulting from the proposal in future applications to expand the operations of Notificant or Marine Bank.

Conclusion on Convenience and Needs Factor. The Board has carefully considered all the facts of record, including comments received from all commenters and responses to those comments and the CRA performance records of Marine Bank and First Federal, including relevant reports of examination from their primary federal supervisors. Based on a review of the entire record, the Board concludes that convenience and needs considerations, including the CRA records of performance of both organizations, are consistent with approval of this proposal.[38]

Other Considerations

In order to approve the proposal under section 4(c)(8) of the BHC Act, the Board also must determine that the proposed activities are a proper incident to banking, that is, that the proposal "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as decreased or unfair competition, conflicts of interests, or unsound banking practices."[39] As noted, the proposal would result in enhancement and expansion of the banking services available in the markets currently served by First Federal. Moreover, for the reasons previously discussed, the financial and managerial resources, future prospects, and CRA performance records of the organizations involved in the proposal are consistent with approval, and the potential effect on competition is minimal. There also is no evidence that the proposal would result in such adverse effects as decreased or unfair competition, conflicts of interests, or unsound banking practices. Based on all the facts of record, the Board concludes that the potential for adverse effects, if any, under the factors required to be considered under section 4(c)(8) of the BHC Act would be outweighed by the public benefits. Accordingly, the Board has determined that the proposal can reasonably be expected to produce public benefits under the proper incident to banking standard of section 4(c)(8) of the BHC Act. The Board also has reviewed the proposal in light of the considerations under the FDI Act[40] and the Federal Reserve Act, and concludes that the facts of record are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice and applications should be, and hereby are, approved.[41] The Board's approval of this proposal is specifically conditioned on compliance by Marine Bank with all the commitments made in connection with this proposal, including the commitments and conditions discussed in this order.[42] The Board's deter-

38. Two commenters asserted that Marine Bank does not offer deposit products, service fees, and interest rates comparable to those offered by First Federal. Marine Bank stated that it offers several no-cost or low-cost account products with low minimum balance requirements, including its "basic checking" account and "Good Deal checking" account products. Marine Bank also offers various combinations of linked deposit, loan and investment services, known as "Marinextra," which reduce overall maintenance and transactional costs based on combined household balances. The Board notes that the CRA requires the federal banking agencies to encourage depository institutions to help meet the credit needs of the community, and does not establish a statutory preference for, nor require the provision of, any specific type of credit or service. In addition, the CRA does not impose any limitation on the fees or surcharges that can be charged for services. The record indicates that Marine Bank offers a full range of banking services in its delineated community, and there is no evidence in the Marine Examination, or in the record of this proposal, that the fees charged by the bank are discriminatory or based on any factor that would be prohibited by law.

39. 12 U.S.C. § 1843(c)(8).

40. Specifically under section 5(d)(3) of the FDI Act, the Board concludes that:

(1) The transaction will not result in the transfer of any federally insured deposit insurance from one federal deposit insurance fund to the other;

(2) Marine Bank currently meets, and on consummation of the proposed transaction will continue to meet, all applicable capital standards; and

(3) The proposed transaction would comply with the interstate banking provision of the BHC Act if First Federal were a state bank that Notificant was applying to acquire directly. 12 U.S.C. § 1815(d)(3).

41. Two commenters requested that the Board hold a public hearing or meeting on the proposal to review Marine Bank's fair lending record. The Board is not required under the Bank Merger Act or the Federal Reserve Act to hold a public hearing or meeting in this case. The Board's rules provide for a hearing on notices under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner. *See* 12 C.F.R. 225.23(f). Commenters have not identified any disputes of material fact relating to the proposal.

Under the Board's rules, the Board also may, in its discretion, hold a public hearing or meeting on an application or notice to clarify factual issues related to the notice and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 262.3(e) and 262.25(d). The Board has carefully considered these requests in light of all the facts of record. In the Board's view, interested parties have had ample opportunity to present written submissions, and they have submitted substantial written comments that have been considered by the Board. Commenters' requests fail to show why a written presentation would not suffice and to summarize what evidence would be presented at a hearing or meeting. 12 C.F.R. 262.3(e). After a careful review of all the facts of record, the Board concludes that commenters' request disputes the weight that should be accorded to, and the conclusions that may be drawn from, the existing facts of record, but do not identify any genuine dispute about facts that are material to the Board's decision. On the basis of all the facts of record, the Board has determined that a public hearing or meeting is not necessary to clarify the factual record in these notices and applications, and is not otherwise warranted in this case. Accordingly, the request for a public hearing or meeting on the proposal is hereby denied.

42. Three commenters have requested that the Board extend the public comment period for the proposal until Marine Bank releases information on its branch closings, including a branch closing plan, that can be reviewed and commented on by these commenters. The

mination also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(g) (12 C.F.R. 225.7 and 225.23(g)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. Approval of the proposal is further subject to Marine Bank obtaining any approvals required under applicable federal or state laws. The commitments and conditions referred to in this order shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

The proposed merger shall not be consummated before the fifteenth day after the effective date of this order, and none of the proposed transactions shall be consummated later than three months after the effective date of this order, unless such period is extended by the Board or by the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 3, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer. Absent and not voting: Governors Lindsey and Yellen.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

APPENDIX A

Branches to be established by Marine Bank in New York City

(1) 217 Broadway*
(2) 4411 Lexington Avenue
(3) One East Fordham Road
(4) 107–60 Queens Boulevard
(5) 8515 Bay Parkway
(6) 1756 Crosby Avenue
(7) 3478 Boston Road
(8) 3825 East Tremont Avenue
(9) 929 McLean Avenue, Yonkers
(10) 4395 White Plains Road
(11) 2030 Flatbush Avenue
(12) 330 Route 211E, Middletown
(13) 1095 Avenue of the Americas
(14) 1580 Westchester Avenue
(15) 6912 18th Avenue
(16) 1271 Avenue of the Americas
(17) 245 First Avenue
(18) 1499 West Avenue
(19) 569 West 235th Street
(20) 63rd Drive & Saunder
(21) 44–04 Kissena Boulevard
(22) 86–26 Broadway
(23) 137–61 Queens Boulevard
(24) 35–48 Junction Boulevard
(25) 2960 Victory Boulevard
(26) 961 Kings Highway
(27) 244 South Main Street

Rochester
(28) One First Federal Plaza
(29) 228 East Main Street
(30) 1940 Monroe Avenue
(31) 525 Titus Avenue
(32) 1998 Empire Boulevard
(33) 3687 Dewey Avenue
(34) 3195 Monroe Avenue
(35) 2108 Chili Avenue
(36) 1100 Jefferson Road
(37) 1552 Ridge Road West
(38) 2362 Lyell Avenue
(39) 1485 Penfield Road
(40) 3228 Chili Avenue
(41) 3177 Latta Road
(42) 2315 East Main Street
(43) 1882 East Avenue

Buffalo
(44) 4574 Main Street
(45) 2016 Genesee Street
(46) 2 Cathedral Park
(47) 1989 Clinton Street
(48) 8200 Transit Road
(49) 366 Kenmore Avenue

Syracuse
(50) 250 South Clinton Street
(51) Grant Blvd. & Teall Avenue

Binghamton
(52) 247 Main Street
(53) 33 West State Street

Kenmore
(54) 1750 Sheridan Drive
(55) 2981 Delaware Avenue

Other locations in New York
(56) 4707 Lake Road, Brockport
(57) 980 Ridge Road East, Webster
(58) 750 West Miller Street, Newark
(59) 2155 Penfield Road, Penfield

Board is required under applicable law and its regulations to act on applications and notices within specified time periods. The Board notes, moreover, that the commenters have had a reasonable opportunity to comment as provided under the Bank Merger Act, and the Board's application processing procedures and have, in fact, submitted substantial comments that have been considered by the Board. Based on all the facts of record, and for the reasons discussed above, the Board concludes that the record is sufficient to act on the proposal at this time, and that delay or denial of the proposal on grounds of informational insufficiency is not warranted.

(60) 149 French Road, Cheektowaga
(61) 8503 Main Street, Williamsville
(62) 825 Fairport Road, East Rochester
(63) 300 North Tioga Street, Ithaca
(64) 107 Oakdale Mall, Johnson City
(65) 18 Lake Street, Oswego
(66) 133 North Main Street, Horseheads
(67) 32 Washington Street, Endicott
(68) One Main Street, Sidney
(70) 124 Delaware Street, Walton
(71) 19 East Central Avenue, Pearl River
(72) 147 Seventh Street, Garden City
(73) 117 East Route 59, Nanuet
(74) 4050 Merrick Road, Seaford
(75) 99 Pondfield Road, Bronxville
(76) Tops Plaza-Michael Road, Orchard Park
(77) 953 Payne Avenue, North Tonawanda
(78) 83 Main Street, Batavia
(79) 46 Main Street, Hamburg
(80) 2435 Grand Island Blvd., Grand Island
(81) 350 Orchard Park Road, West Seneca**

* Relocating to 253 Broadway, New York City.
** Under construction.

APPENDIX B

Banking Markets and Market Data

(1) *Binghamton* (approximated by Broom and Tioga Counties and parts of Chenango County, in New York and Susquehanna County in Pennsylvania). Marine Bank is the fourth largest depository institution in the Binghamton market, controlling $267 million in deposits, representing 11.8 percent of the total deposits in depository institutions in the market ("market deposits"). First Federal is the 11th largest depository institution in the Binghamton market, controlling $47 million in deposits, representing 2.1 percent of the total pre-acquisition market deposits. Following consummation of the merger, Marine Bank would control 15.6 percent of the market deposits, and would become the third largest depository institution in the market. The HHI for the market would increase by 54 points to 1338.
(2) *Buffalo* (approximated by Erie and Niagara Counties and parts of Cattaraugus, Orleans and Wyoming Counties, all in New York). Marine Bank is the second largest depository institution in the Buffalo market, controlling $3.385 billion in deposits, representing 23.1 percent of the total market deposits. First Federal is the eighth largest depository institution in the Buffalo market, controlling $319 million in deposits, representing 2.2 percent of the total pre-acquisition market deposits. Following consummation of the merger, Marine Bank would control 26.9 percent of the market deposits, and would remain the second largest depository institution in the market. The HHI would increase by 117 points to 2221.
(3) *Elmira-Corning* (approximated by Chemung County and parts of Schuyler and Steuben Counties, all in New York). Marine Bank is the second largest depository institution in the Elmira-Corning market, controlling $198 million in deposits, representing 15 percent of the total market deposits. First Federal is the 14th largest depository institution in the Elmira-Corning market, controlling $12 million in deposits, representing 0.9 percent of the total pre-acquisition market deposits. Following consummation of the merger, Marine Bank would control 16.6 percent of the market deposits, and would remain the second largest depository institution in the market. The HHI would increase by 31 points to 1402.
(4) *Ithaca* (approximated by Thompkins County and parts of Cortland and Schuyler Counties, all in New York). Marine Bank is the sixth largest depository institution in the Ithaca market, controlling $40 million in deposits, representing 4.8 percent of the total market deposits. First Federal is the eighth largest depository institution in the Ithaca market, controlling $18 million in deposits, representing 2.1 percent of the total pre-acquisition market deposits. Following consummation of the merger, Marine Bank would control 8.8 percent of the market deposits, and would become the third largest depository institution in the market. The HHI would not increase.
(5) *Metropolitan New York/New Jersey* (approximated by Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmoth, Morris, Ocean, Passaic, Somerset, Sussex, Union and Warren Counties and parts of Mercer County in New Jersey; Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster and Westchester Counties in New York; Pike County, PA; and 24 municipalities in Fairfield and Litchfield Counties in Connecticut). Marine Bank is the 12th largest depository institution in the Metro NY/NJ market, controlling $5.5 billion in deposits, representing 1.6 percent of the total market deposits. First Federal is the 36th largest depository institution in the Metro NY/NJ market, controlling $1 billion in deposits, representing 0.3 percent of the total pre-acquisition market deposits. Following consummation of the merger, Marine Bank would control 2.3 percent of the market deposits, and would become the eighth largest depository institution in the market. The HHI would not increase.
(6) *Rochester* (approximated by Genesee, Livingston, Monroe, Ontario, Seneca, Wayne, and Yates Counties and parts of Allegany, Orleans, Steuben, and Wyoming Counties, all in New York). Marine Bank is the second largest depository institution in the Rochester market, controlling $1.5 billion in deposits, representing 13.3 percent of the total market deposits. First Federal is the eighth largest depository institution in the Rochester market, controlling $580 million in deposits, representing 5.1 percent of the total pre-acquisition market deposits. Following consummation of the merger, Marine Bank would control 22.4 percent of the market deposits, and would become the largest depository institution in the market. The HHI would increase 231 points to 1156.
(7) *Syracuse* (approximated by Cayuga, Onondaga, and Oswego Counties and parts of Cortland and Madison Counties, all in New York). Marine Bank is the fourth

largest depository institution in the Syracuse market, controlling $830 million in deposits, representing 11.6 percent of the total market deposits. First Federal is the 20th largest depository institution in the Syracuse market, controlling $36 million in deposits, representing 0.5 percent of the total pre- acquisition market deposits. Following consummation of the merger, Marine Bank would control 12.6 percent of the market deposits, and would become the third largest depository institution in the market. The HHI would increase by 8 points to 1581.

The Toronto-Dominion Bank
Toronto, Canada

Waterhouse Investor Services, Inc.
New York, New York

Order Approving Notices to Engage in Certain Data Processing Activities

The Toronto-Dominion Bank, Toronto, Canada ("TDB"), and its wholly owned subsidiary, Waterhouse Investor Services, Inc., New York, New York ("Waterhouse"), bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a) of the Board's Regulation Y (12 C.F.R. 225.23(a)) to acquire 50 percent of the voting shares of Marketware International, Inc., Holmdel, New Jersey ("Company"), and thereby engage in certain data processing activities pursuant to section 225.25(b)(7) of Regulation Y (12 C.F.R. 225.25(b)(7)).[1] Company proposes to develop and sell computer software that would allow brokerage customers to purchase and sell securities over the Internet by means of personal computers.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (62 *Federal Register* 1118 and 3900 (1997)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

TDB, with total consolidated assets of $93.5 billion, is the fifth largest commercial bank in Canada.[2] In the United States, TDB operates a branch in New York, New York; an agency in Houston, Texas; representative offices in New York, New York, and Chicago, Illinois; and, through Waterhouse, a bank in White Plains, New York. TDB engages through its subsidiaries in a broad range of permissible nonbanking activities in the United States, including underwriting and dealing in debt and equity securities to a limited extent. TDB also engages through Waterhouse's subsidiary, Waterhouse Securities, Inc., New York, New York ("WSI"), in providing discount brokerage services pursuant to section 225.25(b)(15) of Regulation Y (12 C.F.R. 225.25(b)(15)).

Company proposes to develop, market, and sell computer software to WSI and other broker/dealers and financial institutions[3] that would permit customers of those entities to purchase and sell securities over the Internet using personal computers.[4] Company's software would be maintained on a host computer operated by a broker or the broker's service provider and would be available for use by customers after accessing the Internet through an unaffiliated Internet service provider. The software would enable customers to initiate transactions and to obtain information concerning their securities brokerage accounts. Company also would provide software maintenance and product support.[5]

The proposed activities appear to be the type of data processing and transmission activities that are permissible for bank holding companies under section 4(c)(8) of the BHC Act and section 225.25(b)(7) of Regulation Y. The Board previously has determined by regulation that providing data processing and data transmission services, facilities (including hardware and software), data bases or access to such operations by any technological means is closely related to banking and, therefore, permissible for bank holding companies under section 4(c)(8) of the BHC Act if the data involved in the proposed activity are financial, banking, or economic in nature.[6] The Board also has approved the development and sale by bank holding companies of software designed to permit customers to conduct basic banking transactions and personal financial management on their personal computers,[7] and software designed to process and transmit financial, banking or economic data from the customer to a financial institution over the Internet.[8] Based on the foregoing and all other facts of record, the Board has concluded that the activities proposed by Company are closely related to banking within the mean-

1. The remaining 50 percent of Company would be owned by two individuals, each controlling 25 percent.

2. Asset data are as of October 31, 1996, and are based on the exchange rate between Canadian and U.S. dollars applicable on that date.

3. For purposes of this order, "financial institution" means a bank, bank holding company, thrift institution, thrift holding company, and subsidiaries of these companies.

4. Company's software systems would perform two functions:
(a) permit retail customers to have computer access to their securities brokerage accounts, and
(b) allow broker/dealers and financial institutions to integrate customer-generated electronic brokerage transactions with their back-office operations.

5. TDB indicates that software maintenance and product support encompass:
(1) Enhancements to the computer software and other routine modifications related to application problems identified by Company's broker/dealer and financial institution client base; and
(2) Support provided to Company's client base to resolve problems encountered in software development and implementation.

6. *See* 12 C.F.R. 225.25(b)(7).

7. *The Royal Bank of Canada*, 82 *Federal Reserve Bulletin* 363 (1996).

8. *See Cardinal Bancshares, Inc.*, 82 *Federal Reserve Bulletin* 674 (1996) ("*Cardinal Order*"). *See also Citicorp*, 72 *Federal Reserve Bulletin* 497 (1986) (stating that processing services involving on- line transactions and quotation data for financial instruments such as stocks, bonds and mutual funds are closely related to banking).

ing of the BHC Act and constitute permissible data processing and transmission services under Regulation Y.[9]

In order to approve the proposal, the Board also must determine that the proposed activities are a proper incident to banking; that is, that the proposal "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[10] As part of its review of these factors, the Board has considered the financial and managerial resources of TDB, Waterhouse, and Company, and the effect the proposal would have on such resources.[11] Based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the proposal.

The Board expects that the proposed activities would result in benefits to consumers, broker/dealers, and financial institutions. Company's software would enable securities brokerage customers to initiate transactions and communicate with their brokers using personal computers during business and non-business hours. The software would provide broker/dealers and financial institutions with additional means of making their securities brokerage services available to the public and, thereby, could produce additional sources of transaction volume and resulting fee income. Company's entry into this market also would increase the level of competition among existing providers of these software products. In addition, there is no evidence in the record that consummation of the proposal would produce any significant adverse effects, such as decreased or unfair competition, undue concentration of resources, or conflicts of interests.

The Board previously has considered the risks presented when banking services are made available over the Internet and noted that the nature of these risks is not different from those associated with more traditional banking operations.[12] The purchase and sale of securities over the Internet presents similar risks, and Company's proposed software uses various security measures, including cryptography and a user identification system, to attempt to maintain the privacy of transactions and to protect the underlying data.[13]

9. *See* 12 C.F.R. 225.25(b)(7). TDB and Waterhouse have committed that Company will provide the proposed services in accordance with the limitations established in Regulation Y.

10. 12 U.S.C. § 1843(c)(8).

11. *See* 12 C.F.R. 225.24. *See also The Fuji Bank, Limited*, 75 *Federal Reserve Bulletin* 94 (1989); and *Bayerische Vereinsbank, AG*, 73 *Federal Reserve Bulletin* 155 (1987).

12. *See Cardinal Order*, 82 *Federal Reserve Bulletin* at 676.

13. In the *Cardinal Order*, the Board recommended that banking organizations considering whether to provide services over the Internet analyze carefully the associated risks, and evaluate carefully whether those risks were consistent with their policies relating to the security of customer information and other data. Similarly, the Board expects organizations considering whether to use Company's software to conduct a careful analysis of the risks presented in order to mitigate the possibility that such activities would result in unsound banking or financial practices.

Based on all the facts of record, the Board has determined that the balance of the public interest factors it is required to consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable, and consistent with approval of the proposal.

Based on the foregoing and all the facts of record, the Board has determined that the proposal should be, and hereby is, approved. Approval of the proposal is specifically conditioned on compliance by TDB, Waterhouse, and Company with all the commitments made in connection with the proposal and with the conditions referred to in this order. The Board's determination also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.23(g) of Regulation Y (12 C.F.R. 225.7 and 225.23(g)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, these commitments and conditions shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors, effective February 18, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

ORDERS ISSUED UNDER INTERNATIONAL BANKING ACT

Land Bank of Taiwan
Taipei, Taiwan

Order Approving Establishment of a Branch

Land Bank of Taiwan ("Bank"), Taipei, Taiwan, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a state-licensed branch in Los Angeles, California. The Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in Los Angeles, California (*Los Angeles Times*, July 4, 1995). The time for filing comments has expired, and all comments have been considered.

Bank, with assets equivalent to approximately $41.0 billion, is the third largest bank in Taiwan.[1] Bank is wholly owned by Taiwan through its agent, the Ministry of Finance ("Ministry").

Bank operates 82 branches throughout Taiwan. In addition, Bank operates eight domestic representative offices and an offshore banking unit in Taiwan. Bank has no subsidiaries.

Bank's primary purpose for establishing the proposed branch is to provide banking services to existing clients operating in Los Angeles, California, and to facilitate international trade between the United States and Asia. Bank does not engage directly or indirectly in any nonbanking activities in the United States, and, after establishing the proposed branch, would be a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

Bank has received approval to establish the proposed branch from the Taiwan authorities. The California State Banking Department also has approved Bank's application to establish the proposed branch.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States, and has furnished to the Board the information it needs to assess the application adequately. The Board must also determine that the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24)). The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised and regulated in such a manner that its home country supervisor receives sufficient information on the foreign bank's worldwide operations, including the relationship of the foreign bank to any affiliate, to assess the overall financial condition of the foreign bank and its compliance with law and regulation (12 C.F.R. 211.24(c)(1)).[2]

With respect to the issue of supervision by home country authorities, the Board has considered the following information. Bank is supervised and regulated by the Ministry and the Taiwan Central Bank ("Central Bank"), which share responsibility for the supervision of banks in Taiwan. The Banking Law of Taiwan grants the Ministry overall authority for the regulation and supervision of banks in Taiwan, including Bank.[3] The Ministry has delegated the authority to the Central Bank to act as the primary examiner of banks in Taiwan, in which capacity the Central Bank conducts mandatory annual examinations.

The Board previously has determined, in connection with applications involving other banks in Taiwan, that these banks were subject to home country supervision on a consolidated basis.[4] Bank is supervised by the Ministry and the Central Bank on substantially the same terms and conditions as such other banks. Based on all the facts of record, the Board has determined that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisors.

The Board has also taken into account the additional standards set forth in section 7 of the IBA (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). As noted above, Bank has received the consent of its home country authorities to establish the proposed state-licensed branch.

Bank must comply with the minimum capital standards of the Basle Accord, as implemented by Taiwan. Bank's capital exceeds these minimum standards and can be considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. Bank has established controls and procedures for the proposed branch in order to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

1. All data are as of September 30, 1996, unless otherwise noted.

2. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors:

(i) Ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide;

(ii) Obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;

(iii) Obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;

(iv) Receive from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;

(v) Evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

These are indicia of comprehensive, consolidated supervision. No single factor is essential and other elements may inform the Board's determination.

3. This authority permits the Ministry, among other things, to issue licenses, limit activities and expansion, conduct examinations, set minimum capital and liquidity ratios, limit credit extensions, restrict director interlocks, define qualifications for management, and take enforcement actions.

4. *See Taipei Bank*, 79 *Federal Reserve Bulletin* 143 (1993); *United World Chinese Commercial Bank*, 79 *Federal Reserve Bulletin* 146 (1993); *Bank of Taiwan*, 79 *Federal Reserve Bulletin* 541 (1993); *Chiao Tung Bank*, 79 *Federal Reserve Bulletin* 543 (1993); *The Farmers Bank of China*, 81 *Federal Reserve Bulletin* 620 (1995); *Taiwan Business Bank*, 81 *Federal Reserve Bulletin* 746 (1995).

The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant authorities about access to information. Bank has committed that it will make available to the Board such information on the operations of Bank and any affiliate of Bank that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable federal law. To the extent that the provision of such information is prohibited or impeded by law, Bank has committed to cooperate with the Board to obtain any consents or waivers that might be required from third parties in connection with disclosure of such information. In addition, subject to certain conditions, the Ministry and the Central Bank may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank, and the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a state-licensed branch should be, and hereby is, approved. If any restrictions on access to information on the operations or activities of Bank and any affiliates subsequently interfere with the Board's ability to determine the safety and soundness of Bank's U.S. operations or the compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of the application also is specifically conditioned on compliance by Bank with the commitments made in connection with this application, and with the conditions in this order.[5] The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision, and may be enforced in proceedings under 12 U.S.C. § 1818 or 12 U.S.C. § 1847 against Bank, its offices, and its affiliates.

By order of the Board of Governors, effective February 24, 1997.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Phillips, and Meyer.

JENNIFER J. JOHNSON
Deputy Secretary of the Board

5. The Board's authority to approve the establishment of the proposed office parallels the continuing authority of the State of California to license offices of a foreign bank. The Board's approval of the application does not supplant the authority of the State of California and the California State Banking Department ("Department") to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

INDEX OF ORDERS ISSUED OR ACTIONS TAKEN BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (OCTOBER 1, 1996- 31, 1996)

Applicant	Merged or Acquired Bank or Activity	Date of Approval	*Bulletin* Volume and Page
Banca di Roma S.p.A., Rome, Italy	To establish branches in New York, New York, and Chicago, Illinois, and agencies in San Francisco, California, and Houston, Texas	October 9, 1996	82, 1144
BancSecurity Corporation, Marshalltown, Iowa	Marshalltown Financial Corporation, Marshalltown, Iowa Marshalltown Savings Bank, FSB, Marshalltown, Iowa	December 9, 1996	83, 122
Bank of Boston Corporation, Boston, Massachusetts	BancBoston Securities, Inc., Boston, Massachusetts	November 12, 1996	83, 42
Bank of Montreal, Montreal, Quebec, Canada The Bank of Nova Scotia, Toronto, Ontario, Canada Canadian Imperial Bank of Commerce, Toronto, Ontario, Canada	Multinet International Bank, New York, New York	December 4, 1996	83, 127

Index of Orders Issued or Actions Taken—Continued

Applicant	Merged or Acquired Bank or Activity	Date of Approval	*Bulletin* Volume and Page
The Chase Manhattan Corporation, New York, New York First Chicago NBD Corporation, Chicago, Illinois National Bank of Canada, Montreal, Quebec, Canada Royal Bank of Canada, Montreal, Quebec, Canada The Toronto Dominion Bank, Toronto, Ontario, Canada Barnett Banks, Inc., Jacksonville, Florida Crestar Financial Corporation, Richmond, Virginia First Union Corporation, Charlotte, North Carolina NationsBank Corporation, Charlotte, North Carolina Southern National Corporation, Winston-Salem, North Carolina Wachovia Corporation, Winston-Salem, North Carolina	Southeast Switch, Inc., Maitland, Florida Internet, Inc., Reston, Virginia Alabama Network, Inc., Birmingham, Alabama	December 9, 1996	83, 131
The Chase Manhattan Bank, New York, New York	Chemical Bank New Jersey, N.A., Morristown, New Jersey	October 28, 1996	82, 1139
Community First Bankshares, Inc., Fargo, North Dakota	Mountain Parks Financial Corp., Denver, Colorado Mountain Parks Bank, Denver, Colorado	December 2, 1996	83, 110
Country Bank Shares Corporation, Mount Horeb, Wisconsin	Belleville Bancshares Corporation, Belleville, Wisconsin Belleville State Bank, Belleville, Wisconsin	December 9, 1996	83, 112
First Commercial Corporation, Little Rock, Arkansas Arvest Bank Group, Inc., Bentonville, Arkansas	The Oklahoma National Bank of Duncan, Duncan, Oklahoma TRH Bank Group, Inc., Norman, Oklahoma TRH Oklahoma, Inc., Norman, Oklahoma	November 6, 1996	83, 41
First State Bancshares of Blakely, Inc., Blakely, Georgia	First Southwest Bancorp, Inc., Donalsonville, Georgia First Federal Savings Bank of Southwest Georgia, Donalsonville, Georgia	November 6, 1996	83, 46

Index of Orders Issued or Actions Taken—Continued

Applicant	Merged or Acquired Bank or Activity	Date of Approval	*Bulletin* Volume and Page
First Union Corporation, Charlotte, North Carolina	Home Financial Corporation, Hollywood, Florida Home Savings Bank, FSB, Hollywood, Florida	October 15, 1996	82, 1123
GB Bancorporation, San Diego, California	Pacific Commerce Bank, Chula Vista, California	December 18, 1996	83, 115
GB Bancorporation, San Diego, California	Rancho Vista National Bank, Vista, California	December 18, 1996	83, 117
The Governor and Company of the Bank of Ireland, Dublin, Ireland	BBOI Worldwide LLC, Denver, Colorado Bank of Ireland Asset Management (U.S.) Limited, Dublin, Ireland Berger Associates, Inc., Denver, Colorado	October 21, 1996	82, 1129
Hongkong Bank of Canada, Vancouver, British Columbia, Canada	Hongkong Shanghai Banking Corporation, Limited, Hong Kong, and to establish state-licensed branches in Portland, Oregon, and Seattle, Washington	November 27, 1996	83, 51
Ida Grove Bancshares, Inc., Ida Grove, Iowa American Bancshares, Inc., Holstein, Iowa	Pierson Bancorporation, Pierson, Iowa Farmers Savings Bank, Pierson, Iowa	December 20, 1996	83, 119
Istituto Bancario San Paolo di Torino, S.p.A., Turin, Italy	To establish a federally-licensed branch in New York, New York	October 15, 1997	82, 1147
JDOB Inc., Sandstone, Minnesota	Centennial National Bank, Walker, Minnesota	December 20, 1996	83, 121
Nacogdoches Commercial Bancshares, Inc., Nacogdoches, Texas	Security National Bank, Nacogdoches, Texas	October 9, 1996	82, 1121
NationsBank Corporation, Charlotte, North Carolina NB Holdings Corporation, Charlotte, North Carolina	Boatmen's Bancshares, Inc., St. Louis, Missouri	December 16, 1996	83, 148
River Valley Bancorp, Madison, Indiana	Citizens National Bank of Madison, Madison, Indiana	October 28, 1996	82, 1136
Royal Bank of Canada, Montreal, Quebec, Canada Norwest Corporation, Minneapolis, Minnesota Stichting Prioriteit ABN AMRO Holding, Amsterdam, The Netherlands Stichting Administratiekantoor Amsterdam, The Netherlands ABN AMRO Holding, Amsterdam, The Netherlands ABN AMRO Holding N.V., Amsterdam, The Netherlands	Integrion Financial Network, LLC, White Plains, New York	December 2, 1996	83, 135

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Applicant	Merged or Acquired Bank or Activity	Date of Approval	*Bulletin* Volume and Page
ABN AMRO Bank N.V., Amsterdam, The Netherlands ABN AMRO North America, Inc., Chicago, Illinois South Central Texas Bancshares, Inc., Flatonia, Texas	Fayette Savings Association, La Grange, Texas	November 18, 1996	83, 47
Stichting Prioriteit ABN AMRO Holding, Amsterdam, The Netherlands Stichting Administratiekantoor ABN AMRO Holding, Amsterdam, The Netherlands ABN AMRO Holding N.V., Amsterdam, The Netherlands ABN AMRO Bank N.V., Amsterdam, The Netherlands	ChiCorp Inc., Chicago, Illinois	December 11, 1996	83, 138
The Sumitomo Bank, Limited, Osaka, Japan	To establish a state-licensed branch in New York, New York	November 6, 1996	83, 54
Unibanco - Uniao de Bancos Brasileiros, S.A., Sao Paulo, Brazil	To establish a representative office in Miami, Florida	October 9, 1996	82, 1148
Unidanmark A/S, Copenhagen, Denmark Unibank A/S, Copenhagen, Denmark	Aros Securities Inc., New York, New York	December 16, 1996	83, 146

Applications Approved Under Bank Holding Company Act
By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 3

Applicant(s)	Bank(s)	Effective Date
Community Capital Corporation, Greenwood, South Carolina	The Bank of Belton, Belton, South Carolina Bank of Barnwell County, Barnwell, South Carolina	February 12, 1997
FirstBank Holding Company of Colorado, Lakewood, Colorado	FirstBank of Evergreen, Evergreen, Colorado	February 27, 1997

Section 4

The Bank of New York Company, Inc., New York, New York BNY Western Trust Company, New York, New York	Well Fargo Bank, N.A., San Francisco, California	February 6, 1997

By Federal Reserve Banks

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies are available upon request to the Reserve Banks.

Section 3

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
The Bancshares, Inc., Jennings, Louisiana	The Bank, Jennings, Louisiana	Atlanta	January 30, 1997
Bank of Whitman Employee Stock Ownership Plan, Colfax, Washington	Whitman Bancorporation, Inc., Colfax, Washington	San Francisco	January 24, 1997
BankWest Financial, Inc., Kalispell, Montana	BankWest, N.A., Kalispell, Montana	Minneapolis	January 24, 1997
BOK Financial Corporation, Tulsa, Oklahoma	First TexCorp, Inc., Dallas, Texas	Kansas City	February 14, 1997
Brickyard Bancorp, Inc., Northbrook, Illinois	Sysco Financial, Inc., Lincolnwood, Illinois Brickyard Bank, Lincolnwood, Illinois	Chicago	February 20, 1997
BSM Bancorp, Santa Maria, California	Bank of Santa Maria, Santa Maria, California	San Francisco	January 29, 1997
Buckeye Bancshares, Inc., Dover, Delaware	First Community Bank, N.A., Alice, Texas	Dallas	January 28, 1997
CBC Holding Company, Fitzgerald, Georgia	Community Banking Company of Fitzgerald, Fitzgerald, Georgia	Atlanta	February 5, 1997
Coastal Bend Bancshares, Inc., Alice, Texas	Buckeye Bancshares, Inc., Dover, Delaware First Community Bank, N.A., Alice, Texas	Dallas	January 28, 1997
The Colonial BancGroup, Inc., Montgomery, Alabama	Shamrock Holding, Inc., Evergreen, Alabama The Union Bank, Evergreen, Alabama	Atlanta	February 18, 1997
County Bancorp, Inc., Manitowoc, Wisconsin	Investors Community Bank, Manitowoc, Wisconsin	Chicago	February 14, 1997
Damen Financial Corporation, Schaumburg, Illinois	Damen National Bank, Schaumburg, Illinois	Chicago	February 12, 1997
First Commercial Corporation, Little Rock, Arkansas	W.B.T. Holding Company, Memphis, Tennessee United American Bank, Memphis, Tennessee	St. Louis	January 22, 1997
FJSB Bancshares, Inc., Fort Jennings, Ohio	The Fort Jennings State Bank, Fort Jennings, Ohio	Cleveland	January 24, 1997
Fulton Financial Corporation, Lancaster, Pennsylvania	The Woodstown National Bank & Trust Company, Woodstown, New Jersey	Philadelphia	January 27, 1997
Heartland Financial USA, Inc., Dubuque, Iowa	Cottage Grove State Bank, Cottage Grove, Wisconsin	Chicago	January 27, 1997
Intra Financial Corp., Clyde, Kansas	Farmers State Bancshares of Sabetha, Inc., Sabetha, Kansas	Kansas City	February 19, 1997
Iron Horse Bancshares, Inc., Mazomanie, Wisconsin	The Peoples State Bank, Mazomanie, Wisconsin	Chicago	February 4, 1997

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Laguna Bancshares, Inc., Big Lake, Texas	Laguna Bancshares of Delaware, Inc., Dover, Delaware Big Lake Bank, N.A., Big Lake, Texas	Dallas	February 11, 1997
Laguna Bancshares of Delaware, Inc., Dover, Delaware	Big Lake Bank, N.A., Big Lake, Texas	Dallas	February 11, 1997
Laguna Madre Bancshares, Inc., South Padre Island, Texas	Laguna Madre Delaware Bancshares, Inc., Dover, Delaware First National Bank of South Padre Island, South Padre Island, Texas	Dallas	February 7, 1997
Laguna Madre Delaware Bancshares, Inc., Dover, Delaware	First National Bank of South Padre Island, South Padre Island, Texas	Dallas	February 7, 1997
Michigan Heritage Bancorp, Inc., Novi, Michigan	Michigan Heritage Bank, Novi, Michigan	Chicago	January 29, 1997
Mid-Missouri Bancshares, Inc., Nevada, Missouri	Continental Security Bancshares, Inc., Springfield, Missouri Continental Security Bank, Deepwater, Missouri	St. Louis	February 3, 1997
NCF Financial Corporation, Bardstown, Kentucky	Nelson County Federal Savings Bank, Bardstown, Kentucky	St. Louis	February 19, 1997
Old Kent Financial Corporation, Grand Rapids, Michigan	Old Kent Bank, National Association, Jonesville, Michigan	Chicago	January 30, 1997
Park National Corporation, Newark, Ohio	First-Knox Banc Corp., Mount Vernon, Ohio The First-Knox National Bank of Mount Vernon, Mount Vernon, Ohio The Farmers and Savings Bank, Loudonville, Ohio	Cleveland	February 14, 1997
Platte Valley Financial Services Companies, Inc., Scottsbluff, Nebraska	Platte Valley National Banc, Inc., Scottsbluff, Nebraska Platte Valley National Bank, Scottsbluff, Nebraska First Morrill Co., Morrill, Nebraska Platte Valley National Bank, Morrill, Nebraska	Kansas City	February 11, 1997
RBC, Inc., Demopolis, Alabama	Robertson Banking Company, Demopolis, Alabama	Atlanta	January 29, 1997
River Cities Bancshares, Inc., Wisconsin Rapids, Wisconsin	River Cities Bank, Wisconsin Rapids, Wisconsin	Chicago	January 28, 1997
Security National Corporation, Sioux City, Iowa	Security National Bank of South Dakota, Dakota Dunes, South Dakota	Chicago	January 28, 1997
River Falls Bancshares, Inc., River Falls, Wisconsin	River Falls State Bank, River Falls, Wisconsin	Minneapolis	February 19, 1997

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Summit Financial Corporation, Greenville, South Carolina	CityView Finance Co., Inc., Columbia, South Carolina Williamsburg Finance Co., Kingstree, South Carolina	Richmond	January 29, 1997
TRP Acquisition Corporation, Burr Ridge, Illinois	Trans Pacific Bancorp, San Francisco, California Trans Pacific National Bank, San Francisco, California	San Francisco	February 13, 1997
Union Planters Community Bancorp, Inc., Memphis, Tennessee	SBT Bancshares, Inc., Selmer, Tennessee	St. Louis	January 28, 1997
Union Planters Corporation, Memphis, Tennessee	SBT Bancshares, Inc., Selmer, Tennessee Selmer Bank and Trust Company, Selmer, Tennessee	St. Louis	January 28, 1997
Vernon Bancshares, Inc., Dover, Delaware	The Waggoner National Bank of Vernon, Vernon, Texas	Dallas	February 3, 1997
Waggoner National Bancshares, Inc., Vernon, Texas	Vernon Bancshares, Inc., Dover, Delaware The Waggoner National Bank of Vernon, Vernon, Texas	Dallas	February 3, 1997
Waterfield Bank Corp., Indianapolis, Indiana	First National Bank of Mitchell, Mitchell, Indiana	St. Louis	February 11, 1997

Section 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Arkansas National Bancshares, Inc., Bentonville, Arkansas	NATNET LLC, Bentonville, Arkansas	St. Louis	January 17, 1997
Bank of Montreal, Toronto, Ontario, Canada	Cebra, Inc., Toronto, Ontario, Canada	Chicago	January 24, 1997
Community First Bankshares, Inc., Fargo, North Dakota	Lakefield Agency, Lakefield, Minnesota	Minneapolis	February 18, 1997
Deutsche Bank AG, Frankfurt, Germany	German American Capital Corporation, New York, New York Transatlantic Capital Company, L.L.C, New York, New York	New York	February 7, 1997
National City Bancshares, Inc., Evansville, Indiana	First Federal Savings Bank of Leitchfield, Leitchfield, Kentucky	St. Louis	January 27, 1997
NationsBank Corporation, Charlotte, North Carolina	First Federal Savings Bank of Brunswick, Georgia, Brunswick, Georgia	Richmond	February 19, 1997
Norwest Corporation, Minneapolis, Minnesota Norwest Financial Services, Inc., Des Moines, Iowa	Reliable Financial Services, Inc., San Juan, Puerto Rico	Minneapolis	February 11, 1997

Section 4—Continued

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Norwest Corporation, Minneapolis, Minnesota Norwest Financial Services, Inc., Des Moines, Iowa	The United Group, Inc., Charlotte, North Carolina	Minneapolis	January 31, 1997
Norwest Corporation, Minneapolis, Minnesota	Statewide Mortgage Company, Birmingham, Alabama	Minneapolis	January 30, 1997
Synovus Financial Corp., Columbus, Georgia TB&C Bancshares, Inc., Columbus, Georgia Total System Services, Inc., Columbus, Georgia Vital Processing Services, L.L.C., Columbus, Georgia	Golden Retriever Systems, L.L.C., Chandler, Arizona	Atlanta	February 11, 1997

Sections 3 and 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
BostonFed Bancorp, Inc., Burlington, Massachusetts	Broadway Capital Corp., Chelsea, Massachusetts Boston Federal Savings Bank, Burlington, Massachusetts	Boston	January 23, 1997

APPLICATIONS APPROVED UNDER BANK MERGER ACT

By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Applicant(s)	Bank(s)	Effective Date
Manufacturers and Traders Trust Company, Buffalo, New York	The East New York Savings Bank, Brooklyn, New York	February 28, 1997

By Federal Reserve Banks

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies are available upon request to the Reserve Banks.

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Adams Bank and Trust, Ogallala, Nebraska	First State Bank, Lodgepole, Nebraska	Kansas City	February 19, 1997
Bank of the West, El Paso, Texas	NationsBank of Texas, N.A., Dallas, Texas	Dallas	February 3, 1997

Federal Reserve Banks—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Crestar Bank, Vienna, Virginia	Citizens Bank of Maryland, Laurel, Maryland Citizens Bank of Washington, National Association, Washington, D.C.	Richmond	January 29, 1997
Humboldt Bank, Eureka, California	California Federal Bank, F.S.B., San Francisco, California	San Francisco	February 12, 1997
La Salle State Bank, La Salle, Illinois	Community Bank of Utica, Utica, Illinois	Chicago	February 13, 1997
Tri-City Bank & Trust Company, Blountville, Tennessee	Greene County Bank, Greeneville, Tennessee	Atlanta	February 20, 1997

PENDING CASES INVOLVING THE BOARD OF GOVERNORS

This list of pending cases does not include suits against the Federal Reserve Banks in which the Board of Governors is not named a party.

The New Mexico Alliance v. Board of Governors, No. 96–9552 (10th Cir., filed December 24, 1996). Petition for review of a Board order dated December 16, 1996, approving the acquisition by NationsBank Corporation and NB Holdings Corporation, both of Charlotte, North Carolina, of Boatmen's Bancshares, Inc., St. Louis, Missouri. Also on December 24, 1996, petitioners moved for an emergency stay of the Board's order. The motion for a stay was denied by the 10th Circuit on January 3, 1997; on January 6, 1997, petitioners' application for emergency stay was denied by the Supreme Court.

Artis v. Greenspan, No. 1:96CV02619 (D.D.C., filed November 19, 1996). Employment discrimination action. On December 20, 1996, the Board moved to dismiss the action.

First Baird Bancshares, Inc. v. Board of Governors, No. 96–1426 (D.C. Cir., filed November 18, 1996). Petition for review of Board order dated November 6, 1996, approving applications of First Commercial Corporation, Little Rock, Arkansas, Arvest Bank Group, Inc., Bentonville, Arkansas, and TRH Bank Group, Inc., Norman, Oklahoma, to acquire all the shares of The Oklahoma National Bank of Duncan, Duncan, Oklahoma. On November 20, 1996, the Court denied petitioners' motion for a stay. On January 3, 1997, the parties filed a joint motion to dismiss.

Snyder v. Board of Governors, No. 96–1403 (D.C. Cir., filed October 23, 1996). Petition for review of Board order dated September 11, 1996, prohibiting John K. Snyder and Donald E. Hedrick from further participation in the banking industry. On November 21, 1996, the Board moved to dismiss the petition.

American Bankers Insurance Group, Inc. v. Board of Governors, No. 96-CV-2383-EGS (D.D.C., filed October 16, 1996). Action seeking declaratory and injunctive relief invalidating a new regulation issued by the Board under the Truth in Lending Act relating to treatment of fees for debt cancellation agreements. On October 18, 1996, the district court denied plaintiffs' motion for a temporary restraining order. On January 17, 1997, the parties filed cross-motions for summary judgment.

Clifford v. Board of Governors, No. 96–1342 (D.C. Cir., filed September 17, 1996). Petition for review of Board order dated August 21, 1996, denying petitioners' motion to dismiss enforcement action against them. On November 4, 1996, the Board filed a motion to dismiss the petition.

Artis v. Greenspan, No. 96-CV-02105 (D. D.C., filed September 11, 1996). Class complaint alleging race discrimination in employment. On December 20, 1996, the Board moved to dismiss the action.

Leuthe v. Board of Governors, No. 96–5725 (E.D. Pa., filed August 16, 1996). Action against the Board and other Federal banking agencies challenging the constitutionality of the Office of Financial Institution Adjudication. On January 24, 1997, the agencies filed a motion to dismiss the action.

Long v. Board of Governors, No. 96–9526 (10th Cir., filed July 31, 1996). Petition for review of Board order dated July 2, 1996, assessing a civil money penalty and cease and desist order for violations of the Bank Holding Company Act. The Board's brief in opposition to the petition was filed November 27, 1996.

Interamericas Investments, Ltd. v. Board of Governors, No. 96–60326 (5th Cir., filed May 8, 1996). Petition for review of order imposing civil money penalties and cease and desist order in enforcement case. Petitioners' brief was filed on July 26, 1996, and the Board's brief was filed on September 27, 1996. On August 20, petitioners' motion for a stay of the Board's orders pending judicial review was denied by the Court of Appeals. Oral argument was held on February 4, 1997.

Kuntz v. Board of Governors, No. 96–1079 (D.C. Cir., filed March 7, 1996). Petition for review of a Board order dated February 7, 1996, approving applications by The Fifth Third Bank, Cincinnati, Ohio, and The Fifth Third Bank of Columbus, Columbus, Ohio, to acquire certain assets and assume certain liabilities of 25 branches of NBD Bank, Columbus, Ohio. On February 13, 1997, the court granted the Board's motion to dismiss the action.

Research Triangle Institute v. Board of Governors, No. 1:96CV00102 (M.D.N.C., filed February 12, 1996). Contract dispute. On February 14, 1997, the court granted the Board's motion to dismiss the action. On February 24, 1997, the plaintiff filed a notice of appeal of the district court's decision.

Inner City Press/Community on the Move v. Board of Governors, No. 96-4008 (2nd Cir., filed January 19, 1996). Petition for review of a Board order dated January 5, 1996, approving the applications and notices by Chemical Banking Corporation to merge with The Chase Manhattan Corporation, both of New York, New York, and by Chemical Bank to merge with The Chase Manhattan Bank, N.A., both of New York, New York. Petitioners' motion for an emergency stay of the transaction was denied following oral argument on March 26, 1996. The Board's brief on the merits was filed July 8, 1996. The case has been consolidated for oral argument and decision with *Lee v. Board of Governors,* No. 95–4134 (2d Cir.); oral argument was held on January 13, 1997.

Kuntz v. Board of Governors, No. 95–1485 (D.C. Cir., filed September 21, 1995). Petition for review of Board order dated August 23, 1995, approving the applications of The Fifth Third Bank, Cincinnati, Ohio, to acquire certain assets and assume certain liabilities of 12 branches of PNC Bank, Ohio, N.A., Cincinnati, Ohio, and to establish certain branches. On February 13, 1997, the court granted the Board's motion to dismiss the action.

Lee v. Board of Governors, No. 95–4134 (2nd Cir., filed August 22, 1995). Petition for review of Board orders dated July 24, 1995, approving certain steps of a corporate reorganization of U.S. Trust Corporation, New York, New York, and the acquisition of U.S. Trust by Chase Manhattan Corporation, New York, New York. On September 12, 1995, the court denied petitioners' motion for an emergency stay of the Board's orders. The Board's brief was filed on April 16, 1996. Oral argument, consolidated with *Inner City Press/Community on the Move v. Board of Governors,* took place on January 13, 1997.

Beckman v. Greenspan, No. 95–35473 (9th Cir., filed May 4, 1995). Appeal of dismissal of action against Board and others seeking damages for alleged violations of constitutional and common law rights. The appellants' brief was filed on June 23, 1995; the Board's brief was filed on July 12, 1995.

Money Station, Inc. v. Board of Governors, No. 95–1182 (D.C. Cir., filed March 30, 1995). Petition for review of a Board order dated March 1, 1995, approving notices by Bank One Corporation, Columbus, Ohio; CoreStates Financial Corp., Philadelphia, Pennsylvania; PNC Bank Corp., Pittsburgh, Pennsylvania; and KeyCorp, Cleveland, Ohio, to acquire certain data processing assets of National City Corporation, Cleveland, Ohio, through a joint venture subsidiary. On April 23, 1996, the court vacated the Board's order. On July 31, 1996, the full court granted the Board's suggestion for rehearing en banc, and vacated the April 23 panel decision. On January 7, 1997, the court dismissed the action on the parties' stipulation of voluntary dismissal.

In re Subpoena Duces Tecum, Misc. No. 95–06 (D.D.C., filed January 6, 1995). Action to enforce subpoena seeking predecisional supervisory documents sought in connection with an action by Bank of New England Corporation's trustee in bankruptcy against the Federal Deposit Insurance Corporation. The Board filed its opposition on January 20, 1995. Oral argument on the motion was held July 14, 1995.

Board of Governors v. Pharaon, No. 91-CIV-6250 (S.D. New York, filed September 17, 1991). Action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On September 17, 1991, the court issued an order temporarily restraining the transfer or disposition of the individual's assets.

Final Enforcement Decision Issued by the Board of Governors

In the Matter of

Ghaith R. Pharaon
BCCI Holdings (Luxembourg) S.A.
Luxembourg

Bank of Credit and Commerce International S.A.
Luxembourg

Docket Nos.
91–037-E-I1
91–037-CMP-I1

Final Decision

This is an administrative proceeding of the Board of Governors of the Federal Reserve System (the "Board"), based on the issuance on September 13, 1991 of its "Notice of Assessment of a Civil Money Penalty Issued Pursuant to Section 8(b) of the Bank Holding Company Act of 1956, As Amended, and Amended Notice of Intent to Prohibit Issued Pursuant to Section 8(e) of the Federal Deposit Insurance Act, As Amended" (the "Amended Notice"). The Amended Notice alleges that Bank of Credit and Commerce International ("BCCI")[1] violated Section 3(a)

1. "BCCI" refers to BCCI Holdings (Luxembourg), S.A., Luxembourg ("BCCI Holdings") and all of its related entities, including its subsidiary bank, the Bank of Credit and Commerce International, S.A., Luxembourg ("BCCI, S.A."), ICIC Holdings, its subsidiary bank, International Credit and Investment Company (Overseas) Limited, George Town, Cayman Islands ("ICIC Overseas"), ICIC Investments, Ltd. ("ICIC Investments") (also a subsidiary of ICIC Hold-

of the Bank Holding Company Act (the "BHC Act"), 12 U.S.C. § 1842(a), by causing BCCI to become a bank holding company without prior Board approval by secretly acquiring an 85 percent interest in Independence Bank, a state-chartered non-member insured depository institution located in Encino, California ("Independence Bank"). The Amended Notice also alleges that BCCI violated Section 5(c) of the BHC Act, 12 U.S.C. § 1844(c), by filing false and misleading reports with the Board which failed to disclose BCCI's interest in Independence Bank. The Amended Notice further alleges that Respondent Ghaith R. Pharaon ("Pharaon") is an institution-affiliated party of BCCI pursuant to 12 U.S.C. § 1813(u),[2] and that as such Pharaon "caused, brought about, participated in, or aided and abetted" BCCI's violations of the BHC Act. The Amended Notice seeks the imposition against Pharaon of an industry-wide prohibition order and of civil money penalties in the amount of $37 million.

Overview

The first BCCI institution was organized in 1972. By 1985, BCCI had operations in nearly seventy countries, including the United States. Also by that time, BCCI had accumulated losses which far exceeded its stated capital. BCCI concealed these losses from banking regulators around the world in many ways, including embezzling from its customers, creating fictitious loans to disguise actual nonperforming loans, and making secret investments through nominees in high-growth enterprises. BCCI intended that the profits resulting from these secret investments, together with the proceeds of normal banking activities, would enable BCCI to recoup its losses.

Before BCCI had successfully recouped its losses, however, the Luxembourg banking authorities refused to continue to serve as BCCI's home country supervisor.[3] Forced to find a new home country supervisor for its worldwide banking operations, BCCI decided to establish its home country in the United States and therefore to be supervised by United States banking regulators. To accomplish this, BCCI planned to acquire an existing bank in the United States.

BCCI apparently knew it could not obtain regulatory approval at that time to acquire a United States bank, however, because neither BCCI's undisclosed losses nor its illicit attempts to conceal them would survive the scrutiny of the application process. BCCI therefore decided to acquire a United States bank through a nominee, who would acquire the bank on behalf of BCCI and with BCCI funds in exchange for various kinds of compensation. While the nominee would possess the credentials necessary to receive regulatory approval as the ostensible owner of the bank, BCCI would in reality control the bank. One bank BCCI selected for this undertaking was Independence Bank. The nominee BCCI selected was Ghaith Pharaon.

BCCI and Pharaon signed an agreement, undisclosed to United States banking regulators, pursuant to which Pharaon would acquire and hold as the registered owner 100 percent of the shares of Independence Bank. In reality, pursuant to this agreement, Pharaon was to hold only 15 percent of the stock as beneficial owner and 85 percent as the nominee of BCCI. BCCI funded Pharaon's acquisition of the Independence Bank shares through loans to Pharaon under which BCCI would have no recourse to Pharaon personally, but only to the shares themselves. BCCI approved the appointment of four of the five members of the board of directors of Independence Bank, and also filled senior management positions at Independence Bank with BCCI personnel.

The plan envisioned that, at a later time (and presumably after BCCI had improved its financial condition), BCCI would attempt to obtain regulatory approval to purchase Independence Bank from Pharaon, thus making BCCI's existing holding company a bank holding company subject to supervision under United States law by the Federal Reserve System. However, BCCI's various plans to recoup its losses were not successful, and BCCI failed on July 5, 1991. The Board initiated these proceedings in September of 1991, and Independence Bank itself failed in January of 1992.

Recommended Decision, Exceptions and Summary of Final Decision

After a nineteen-day hearing, Administrative Law Judge Walter J. Alprin issued his Recommended Decision on April 12, 1996 (the "Recommended Decision" or "RD"). In the Recommended Decision, Judge Alprin found that Pharaon was an institution-affiliated party of BCCI who violated Sections 3 and 5 of the BHC Act by participating in BCCI's acquisition of unauthorized control of Independence Bank through acts of personal dishonesty. RD at 3. Judge Alprin recommended the imposition of civil money penalties in the amount of $37 million and the institution of an industry-wide prohibition order against Pharaon, both as sought in the Amended Notice.

Board Enforcement Counsel ("Board Enforcement Counsel" or 'BEC') and Pharaon filed exceptions to the Recommended Decision, and each party filed a response to

ings), ICIC Staff Benefit Trust and ICIC Foundation, unless the context requires reference to a specific BCCI entity. *See* Recommended Decision at 1 n.1.

2. "Institution-affiliated party" is defined in Section 3(u) of the Federal Deposit Insurance Act (the "FDI Act") as "any director, officer, employee, or controlling stockholder (other than a bank holding company) of, or agent for, an insured depository institution." 12 U.S.C. § 1813(u). These proceedings are instituted under the civil money penalty provisions of the BHC Act, 12 U.S.C. § 1847(b), and under the prohibition provisions of the FDI Act, 12 U.S.C. § 1818(e). Section 1818(e) is applicable with respect to bank holding companies by operation of 12 U.S.C. § 1818(b)(3), which provides that 12 U.S.C. § 1818(b)-(s) and 12 U.S.C. § 1818(u) "shall apply to any bank holding company, . . . in the same manner as they apply to a State member insured depository institution."

3. Under the principles governing international bank supervision, supervision of an international financial organization is divided between the country where the institution is chartered, its "home country," and any country where an institution conducts business, a "host country." *See* RD at 10–11.

the other's exceptions. BEC excepted only to the amount of civil money penalties recommended by Judge Alprin, arguing that Judge Alprin should have recommended the imposition of $111,595,000 sought by BEC instead of the $37,000,000 he recommended. Pharaon excepted "to virtually every finding of fact, and to all conclusions of law" in the Recommended Decision. Pharaon's Exceptions ("PE") at 2.[4]

Upon review of the entire administrative record herein, including all post-trial submissions of the parties, the Board adopts the Administrative Law Judge's Recommended Decision, Recommended Findings of Preliminary Fact and Recommended Conclusions of Law, except as specifically supplemented or modified herein. The Board accordingly determines that the attached Final Order of Prohibition and Assessment of Civil Money Penalty shall issue against Pharaon.

Discussion

I. Direct or Indirect Control of Independence Bank

Section 3(a) of the BHC Act requires prior Board approval before a company becomes a bank holding company. 12 U.S.C. § 1842(a). A "bank holding company" includes any company which has control over any bank. 12 U.S.C. § 1841(a)(1). Section 2(a)(2) of the BHC Act defines "control" as follows:

Any company has control over a bank or over any company if—

> (A) The company directly or indirectly or acting through one or more other persons owns, controls, or has power to vote 25 per centum or more of any class of voting securities of the bank or company;
>
> (B) The company controls in any manner the election of a majority of the directors or trustees of the bank or company; or
>
> (C) The Board determines, after notice and opportunity for hearing, that the company directly or indirectly exercises a controlling influence over the management or policies of the bank or company.

12 U.S.C. § 1841(a)(2). Under Section 11(a) of the Board's Regulation Y, implementing this statutory provision, a prior application to the Board for the formation of a bank holding company is required. 12 C.F.R. 225.11(a).

In the Recommended Decision, Judge Alprin found that BCCI, without obtaining prior Board approval, controlled more than 25 percent of the voting shares of Independence Bank within the meaning of Section 2(a)(2)(A) of the BHC Act through its affiliated entities and through Pharaon as its nominee (RD at 88–99, 103–104), and through financing arrangements (RD at 99–102, 103–104). Judge Alprin also found that BCCI, without obtaining prior Board approval, controlled the appointment of a majority of Independence Bank's directors within the meaning of Section 2(a)(2)(B) of the BHC Act. RD at 102–104.

A. Control Under Section 2(a)(2)(A) of the BHC Act

(1) *The Acquisition Agreement.* Judge Alprin found that Pharaon illegally acted on behalf of BCCI as its undisclosed agent when he became the registered holder of the stock of Independence Bank pursuant to the terms of a written agreement, undisclosed to United States banking regulators, between Pharaon and BCCI (the "Acquisition Agreement"). The Acquisition Agreement is a three-page document titled "Memorandum re: Acquisition of Shares of Independance [sic]Bank of ____ [sic](the Bank)," dated May 17, 1985 and signed by Pharaon and by Swaleh Naqvi ("Naqvi") on behalf of ICIC Overseas.

Pharaon vigorously disputes that the Acquisition Agreement granted control of Independence Bank for purposes of the BHC Act to ICIC Overseas, to BCCI or to anyone other than Pharaon.[5] PE at 144-156. Pharaon argues first that the parties never implemented the Acquisition Agreement and/or never considered it to be valid and effective. PE at 38, 145–148. Pharaon further argues that to the extent the Acquisition Agreement permitted BCCI to have illegal control over Independence Bank, that agreement was illegal and unenforceable and therefore a nullity. *Id.* The Board concurs in Judge Alprin's finding that the Acquisition Agreement "has been clearly demonstrated to be a written expression of the intent of the parties, subject to intermediate changes but never varying the intended goal." RD at 98.

Pharaon argues next that the Acquisition Agreement was or was intended to be an option agreement. *See, e.g.,* PE at 37, 42, 145–148. Judge Alprin found that the Acquisition Agreement was not intended to be an option agreement, given the intent of the parties thereto, the action of the parties in accordance therewith enabling BCCI to control Independence Bank, an economic analysis thereof, and the evidence that Pharaon knew the difference between a true option agreement and a nominee agreement like the Acquisition Agreement. RD at 92–96. The Board concurs in Judge Alprin's finding that the Acquisition Agreement constituted a nominee agreement which Pharaon and BCCI intended to enter and did in fact enter and carry out, and

4. Pharaon in his exceptions failed to "set forth page or paragraph references to the specific parts of the administrative law judge's recommendations to which exception is taken," as required by Section 39(c)(2) of the Board's Uniform Rules of Practice and Procedure applicable to these proceedings. 12 C.F.R. 263.39(c)(2). Because of this failure, the Board assumes that Pharaon excepted to the Recommended Decision in its entirety.

5. Judge Alprin found that BCCI controlled ICIC Overseas, on whose behalf Naqvi executed the Acquisition Agreement. Specifically, Judge Alprin found that: BCCI controlled ICIC Staff Benefit Trust under Section 2(g)(2)(C) of the BHC Act; ICIC Staff Benefit Trust controlled ICIC Holdings within the meaning of Section 2(a)(2)(A) of the BHC Act because one-half of all the shares of ICIC Holdings were held in a fiduciary capacity for the benefit of ICIC Staff Benefit Trust; and ICIC Holdings controlled ICIC Overseas within the meaning of Section 2(a)(2)(A) of the BHC Act because ICIC Overseas was ICIC Holdings' wholly-owned subsidiary. RD at 88–92.

through which BCCI controlled Independence Bank for purposes of the BHC Act.

(2) *Control Through Financing Arrangements.* The Recommended Decision set forth in detail how BCCI financed the acquisition of 100 percent of the stock of Independence Bank (RD at 34–51, 99–102), and the nature of the financial arrangements between BCCI and Pharaon (RD at 51–60), particularly the significant number and dollar amount of non-recourse loans extended to Pharaon (RD at 51–56). Judge Alprin noted that prior Board decisions had found preferential financing arrangements for the acquisition of bank stock effective to transfer control of an acquired bank for purposes of the BHC Act. RD at 99-102. Applying that precedent, Judge Alprin concluded that by virtue of the financing arrangements BCCI extended for the purchase of the Independence Bank stock, BCCI controlled more than 25 percent of the voting shares of Independence Bank, and that therefore BCCI violated Section 3(a) of the BHC Act. RD at 102.

Pharaon argues that the precedents which Judge Alprin discussed are inapposite because they involved applications decisions rather than civil money penalties. Neither Pharaon nor BCCI ever applied to the Board for approval of BCCI's acquisition of Independence Bank. On the contrary, Pharaon and BCCI agreed to avoid seeking regulatory approval by having Pharaon act as BCCI's undisclosed nominee in acquiring Independence for the benefit of BCCI, because they realized that BCCI could not pass regulatory scrutiny. *See, e.g.,* RD at 17 27; RD at 18 29; RD at 27 43–44. The fact that those control decisions involved applicants following proper procedures does not mean that they do not apply to BCCI's acquisition of Independence Bank. Rather, they support the position that BCCI controlled Independence Bank.

Pharaon also argues that Pharaon, and not BCCI, bore the risk in the Independence Bank acquisition and that therefore control could not be imputed to BCCI. Specifically, Pharaon argues that he and not BCCI bore the risk of the acquisition because he "paid at least the interest on one account," (PE at 155 n.105) and because he "never received full indemnification from BCCI in connection with his acquisition of Independence Bank." PE at 155. Even if true, these assertions would not refute control by BCCI. Moreover, they are outweighed by the other evidence of record establishing that BCCI and not Pharaon bore all or virtually all risk associated with the acquisition of Independence Bank. Accordingly, the Board concurs in Judge Alprin's finding that, within the meaning of Section 2(a)(2)(A) of the BHC Act, BCCI controlled the shares of Independence Bank and that, through this control, BCCI violated Section 3(a) of the BHC Act. RD at 102.

B. Ability to Appoint Majority of Directors

Judge Alprin concluded that BCCI also violated Section 3(a) of the BHC Act through its control of the election of a majority of the directors of Independence Bank within the meaning of Section 2(a)(2)(B) of the BHC Act. RD at 102–103. Pharaon contends in his exceptions that "*only [one director] could arguably have been* 'selected by BCCI' *and [that director] believed he was working for Pharaon.*" PE at 85–86 (emphasis in original). However, Pharaon has failed to refute Judge Alprin's findings that BCCI exercised control over four of the five seats on Independence Bank's board of directors through BCCI's direct appointment, recruitment, consent to appoint and rejection of proposed candidates. RD at 102–103. Therefore, the Board concurs in Judge Alprin's finding that BCCI impermissibly controlled Independence Bank through its ability to control the appointment of a majority of the directors of Independence Bank.

C. Conclusion On Section 3(a) of the BHC Act

For the foregoing reasons, the Board concludes that BCCI violated Section 3(a) of the BHC Act because BCCI controlled Independence Bank within the meaning of Section 2(a)(2)(A) and Section 2(a)(2)(B) of the BHC Act. The Board further concludes that, through his participation in BCCI's violation, Pharaon violated Section 3(a) of the BHC Act within the meaning of Section 8(b)(5) of the BHC Act.

II. Participation in Filing False and Misleading Reports Under Section 5 of the BHC Act

Foreign banks operating branches or agencies within the United States are required to file annual "Y-7" reports with the Board by a regulation implementing the Board's authority under the BHC Act to require reports. 12 U.S.C. § 1844(c); 12 C.F.R. 225.5(b); 12 C.F.R. 225.2(c)(2). Under this requirement, BCCI Holdings,[6] as an entity controlling a foreign bank that operated agencies in the United States, filed Y-7 reports with the Federal Reserve in 1986, 1987, 1988 and 1989. In each of these Y-7 reports, BCCI Holdings stated that it had no ownership interests in banks in the United States, even though BCCI in reality had a beneficial interest in Independence Bank. *See* RD at 77–78.

Judge Alprin found that BCCI's Y-7 reports were false and misleading because, contrary to the statements in those reports, BCCI in fact controlled Independence Bank. RD at 104. Judge Alprin found that Pharaon participated in BCCI's violation of Section 5(c) by filing an application with the California State Banking Department and a notice with the Federal Deposit Insurance Corporation (the "FDIC"), both of which falsely indicated that Pharaon was the sole owner of Independence Bank. *Id.* Pharaon argues that because there is no evidence that Pharaon knew what a Y-7 was, what a Y-7 contains, or even whether BCCI filed Y-7's or any other reports with the Board, he cannot have "participated" in BCCI's violation of Section 5(c). PE at 157–158.

The Board concurs in Judge Alprin's rejection of this argument. Both Pharaon and BCCI knew that the success-

6. *See* note 1 *supra.*

ful execution of their scheme to defraud government regulators and avoid regulatory scrutiny required that BCCI's interest in Independence Bank remain secret. Pharaon was, and intended to be, an integral part of this scheme. Pharaon was indispensable to the illusion, reflected in the Y-7 reports and in all reports to United States banking regulators, that he, and not BCCI, controlled Independence Bank. This illusion could not have been sustained had Pharaon not continued to act as BCCI's nominee, and had he himself not submitted false reports to the California State Banking Department and to the FDIC. Had Pharaon not filed deceptive reports with the California State Banking Department and the FDIC (or had Pharaon failed to file reports at all), the fraudulent scheme reflected in BCCI's Y-7 reports would have been exposed and brought to an end more quickly. Instead, Pharaon's participation enabled that deception to remain undetected for over four years.

The BHC Act states that the Board may impose a civil money penalty upon "[a]ny company which violates, and any individual who participates in a violation of, any provision of this chapter, or any regulation or order issued pursuant thereto." 12 U.S.C. § 1847(b)(1). The BHC Act defines "violation" as "includ[ing] any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding or abetting a violation." 12 U.S.C. § 1847(b)(5). The combined application of these two statutory provisions encompasses any kind of *participation* by an individual *in aiding or abetting a violation* of the BHC Act. Even unknowing participation comes within this definition of a "violation." "This extremely broad definition clearly includes any action, intentional or inadvertent, by which [an individual] participates in' the bank's violation of the [statute]." *Lowe v. FDIC*, 958 F.2d 1526, 1535 (11th Cir. 1992) (construing parallel language in 12 U.S.C. § 1828(j)(4)). Therefore, even if Pharaon were unaware of all of the details through which the scheme was implemented, it does not negate his status as a violator of the BHC Act. Accordingly, the Board concurs in Judge Alprin's findings and conclusion that Pharaon violated Section 5(c) of the BHC Act by participating in BCCI's violation of Section 5(c).

III. Civil Money Penalties and Order of Prohibition

A. Civil Money Penalties

In the Recommended Decision, Judge Alprin recommended the imposition of civil money penalties in the amount of $37 million, the same amount sought in Board Enforcement Counsel's Amended Notice. RD at 127. In so doing, Judge Alprin evaluated in the circumstances of this enforcement proceeding the statutory factors required to be considered in assessing a civil money penalty.[7] Judge Alprin found that none of the mitigating factors applied to reduce the amount of civil money penalties sought against Pharaon. RD at 114–121. In particular, Judge Alprin found that Pharaon had failed to offer any evidence of a substantive change in his financial or economic position since 1985, when he represented his net worth to be nearly $500 million. RD at 114. In addition, Judge Alprin found that there was no evidence of good faith and that Pharaon's violations were "especially grave." RD at 115. Furthermore, Judge Alprin found that Pharaon violated other laws in addition to his violations of Sections 3 and 5 of the BHC Act. RD at 119. Finally, Judge Alprin found that "[t]he record in this matter includes no factors that would tend to mitigate civil money penalties against Pharaon." RD at 121. Judge Alprin observed, however, that "insofar as the transactions with Independence are concerned, Pharaon did not enjoy any material financial or other benefit." RD at 127.

In addition, Judge Alprin "undertook an application" of the factors set forth in the *Interagency Policy Regarding the Assessment of Civil Money Penalties by the Federal Financial Institutions Regulatory Agencies*, 45 *Federal Register* 59,423 (1980) ("Interagency Policy"), in arriving at the recommended penalty amount. RD at 126–127, *as corrected by* "Corrections to Recommended Decision" (April 15, 1996). Judge Alprin concluded that applying the Interagency Policy in this case "resulted in computation of a civil money penalty of slightly over $151 million, while the cap on such computation remains at the maximum penalty, here at most just over $111 million." *Id.*

Both parties excepted to the recommended amount of civil money penalties. Board Enforcement Counsel argued that Judge Alprin should have imposed the maximum penalty of $111,595,000. Based upon an order entered earlier in the case bifurcating this enforcement proceeding to limit it to the acquisition of Independence Bank, Judge Alprin refused to increase the amount of penalties sought. RD at 112–113. As a result, Judge Alprin recommended the imposition of civil money penalties in the amount of $37 million as requested in the Amended Notice, stating that "in spite of the egregiousness of Pharaon's wilful, knowing, continuing violations engaged in with absolute disregard for accuracy of reports or for any consideration of the requirements of law, . . . [$37 million] is a very meaningful figure, in line with the gravity of the offenses, the intentional nature of the actions, [and] the attempts to conceal the nature of the transactions" that also took into account both Pharaon's financial means and the failure to establish an evidentiary link between Pharaon and the Independence Bank transactions by themselves. RD at 127, *as corrected by* "Corrections to Recommended Decision" (April 15, 1996). The Board concurs in Judge Alprin's findings and reasoning on this issue, and accordingly concurs in the determination in the Recommended Decision not to impose civil money penalties in excess of the amount originally sought.

7. Section 8(b) of the BHC Act, 12 U.S.C. § 1847(b), incorporates the mitigation factors set forth in Section 8(i)(2)(G) of the FDI Act, 12 U.S.C. § 1818(i)(2)(G); specifically: Respondent's financial resources; Respondent's good faith; the gravity of the violation; the history of previous violations; and 'such other matters as justice may require."

In addition to his Constitutional challenges to the amount of the recommended penalty,[8] Pharaon in his exceptions argues that Judge Alprin erroneously failed to reduce the amount in response to Pharaon's lack of financial gain from the violations (PE at 163–164), that there is no evidence that he intended to violate the BHC Act (PE at 165–167), that the penalty assessed "does not comport with the Board's own guidelines" (PE at 167), and that there is no evidence of Pharaon's current financial condition (PE at 169). As discussed below, the Board rejects each of these arguments.

(1) *Pharaon's Lack of Financial Gain*
Pharaon argues that "[he] was found to have received no pecuniary gain whatsoever." PE at 163. However, in the Recommended Decision Judge Alprin's recommendation is not based on any finding of pecuniary gain, but rather the "gravity of the offenses, the intentional nature of the actions, the attempts to conceal the nature of the transactions, the expected levels of profit and the realities of loss." RD at 127. Indeed, a finding of financial gain might well have resulted in the recommendation of a higher penalty.

The Recommended Decision notes that the longstanding nature of the relationship between Pharaon and BCCI, and the manner in which Pharaon and BCCI structured and conducted that relationship, do not permit a determination that a specific reward was or was not tied to a specific transaction. RD at 110–111, 127. The record is clear that Pharaon and BCCI never contemplated a disaggregated series of actions and rewards, but rather that the overall plan would yield profits in which Pharaon would share. The parties to the relationship made it impossible to determine the benefit Pharaon derived from service as BCCI's nominee for the acquisition of control of Independence Bank.

(2) *Pharaon's Lack of Intent to Violate the BHC Act*
Pharaon argues that, in order to impose civil money penalties in this case, Board Enforcement Counsel was required specifically to prove that Pharaon intended to violate the BHC Act and Regulation Y. PE at 165. It is clear from the statutory text that a showing of intent or scienter is not necessary to impose civil money penalties. Congress is explicit when it intends to require scienter for banking offenses. *See* 12 U.S.C. § 1818(i)(2) (providing three "tiers" of increasing amounts of civil money penalties for, respectively, "violations," "reckless" activities, and "knowing" violations). The civil money penalty provisions for violation of the BHC Act, on the other hand, have no such requirement, demonstrating a conscious legislative choice. There is therefore no basis in the BHC Act for Pharaon's asserted scienter requirement. Furthermore, even if there were such a requirement, the record is clear that Pharaon and BCCI intentionally violated U.S. banking laws by intentionally deceiving and making affirmative misrepresentations to U.S. banking regulators. Accordingly, the Board rejects Pharaon's exceptions on the issue of scienter.

(3) *Comportment with Board Guidelines*
Pharaon claims in his exceptions that Judge Alprin failed to comport with Board guidelines in arriving at the recommended amount of civil money penalties. Pharaon argues that Judge Alprin failed to set forth his analysis of the case under the Interagency Policy. PE at 162. However, Judge Alprin concluded that such an analysis would have resulted in a figure far in excess of the statutory maximum, let alone the amount sought by Board Enforcement Counsel. RD at 126–127, *as corrected by* "Corrections to Recommended Decision" (April 15, 1996). Accordingly, the Board is unable to discern any prejudice to Pharaon by the absence of an analysis which would have produced an unusable, and unused, result.

Similarly, Pharaon argues that in bringing this enforcement action for the recovery of $37 million in civil money penalties, the Board "ignored its own procedures" (PE at 161), referring to a 1991 supervisory letter relating to the assessment of civil money penalties. PE at 167, *citing* SR 91-13 (FIS) (June 3, 1991). The supervisory letter was an internal guideline and does not have the status of a regulation. It was not issued pursuant to a notice of proposed rulemaking or a public comment period as required under the Administrative Procedure Act (5 U.S.C. § 551), nor was it published with the Board's formally adopted rules in the Code of Federal Regulations.[9] Accordingly, it is a general statement of Board policy that is not binding on the Board. *See Used Equipment Sales, Inc. v. Department of Transportation*, 54 F.3d 862, 867 (D.C. Cir. 1995); *Amrep Corp. v. Federal Trade Commission*, 768 F.2d 1171, 1178 (10th Cir. 1985). Indeed, even if it were more formally part of the Board's decisional process, it would not bind the Board. *See OTS v. Rapp*, 52 F.3d 1510, 1522 (10th Cir. 1995) (OTS never intended to bind itself to its matrix; "petitioners had no reasonable or legally protected expectation that the OTS would apply matrix methodology in their case").[10] Accordingly, the Board rejects Pharaon's exceptions on this point.

(4) *Pharaon's Current Financial Condition*
Pharaon claims that the recommended amount of civil money penalties cannot stand because Board Enforcement Counsel failed to introduce evidence of Pharaon's current financial condition. *See, e.g.*, PE at 169; Transcript at 3659:2–5 (Oct. 18, 1995). For his part, Pharaon claims that he could not introduce evidence of his own current finan-

8. *See infra* at 4., pp. 24–29.

9. In practice, the letter is used for guidance in recommending the initiation of enforcement actions, and has never been used by the Board in determining the amount of a final assessment.

10. Pharaon attempted improperly to introduce this supervisory letter through a declaration of counsel attached to his exceptions. The Board need not consider any matter so submitted, since it constitutes an attempt to introduce additional evidence into the record after the conclusion of the hearing, and does not address the matters contained in or omitted from the Recommended Decision. *See* 12 C.F.R. 263.39(c)(1).

cial condition because "BEC did everything possible to prevent Pharaon from testifying." PE at 169. However, such evidence could have been introduced other than through Pharaon's own testimony. The fact that Pharaon failed to offer any evidence to rebut the record evidence of his great wealth does not shift the burden to Board Enforcement Counsel to introduce mitigation evidence on Pharaon's behalf. *Stanley v. Board of Governors of the Federal Reserve System*, 940 F.2d 267, 274 (7th Cir. 1991) ("An awkward state of affairs would arise if the Board was required to bear full responsibility for proving the financial condition of the individual Directors who obviously oppose higher penalties and whose self-interest is served by painting as grim a picture as possible of their respective financial conditions"). As Judge Alprin found in the Recommended Decision:

> In 1985, [Pharaon] declared his net worth to be almost half-a-billion [sic] dollars. Having established this as a point of consideration the Enforcement Counsel met their burden of proof, and during the hearing, Pharaon offered no evidence to indicate any substantive change in his financial or economic position since 1985.

RD at 114. The Board concurs in Judge Alprin's findings on this issue, and accordingly rejects Pharaon's exceptions.

(5) *Conclusion on Civil Money Penalties*
In summary, the BHC Act authorizes civil money penalties in the amount of $5,000 per day (pre-FIRREA) and $25,000 per day (post-FIRREA) for each day the violation continues. In this case, application of these amounts would result in a penalty of over $111 million. The $37 million amount of civil money penalties recommended clearly falls within the Board's statutory authorization in light of the facts of this case: that Pharaon and BCCI intended to violate U.S. banking laws by deceiving U.S. banking regulators; that the Section 3 violation continued for more than five years; and that the Section 5 violations commenced, continued and grew during that same period. Accordingly, upon review of the evidence and the arguments of the parties, the Board rejects the exceptions of both parties to Judge Alprin's recommendation for the amount of civil money penalties in this enforcement proceeding. The Board concurs with the Recommended Decision's recommendation of civil money penalties in this case in the amount of $37 million.

B. Order of Prohibition

Judge Alprin found that Pharaon, as an institution-affiliated party of BCCI, was subject to prohibition by the Board because the evidence established the statutory requirements for the imposition of an order of prohibition. RD at 128–130, *citing* 12 U.S.C. § 1818(e)(1). Specifically, Judge Alprin found: that Pharaon had violated the BHC Act and other laws and regulations; that Pharaon had participated in unsafe and unsound banking practices; that Pharaon's misconduct resulted in a loss to Independence Bank and potentially prejudiced the interests of its depositors; and that Pharaon's misconduct demonstrated his personal dishonesty and his willful and continuing disregard for the safety and soundness of Independence Bank. RD at 128–130. Pharaon excepts to these findings, asserting that: he did not commit an unlawful act; no loss to Independence Bank was shown; the evidence did not support the conclusion that depositors' interests could have been prejudiced; and Pharaon did not benefit from the alleged violation. PE at 174–178. The Board rejects all of these exceptions. The Board concurs in the Recommended Decision's findings as to each of the elements supporting the imposition of an order of prohibition. RD at 128–130.[11] Accordingly, the Board also concurs in the Recommended Decision's conclusion that imposition of an order of prohibition upon Pharaon is appropriate.

IV. Pharaon's Constitutional Claims

Pharaon presses two principal constitutional challenges to this enforcement proceeding generally and to the imposition of civil money penalties in particular. First, Pharaon argues that the amount of civil money penalties imposed in the Recommended Decision violates the Eighth Amendment's Excessive Fines Clause. PE at 136. Second, Pharaon argues that the penalty amount is so large that it violates his Fifth Amendment substantive due process rights. PE at 172.

A. Eighth Amendment Excessive Fines Claim

Pharaon's primary arguments with respect to the Eighth Amendment rely upon cases under the Double Jeopardy Clause.[12] On that basis, Pharaon argues that the Board is required to determine whether the civil money penalty provisions in the BHC Act can be described as "solely remedial" in purpose. *See* PE at 133–134. However, the Supreme Court has recently clarified that whether a civil proceeding imposes "punishment" for Double Jeopardy Clause purposes is substantively and analytically distinct from other constitutional punishment analyses. *U.S. v. Ursery*, 116 S. Ct. 2135, 2147 (1996) ("*Ursery*"). Accordingly, Pharaon's argument that the Board must determine whether the civil money penalty provisions in the BHC Act are "solely remedial" is simply inapposite for an analysis under the Excessive Fines Clause.[13]

11. The Board need not address Pharaon's "no benefit" argument, because the Board concurs in Judge Alprin's findings that the evidence establishes the alternative elements supporting the imposition of an order of prohibition: harm to the institution, and potential prejudice to its depositors. 12 U.S.C. § 1818(e)(1)(B)(i)-(ii).

12. Pharaon bases these arguments on a line of Supreme Court cases beginning with *U.S. v. Halper*, 490 U.S. 435 (1989), which set forth the circumstances under which a civil penalty may constitute "punishment" for purposes of the Double Jeopardy Clause's prohibition against multiple punishments for the same offense.

13. "It is unnecessary in a case under the Excessive Fines Clause to inquire at a preliminary stage whether the civil sanction imposed in that particular case is totally inconsistent with any remedial goal. Because the second stage of inquiry under the Excessive Fines Clause asks whether the particular sanction in question is so large as to be "excessive," a preliminary-stage inquiry that focused on the dispro-

The only case Pharaon cites that is relevant to his Eighth Amendment Excessive Fines claim is *Austin v. U.S.*, 509 U.S. 602 (1993) ("*Austin*"), where the Court held that an *in rem* civil forfeiture that is not solely remedial is reviewable under the Eighth Amendment's Excessive Fines Clause.[14] The Supreme Court has expressly refused to establish a test for determining whether a forfeiture is constitutionally excessive. *Austin*, 509 U.S. at 622–623. "Prudence dictates that we allow the lower courts to consider that question [of establishing a multifactor test for determining constitutional excessiveness] in the first instance." *Id.*

The lower courts that have accepted *Austin's* invitation to craft such a test have rejected proportionality tests that simply compare the size of the penalty with the size of any actual damages or government loss. Instead, these decisions look to the nature of the conduct which gave rise to liability. "One way to consider what proportion of this award is excessive is to *examine the nature of the conduct*, rather than simply adopting a mathematical proportion." *U.S. v. Gilbert Smith Realty Co., Inc.*, 840 F. Supp. 71, 74–75 (E.D. Mich. 1993) (emphasis added);[15] *U.S. v. Advance Tool Co.*, 902 F. Supp. 1011 (W.D. Mo. 1995), *aff'd*, 86 F.3d 1159 (8th Cir. 1996).[16]

Pharaon's conduct constituting violations of Section 3 and Section 5 of the BHC Act was carried out and continued over a period of several years. As more fully described *supra*, Pharaon's violations of Section 3 and Section 5 of the BHC Act concealed from United States banking authorities the unauthorized control of a United States bank by an entity in direct contravention of the letter and purposes of the BHC Act. Pharaon's conduct giving rise to liability under the BHC Act was fully intentional, continuing and extremely serious. As set forth in the Recommended Decision, the total fine permitted under the applicable statutes in this case, calculated at the statutory maximum for each day that each violation of the BHC Act continued, exceeds $111 million. RD at 106–109. Moreover, Judge Alprin considered a list of factors specified in the Interagency Policy, and concluded that this application would result in a penalty far in excess of the $37 million penalty recommended. For these reasons, the Board does not believe that *Austin* and its progeny require that the Board find that $37 million constitutes an excessive fine for Eighth Amendment purposes, given "the egregiousness of Pharaon's willful, knowing, continuing violations engaged in with absolute disregard for accuracy of reports or for any consideration of the requirements of law." RD at 127, *as corrected* by "Corrections to Recommended Decision" (April 15, 1996).

B. Substantive Due Process Claim

Relying upon *BMW of North America v. Gore*, 116 S. Ct. 1589 (1996) ("*BMW*"), Pharaon claims that "the penalty here is "grossly out of proportion to the severity of the offense" and has entered the 'zone of arbitrariness that violates the due process clause[.]' " PE at 172 (citations omitted). In *BMW*, the Court found that a punitive damages award violated the Fourteenth Amendment Due Process Clause. *BMW*, 116 S. Ct. at 1592-1595, 1604. The statute giving rise to liability in *BMW* set forth no monetary standards for the imposition of punitive damages. *Id.* at 1603-1604.[17] As more fully discussed *supra*, the civil money penalty provisions at issue in this case, in contrast, embody a considered congressional calibration of penalty to violation. Therefore, the Board finds no basis for Pharaon's reliance on *BMW* in this case and, accordingly, no violation of substantive due process.[18]

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portionality of a particular sanction would be duplicative of the excessiveness analysis that would follow." *Ursery*, 116 S. Ct. at 2146 (citations omitted).

14. Even *Austin* is not squarely on point. *In Austin*, the petitioner had pleaded guilty to one count of possessing cocaine with intent to distribute. Based on that conviction, the United States subsequently filed an *in rem* action seeking forfeiture of petitioner's mobile home and auto body shop under 21 U.S.C. § 881. *Id.* at 604–605. Thus, *Austin* concerned whether an *in rem* civil forfeiture proceeding was subject to the Excessive Fines Clause. However, *Ursery* holds that *in rem* civil forfeiture proceedings are different in form and in substance from *in personam* civil penalty proceedings such as the instant administrative proceeding. "We acknowledged in *Austin* that our categorical approach under the Excessive Fines Clause was wholly distinct from the case-by-case approach of *Halper* [determining when a civil penalty may constitute punishment under the Double Jeopardy Clause]." *Ursery*, 116 S. Ct. at 2146.

15. In *Gilbert Smith Realty*, the court found that the defendant had "violated the False Claims Act 58 times: by making 7 [false] statements to the local housing authority, and by endorsing 51 rent checks, each governed by a contract that stated an endorsement constitutes certification of non-receipt of additional rent beyond the amount allowed." *Gilbert Smith Realty*, 840 F. Supp. at 72. The District Court concluded that "defendants actually made seven certifications to the housing authority directly that were false claims in every sense of the word" and found that a penalty in the amount of $35,000 ($5,000 for each of the 7 false statements) was not excessive, but that imposing a $255,000 penalty based on the endorsement of each specific check would constitute an excessive fine. *Id.* at 75.

16. In *Advance Tool*, the defendant was found liable under the False Claims Act for submitting 686 invoices to GSA which defendant knew to be false because defendant did not provide what the invoices purported to show had been delivered. *Advance Tool*, 902 F. Supp. at 1015-1016. The court looked to the substance of the conduct to determine the permissible amount of the penalty. "In the case at bar, [defendant] supplied GSA with 73 different types of tools [which were not as represented by the invoices]. The Court finds that a civil penalty of $5,000.00 per tool in the amount of $365,000 does not violate the Excessive Fines Clause." *Id.* at 1018-1019.

17. In the absence of such standards, the Supreme Court in *BMW* looked to three factors in determining the reasonableness of a punitive damages award: "the degree of reprehensibility of the defendant's conduct" (*id.* at 1599 (footnote omitted)), the "ratio [of a punitive damages award] to the actual harm inflicted on the plaintiff" (*id.* at 1601), and "[c]omparing the punitive damages award and the civil or criminal penalties that could be imposed for comparable misconduct . . . ." (*id.* at 1603).

18. Finally, Pharaon also argues that this enforcement proceeding is "the functional equivalent of a criminal prosecution which the Board is unauthorized to conduct in any capacity . . . ." PE at 126. An identical argument was rejected by the District Court in *Gilbert Smith Realty*:

For all the foregoing reasons, the Board rejects all of Pharaon's constitutional attacks upon this enforcement proceeding and upon the amount of civil money penalties recommended therein.

V. Pharaon's Charge of Bias Against Judge Alprin

Pharaon argues that this enforcement proceeding violated his Fifth Amendment due process rights because it "was fatally infected with Judge Alprin's bias against Pharaon." PE at 137. Pharaon bases this argument primarily upon a quotation from a section of Judge Alprin's disentitlement ruling on summary adjudication, which was subsequently reversed by the Board. To a lesser extent, Pharaon bases this argument on "the fact that Judge Alprin has ruled in favor of the agencies in all . . . the cases he has heard," and on Judge Alprin's rulings against Pharaon during the conduct of this enforcement proceeding. PE at 137–140.

The Supreme Court has stated that where a judge is alleged to be biased, the alleged bias and prejudice must stem from a source "outside the judicial proceeding at hand" to support disqualification on that ground. *Liteky v. U.S.*, 114 S. Ct. 1147, 1152 (1994), *citing U.S. v. Grinnell Corp.*, 384 U.S. 563, 583 (1966). The basis upon which Pharaon most strongly relies for his bias charge, however, is a quotation from a ruling in this case, *i.e.*, part of the very judicial proceeding at hand.[19] This and Judge Alprin's other rulings against Pharaon during the course of this administrative proceeding cannot constitute the basis for a claim of judicial bias. *Hansen v. C.I.R.*, 820 F.2d 1464, 1467 (9th Cir. 1987) (manner in which judge conducted trial, and judge's trial rulings adverse to defendant, did not violate defendant's due process rights to fair trial).

Similarly, Pharaon has failed to meet the heavy burden necessary to establish that Judge Alprin's prior rulings in favor of banking agencies constitute bias. *McBeth v. Nissan Motor Corp. U.S.A.*, 921 F. Supp. 1473, 1478 (D.S.C. 1996), *citing Liteky v. U.S.*, 114 S. Ct. 1147, 1158 (1994) (emphasis added) ("for any alleged bias arising out of this or *prior proceedings*, recusal is required only if a 'fair trial [for this particular party] is impossible' "). Accordingly, the Board finds that Pharaon's due process rights were not violated because of bias on the part of Judge Alprin.[20]

VI. Discovery Issues

Pharaon claims that Board Enforcement Counsel's alleged failure to produce documents, including "*Brady*" documents and other documents relating to Pharaon, constitutes grounds for refusing to accept the Recommended Decision. PE at 140–142. However, a review of the transcript of the hearing in this matter shows that all Pharaon's discovery arguments were specifically considered and addressed during the hearing, except for Pharaon's argument that Board Enforcement Counsel's failure to disclose an alleged immunity agreement between Naqvi and the New York County District Attorney deprived Pharaon of a fair trial. PE at 140–142. The Board has considered this argument, and rejects it.[21] Furthermore, in reversing Judge Alprin's recommendation of disentitlement on summary disposition and remanding this proceeding, the Board specifically authorized Judge Alprin "to use his plenary powers over the conduct of the proceedings to ensure that Pharaon's fugitivity does not disrupt this proceeding, and may invoke sanctions such as restrictions on discovery . . . ." Accordingly, the Board denies Pharaon's discovery exceptions.

VII. Miscellaneous

A. Judge Alprin's Credibility Determinations

Without actually basing exceptions on this issue, Pharaon argues that Judge Alprin incorrectly found Board Enforce-

> The due process claim is procedural. Defendants argue that because the fine is essentially punishment, it requires the standards of a criminal jury trial to impose the fine. There is no support for this argument, and it loses.

Id. at 73.

19. The statement in question comes from Judge Alprin's recommendation on summary disposition: "Unless the Board considers as a matter of policy that it requires further graphic public display of oral testimony, and the presentation of mountains of supporting documentary exhibits, with the attendant costs, solely as to the involvement of Pharaon, there is no reason for a full oral hearing herein." *Administrative Law Judge's Order Granting Summary Disposition Against Respondent, and Issuing Recommended Decision Prohibiting Respondent from Future Participation in Federally Insured Depository Institutions and Imposing a Civil Money Penalty in the Sum of $37,000,000* (July 20, 1993) at 10. This statement on its face does not evince bias, but merely articulates one legal consequence of Judge Alprin's recommendation that Pharaon be disentitled, *i.e.*, that the Board need not hold a hearing if it adopted Judge Alprin's disentitlement recommendation. However, the Board "decline[d] to invoke the doctrine of disentitlement" and remanded this case to Judge Alprin for trial. *Decision on Recommendation of Summary Disposition* (July 12, 1994) at 2.

20. In any event, Pharaon's charge of bias is not timely under either the Administrative Procedure Act or the Board's Uniform Rules of Practice and Procedure. 5 U.S.C. § 556(b); 12 C.F.R. 263.39(b)(2). The Administrative Procedure Act "requires that such a claim [of bias on the part of the ALJ] be raised as soon as practicable after a party has reasonable cause to believe that grounds for disqualification exist. It will not do for a claimant to suppress his misgivings while waiting anxiously to see whether the decision goes in his favor. A contrary rule would only countenance and encourage unacceptable inefficiency in the administrative process. The APA-mandated procedures [set forth in § 556(b)] afford every party ample opportunity to enforce and preserve its due process rights." *Gibson v. F.T.C.*, 682 F.2d 554, 565 (5th Cir. 1982), *quoting Marcus v. Director, Office of Workers' Compensation Programs*, 548 F.2d 1044, 1051 (D.C. Cir. 1976). For example, assuming Judge Alprin's ruling on disentitlement constituted a proper ground for a charge of judicial bias, the time to raise such a claim was no later than the time this proceeding was remanded to Judge Alprin by the Board, not now.

21. Assuming for purposes of argument that the evidence in question constitutes *Brady* material required to be disclosed, the Board finds that Pharaon has failed to demonstrate that its non-disclosure was "material" and "deprived Pharaon's counsel of material information necessary to conduct cross-examinations of the Board's main witnesses" such that it "deprive[d] [Pharaon] of a fair trial." PE at 142.

ment Counsel's main witnesses to be credible. PE at 115–122, 126. Judge Alprin specifically addressed the issue of witness credibility in the Recommended Decision, declining to "concur with the outmoded legal concept that *falso in unis, falso in omnibus*," and expressly finding that the Board Enforcement Counsel's two main witnesses were not inherently unreliable solely because they are convicted felons. RD at 82–85. Furthermore, Judge Alprin noted that the testimony of these witnesses was supported almost completely throughout by documentation. RD at 83. In addition, Judge Alprin noted that:

> The burden of initial proof by preponderance of the evidence was on [BEC]. . . . If there was any contrary testimony, in addition to that of Respondent, it was the responsibility of Respondent to produce it, and he failed to do so. If there were any documentation in refutation, much of which would perforce be in Respondent's possession rather than or in addition to that of [BEC], it was clear that Respondent would have been able to present it, with adequate explanation where required.

Id. Finally, the Board has previously held that credibility determinations are uniquely within the province of the administrative law judge as the trier of fact. *In the Matter of Interamericas Investments, Ltd. and Peter Ulrich*, 82 *Federal Reserve Bulletin* 609, 615 (April 9, 1996), and cases cited therein. Accordingly, the Board sees no basis for disturbing the administrative law judge's determinations as to credibility.

B. Request for Oral Argument

Finally, Pharaon in his Exceptions requested oral argument. Oral argument is a discretionary procedure. *See* 12 C.F.R. 263.29(c). The Board finds that the arguments have been sufficiently presented in the pleadings before the Board. Therefore, the Board hereby denies the request for oral argument.

Conclusion

As more fully set forth *supra*, the Board hereby adopts the Recommended Decision, and accordingly further determines that:

- The exceptions of Pharaon to the Recommended Decision are *denied*;
- The exceptions of BEC to the Recommended Decision are *denied*; and
- The request of Pharaon for oral argument is *denied*.

So ordered, this 31st day of January, 1997.

Board of Governors of the
Federal Reserve System

JENNIFER J. JOHNSON
Deputy Secretary of the Board

FINAL ENFORCEMENT ORDERS ISSUED BY THE BOARD OF GOVERNORS

The Asahi Bank, Ltd.
Tokyo, Japan

The Asahi Bank, Ltd.
New York Branch
New York, New York

The Federal Reserve Board announced on February 13, 1997, the joint issuance with the New York State Banking Department of a Cease and Desist Order against The Asahi Bank, Ltd., Tokyo, Japan, and The Asahi Bank, Ltd., branch in New York, New York. The Board also issued an Order of Assessment of a Civil Money Penalty against the bank and branch.

WRITTEN AGREEMENTS APPROVED BY FEDERAL RESERVE BANKS

Cuyamaca Bank
Santee, California

The Federal Reserve Board announced on February 7, 1997, the execution of a Written Agreement between the Cuyamaca Bank, Santee, California, and the Federal Reserve Bank of San Francisco.

OmniBanc Corporation
River Rouge, Michigan

The Federal Reserve Board announced on February 7, 1997, the execution of a Written Agreement between OmniBanc Corporation, River Rouge, Michigan, and the Federal Reserve Bank of Chicago. The Federal Reserve Board also announced the execution of a Written Agreement by and between the OmniBank, a subsidiary of OmniBanc Corporation, the Federal Reserve Bank of Chicago, and the Michigan Financial Institution Bureau.

Financial and Business Statistics

DOMESTIC NONFINANCIAL STATISTICS—CONTINUED

Selected Measures—Continued

INTERNATIONAL STATISTICS

Summary Statistics

Reported by Banks in the United States

Reported by Nonbanking Business Enterprises in the United States

Securities Holdings and Transactions

Interest and Exchange Rates

Guide to Tabular Presentation

SYMBOLS AND ABBREVIATIONS

c	Corrected
e	Estimated
n.a.	Not available
n.e.c.	Not elsewhere classified
p	Preliminary
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)
0	Calculated to be zero
. . .	Cell not applicable
ATS	Automatic transfer service
BIF	Bank insurance fund
CD	Certificate of deposit
CMO	Collateralized mortgage obligation
FFB	Federal Financing Bank
FHA	Federal Housing Administration
FHLBB	Federal Home Loan Bank Board
FHLMC	Federal Home Loan Mortgage Corporation
FmHA	Farmers Home Administration
FNMA	Federal National Mortgage Association
FSLIC	Federal Savings and Loan Insurance Corporation
G-7	Group of Seven
G-10	Group of Ten
GNMA	Government National Mortgage Association
GDP	Gross domestic product
HUD	Department of Housing and Urban Development
IMF	International Monetary Fund
IO	Interest only
IPCs	Individuals, partnerships, and corporations
IRA	Individual retirement account
MMDA	Money market deposit account
MSA	Metropolitan statistical area
NOW	Negotiable order of withdrawal
OCD	Other checkable deposit
OPEC	Organization of Petroleum Exporting Countries
OTS	Office of Thrift Supervision
PO	Principal only
REIT	Real estate investment trust
REMIC	Real estate mortgage investment conduit
RP	Repurchase agreement
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SCO	Securitized credit obligation
SDR	Special drawing right
SIC	Standard Industrial Classification
VA	Department of Veterans Affairs

GENERAL INFORMATION

In many of the tables, components do not sum to totals because of rounding.

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Percent annual rate of change, seasonally adjusted[1]

Monetary or credit aggregate	1996[r]				1996[r]				1997
	Q1	Q2	Q3	Q4	Sept.	Oct.	Nov.	Dec.	Jan.
Reserves of depository institutions[2]									
1 Total	−7.9	−6.4	−16.4	−16.9	−21.1	−28.4	−6.2	7.0	−18.3
2 Required	−8.5	−5.7	−16.6	−18.3	−23.3	−27.9	−7.4	−2.4	−13.9
3 Nonborrowed	−6.5	−7.6	−17.6	−16.0	−22.0	−26.7	−4.5	8.5	−15.7
4 Monetary base[3]	1.5	3.0	5.4	5.1	4.9	3.1	6.3	9.2	3.0
Concepts of money, liquid assets, and debt[4]									
5 M1	−3.5	−1.4	−6.5	−7.4	−7.2	−14.4	−.2	1.1	−1.4
6 M2	5.3	4.5	3.4	5.0	4.0	3.9	6.8	7.5	5.2
7 M3	6.6	6.3	5.4	8.5	8.0	9.3	7.6	11.4	7.2
8 L	4.6	6.3	5.7	7.2	9.0	4.6	8.8	8.4	n.a.
9 Debt	5.0	5.7	5.3	4.9	4.0	4.9	5.7	4.8	n.a.
Nontransaction components									
10 In M2[5]	9.3	7.0	7.7	10.2	8.7	11.4	9.6	10.0	7.8
11 In M3 only[6]	11.5	13.4	12.9	21.0	22.5	28.7	10.2	25.1	14.0
Time and savings deposits									
Commercial banks									
12 Savings, including MMDAs	21.6	12.1	12.0	16.9	12.0	18.7	18.2	15.1	13.8
13 Small time[7]	3.3	−1.0	3.8	4.8	5.4	4.1	5.3	4.3	−.2
14 Large time[8,9]	10.3	18.6	18.0	28.7	19.8	44.5	16.7	35.3	22.8
Thrift institutions									
15 Savings, including MMDAs	−2.5	6.5	.2	.8	.7	4.3	−2.6	2.6	5.2
16 Small time[7]	−2.4	−3.0	−.3	2.2	2.7	4.8	−.7	−2.7	1.0
17 Large time[8]	7.8	−3.0	9.0	9.3	18.7	6.1	9.1	−1.5	30.3
Money market mutual funds									
18 Retail	14.6	16.3	16.3	17.2	16.8	17.1	15.2	21.6	13.0
19 Institution-only	21.4	12.0	20.7	19.8	27.5	12.2	16.2	30.0	−12.0
Repurchase agreements and Eurodollars									
20 Repurchase agreements[10]	2.1	13.9	−3.7	6.4	15.7	13.0	−1.2	−3.7	17.8
21 Eurodollars[10]	11.9	10.9	8.1	32.8	34.2	62.9	−9.0	45.5	32.8
Debt components[4]									
22 Federal	3.0	4.7	3.8	3.2	1.0	3.8	4.2	2.9	n.a.
23 Nonfederal	5.7	6.0	5.8	5.5	5.1	5.3	6.2	5.5	n.a.

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding during preceding month or quarter.

2. Figures incorporate adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.20.)

3. The seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

4. Composition of the money stock measures and debt is as follows.

M1: (1) currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions, (2) travelers checks of nonbank issuers, (3) demand deposits at all commercial banks other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float, and (4) other checkable deposits (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) savings (including MMDAs), (2) small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and (3) balances in retail money market mutual funds (money funds with minimum initial investments of less than $50,000). Excludes individual retirement accounts (IRAs) and Keogh balances at depository institutions and money market funds. Seasonally adjusted M2 is calculated by summing savings deposits, small-denomination time deposits, and retail money fund balances, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

M3: M2 plus (1) large-denomination time deposits (in amounts of $100,000 or more), (2) balances in institutional money funds (money funds with minimum initial investments of $50,000 or more), (3) RP liabilities (overnight and term) issued by all depository institutions, and (4) Eurodollars (overnight and term) held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Seasonally adjusted M3 is calculated by summing large time deposits, institutional money fund balances, RP liabilities, and Eurodollars, each seasonally adjusted separately, and adding this result to seasonally adjusted M2.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, net of money market fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: The debt aggregate is the outstanding credit market debt of the domestic nonfinancial sectors—the federal sector (U.S. government, not including government-sponsored enterprises or federally related mortgage pools) and the nonfederal sectors (state and local governments, households and nonprofit organizations, nonfinancial corporate and nonfarm noncorporate businesses, and farms). Nonfederal debt consists of mortgages, tax-exempt and corporate bonds, consumer credit, bank loans, commercial paper, and other loans. The data, which are derived from the Federal Reserve Board's flow of funds accounts, are break-adjusted (that is, discontinuities in the data have been smoothed into the series) and month-averaged (that is, the data have been derived by averaging adjacent month-end levels).

5. Sum of (1) savings deposits (including MMDAs), (2) small time deposits, and (3) retail money fund balances, each seasonally adjusted separately.

6. Sum of (1) large time deposits, (2) institutional money fund balances, (3) RP liabilities (overnight and term) issued by depository institutions, and (4) Eurodollars (overnight and term) of U.S. addressees, each seasonally adjusted separately.

7. Small time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits.

8. Large time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

9. Large time deposits at commercial banks less those held by money market funds, depository institutions, the U.S. government, and foreign banks and official institutions.

10. Includes both overnight and term.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT[1]

Millions of dollars

Factor	Average of daily figures			Average of daily figures for week ending on date indicated						
	1996		1997	1996		1997				
	Nov.	Dec.	Jan.	Dec. 18	Dec. 25	Jan. 1	Jan. 8	Jan. 15	Jan. 22	Jan. 29
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	430,854	440,343[r]	437,958	440,474	441,507[r]	447,645	441,229	439,565	434,124	436,188
U.S. government securities[2]										
2 Bought outright—System account	392,296	392,674	391,762	392,786	392,654	392,382	391,911	391,642	391,658	391,955
3 Held under repurchase agreements	3,219	11,332	9,214	11,764	11,908	16,590	12,417	10,447	5,660	7,421
Federal agency obligations										
4 Bought outright	2,245	2,228	2,098	2,225	2,225	2,225	2,225	2,079	2,050	2,038
5 Held under repurchase agreements	967	1,031	1,785	492	955	1,354	1,630	2,342	1,808	1,680
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions										
7 Adjustment credit	77	114	25	85	118	40	43	26	15	15
8 Seasonal credit	105	67	18	68	70	57	19	17	17	18
9 Extended credit	0	0	0	0	0	0	0	0	0	0
10 Float	789	1,238[r]	1,153	1,288	1,324[r]	2,596	1,252	845	1,372	808
11 Other Federal Reserve assets	31,155	31,659	31,903	31,766	32,253	32,401	31,731	32,166	31,545	32,252
12 Gold stock	11,049	11,048	11,048	11,048	11,048	11,048	11,048	11,048	11,048	11,048
13 Special drawing rights certificate account	9,718	9,718	9,636	9,718	9,718	9,718	9,718	9,718	9,718	9,445
14 Treasury currency outstanding	24,895[r]	24,957[r]	25,017	24,956[r]	24,968[r]	24,981	24,995	25,009	25,023	25,037
ABSORBING RESERVE FUNDS										
15 Currency in circulation	436,982[r]	444,554[r]	443,340	442,461[r]	446,277[r]	449,882	448,286	443,904	441,700	439,732
16 Treasury cash holdings	276	257	248	257	249	249	249	247	247	249
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	4,939	5,749	6,186	7,169	5,694	6,326	4,479	5,512	6,524	7,896
18 Foreign	169	178	185	175	201	171	177	182	214	177
19 Service-related balances and adjustments	6,896	6,975	7,173	7,122	6,919	6,887	6,875	7,205	7,571	7,080
20 Other	352	335	331	353	300	435	246	316	349	331
21 Other Federal Reserve liabilities and capital	14,263	14,412	14,318	14,653	14,570	14,341	14,006	14,495	14,449	14,524
22 Reserve balances with Federal Reserve Banks[3]	12,638	13,607[r]	11,879	14,006	13,033[r]	15,101	12,671	13,480	8,860	11,730

Factor	End-of-month figures			Wednesday figures						
	Nov.	Dec.	Jan.	Dec. 18	Dec. 25	Jan. 1	Jan. 8	Jan. 15	Jan. 22	Jan. 29
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	437,242	451,339[r]	433,795	452,762	445,633[r]	452,335	438,806	441,705	434,671	444,558
U.S. government securities[2]										
2 Bought outright—System account	392,662	390,907	391,728	392,587	395,381	390,907	392,321	389,379	391,872	391,933
3 Held under repurchase agreements	7,548	19,971	7,720	22,621	11,908	19,971	9,775	14,648	4,246	13,926
Federal agency obligations										
4 Bought outright	2,237	2,225	2,038	2,225	2,225	2,225	2,225	2,055	2,038	2,038
5 Held under repurchase agreements	2,763	1,612	1,285	1,154	955	1,612	2,184	2,910	1,550	2,530
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions										
7 Adjustment credit	111	57	16	178	36	57	33	131	7	65
8 Seasonal credit	76	29	14	70	69	29	18	14	17	15
9 Extended credit	0	0	0	0	0	0	0	0	0	0
10 Float	951	4,296[r]	57	1,976	2,721[r]	5,292	186	401	3,383	789
11 Other Federal Reserve assets	30,894	32,243	30,937	31,951	32,338	32,243	32,065	32,168	31,558	33,262
12 Gold stock	11,049	11,048	11,048	11,049	11,048	11,048	11,048	11,048	11,048	11,048
13 Special drawing rights certificate account	9,718	9,718	9,400	9,718	9,718	9,718	9,718	9,718	9,718	9,400
14 Treasury currency outstanding	24,930[r]	24,981[r]	25,051	24,956[r]	24,968[r]	24,981	24,995	25,009	25,023	25,037
ABSORBING RESERVE FUNDS										
15 Currency in circulation	440,951[r]	450,663[r]	438,399	444,469[r]	448,590[r]	450,663	446,673	443,070	441,497	439,735
16 Treasury cash holdings	273	249	249	249	249	249	246	247	249	249
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	4,857	7,742	6,770	9,989	6,479	7,742	5,062	7,521	8,578	9,874
18 Foreign	170	167	167	163	214	167	169	171	169	199
19 Service-related balances and adjustments	7,110	6,887	7,174	7,122	6,919	6,887	6,875	7,205	7,571	7,080
20 Other	292	892	359	358	265	892	236	352	339	341
21 Other Federal Reserve liabilities and capital	14,219	13,829	13,384	14,464	14,676	13,829	13,953	14,432	14,310	14,373
22 Reserve balances with Federal Reserve Banks[3]	15,067	16,656[r]	12,793	21,669	13,976[r]	17,652	11,353	14,481	7,747	18,194

1. Amounts of cash held as reserves are shown in table 1.12, line 2.
2. Includes securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale–purchase transactions.
3. Excludes required clearing balances and adjustments to compensate for float.

1.12 RESERVES AND BORROWINGS Depository Institutions[1]

Millions of dollars

Reserve classification	Prorated monthly averages of biweekly averages									
	1994	1995	1996	1996						1997
	Dec.	Dec.	Dec.[r]	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.
1 Reserve balances with Reserve Banks[2]	24,658	20,440	13,395	15,392	14,761	13,688	12,800	12,895	13,395	11,712
2 Total vault cash[3]	40,378	42,094[r]	44,426	42,774[r]	42,511[r]	43,652[r]	42,925[r]	42,745[r]	44,426	47,172
3 Applied vault cash[4]	36,682	37,460	37,848	37,451	36,880	37,309	36,749	36,862	37,848	38,931
4 Surplus vault cash[5]	3,696	4,634[r]	6,578	5,323[r]	5,631[r]	6,343[r]	6,175[r]	5,883[r]	6,578	8,241
5 Total reserves[6]	61,340	57,900	51,243	52,843	51,642	50,997	49,550	49,756	51,243	50,644
6 Required reserves	60,172	56,622	49,819	51,778	50,681	49,959	48,556	48,721	49,819	49,418
7 Excess reserve balances at Reserve Banks[7]	1,168	1,278	1,424	1,065	961	1,038	994	1,035	1,424	1,225
8 Total borrowings at Reserve Banks[8]	209	257	155	368	334	368	287	214	155	45
9 Seasonal borrowings	100	40	68	284	309	306	212	109	68	19
10 Extended credit[9]	0	0	0	0	0	0	0	0	0	0
	Biweekly averages of daily figures for two week periods ending on dates indicated									
	1996						1997			
	Oct. 9	Oct. 23	Nov. 6	Nov. 20	Dec. 4	Dec. 18	Jan. 1[r]	Jan. 15	Jan. 29	Feb. 12
1 Reserve balances with Reserve Banks[2]	12,653	13,141	12,371	12,914	13,182	12,837	14,063	13,060	10,286	11,088
2 Total vault cash[3]	43,947[r]	42,207[r]	43,032[r]	42,506[r]	42,908	44,684	44,615	46,140	48,679	45,130
3 Applied vault cash[4]	37,258	36,267	37,021	36,768	36,898	37,913	38,070	39,029	39,076	37,668
4 Surplus vault cash[5]	6,689[r]	5,940[r]	6,011[r]	5,738[r]	6,010	6,771	6,545	7,112	9,603	7,463
5 Total reserves[6]	49,911	49,408	49,392	49,682	50,080	50,750	52,132	52,089	49,362	48,755
6 Required reserves	48,839	48,470	48,388	48,678	48,983	49,338	50,595	50,859	48,140	47,698
7 Excess reserve balances at Reserve Banks[7]	1,072	938	1,004	1,004	1,097	1,411	1,537	1,230	1,222	1,057
8 Total borrowings at Reserve Banks[8]	402	286	161	143	346	112	143	53	32	34
9 Seasonal borrowings	274	205	154	108	86	67	64	18	18	18
10 Extended credit[9]	0	0	0	0	0	0	0	0	0	0

1. Data in this table also appear in the Board's H.3 (502) weekly statistical release. For ordering address, see inside front cover. Data are not break-adjusted or seasonally adjusted.
2. Excludes required clearing balances and adjustments to compensate for float and includes other off-balance-sheet "as-of" adjustments.
3. Total "lagged" vault cash held by depository institutions subject to reserve requirements. Dates refer to the maintenance periods during which the vault cash may be used to satisfy reserve requirements. The maintenance period for weekly reporters ends sixteen days after the lagged computation period during which the vault cash is held. Before Nov. 25, 1992, the maintenance period ended thirty days after the lagged computation period.
4. All vault cash held during the lagged computation period by "bound" institutions (that is, those whose required reserves exceed their vault cash) plus the amount of vault cash applied during the maintenance period by "nonbound" institutions (that is, those whose vault cash exceeds their required reserves) to satisfy current reserve requirements.
5. Total vault cash (line 2) less applied vault cash (line 3).
6. Reserve balances with Federal Reserve Banks (line 1) plus applied vault cash (line 3).
7. Total reserves (line 5) less required reserves (line 6).
8. Also includes adjustment credit.
9. Consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as with traditional short-term adjustment credit, the money market effect of extended credit is similar to that of nonborrowed reserves.

1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Banks[1]

Millions of dollars, averages of daily figures

Source and maturity	1996					1997			
	Dec. 2	Dec. 9	Dec. 16	Dec. 23	Dec. 30	Jan. 6	Jan. 13	Jan. 20	Jan. 27
Federal funds purchased, repurchase agreements, and other selected borrowings									
From commercial banks in the United States									
1 For one day or under continuing contract	90,123	94,694	84,450	83,209	79,414	81,449	77,086	74,812	76,367
2 For all other maturities	14,828	13,478	14,638	15,099	14,794	13,253	14,492	15,048	13,680
From other depository institutions, foreign banks and official institutions, and U.S. government agencies									
3 For one day or under continuing contract	16,887	19,083	17,451	17,772	17,621	20,235	22,186	19,394	18,971
4 For all other maturities	20,795	17,905	17,920	17,490	17,396	15,807	16,252	16,446	17,374
Repurchase agreements on U.S. government and federal agency securities									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	13,966	14,381	11,892	12,129	11,918	14,304	11,905	9,531	11,512
6 For all other maturities	33,433	32,227	33,089	34,380	33,095	31,265	36,294	38,712	39,099
All other customers									
7 For one day or under continuing contract	39,635	40,910	42,461	42,664	40,870	42,759	44,455	44,339	43,943
8 For all other maturities	15,309	14,086	13,594	13,609	14,510	13,411	13,421	13,687	14,260
MEMO									
Federal funds loans and resale agreements in immediately available funds in maturities of one day or under continuing contract									
9 To commercial banks in the United States	78,599	78,244	72,768	71,436	69,786	79,374	71,093	67,421	74,581
10 To all other specified customers[2]	23,836	23,103	25,224	25,127	22,237	23,418	24,138	21,634	20,929

1. Banks with assets of $4 billion or more as of Dec 31, 1988.
Data in this table also appear in the Board's H.5 (507) weekly statistical release. For ordering address, see inside front cover.
2. Brokers and nonbank dealers in securities, other depository institutions, foreign banks and official institutions, and U.S. government agencies.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit[1]			Seasonal credit[2]			Extended credit[3]		
	On 3/7/97	Effective date	Previous rate	On 3/7/97	Effective date	Previous rate	On 3/7/97	Effective date	Previous rate
Boston	5.00	2/1/96	5.25	5.25	2/27/97	5.30	5.75	2/27/97	5.80
New York		1/31/96							
Philadelphia		1/31/96							
Cleveland		1/31/96							
Richmond		2/1/96							
Atlanta		1/31/96							
Chicago		2/1/96							
St. Louis		2/5/96							
Minneapolis		1/31/96							
Kansas City		2/1/96							
Dallas		1/31/96							
San Francisco	5.00	1/31/96	5.25	5.25	2/27/97	5.30	5.75	2/27/97	5.80

Range of rates for adjustment credit in recent years[4]

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1977	6	6
1978—Jan. 9	6–6.5	6.5
20	6.5	6.5
May 11	6.5–7	7
12	7	7
July 3	7–7.25	7.25
10	7.25	7.25
Aug. 21	7.75	7.75
Sept. 22	8	8
Oct. 16	8–8.5	8.5
20	8.5	8.5
Nov. 1	8.5–9.5	9.5
3	9.5	9.5
1979—July 20	10	10
Aug. 17	10–10.5	10.5
20	10.5	10.5
Sept. 19	10.5–11	11
21	11	11
Oct. 8	11–12	12
10	12	12
1980—Feb. 15	12–13	13
19	13	13
May 29	12–13	13
30	12	12
June 13	11–12	11
16	11	11
July 28	10–11	10
29	10	10
Sept. 26	11	11
Nov. 17	12	12
Dec. 5	12–13	13
8	13	13
1981—May 5	13–14	14
8	14	14

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
1981—Nov. 2	13–14	13
6	13	13
Dec. 4	12	12
1982—July 20	11.5–12	11.5
23	11.5	11.5
Aug. 2	11–11.5	11
3	11	11
16	10.5	10.5
27	10–10.5	10
30	10	10
Oct. 12	9.5–10	9.5
13	9.5	9.5
Nov. 22	9–9.5	9
26	9	9
Dec. 14	8.5–9	9
15	8.5–9	8.5
17	8.5	8.5
1984—Apr. 9	8.5–9	9
13	9	9
Nov. 21	8.5–9	8.5
26	8.5	8.5
Dec. 24	8	8
1985—May 20	7.5–8	7.5
24	7.5	7.5
1986—Mar. 7	7–7.5	7
10	7	7
Apr. 21	6.5–7	6.5
23	6.5	6.5
July 11	6	6
Aug. 21	5.5–6	5.5
22	5.5	5.5
1987—Sept. 4	5.5–6	6
11	6	6

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
1988—Aug. 9	6–6.5	6.5
11	6.5	6.5
1989—Feb. 24	6.5–7	7
27	7	7
1990—Dec. 19	6.5	6.5
1991—Feb. 1	6–6.5	6
4	6	6
Apr. 30	5.5–6	5.5
May 2	5.5	5.5
Sept. 13	5–5.5	5
17	5	5
Nov. 6	4.5–5	4.5
7	4.5	4.5
Dec. 20	3.5–4.5	3.5
24	3.5	3.5
1992—July 2	3–3.5	3
7	3	3
1994—May 17	3–3.5	3.5
18	3.5	3.5
Aug. 16	3.5–4	4
18	4	4
Nov. 15	4–4.75	4.75
17	4.75	4.75
1995—Feb. 1	4.75–5.25	5.25
9	5.25	5.25
1996—Jan. 31	5.00–5.25	5.00
Feb. 5	5.00	5.00
In effect Mar. 7, 1997	5.00	5.00

1. Available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. The highest rate established for loans to depository institutions may be charged on adjustment credit loans of unusual size *that result from a major operating problem at the borrower's facility.*

2. Available to help relatively small depository institutions meet regular seasonal needs for funds that arise from a clear pattern of intrayearly movements in their deposits and loans and that cannot be met through special industry lenders. The discount rate on seasonal credit takes into account rates charged by market sources of funds and ordinarily is reestablished on the first business day of each two-week reserve maintenance period; however, it is never less than the discount rate applicable to adjustment credit.

3. May be made available to depository institutions when similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided when exceptional circumstances (including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance) or practices involve only a particular institution, or to meet the needs of institutions experiencing difficulties adjusting to changing market conditions over a longer period (particularly at times of deposit disintermediation). The discount rate applicable to adjustment credit ordinarily is charged on extended-credit loans outstanding less than thirty days; however, at the discretion of the Federal Reserve Bank, this time period may be shortened. Beyond this initial period, a flexible rate somewhat above rates charged on market sources of funds is charged. The rate ordinarily is reestablished on the first business day of each two-week reserve maintenance period, *but it is never less than the discount rate applicable to adjustment credit plus 50 basis* points.

4. For earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*; and the *Annual Statistical Digest, 1970–1979.*

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment-credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than four weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980. A surcharge of 2 percent was reimposed on Nov. 17, 1980; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12, 1981. As of Oct. 1, 1981, the formula for applying the surcharge was changed from a calendar quarter to a moving thirteen-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

	Type of deposit	Requirement	
		Percentage of deposits	Effective date
	Net transaction accounts[2]		
1	$0 million–$49.3 million[3]	3	1/2/97
2	More than $49.3 million[4]	10	1/2/97
3	Nonpersonal time deposits[5]	0	12/27/90
4	Eurocurrency liabilities[6]	0	12/27/90

1. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmember institutions may maintain reserve balances with a Federal Reserve Bank indirectly, on a pass-through basis, with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* or the *Federal Reserve Bulletin*. Under the Monetary Control Act of 1980, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge Act corporations.

2. Transaction accounts include all deposits against which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, or telephone or preauthorized transfers for the purpose of making payments to third persons or others. However, accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month (of which no more than three may be by check, draft, debit card, or similar order payable directly to third parties) are savings deposits, not transaction accounts.

3. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage change in transaction accounts held by all depository institutions, determined as of June 30 of each year. Effective with the reserve maintenance period beginning January 2, 1997, for depository institutions that report weekly, and with the period beginning January 16, 1997, for institutions that report quarterly, the amount was decreased from $52.0 million to $49.3 million.

Under the Garn–St Germain Depository Institutions Act of 1982, the Board adjusts the amount of reservable liabilities subject to a zero percent reserve requirement each year for the succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is made in the event of a decrease. The exemption applies only to accounts that would be subject to a 3 percent reserve requirement. Effective with the reserve maintenance period beginning January 2, 1997, for depository institutions that report weekly, and with the period beginning January 16, 1997, for institutions that report quarterly, the exemption was raised from $4.3 million to $4.4 million.

4. The reserve requirement was reduced from 12 percent to 10 percent on Apr. 2, 1992, for institutions that report weekly, and on Apr. 16, 1992, for institutions that report quarterly.

5. For institutions that report weekly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to 1½ percent for the maintenance period that began Dec. 13, 1990, and to zero for the maintenance period that began Dec. 27, 1990. For institutions that report quarterly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to zero on Jan. 17, 1991.

The reserve requirement on nonpersonal time deposits with an original maturity of 1½ years or more has been zero since Oct. 6, 1983.

6. The reserve requirement on Eurocurrency liabilities was reduced from 3 percent to zero in the same manner and on the same dates as the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years (see note 5).

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS[1]

Millions of dollars

Type of transaction and maturity	1994	1995	1996	1996						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.
U.S. TREASURY SECURITIES										
Outright transactions (excluding matched transactions)										
Treasury bills										
1 Gross purchases	17,484	10,932	9,901	3,311	0	0	0	0	6,502	0
2 Gross sales	0	0	0	0	0	0	0	0	0	0
3 Exchanges	376,277	398,487	400,152	31,726	32,368	34,271	32,791	38,661	29,037	27,247
4 Redemptions	0	900	0	0	0	0	0	0	0	0
Others within one year										
5 Gross purchases	1,238	390	1,275	0	0	1,240	0	0	0	0
6 Gross sales	0	0	0	0	0	0	0	0	0	0
7 Maturity shifts	0	0	29,070	0	2,807	2,780	2,371	1,623	3,818	2,259
8 Exchanges	−21,444	0	−41,394	0	−4,415	−3,580	−2,890	−1,770	−5,655	−1,950
9 Redemptions	0	0	2,015	0	0	0	0	0	0	0
One to five years										
10 Gross purchases	9,168	4,966	3,177	0	0	1,279	0	0	0	0
11 Gross sales	0	0	0	0	0	0	0	0	0	0
12 Maturity shifts	−6,004	0	−24,087	0	−2,807	−1,409	−2,371	−1,623	−2,102	−2,259
13 Exchanges	17,801	0	31,458	0	3,694	1,780	2,890	1,395	2,715	1,950
Five to ten years										
14 Gross purchases	3,818	1,239	776	0	0	297	0	0	0	0
15 Gross sales	0	0	0	0	0	0	0	0	0	0
16 Maturity shifts	−3,145	0	−1,531	0	0	−1,371	0	0	1,716	0
17 Exchanges	2,903	0	6,666	0	721	900	0	375	1,470	0
More than ten years										
18 Gross purchases	3,606	3,122	1,965	0	0	900	0	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shifts	−918	0	−20	0	0	0	0	0	0	0
21 Exchanges	775	0	3,270	0	0	900	0	0	1,470	0
All maturities										
22 Gross purchases	35,314	20,649	17,094	3,311	0	3,716	0	0	6,502	0
23 Gross sales	0	0	0	0	0	0	0	0	0	0
24 Redemptions	2,337	2,376	787	0	0	0	0	0	0	0
Matched transactions										
25 Gross purchases	1,700,836	2,197,736	3,083,315	248,534	267,438	265,397	234,992	268,304	227,577	272,117
26 Gross sales	1,701,309	2,202,030	3,085,685	249,277	268,975	264,536	238,036	267,128	226,505	273,872
Repurchase agreements										
27 Gross purchases	309,276	331,694	457,568	43,048	46,151	45,202	36,014	33,836	36,383	85,924
28 Gross sales	311,898	328,497	450,359	41,666	37,779	56,286	33,374	33,020	36,665	73,501
29 Net change in U.S. Treasury securities	29,882	17,175	21,147	3,950	6,836	−6,508	−404	1,993	7,293	10,669
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
30 Gross purchases	0	0	0	0	0	0	0	0	0	0
31 Gross sales	0	0	0	0	0	0	0	0	0	0
32 Redemptions	1,002	1,303	1,637	40	52	0	27	63	10	12
Repurchase agreements										
33 Gross purchases	52,696	36,851	75,354	5,138	3,145	8,500	4,536	12,683	9,264	7,796
34 Gross sales	52,696	36,776	74,842	6,488	2,863	7,544	4,436	11,051	9,471	8,947
35 Net change in federal agency obligations	−1,002	−1,228	−1,125	−1,390	231	956	73	1,569	−217	−1,163
36 Total net change in System Open Market Account	**28,880**	**15,948**	**20,021**	**2,560**	**7,066**	**−5,552**	**−331**	**3,562**	**7,076**	**9,506**

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements[1]

Millions of dollars

Account	Wednesday					End of month		
	1997					1996		1997
	Jan. 1	Jan. 8	Jan. 15	Jan. 22	Jan. 29	Nov. 30	Dec. 31	Jan. 31
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,048	11,048	11,048	11,048	11,048	11,049	11,048	11,048
2 Special drawing rights certificate account	9,718	9,718	9,718	9,718	9,400	9,718	9,718	9,400
3 Coin	591	587	617	651	676	621	591	703
Loans								
4 To depository institutions	85	51	145	24	80	188	85	30
5 Other	0	0	0	0	0	0	0	0
6 Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations								
7 Bought outright	2,225	2,225	2,055	2,038	2,038	2,237	2,225	2,038
8 Held under repurchase agreements	1,612	2,184	2,910	1,550	2,530	2,763	1,612	1,285
9 **Total U.S. Treasury securities**	**410,878**	**402,096**	**404,027**	**396,118**	**405,859**	**400,210**	**410,878**	**399,448**
10 Bought outright[2]	390,907	392,321	389,379	391,872	391,933	392,662	390,907	391,728
11 Bills	190,647	192,060	189,724	192,218	192,279	192,401	190,647	192,074
12 Notes	150,922	150,922	150,315	150,315	150,315	150,922	150,922	150,315
13 Bonds	49,339	49,339	49,339	49,339	49,339	49,339	49,339	49,339
14 Held under repurchase agreements	19,971	9,775	14,648	4,246	13,926	7,548	19,971	7,720
15 **Total loans and securities**	**414,800**	**406,556**	**409,136**	**399,730**	**410,507**	**405,397**	**414,800**	**402,801**
16 Items in process of collection	12,761	7,519	7,321	12,830	6,276	3,609	12,761	4,343
17 Bank premises	1,233	1,236	1,236	1,236	1,236	1,221	1,233	1,235
Other assets								
18 Denominated in foreign currencies[3]	19,264	19,272	19,279	19,286	19,294	19,338	19,264	18,241
19 All other[4]	11,725	11,602	11,751	11,103	12,801	10,332	11,725	11,494
20 **Total assets**	**481,140**	**467,538**	**470,106**	**465,603**	**471,238**	**461,286**	**481,140**	**459,267**
LIABILITIES								
21 Federal Reserve notes	426,522	422,511	418,924	417,374	415,621	416,915	426,522	414,299
22 **Total deposits**	**33,325**	**24,792**	**30,511**	**24,408**	**35,702**	**27,450**	**33,325**	**27,603**
23 Depository institutions	24,524	19,325	22,467	15,321	25,288	22,131	24,524	20,307
24 U.S. Treasury—General account	7,742	5,062	7,521	8,578	9,874	4,857	7,742	6,770
25 Foreign—Official accounts	167	169	171	169	199	170	167	167
26 Other	892	236	352	339	341	292	892	359
27 Deferred credit items	7,464	6,282	6,238	9,511	5,542	2,702	7,464	3,981
28 Other liabilities and accrued dividends[5]	4,732	4,465	4,814	4,591	4,654	4,730	4,732	4,618
29 **Total liabilities**	**472,043**	**458,050**	**460,488**	**455,884**	**461,519**	**451,796**	**472,043**	**450,501**
CAPITAL ACCOUNTS								
30 Capital paid in	4,602	4,600	4,678	4,689	4,692	4,587	4,602	4,676
31 Surplus	4,496	4,496	4,496	4,496	4,496	3,860	4,496	4,083
32 Other capital accounts	0	393	444	535	531	1,043	0	8
33 **Total liabilities and capital accounts**	**481,140**	**467,538**	**470,106**	**465,603**	**471,238**	**461,286**	**481,140**	**459,267**
MEMO								
34 Marketable U.S. Treasury securities held in custody for foreign and international accounts	618,074	617,935	621,744	616,303	619,362	614,599	618,074	625,260
	Federal Reserve note statement							
35 Federal Reserve notes outstanding (issued to Banks)	526,826	524,851	523,662	523,724	523,096	529,197	526,826	523,455
36 LESS: Held by Federal Reserve Banks	100,304	102,340	104,737	106,350	107,475	112,282	100,304	109,156
37 Federal Reserve notes, net	426,522	422,511	418,924	417,374	415,621	416,915	426,522	414,299
Collateral held against notes, net								
38 Gold certificate account	11,048	11,048	11,048	11,048	11,048	11,049	11,048	11,048
39 Special drawing rights certificate account	9,718	9,718	9,718	9,718	9,400	9,718	9,718	9,400
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. Treasury and agency securities	405,756	401,745	398,159	396,608	395,174	396,148	405,756	393,851
42 **Total collateral**	**426,522**	**422,511**	**418,924**	**417,374**	**415,621**	**416,915**	**426,522**	**414,299**

1. Some of the data in this table also appear in the Board's H.4.1 (503) weekly statistical release. For ordering address, see inside front cover.
2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale–purchase transactions.
3. Valued monthly at market exchange rates.
4. Includes special investment account at the Federal Reserve Bank of Chicago in Treasury bills maturing within ninety days.
5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign exchange commitments.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holding

Millions of dollars

Type of holding and maturity	Wednesday					End of month		
	1997					1996		1997
	Jan. 1	Jan. 8	Jan. 15	Jan. 22	Jan. 29	Nov. 30	Dec. 31	Jan. 31
1 **Total loans**	**85**	**51**	**145**	**24**	**80**	**188**	**85**	**30**
2 Within fifteen days[1]	75	42	137	24	80	140	75	25
3 Sixteen days to ninety days	10	9	8	0	0	48	11	5
4 **Total U.S. Treasury securities**	**410,878**	**402,096**	**404,027**	**396,118**	**405,859**	**392,662**	**410,878**	**399,448**
5 Within fifteen days[1]	27,846	23,316	22,325	18,660	28,394	7,741	27,846	16,270
6 Sixteen days to ninety days	89,036	89,639	88,328	84,285	84,017	92,763	89,036	96,790
7 Ninety-one days to one year	122,780	117,925	123,035	122,835	123,110	120,633	122,780	117,103
8 One year to five years	95,607	95,608	94,730	94,730	94,730	95,917	95,607	93,677
9 Five years to ten years	33,782	33,782	33,782	33,782	33,782	33,782	3,782	33,782
10 More than ten years	41,826	41,826	41,826	41,826	41,826	41,826	41,826	41,826
11 **Total federal agency obligations**	**3,837**	**4,409**	**4,965**	**3,588**	**4,568**	**2,237**	**3,837**	**3,323**
12 Within fifteen days[1]	2,062	2,371	2,927	1,711	2,691	339	2,062	1,446
13 Sixteen days to ninety days	541	797	797	636	650	644	541	679
14 Ninety-one days to one year	232	240	240	240	226	242	232	197
15 One year to five years	520	520	520	520	520	520	520	520
16 Five years to ten years	457	457	457	457	457	467	457	457
17 More than ten years	25	25	25	25	25	25	25	25

1. Holdings under repurchase agreements are classified as maturing within fifteen days in accordance with maximum maturity of the agreements.

NOTE. Total acceptances data have been deleted from this table because data are no longer available.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE[1]

Billions of dollars, averages of daily figures

Item	1993 Dec.	1994 Dec.	1995 Dec.	1996 Dec.	1996 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1997 Jan.
	Seasonally adjusted											
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]												
1 Total reserves[3]	60.52	59.36	56.36	50.17	54.11	53.20	52.27	51.35	50.14	49.88	50.17	49.40
2 Nonborrowed reserves[4]	60.44	59.16	56.11	50.01	53.73	52.83	51.94	50.98	49.85	49.66	50.01	49.36
3 Nonborrowed reserves plus extended credit[5]	60.44	59.16	56.11	50.01	53.73	52.83	51.94	50.98	49.85	49.66	50.01	49.36
4 Required reserves	59.46	58.20	55.09	48.74^r	52.96	52.13	51.31	50.31	49.14	48.84	48.74^r	48.18
5 Monetary base[6]	386.93^r	418.53^r	434.61^r	452.92^r	439.69^r	442.24^r	444.16^r	445.99^r	447.12^r	449.47^r	452.92^r	454.05
	Not seasonally adjusted											
6 Total reserves[7]	62.37	61.13	58.02	51.61	53.87	53.05	51.88	51.27	49.85	50.08	51.61	50.67
7 Nonborrowed reserves	62.29	60.92	57.76	51.45	53.48	52.69	51.55	50.90	49.56	49.87	51.45	50.63
8 Nonborrowed reserves plus extended credit[5]	62.29	60.92	57.76	51.45	53.48	52.69	51.55	50.90	49.56	49.87	51.45	50.63
9 Required reserves[8]	61.31	59.96	56.74	50.18^r	52.72	51.99	50.92	50.23	48.85	49.05	50.18^r	49.45
10 Monetary base[9]	390.59	422.51	439.03	456.80	439.89	443.22	444.58	445.55	445.44	449.27	456.80	455.57
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[10]												
11 Total reserves[11]	62.86	61.34	57.90	51.24^r	53.69	52.84	51.64	51.00	49.55	49.76	51.24^r	50.64
12 Nonborrowed reserves	62.78	61.13	57.64	51.09	53.30	52.48	51.31	50.63	49.26	49.54	51.09	50.60
13 Nonborrowed reserves plus extended credit[5]	62.78	61.13	57.64	51.09	53.30	52.48	51.31	50.63	49.26	49.54	51.09	50.60
14 Required reserves	61.80	60.17	56.62	49.82	52.54	51.78	50.68	49.96	48.56	48.72	49.82	49.42
15 Monetary base[12]	397.62	427.25	444.45	463.49	445.95	449.29	450.77	451.72	451.91	455.90	463.49	462.72
16 Excess reserves[13]	1.06	1.17	1.28	1.42	1.15	1.07	.96	1.04	.99	1.04	1.42	1.23
17 Borrowings from the Federal Reserve	.08	.21	.26	.16	.39	.37	.33	.37	.29	.21	.16	.05

1. Latest monthly and biweekly figures are available from the Board's H.3 (502) weekly statistical release. Historical data starting in 1959 and estimates of the effect on required reserves of changes in reserve requirements are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

2. Figures reflect adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.10.)

3. Seasonally adjusted, break-adjusted total reserves equal seasonally adjusted, break-adjusted required reserves (line 4) plus excess reserves (line 16).

4. Seasonally adjusted, break-adjusted nonborrowed reserves equal seasonally adjusted, break-adjusted total reserves (line 1) less total borrowings of depository institutions from the Federal Reserve (line 17).

5. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as with traditional short-term adjustment credit, the money market effect of extended credit is similar to that of nonborrowed reserves.

6. The seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

7. Break-adjusted total reserves equal break-adjusted required reserves (line 9) plus excess reserves (line 16).

8. To adjust required reserves for discontinuities that are due to regulatory changes in reserve requirements, a multiplicative procedure is used to estimate what required reserves would have been in past periods had current reserve requirements been in effect. Break-adjusted required reserves include required reserves against transactions deposits and nonpersonal time and savings deposits (but not reservable nondeposit liabilities).

9. The break-adjusted monetary base equals (1) break-adjusted total reserves (line 6), plus (2) the (unadjusted) currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

10. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with regulatory changes in reserve requirements.

11. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements.

12. The monetary base, not break-adjusted and not seasonally adjusted, consists of (1) total reserves (line 11), plus (2) required clearing balances and adjustments to compensate for float at Federal Reserve Banks, plus (3) the currency component of the money stock, plus (4) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the difference between current vault cash and the amount applied to satisfy current reserve requirements. Since the introduction of contemporaneous reserve requirements in February 1984, currency and vault cash figures have been measured over the computation periods ending on Mondays.

13. Unadjusted total reserves (line 11) less unadjusted required reserves (line 14).

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES[1]

Billions of dollars, averages of daily figures

Item	1993 Dec.[r]	1994 Dec.[r]	1995 Dec.[r]	1996 Dec.[r]	1996[r] Oct.	1996[r] Nov.	1996[r] Dec.	1997 Jan.
	Seasonally adjusted							
Measures[2]								
1 M1	1,129.8	1,150.7	1,129.0	1,080.9	1,080.1	1,079.9	1,080.9	1,079.6
2 M2	3,486.6	3,502.1	3,655.0	3,833.0	3,787.8	3,809.3	3,833.0	3,849.7
3 M3	4,254.4	4,328 7	4,594.8	4,936.6	4,859.7	4,890.3	4,936.6	4,966.1
4 L	5,169.3	5,312.4	5,704.2	6,073.5	5,987.4	6,031.3	6,073.5	n.a.
5 Debt	12,506.5	13,148.4	13,866.9	14,611.4	14,484.9	14,553.1	14,611.4	n.a.
M1 components								
6 Currency[3]	322.2	354.4	372.6	395.2	390.2	392.5	395.2	397.0
7 Travelers checks[4]	7.9	8.5	8.9	8.6	8.6	8.6	8.6	8.6
8 Demand deposits[5]	385.2	384.1	391.1	402.6	398.3	402.2	402.6	401.9
9 Other checkable deposits[6]	414.5	403.8	356.5	274.5	283.1	276.7	274.5	272.1
Nontransaction components								
10 In M2[7]	2,356.8	2,351.4	2,526.0	2,752.1	2,707.7	2,729.4	2,752.1	2,770.0
11 In M3 only[8]	767.8	826.6	939.8	1,103.6	1,071.9	1,081.0	1,103.6	1,116.5
Commercial banks								
12 Savings deposits, including MMDAs	785.2	752.4	776.0	903.7	879.2	892.5	903.7	914.1
13 Small time deposits[9]	468.3	503.2	576.0	592.2	587.5	590.1	592.2	592.1
14 Large time deposits[10, 11]	271.9	298.4	344.7	420.4	402.8	408.4	420.4	428.4
Thrift institutions								
15 Savings deposits, including MMDAs	434.0	397.2	361.1	367.1	367.1	366.3	367.1	368.7
16 Small time deposits[9]	314.3	314.3	357.7	352.5	353.5	353.3	352.5	352.8
17 Large time deposits[10]	61.5	64.7	75.1	79.3	78.8	79.4	79.3	81.3
Money market mutual funds								
18 Retail	354.9	384.3	455.2	536.6	520.5	527.1	536.6	542.4
19 Institution-only	209.5	198.5	246.9	299.3	288.1	292.0	299.3	296.3
Repurchase agreements and Eurodollars								
20 Repurchase agreements[12]	158.6	182.9	182.1	195.0	195.8	195.6	195.0	197.9
21 Eurodollars[12]	66.4	82.1	91.0	109.6	106.4	105.6	109.6	112.6
Debt components								
22 Federal debt	3,323.3	3,492.2	3,638.8	3,780.4	3,758.2	3,771.4	3,780.4	n.a.
23 Nonfederal debt	9,183.1	9,656.2	10,228.1	10,831.0	10,726.8	10,781.8	10,831.0	n.a.
	Not seasonally adjusted							
Measures[2]								
24 M1	1,153.7	1,174.4	1,152.8	1,102.9	1,076.7	1,085.1	1,102.9	1,085.8
25 M2	3,506.6	3,522.5	3,675.3	3,851.5	3,777.6	3,812.2	3,851.5	3,851.3
26 M3	4,274.8	4,348.8	4,614.3	4,953.6	4,855.5	4,898.5	4,953.6	4,971.5
27 L	5,197.7	5,340.2	5,732.2	6,098.2	5,973.6	6,039.5	6,098.2	n.a.
28 Debt	12,508.5	13,150.0	13,867.4	14,610.5	14,447.0	14,534.4	14,610.5	n.a.
M1 components								
29 Currency[3]	324.8	357.5	376.2	397.9	388.9	392.8	397.9	395.6
30 Travelers checks[4]	7.6	8.1	8.5	8.3	8.6	8.4	8.3	8.2
31 Demand deposits[5]	401.8	400.3	407.3	418.9	398.6	407.7	418.9	405.8
32 Other checkable deposits[6]	419.4	408.6	360.8	277.7	280.6	276.2	277.7	276.1
Nontransaction components								
33 In M2[7]	2,352.9	2,348.1	2,522.6	2,748.6	2,700.9	2,727.1	2,748.6	2,765.5
34 In M3 only[8]	768.2	826.3	939.0	1,102.1	1,077.9	1,086.3	1,102.1	1,120.2
Commercial banks								
35 Savings deposits, including MMDAs	784.3	751.7	775.3	902.7	878.8	894.3	902.7	909.0
36 Small time deposits[9]	466.8	501.5	573.8	590.0	586.8	588.6	590.0	591.4
37 Large time deposits[10, 11]	272.0	298.9	345.7	421.9	407.4	413.1	421.9	424.7
Thrift institutions								
38 Savings deposits, including MMDAs	433.4	396.8	360.8	366.6	366.9	367.1	366.6	366.6
39 Small time deposits[9]	313.3	313.2	356.3	351.2	353.1	352.5	351.2	352.3
40 Large time deposits[10]	61.5	64.8	75.4	79.6	79.7	80.4	79.6	80.6
Money market mutual funds								
41 Retail	355.0	385.0	456.3	538.1	515.3	524.6	538.1	546.2
42 Institution-only	210.6	199.8	248.2	300.5	284.7	292.6	300.5	304.8
Repurchase agreements and Eurodollars								
43 Repurchase agreements[12]	156.6	179.6	178.0	189.7	198.8	194.4	189.7	195.9
44 Eurodollars[12]	67.6	83.2	91.8	110.4	107.3	105.8	110.4	114.2
Debt components								
45 Federal debt	3,329.5	3,499.0	3,645.9	3,787.9	3,740.9	3,771.4	3,787.9	n.a
46 Nonfederal debt	9,179.0	9,651.0	10,221.4	10,822.6	10,706.2	10,763.1	10,822.6	n.a.

Footnotes appear on following page.

NOTES TO TABLE 1.21

1. Latest monthly and weekly figures are available from the Board's H.6 (508) weekly statistical release. Historical data starting in 1959 are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

2. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions, (2) travelers checks of nonbank issuers, (3) demand deposits at all commercial banks other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float, and (4) other checkable deposits (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) savings deposits (including MMDAs), (2) small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and (3) balances in retail money market mutual funds (money funds with minimum initial investments of less than $50,000). Excludes individual retirement accounts (IRAs) and Keogh balances at depository institutions and money market funds. Seasonally adjusted M2 is calculated by summing savings deposits, small-denomination time deposits, and retail money fund balances, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

M3: M2 plus (1) large-denomination time deposits (in amounts of $100,000 or more) issued by all depository institutions, (2) balances in institutional money funds (money funds with minimum initial investments of $50,000 or more), (3) RP liabilities (overnight and term) issued by all depository institutions, and (4) Eurodollars (overnight and term) held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Seasonally adjusted M3 is calculated by summing large time deposits, institutional money fund balances, RP liabilities, and Eurodollars, each seasonally adjusted separately, and adding this result to seasonally adjusted M2.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, net of money market fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: The debt aggregate is the outstanding credit market debt of the domestic nonfinancial sectors—the federal sector (U.S. government, not including government-sponsored enterprises or federally related mortgage pools) and the nonfederal sectors (state and local governments, households and nonprofit organizations, nonfinancial corporate and nonfarm noncorporate businesses, and farms). Nonfederal debt consists of mortgages, tax-exempt and corporate bonds, consumer credit, bank loans, commercial paper, and other loans. The data, which are derived from the Federal Reserve Board's flow of funds accounts, are break-adjusted (that is, discontinuities in the data have been smoothed into the series) and month-averaged (that is, the data have been derived by averaging adjacent month-end levels).

3. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of depository institutions.

4. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

5. Demand deposits at commercial banks and foreign-related institutions other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float

6. Consists of NOW and ATS account balances at all depository institutions, credit union share draft account balances, and demand deposits at thrift institutions.

7. Sum of (1) savings deposits (including MMDAs), (2) small time deposits, and (3) retail money fund balances.

8. Sum of (1) large time deposits, (2) institutional money fund balances, (3) RP liabilities (overnight and term) issued by depository institutions, and (4) Eurodollars (overnight and term) of U.S. addressees.

9. Small time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRAs and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.

10. Large time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

11. Large time deposits at commercial banks less those held by money market funds, depository institutions, the U.S. government, and foreign banks and official institutions.

12. Includes both overnight and term.

1.22 DEPOSIT INTEREST RATES AND AMOUNTS OUTSTANDING Commercial and BIF-insured saving banks[1]

Item	1995 Dec.	1996 Dec.[r]	1996								1997
			May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.
	Interest rates (annual effective yields)										
INSURED COMMERCIAL BANKS											
1 Negotiable order of withdrawal accounts[2]	1.91	n.a.	1.88	1.89	1.90	1.91	1.90	1.91	1.98	n.a.	n.a.
2 Savings deposits[2,3]	3.10	n.a.	2.89	2.87	2.88	2.86	2.84	2.85	2.85	n.a.	n.a.
Interest-bearing time deposits with balances of less than $100,000, by maturity											
3 7 to 91 days	4.10	4.03	4.03	4.08	4.13	4.17	4.11	4.11	4.08	4.03	4.03
4 92 to 182 days	4.68	4.63	4.51	4.55	4.59	4.60	4.61	4.60	4.60	4.63	4.63
5 183 days to 1 year	5.02	5.00[r]	4.88	4.95	5.00	5.00	5.04	5.02	4.99	5.00	5.01
6 More than 1 year to 2½ years	5.17	5.22	5.10	5.18	5.25	5.25	5.29	5.27	5.23	5.22	5.25
7 More than 2½ years	5.40	5.46	5.36	5.46	5.50	5.50	5.54	5.52	5.48	5.46	5.49
BIF-INSURED SAVINGS BANKS[4]											
8 Negotiable order of withdrawal accounts[2]	1.91	n.a.	1.81	1.80	1.81	1.81	1.84	1.90	1.92	n.a.	n.a.
9 Savings deposits[2,3]	2.98	n.a	2.84	2.86	2.88	2.86	2.84	2.80	2.82	n.a.	n.a.
Interest-bearing time deposits with balances of less than $100,000, by maturity											
10 7 to 91 days	4.43	4.66	4.49	4.54	4.64	4.64	4.59	4.64	4.67	4.66	4.75
11 92 to 182 days	4.95	5.02	4.83	4.91	5.01	5.06	5.11	5.08	5.03	5.02	5.05
12 183 days to 1 year	5.18	5.28	4.96	5.02	5.09	5.26	5.33	5.32	5.29	5.28	5.32
13 More than 1 year to 2½ years	5.33	5.53	5.26	5.35	5.41	5.59	5.61	5.60	5.56	5.53	5.58
14 More than 2½ years	5.46	5.72	5.38	5.51	5.60	5.80	5.82	5.79	5.76	5.72	5.77
	Amounts outstanding (millions of dollars)										
INSURED COMMERCIAL BANKS											
15 Negotiable order of withdrawal accounts[2]	248,417	n.a.	208,570	201,037	204,980	190,696	190,033	188,803	167,503	n.a.	n.a.
16 Savings deposits[2,3]	776,466	n.a.	839,319	838,385	835,033	860,719	852,336	859,524	896,820	n.a.	n.a.
17 Personal	615,113	n.a.	668,788	667,802	662,465	683,081	675,576	680,596	713,672	n.a.	n.a.
18 Nonpersonal	161,353	n.a.	170,531	170,583	172,568	177,638	176,759	178,928	183,148	n.a.	n.a.
Interest-bearing time deposits with balances of less than $100,000, by maturity											
19 7 to 91 days	32,170	32,929[r]	30,383	31,483	31,690	32,907	32,695	32,428	32,044	32,929	32,775
20 92 to 182 days	93,941	92,296[r]	95,911	94,654	93,941	91,235	91,167	91,195	92,503	92,296	94,916
21 183 days to 1 year	183,834	201,441[r]	193,821	194,900	197,108	200,038	200,008	199,397	201,281	201,441	201,401
22 More than 1 year to 2½ years	208,601	213,198[r]	208,932	209,390	208,906	209,618	211,234	213,012	214,405	213,198	213,769
23 More than 2½ years	199,002	199,911[r]	198,922	198,935	198,224	199,755	198,324	199,126	198,539	199,911	197,769
24 IRA and Keogh plan deposits	150,067	151,364[r]	151,652	151,690	150,873	151,048	151,309	151,276	151,389	151,364	150,682
BIF-INSURED SAVINGS BANKS[4]											
25 Negotiable order of withdrawal accounts[2]	11,918	n.a.	11,715	11,255	10,889	10,682	9,838	9,938	9,710	n.a.	n.a.
26 Savings deposits[2,3]	68,643	n.a.	67,630	66,938	66,854	67,431	67,980	67,975	68,102	n.a.	n.a.
27 Personal	65,366	n.a.	64,121	63,642	63,557	63,927	64,425	64,326	64,369	n.a.	n.a.
28 Nonpersonal	3,277	n.a.	3,510	3,296	3,296	3,504	3,555	3,649	3,733	n.a.	n.a.
Interest-bearing time deposits with balances of less than $100,000, by maturity											
29 7 to 91 days	2,001	2,426[r]	2,349	2,229	2,368	2,316	2,540	2,503	2,405	2,426	2,542
30 92 to 182 days	12,140	13,008	13,955	13,725	13,587	13,440	13,474	13,300	13,074	13,008	13,117
31 183 days to 1 year	25,686	28,800[r]	28,121	27,950	28,506	29,339	29,383	29,659	29,329	28,800	29,517
32 More than 1 year to 2½ years	27,482	29,098	25,444	25,513	26,132	26,199	27,192	28,063	28,573	29,098	29,181
33 More than 2½ years	22,866	22,253	22,661	22,593	22,563	22,477	22,348	22,156	21,823	22,253	21,847
34 IRA and Keogh plan accounts	21,408	20,469	20,683	21,116	21,051	21,052	21,002	20,983	20,627	20,469	20,258

1. BIF, Bank Insurance Fund. Data in this table also appear in the Board's H.6 (508) Special Supplementary Table monthly statistical release. For ordering address, see inside front cover. Estimates are based on data collected by the Federal Reserve System from a stratified random sample of about 425 commercial banks and 75 savings banks on the last day of each month. Data are not seasonally adjusted and include IRA and Keogh deposits and foreign currency-denominated deposits. Data exclude retail repurchase agreements and deposits held in U.S. branches and agencies of foreign banks.

2. Owing to statistical difficulties associated in part with the implementation of sweep accounts, estimates for NOW and savings accounts are not available beginning December 1996.

3. Includes personal and nonpersonal money market deposits.

4. Includes both mutual and federal savings banks.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]

A. All commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1996	1996[r]						1997	1997			
	Jan.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Jan. 8	Jan. 15	Jan. 22	Jan. 29
	Seasonally adjusted											
Assets												
1 Bank credit	3,628.4	3,682.5	3,674.5	3,693.2	3,719.4	3,743.8	3,771.2	3,806.9	3,797.0	3,787.8	3,821.0	3,818.1
2 Securities in bank credit	989.9	982.1	972.1	968.9	970.2	982.0	992.3	1,005.9	998.4	990.9	1,016.1	1,016.4
3 U.S. government securities	702.1	707.7	702.2	703.3	703.7	707.8	707.4	705.9	710.4	699.5	705.6	707.8
4 Other securities	287.8	274.5	269.9	265.6	266.5	274.2	284.9	300.0	288.0	291.5	310.5	308.6
5 Loans and leases in bank credit[2]	2,638.4	2,700.3	2,702.4	2,724.2	2,749.2	2,761.8	2,778.9	2,800.9	2,798.6	2,796.9	2,805.0	2,801.8
6 Commercial and industrial	721.8	744.7	746.9	761.0	770.5	776.2	787.0	790.9	789.2	790.4	792.0	791.5
7 Real estate	1,086.0	1,105.2	1,109.4	1,112.2	1,115.9	1,120.5	1,125.8	1,131.7	1,130.4	1,129.9	1,131.8	1,134.1
8 Revolving home equity	79.4	79.9	80.5	81.2	83.2	84.2	85.3	85.8	85.6	85.7	85.8	85.9
9 Other	1,006.5	1,025.3	1,028.9	1,030.9	1,032.7	1,036.4	1,040.5	1,046.0	1,044.8	1,044.2	1,046.0	1,048.2
10 Consumer	497.5	510.7	512.8	515.8	518.3	519.0	519.2	521.1	520.8	520.8	522.0	521.6
11 Security[3]	88.1	78.1	72.3	73.8	76.6	77.4	79.0	82.7	83.9	80.4	83.9	81.5
12 Other loans and leases	245.1	261.6	261.0	261.5	267.7	268.6	267.9	274.5	274.3	275.4	275.3	273.0
13 Interbank loans	203.6	196.9	197.6	205.3	203.9	212.4	204.6	198.2	191.1	195.6	204.6	198.7
14 Cash assets[4]	230.0	220.0	223.3	224.2	226.2	232.8	232.3	232.1	234.7	220.7	244.3	230.6
15 Other assets[5]	230.9	252.6	257.8	260.1	254.6	262.1	271.6	266.4	263.0	265.8	271.1	264.1
16 **Total assets**[6]	**4,236.2**	**4,294.5**	**4,295.7**	**4,325.2**	**4,346.3**	**4,393.4**	**4,422.1**	**4,446.3**	**4,428.1**	**4,412.5**	**4,483.9**	**4,454.6**
Liabilities												
17 Deposits	2,681.2	2,733.3	2,751.0	2,772.2	2,782.2	2,822.6	2,858.9	2,876.7	2,874.7	2,875.7	2,886.0	2,862.4
18 Transaction	780.3	741.7	733.3	725.4	715.3	719.6	719.1	715.4	706.8	709.9	734.2	709.3
19 Nontransaction	1,900.9	1,991.6	2,017.6	2,046.8	2,066.9	2,102.9	2,139.8	2,161.3	2,167.9	2,165.8	2,151.8	2,153.0
20 Large time	421.4	453.1	458.8	471.7	480.1	490.5	509.5	520.1	519.1	517.1	515.0	526.7
21 Other	1,479.5	1,538.5	1,558.8	1,575.1	1,586.8	1,612.4	1,630.3	1,641.2	1,648.9	1,648.7	1,636.8	1,626.4
22 Borrowings	693.4	699.0	701.5	706.2	687.4	707.8	706.5	725.3	717.0	702.8	736.7	743.8
23 From banks in the U.S.	297.8	287.0	290.1	295.5	290.5	303.3	308.8	305.7	301.3	302.4	307.8	309.6
24 From others	395.6	412.0	411.4	410.7	396.9	404.5	397.7	419.6	415.6	400.3	428.9	434.2
25 Net due to related foreign offices	267.7	257.3	247.7	251.0	243.9	237.0	229.3	219.4	219.9	219.2	220.2	218.0
26 Other liabilities	235.2	223.0	222.2	221.9	244.1	253.4	261.2	271.3	265.6	263.7	279.6	275.0
27 **Total liabilities**	**3,877.4**	**3,912.5**	**3,922.4**	**3,951.3**	**3,957.5**	**4,020.8**	**4,055.9**	**4,092.7**	**4,077.2**	**4,061.4**	**4,122.3**	**4,099.2**
28 Residual (assets less liabilities)[7]	358.8	382.0	373.3	373.9	388.8	372.7	366.2	353.6	351.0	351.1	361.6	355.4
	Not seasonally adjusted											
Assets												
29 Bank credit	3,626.7	3,679.6	3,675.7	3,695.6	3,721.1	3,748.0	3,770.0	3,805.2	3,798.6	3,791.4	3,812.8	3,812.6
30 Securities in bank credit	982.8	980.7	976.5	969.6	970.1	980.6	978.3	997.1	988.2	983.1	1,005.7	1,008.8
31 U.S. government securities	696.3	705.3	704.5	704.4	704.3	708.2	703.2	699.9	702.3	694.4	700.4	702.0
32 Other securities	286.4	275.4	271.9	265.2	265.9	272.4	275.1	297.2	285.9	288.7	305.3	306.8
33 Loans and leases in bank credit[2]	2,643.9	2,698.9	2,699.2	2,726.0	2,751.0	2,767.4	2,791.7	2,808.1	2,810.3	2,808.4	2,807.1	2,803.8
34 Commercial and industrial	719.7	745.8	743.0	755.9	766.9	774.3	784.0	788.6	786.3	787.6	789.0	789.9
35 Real estate	1,087.6	1,105.3	1,110.9	1,115.2	1,119.0	1,124.8	1,130.6	1,133.7	1,134.0	1,133.7	1,132.8	1,134.0
36 Revolving home equity	79.4	80.0	80.8	81.8	83.7	84.6	85.4	85.8	85.7	85.7	85.8	85.9
37 Other	1,008.2	1,025.3	1,030.1	1,033.4	1,035.3	1,040.2	1,045.3	1,048.0	1,048.3	1,048.0	1,047.0	1,048.1
38 Consumer	502.5	508.7	513.1	518.0	518.5	519.4	523.9	526.7	528.1	527.1	526.9	526.0
39 Security[3]	87.1	76.6	70.8	73.0	76.5	78.8	80.3	81.9	82.5	80.5	82.2	81.1
40 Other loans and leases	247.1	262.5	261.3	263.9	270.0	270.0	272.9	277.1	279.4	279.4	276.1	272.8
41 Interbank loans	213.0	194.5	192.9	199.6	198.7	216.7	213.9	208.0	204.1	210.7	210.3	203.1
42 Cash assets[4]	240.7	216.8	212.3	221.5	227.1	239.8	248.6	242.5	238.1	244.3	257.6	230.0
43 Other assets[5]	231.2	254.2	260.8	262.6	252.0	260.9	271.4	267.0	262.6	266.7	268.2	267.2
44 **Total assets**[6]	**4,255.1**	**4,287.9**	**4,284.2**	**4,321.4**	**4,341.3**	**4,407.8**	**4,446.1**	**4,465.5**	**4,446.1**	**4,456.1**	**4,492.0**	**4,456.1**
Liabilities												
45 Deposits	2,686.7	2,724.7	2,740.4	2,772.8	2,787.0	2,839.7	2,891.1	2,880.6	2,896.5	2,904.9	2,872.2	2,834.4
46 Transaction	792.7	734.8	720.4	723.9	713.0	729.8	752.2	726.8	730.4	742.2	730.9	696.7
47 Nontransaction	1,893.9	1,990.0	2,020.0	2,048.9	2,074.0	2,109.8	2,138.9	2,153.8	2,166.1	2,162.7	2,141.4	2,137.8
48 Large time	418.8	450.5	459.1	469.8	485.5	495.0	509.7	516.8	515.1	514.0	512.2	523.4
49 Other	1,475.1	1,539.4	1,560.9	1,579.2	1,588.5	1,614.8	1,629.2	1,637.0	1,651.0	1,648.7	1,629.2	1,614.3
50 Borrowings	691.6	712.6	707.1	710.5	679.7	697.5	698.8	719.6	702.4	700.0	740.3	736.3
51 From banks in the U.S.	296.5	296.0	295.4	298.0	283.9	297.1	303.5	299.9	293.9	297.8	305.7	301.7
52 From others	395.2	416.6	411.8	412.5	395.8	400.4	395.3	419.7	408.5	402.2	434.6	434.6
53 Net due to related foreign offices	277.3	251.9	243.4	245.2	245.4	234.2	228.2	229.7	223.5	227.4	237.3	232.9
54 Other liabilities	233.3	221.8	221.6	222.4	243.2	257.2	257.2	268.5	260.6	259.4	275.0	276.7
55 **Total liabilities**	**3,888.9**	**3,911.0**	**3,912.6**	**3,950.9**	**3,955.3**	**4,028.5**	**4,075.2**	**4,098.4**	**4,083.0**	**4,091.7**	**4,124.8**	**4,080.4**
56 Residual (assets less liabilities)[7]	366.2	376.9	371.6	370.6	386.0	379.2	370.9	367.2	363.2	364.4	367.3	375.7
MEMO												
57 Revaluation gains on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	62.3	65.5	69.5	88.4	79.4	81.7	96.5	95.1
58 Revaluation losses on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	58.3	60.5	64.3	84.2	74.7	77.4	93.4	90.4

Footnotes appear on page A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

B. Domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1996	1996r						1997	1997			
	Jan.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Jan. 8	Jan. 15	Jan. 22	Jan. 29
	Seasonally adjusted											
Assets												
1 Bank credit	3,186.1	3,215.9	3,210.0	3,225.6	3,237.6	3,246.7	3,260.9	3,284.6	3,279.2	3,270.5	3,295.5	3,291.3
2 Securities in bank credit	849.1	833.9	824.6	822.4	820.8	822.3	824.9	834.0	829.3	823.0	841.6	841.0
3 U.S. government securities	639.0	627.6	621.3	620.4	620.6	619.7	618.2	622.8	624.6	617.9	624.3	625.3
4 Other securities	210.1	206.2	203.3	202.0	200.2	202.5	206.7	211.2	204.7	205.1	217.3	215.8
5 Loans and leases in bank credit[2]	2,337.0	2,382.0	2,385.4	2,403.2	2,416.7	2,424.4	2,436.0	2,450.6	2,449.9	2,447.5	2,453.9	2,450.2
6 Commercial and industrial	539.0	550.6	552.6	560.3	563.5	565.3	569.6	571.0	569.3	570.8	571.8	571.2
7 Real estate	1,050.8	1,072.2	1,076.4	1,079.4	1,083.0	1,087.8	1,093.3	1,099.2	1,097.8	1,097.3	1,099.4	1,101.4
8 Revolving home equity	79.4	79.9	80.5	81.2	83.2	84.2	85.3	85.8	85.6	85.7	85.8	85.9
9 Other	971.4	992.2	995.8	998.1	999.8	1,003.6	1,008.0	1,013.4	1,012.2	1,011.7	1,013.7	1,015.4
10 Consumer	497.5	510.7	512.8	515.8	518.3	519.0	519.2	521.1	520.8	520.8	522.0	521.6
11 Security[3]	55.0	46.0	42.5	44.7	44.0	42.9	43.6	45.4	47.5	44.9	46.0	43.4
12 Other loans and leases	194.7	202.5	201.3	203.1	207.9	209.4	210.3	213.9	214.3	213.6	214.7	212.7
13 Interbank loans	180.6	177.7	181.2	185.0	183.0	191.5	181.8	174.4	170.1	171.0	181.5	172.4
14 Cash assets[4]	199.4	191.9	194.8	194.7	196.4	201.7	200.9	200.2	203.2	188.5	212.8	198.2
15 Other assets[5]	181.8	209.8	214.1	219.0	220.7	225.6	234.1	227.0	225.7	225.9	230.8	224.5
16 **Total assets**[6]	**3,691.2**	**3,737.9**	**3,742.8**	**3,766.9**	**3,780.1**	**3,808.1**	**3,820.3**	**3,829.1**	**3,820.8**	**3,798.8**	**3,863.7**	**3,829.6**
Liabilities												
17 Deposits	2,514.7	2,553.7	2,570.7	2,586.3	2,584.4	2,617.6	2,637.7	2,645.9	2,644.3	2,645.4	2,660.2	2,626.7
18 Transaction	769.5	731.0	722.9	715.7	704.7	709.1	708.3	704.5	696.1	698.9	723.1	698.4
19 Nontransaction	1,745.2	1,822.7	1,847.9	1,870.6	1,879.6	1,908.5	1,929.4	1,941.4	1,948.2	1,946.5	1,937.1	1,928.3
20 Large time	270.8	287.8	292.2	298.9	295.4	299.6	303.0	303.0	303.1	301.7	302.0	303.8
21 Other	1,474.4	1,535.0	1,555.7	1,571.7	1,584.3	1,608.9	1,626.3	1,638.4	1,645.0	1,644.8	1,635.1	1,624.5
22 Borrowings	579.7	576.0	572.9	583.4	568.7	579.5	581.1	593.8	593.7	576.7	601.6	604.2
23 From banks in the U.S.	268.2	256.2	255.6	261.5	257.1	267.9	272.6	274.4	271.6	275.5	274.0	277.2
24 From others	311.4	319.8	317.3	321.9	311.6	311.7	308.5	319.4	322.1	301.2	327.6	327.0
25 Net due to related foreign offices	91.4	79.1	74.5	74.7	76.6	70.9	68.9	72.0	68.1	66.4	76.3	77.0
26 Other liabilities	156.6	151.1	152.8	153.1	169.3	173.2	177.9	180.0	178.7	174.5	185.8	180.6
27 **Total liabilities**	**3,342.4**	**3,359.9**	**3,370.9**	**3,397.5**	**3,398.9**	**3,441.2**	**3,465.5**	**3,491.7**	**3,484.8**	**3,463.0**	**3,523.8**	**3,488.5**
28 Residual (assets less liabilities)[7]	348.7	378.0	371.9	369.4	381.2	366.8	354.8	337.4	336.0	335.8	339.9	341.1
	Not seasonally adjusted											
Assets												
29 Bank credit	3,185.3	3,211.6	3,207.8	3,229.4	3,240.6	3,251.4	3,263.9	3,285.9	3,285.0	3,277.0	3,292.3	3,286.8
30 Securities in bank credit	843.7	832.3	825.8	824.2	820.8	821.3	817.4	829.3	825.3	819.0	836.6	835.1
31 U.S. government securities	631.9	626.3	622.1	622.5	621.7	620.2	616.5	615.9	617.8	611.3	617.2	617.3
32 Other securities	211.8	206.0	203.6	201.7	199.1	201.1	200.9	213.4	207.5	207.8	219.4	217.8
33 Loans and leases in bank credit[2]	2,341.6	2,379.3	2,382.0	2,405.1	2,419.7	2,430.1	2,446.5	2,456.6	2,459.7	2,458.0	2,455.7	2,451.7
34 Commercial and industrial	537.0	550.7	548.6	556.4	561.1	563.5	566.2	568.8	566.5	568.2	569.3	569.7
35 Real estate	1,052.5	1,072.4	1,077.8	1,082.3	1,086.0	1,091.6	1,098.0	1,101.2	1,101.4	1,101.2	1,100.5	1,101.4
36 Revolving home equity	79.4	80.0	80.8	81.8	83.7	84.6	85.4	85.8	85.7	85.7	85.8	85.9
37 Other	973.0	992.4	997.0	1,000.5	1,002.2	1,007.0	1,012.6	1,015.4	1,015.7	1,015.5	1,014.7	1,015.5
38 Consumer	502.5	508.7	513.1	518.0	518.5	519.4	523.9	526.7	528.1	527.1	526.9	526.0
39 Security[3]	54.0	44.6	41.0	43.9	43.8	44.3	44.9	44.7	46.1	45.0	44.3	42.9
40 Other loans and leases	195.7	203.0	201.5	204.5	210.3	211.2	213.5	215.2	217.6	216.5	214.7	211.7
41 Interbank loans	189.9	175.3	176.6	179.3	177.7	195.8	191.1	184.1	183.2	186.1	187.2	176.8
42 Cash assets[4]	209.8	188.6	183.8	192.7	196.9	208.5	216.1	210.2	206.3	211.4	225.9	197.5
43 Other assets[5]	183.0	212.1	216.3	221.1	218.4	224.1	233.2	228.4	225.6	228.1	229.4	228.0
44 **Total assets**[6]	**3,711.5**	**3,730.6**	**3,726.9**	**3,764.6**	**3,776.3**	**3,822.3**	**3,846.7**	**3,851.7**	**3,843.0**	**3,845.8**	**3,878.1**	**3,832.5**
Liabilities												
45 Deposits	2,519.9	2,547.2	2,561.6	2,587.2	2,583.8	2,632.1	2,667.1	2,649.6	2,666.4	2,674.4	2,645.4	2,598.7
46 Transaction	781.9	724.1	710.2	713.7	702.4	719.3	740.7	715.9	719.7	731.1	719.8	685.8
47 Nontransaction	1,738.0	1,823.1	1,851.5	1,873.5	1,881.4	1,912.8	1,926.4	1,933.7	1,946.7	1,943.3	1,925.5	1,912.9
48 Large time	269.4	286.6	292.9	296.6	295.2	300.3	299.7	301.7	300.2	300.2	301.1	303.6
49 Other	1,468.5	1,536.5	1,558.6	1,576.9	1,586.3	1,612.5	1,626.7	1,632.0	1,646.5	1,643.1	1,624.4	1,609.3
50 Borrowings	580.8	582.0	573.6	586.5	564.3	572.7	574.4	591.0	580.4	575.5	608.5	602.7
51 From banks in the U.S.	265.7	263.8	260.3	264.6	253.0	261.5	266.5	267.3	261.8	268.3	272.8	268.0
52 From others	315.1	318.2	313.3	321.9	311.3	311.1	307.9	323.8	318.7	307.2	335.7	334.6
53 Net due to related foreign offices	93.0	76.9	72.2	70.9	78.2	68.4	66.2	73.6	65.1	67.1	82.0	82.1
54 Other liabilities	155.4	151.6	151.8	153.8	170.0	176.4	175.2	178.0	175.6	172.3	182.7	181.1
55 **Total liabilities**	**3,349.1**	**3,357.7**	**3,359.2**	**3,398.4**	**3,396.3**	**3,449.6**	**3,482.8**	**3,492.3**	**3,487.5**	**3,489.3**	**3,518.6**	**3,464.5**
56 Residual (assets less liabilities)[7]	362.4	372.9	367.7	366.2	380.0	372.7	363.8	359.4	355.5	356.5	359.5	368.0
MEMO												
57 Revaluation gains on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	32.4	33.1	36.2	47.3	41.9	42.9	53.4	50.7
58 Revaluation losses on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	28.9	28.9	31.8	43.9	38.3	39.7	50.6	46.6
59 Mortgage-backed securities[9]	n.a.	n.a.	n.a.	n.a.	236.4	238.4	242.3	245.8	244.4	243.9	247.6	247.3

Footnotes appear on page A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

C. Large domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1996	1996[r]						1997	1997			
	Jan.	July	Aug.	Sept	Oct.	Nov.	Dec	Jan.	Jan 8	Jan. 15	Jan. 22	Jan 29
	Seasonally adjusted											
Assets												
1 Bank credit	1,823.9	1,801.8	1,788.2	1,797.3	1,807.3	1,810.5	1,818.7	1,832.4	1,827.6	1,820.1	1,843.4	1,836.0
2 Securities in bank credit	442.2	416.3	406.8	405.3	405.8	408.7	411.2	416.5	411.0	406.3	424.9	422.4
3 U.S. government securities	310.5	289.8	283.6	283.4	286.0	286.5	284.9	287.0	288.3	282.8	289.3	288.2
4 Trading account	21.3	20.8	20.2	20.9	21.2	21.5	19.4	17.2	19.8	15.5	16.8	16.9
5 Investment account	289.3	269.0	263.4	262.5	264.7	265.0	265.4	269.8	268.5	267.4	272.5	271.3
6 Other securities	131.6	126.5	123.2	121.9	119.9	122.2	126.4	129.5	122.7	123.4	135.6	134.2
7 Trading account	59.2	58.1	56.9	56.4	55.1	57.8	60.9	64.5	57.7	59.0	71.2	68.1
8 Investment account	72.4	68.5	66.2	65.5	64.8	64.4	65.5	65.0	65.0	64.4	64.4	66.1
9 State and local government	21.6	20.6	20.5	20.3	20.2	20.2	20.3	20.5	20.4	20.3	20.3	20.6
10 Other	50.8	47.9	45.8	45.1	44.5	44.2	45.2	44.5	44.5	44.1	44.1	45.5
11 Loans and leases in bank credit[2]	1,381.7	1,385.5	1,381.4	1,392.0	1,401.4	1,401.8	1,407.5	1,415.9	1,416.6	1,413.9	1,418.4	1,413.6
12 Commercial and industrial	367.9	371.7	372.7	378.9	381.5	381.8	384.5	385.1	384.0	385.4	385.8	384.5
13 Real estate	560.9	556.7	556.6	556.1	558.4	559.2	561.1	561.3	561.5	560.3	561.3	561.7
14 Revolving home equity	53.1	53.1	53.2	53.5	53.7	54.2	54.9	55.0	54.9	55.0	55.0	55.1
15 Other	507.9	503.7	503.3	502.6	504.7	505.0	506.2	506.3	506.5	505.3	506.3	506.6
16 Consumer	272.1	277.6	277.9	279.4	279.2	278.9	279.1	282.1	280.8	281.6	282.7	283.2
17 Security[3]	49.3	41.0	37.3	39.5	39.0	37.8	38.5	40.3	42.4	39.8	40.9	38.4
18 State and local government	11.4	11.2	11.1	10.8	10.9	11.1	11.3	11.1	11.1	11.1	11.1	11.1
19 All other	120.0	127.3	125.7	127.2	132.4	132.9	133.0	135.9	136.8	135.7	136.6	134.7
20 Interbank loans	119.7	130.1	131.9	133.8	132.0	137.9	126.8	119.9	116.6	115.4	126.6	119.2
21 Cash assets[4]	134.7	127.6	129.4	128.2	128.2	132.3	130.5	130.5	135.6	120.1	138.6	130.0
22 Other assets[5]	132.8	154.3	158.0	161.6	163.5	167.7	175.6	168.7	169.0	167.8	171.4	165.5
23 **Total assets**[6]	**2,174.4**	**2,177.0**	**2,170.8**	**2,184.2**	**2,194.2**	**2,211.9**	**2,215.1**	**2,215.6**	**2,212.4**	**2,187.4**	**2,244.2**	**2,215.1**
Liabilities												
24 Deposits	1,322.9	1,335.0	1,339.1	1,345.6	1,355.1	1,366.4	1,373.6	1,366.2	1,368.9	1,363.7	1,375.3	1,353.7
25 Transaction	435.2	408.0	400.3	392.7	387.0	387.3	385.7	382.7	378.6	377.5	395.9	378.3
26 Nontransaction	887.7	926.9	938.8	952.9	968.1	979.1	987.9	983.6	990.3	986.2	979.3	975.4
27 Large time	125.0	136.9	139.8	146.5	151.8	153.4	155.1	153.4	154.1	152.1	152.2	153.8
28 Other	762.7	790.0	799.0	806.4	816.3	825.7	832.8	830.2	836.2	834.1	827.1	821.6
29 Borrowings	442.2	420.6	411.9	420.5	404.3	414.4	415.9	426.1	427.4	413.7	432.2	432.3
30 From banks in the U.S.	192.4	177.0	172.9	177.7	170.7	181.5	188.5	187.9	186.9	190.7	186.9	187.8
31 From others	249.8	243.6	239.0	242.7	233.6	232.9	227.4	238.2	240.5	223.0	245.2	244.5
32 Net due to related foreign offices	85.4	73.4	70.1	68.9	73.2	68.7	66.1	68.0	64.4	62.6	72.3	72.6
33 Other liabilities	124.9	123.4	125.7	126.3	141.2	146.2	151.9	155.5	154.2	150.1	161.5	155.3
34 **Total liabilities**	**1,975.2**	**1,952.3**	**1,946.8**	**1,961.3**	**1,973.8**	**1,995.7**	**2,007.5**	**2,015.8**	**2,014.9**	**1,990.2**	**2,041.2**	**2,013.9**
35 Residual (assets less liabilities)[7]	199.1	224.7	224.0	223.0	220.4	216.2	207.5	199.7	197.5	197.2	203.0	201.2
	Not seasonally adjusted											
Assets												
36 Bank credit	1,825.2	1,797.1	1,786.3	1,797.0	1,807.8	1,813.6	1,818.9	1,835.6	1,833.2	1,827.1	1,842.9	1,836.3
37 Securities in bank credit	438.3	415.6	409.9	406.7	406.9	409.3	404.1	413.2	408.7	403.2	420.7	418.7
38 U.S. government securities	304.8	289.3	286.2	285.0	288.1	288.7	283.6	281.3	282.9	277.1	282.8	282.3
39 Trading account	20.2	19.9	20.9	21.0	22.0	22.7	18.1	16.3	17.7	15.1	16.6	16.2
40 Investment account	284.6	269.3	265.3	264.0	266.1	266.0	265.5	265.0	265.2	261.9	266.2	266.1
41 Other securities	133.5	126.3	123.7	121.7	118.8	120.6	120.5	131.9	125.8	126.2	137.9	136.4
42 Trading account	60.6	58.7	57.8	56.2	53.5	55.4	54.4	66.4	60.3	61.1	73.1	69.9
43 Investment account	72.9	67.6	65.9	65.5	65.3	65.3	66.1	65.5	65.5	65.1	64.9	66.5
44 State and local government	21.6	20.2	20.3	20.3	20.2	20.3	20.4	20.5	20.4	20.4	20.4	20.6
45 Other	51.3	47.4	45.6	45.2	45.0	44.9	45.7	45.0	45.1	44.7	44.5	45.9
46 Loans and leases in bank credit[2]	1,386.9	1,381.5	1,376.4	1,390.3	1,400.8	1,404.3	1,414.8	1,422.4	1,424.5	1,423.8	1,422.2	1,417.6
47 Commercial and industrial	365.9	371.7	369.9	376.0	379.7	380.8	381.6	382.9	380.9	382.7	383.4	383.2
48 Real estate	563.0	556.5	556.9	556.9	559.1	560.8	563.9	563.7	564.8	564.2	563.0	562.7
49 Revolving home equity	53.1	53.1	53.4	53.7	54.0	54.5	54.9	55.1	55.0	55.1	55.1	55.1
50 Other	509.9	503.4	503.5	503.1	505.1	506.3	508.9	508.6	509.7	509.1	507.9	507.6
51 Consumer	276.2	275.7	278.3	280.6	278.7	278.6	283.0	286.8	287.1	286.9	286.9	286.4
52 Security[3]	48.1	39.7	35.9	38.9	38.9	39.0	39.5	39.4	40.6	39.6	39.2	38.1
53 State and local government	11.3	11.2	11.2	10.9	10.9	11.2	11.2	11.0	10.9	11.0	11.0	11.0
54 All other	122.3	126.7	124.3	127.0	133.4	133.9	135.6	138.7	140.2	139.4	138.7	136.3
55 Interbank loans	127.6	130.3	128.2	129.8	126.4	137.4	133.0	128.4	123.7	127.9	133.8	126.5
56 Cash assets[4]	142.7	124.6	120.8	127.5	127.6	136.3	141.8	138.3	135.3	138.7	150.1	130.6
57 Other assets[5]	133.0	156.7	160.0	163.1	161.5	165.6	174.1	169.1	167.6	169.2	170.4	167.9
58 **Total assets**[6]	**2,192.0**	**2,172.2**	**2,158.5**	**2,180.6**	**2,186.8**	**2,216.4**	**2,231.3**	**2,235.6**	**2,223.8**	**2,227.0**	**2,261.6**	**2,225.7**
Liabilities												
59 Deposits	1,329.8	1,331.8	1,332.9	1,344.5	1,352.2	1,373.3	1,389.7	1,372.4	1,380.0	1,388.9	1,371.0	1,343.1
60 Transaction	443.4	403.4	391.1	391.5	384.1	393.8	406.9	390.3	388.8	401.0	394.7	372.9
61 Nontransaction	886.5	928.4	941.8	953.0	968.1	979.5	982.8	982.2	991.2	987.9	976.3	970.2
62 Large time	124.9	136.5	140.7	144.5	151.2	153.7	152.7	153.4	152.8	152.3	152.6	154.3
63 Other	761.5	791.9	801.1	808.5	816.9	825.8	830.0	828.8	838.4	835.7	823.7	815.9
64 Borrowings	441.0	427.0	414.5	424.0	399.9	409.0	409.7	421.7	414.6	409.3	434.9	429.6
65 From banks in the U.S.	189.3	183.2	177.8	180.1	167.1	176.9	182.9	181.1	178.0	183.8	183.9	179.7
66 From nonbanks in the U.S.	251.6	243.9	236.7	243.9	232.8	232.2	226.7	240.6	236.6	225.5	251.1	249.9
67 Net due to related foreign offices	86.9	71.2	67.8	65.0	74.8	66.2	63.4	69.7	61.4	63.3	78.0	77.7
68 Other liabilities	123.3	123.6	124.6	127.2	141.9	149.5	149.6	153.3	151.0	147.9	158.1	155.3
69 **Total liabilities**	**1,981.0**	**1,953.7**	**1,939.8**	**1,960.7**	**1,968.8**	**1,998.0**	**2,012.4**	**2,017.0**	**2,006.9**	**2,009.3**	**2,042.1**	**2,005.7**
70 Residual (assets less liabilities)[7]	211.0	218.5	218.8	219.9	218.0	218.4	218.9	218.6	216.9	217.6	219.5	220.0
MEMO												
71 Revaluation gains on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	32.4	33.1	36.2	47.3	41.9	42.9	53.4	50.7
72 Revaluation losses on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	28.9	28.9	31.8	43.9	38.3	39.7	50.6	46.6
73 Mortgage-backed securities[9]	n.a.	n.a.	n.a.	n.a.	186.7	188.1	190.9	192.7	191.4	190.7	194.1	194.3

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

D. Small domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1996	1996[r]						1997	1997			
	Jan.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Jan. 8	Jan 15	Jan. 22	Jan 29
	Seasonally adjusted											
Assets												
1 Bank credit	1,362.2	1,414.1	1,421.9	1,428.4	1,430.3	1,436.2	1,442.2	1,452.2	1,451.5	1,450.4	1,452.1	1,455.3
2 Securities in bank credit	406.9	417.5	417.8	417.2	415.0	413.5	413.7	417.5	418.3	416.7	416.7	418.6
3 U.S. government securities	328.4	337.8	337.6	337.0	334.7	333.2	333.4	335.8	336.3	335.0	335.0	337.0
4 Other securities	78.5	79.7	80.1	80.1	80.3	80.3	80.4	81.7	82.0	81.7	81.6	81.6
5 Loans and leases in bank credit[2]	955.3	996.5	1,004.1	1,011.2	1,015.3	1,022.6	1,028.5	1,034.7	1,033.2	1,033.7	1,035.5	1,036.7
6 Commercial and industrial	171.1	178.9	179.9	181.4	181.9	183.4	185.1	186.0	185.3	185.4	186.0	186.7
7 Real estate	489.9	515.4	519.8	523.3	524.6	528.6	532.2	537.9	536.4	537.1	538.1	539.7
8 Revolving home equity	26.4	26.9	27.3	27.8	29.5	29.9	30.4	30.8	30.7	30.7	30.8	30.9
9 Other	463.5	488.5	492.5	495.5	495.1	498.6	501.8	507.1	505.7	506.4	507.3	508.8
10 Consumer	225.4	233.2	234.8	236.3	239.2	240.1	240.0	239.0	240.0	239.2	239.3	238.4
11 Security[3]	5.7	5.1	5.1	5.2	5.0	5.1	5.2	5.1	5.0	5.1	5.1	5.0
12 Other loans and leases	63.3	64.0	64.5	65.0	64.6	65.4	66.1	66.8	66.5	66.8	67.0	66.9
13 Interbank loans	60.9	47.7	49.4	51.2	51.0	53.6	55.0	54.5	53.5	55.6	54.9	53.2
14 Cash assets[4]	64.7	64.4	65.4	66.6	68.2	69.4	70.4	69.7	67.6	68.4	74.2	68.2
15 Other assets[5]	49.0	55.5	56.2	57.4	57.2	57.9	58.5	58.3	56.8	58.1	59.4	59.0
16 **Total assets**[6]	**1,516.8**	**1,560.9**	**1,572.0**	**1,582.7**	**1,585.8**	**1,596.2**	**1,605.2**	**1,613.5**	**1,608.4**	**1,611.4**	**1,619.5**	**1,614.6**
Liabilities												
17 Deposits	1,191.8	1,218.8	1,231.6	1,240.6	1,229.3	1,251.1	1,264.0	1,279.6	1,275.4	1,281.6	1,284.9	1,272.9
18 Transaction	334.3	323.0	322.5	322.9	317.7	321.8	322.6	321.8	317.5	321.3	327.1	320.1
19 Nontransaction	857.5	895.8	909.1	917.7	911.5	929.4	941.4	957.8	957.9	960.3	957.8	952.9
20 Large time	145.8	150.9	152.4	152.3	143.6	146.2	147.9	149.6	149.0	149.6	149.8	150.0
21 Other	711.7	744.9	756.7	765.4	768.0	783.1	793.5	808.2	808.9	810.7	808.0	802.9
22 Borrowings	137.5	155.4	161.0	162.9	164.3	165.1	165.2	167.7	166.3	163.0	169.4	171.9
23 From banks in the U.S.	75.9	79.2	82.7	83.8	86.4	86.4	84.0	86.4	84.7	84.8	87.1	89.4
24 From others	61.6	76.2	78.3	79.1	77.9	78.7	81.1	81.2	81.6	78.2	82.4	82.5
25 Net due to related foreign offices	6.1	5.7	4.4	5.9	3.4	2.2	2.7	4.0	3.8	3.8	4.0	4.3
26 Other liabilities	31.8	27.8	27.1	26.9	28.1	27.1	26.0	24.5	24.4	24.4	24.3	25.4
27 **Total liabilities**	**1,367.2**	**1,407.6**	**1,424.1**	**1,436.3**	**1,425.1**	**1,445.5**	**1,457.9**	**1,475.8**	**1,469.9**	**1,472.8**	**1,482.6**	**1,474.6**
28 Residual (assets less liabilities)[7]	149.6	153.3	147.9	146.4	160.7	150.6	147.3	137.7	138.4	138.6	136.8	140.0
	Not seasonally adjusted											
Assets												
29 Bank credit	1,360.1	1,414.5	1,421.4	1,432.4	1,432.8	1,437.7	1,445.0	1,450.3	1,451.9	1,450.0	1,449.4	1,450.5
30 Securities in bank credit	405.4	416.8	415.9	417.5	413.9	411.9	413.3	416.1	416.7	415.8	415.9	416.5
31 U.S government securities	327.1	337.0	336.0	337.5	333.6	331.5	332.9	334.5	334.9	334.2	334.4	335.0
32 Other securities	78.3	79.7	79.9	80.0	80.3	80.4	80.4	81.5	81.7	81.6	81.5	81.4
33 Loans and leases in bank credit[2]	954.7	997.8	1,005.6	1,014.9	1,018.9	1,025.8	1,031.7	1,034.2	1,035.2	1,034.2	1,033.5	1,034.0
34 Commercial and industrial	171.1	178.9	178.6	180.4	181.4	182.7	184.6	186.0	185.6	185.5	185.9	186.5
35 Real estate	489.4	515.9	520.9	525.4	526.8	530.8	534.1	537.5	536.6	537.0	537.5	538.7
36 Revolving home equity	26.3	26.9	27.4	28.1	29.7	30.1	30.4	30.7	30.7	30.6	30.7	30.7
37 Other	463.1	488.9	493.5	497.3	497.1	500.7	503.6	506.8	506.0	506.3	506.9	508.0
38 Consumer	226.3	233.0	234.9	237.3	239.8	240.8	240.9	239.9	241.0	240.2	240.0	239.5
39 Security[3]	5.8	4.9	5.1	5.1	4.9	5.3	5.4	5.2	5.5	5.4	5.1	4.9
40 Other loans and leases	62.1	65.1	66.0	66.6	66.0	66.1	66.7	65.6	66.5	66.1	65.0	64.5
41 Interbank loans	62.3	45.0	48.4	49.5	51.3	58.4	58.0	55.8	59.5	58.2	53.4	50.3
42 Cash assets[4]	67.1	64.0	63.1	65.1	69.3	72.1	74.3	71.8	71.0	72.7	75.8	66.9
43 Other assets[5]	49.9	55.4	56.3	57.9	56.9	58.4	59.1	59.2	58.0	58.9	58.9	60.1
44 **Total assets**[6]	**1,519.5**	**1,558.3**	**1,568.4**	**1,584.0**	**1,589.5**	**1,605.8**	**1,615.4**	**1,616.1**	**1,619.2**	**1,618.8**	**1,616.5**	**1,606.8**
Liabilities												
45 Deposits	1,190.1	1,215.4	1,228.8	1,242.8	1,231.6	1,258.8	1,277.4	1,277.1	1,286.4	1,285.5	1,274.3	1,255.6
46 Transaction	338.6	320.7	319.1	322.2	318.2	325.4	333.8	325.6	330.8	330.1	325.1	312.9
47 Nontransaction	851.5	894.7	909.6	920.5	913.3	933.3	943.6	951.6	955.5	955.4	949.2	942.7
48 Large time	144.5	150.1	152.2	152.1	144.0	146.6	147.0	148.3	147.4	147.9	148.5	149.3
49 Other	707.0	744.6	757.5	768.4	769.4	786.8	796.6	803.2	808.2	807.4	800.7	793.4
50 Borrowings	139.8	155.0	159.1	162.5	164.5	163.6	164.7	169.4	165.8	166.3	173.6	173.1
51 From banks in the U.S.	76.4	80.6	82.5	84.6	85.9	84.7	83.5	86.2	83.8	84.5	88.9	88.3
52 From others	63.5	74.4	76.6	78.0	78.6	79.0	81.2	83.2	82.1	81.7	84.7	84.7
53 Net due to related foreign offices	6.1	5.7	4.4	5.9	3.4	2.2	2.7	4.0	3.8	3.8	4.0	4.3
54 Other liabilities	32.1	28.0	27.2	26.6	28.1	27.0	25.5	24.7	24.6	24.4	24.5	25.8
55 **Total liabilities**	**1,368.1**	**1,404.0**	**1,419.5**	**1,437.7**	**1,427.5**	**1,451.5**	**1,470.4**	**1,475.2**	**1,480.6**	**1,480.0**	**1,476.5**	**1,458.8**
56 Residual (assets less liabilities)[7]	151.5	154.4	148.9	146.3	162.0	154.3	144.9	140.8	138.6	138.8	140.0	147.9
MEMO												
57 Mortgage-backed securities[9]	n.a.	n.a.	n.a	8.2	49.7	50.2	51.5	53.1	53.0	53.2	53.5	53.1

Footnotes appear on page A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

E. Foreign-related institutions

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1996	1996[r]						1997	1997			
	Jan.	July	Aug.	Sept.	Oct.	Nov.	Dec	Jan	Jan. 8	Jan. 15	Jan. 22	Jan. 29
	Seasonally adjusted											
Assets												
1 Bank credit	442.3	466.6	464.4	467.6	481.9	497.1	510.3	522.3	517.8	517.3	525.6	526.8
2 Securities in bank credit	140.8	148.2	147.5	146.5	149.4	159.7	167.4	171.9	169.1	167.9	174.5	175.3
3 U.S. government securities	63.2	80.0	80.9	82.9	83.1	88.0	89.2	83.1	85.7	81.6	81.3	82.5
4 Other securities	77.7	68.2	66.6	63.6	66.3	71.7	78.2	88.8	83.3	86.3	93.2	92.8
5 Loans and leases in bank credit[2]	301.5	318.3	316.9	321.0	332.4	337.4	342.9	350.4	348.7	349.3	351.0	351.5
6 Commercial and industrial	182.7	194.2	194.3	200.7	207.1	211.0	217.4	219.9	219.8	219.5	220.2	220.3
7 Real estate	35.2	33.1	33.1	32.8	32.9	32.8	32.5	32.5	32.5	32.5	32.3	32.8
8 Security[3]	33.1	32.0	29.8	29.1	32.7	34.5	35.4	37.2	36.4	35.5	37.9	38.2
9 Other loans and leases	50.5	59.1	59.7	58.4	59.8	59.2	57.6	60.7	59.9	61.8	60.6	60.3
10 Interbank loans	23.1	19.2	16.4	20.3	20.9	20.9	22.8	23.8	21.0	24.6	23.1	26.3
11 Cash assets[4]	30.6	28.1	28.5	29.5	29.8	31.1	31.4	31.9	31.5	32.2	31.5	32.4
12 Other assets[5]	49.1	42.8	43.7	41.1	33.9	36.5	37.4	39.4	37.3	39.9	40.3	39.7
13 **Total assets**[6]	**545.0**	**556.6**	**553.0**	**558.3**	**566.3**	**585.4**	**601.8**	**617.2**	**607.4**	**613.7**	**620.2**	**625.0**
Liabilities												
14 Deposits	166.5	179.5	180.3	186.0	197.8	205.0	221.2	230.9	230.5	230.4	225.8	235.7
15 Transaction	10.8	10.6	10.5	9.7	10.5	10.6	10.8	10.9	10.7	11.0	11.1	10.9
16 Nontransaction	155.7	168.9	169.8	176.2	187.3	194.4	210.4	220.0	219.8	219.3	214.6	224.7
17 Large time	150.6	165.3	166.7	172.9	184.7	190.9	206.5	217.1	216.0	215.4	213.0	222.8
18 Other	5.2	3.6	3.1	3.4	2.6	3.6	4.0	2.8	3.8	3.9	1.7	1.9
19 Borrowings	113.7	123.0	128.6	122.8	118.7	128.3	125.4	131.5	123.2	126.1	135.0	139.6
20 From banks in the U.S.	29.6	30.8	34.6	34.0	33.4	35.5	36.2	31.3	29.7	27.0	33.8	32.5
21 From others	84.1	92.2	94.1	88.8	85.3	92.8	89.2	100.1	93.5	99.1	101.2	107.1
22 Net due to related foreign offices	176.2	178.2	173.2	176.3	167.3	166.1	160.4	147.4	151.8	152.8	143.9	141.0
23 Other liabilities	78.5	71.8	69.4	68.7	74.8	80.1	83.4	91.3	86.9	89.2	93.8	94.4
24 **Total liabilities**	**534.9**	**552.6**	**551.5**	**553.8**	**558.6**	**579.5**	**590.4**	**601.0**	**592.4**	**598.5**	**598.5**	**610.7**
25 Residual (assets less liabilities)[7]	10.1	4.0	1.5	4.6	7.6	5.9	11.4	16.2	15.0	15.3	21.7	14.3
	Not seasonally adjusted											
Assets												
26 Bank credit	441.4	468.0	467.9	466.2	480.5	496.7	506.1	519.3	513.5	514.4	520.4	525.7
27 Securities in bank credit	139.1	148.4	150.7	145.4	149.3	159.4	160.9	167.8	162.9	164.0	169.1	173.6
28 U.S. government securities	64.4	79.0	82.4	81.9	82.6	88.0	86.7	84.1	84.5	83.1	83.2	84.7
29 Trading account	n.a.	n.a.	n.a.	n.a.	18.8	22.0	20.2	17.0	17.2	16.2	15.9	17.6
30 Investment account	n.a.	n.a.	n.a.	n.a.	63.7	66.0	66.5	67.1	67.2	66.9	67.3	67.1
31 Other securities	74.7	69.3	68.3	63.5	66.7	71.4	74.2	83.8	78.4	80.9	85.9	88.9
32 Trading account	n.a	n.a.	n.a.	n.a.	48.2	52.3	55.0	61.4	56.6	58.3	63.4	66.2
33 Investment account	n.a.	n.a.	n.a.	n.a.	18.5	19.1	19.2	22.4	21.9	22.7	22.5	22.7
34 Loans and leases in bank credit[2]	302.3	319.6	317.2	320.8	331.3	337.3	345.2	351.4	350.6	350.4	351.4	352.1
35 Commercial and industrial	182.7	195.2	194.4	199.5	205.9	210.8	217.8	219.8	219.8	219.4	219.7	220.3
36 Real estate	35.2	32.9	33.1	32.9	33.1	33.2	32.7	32.5	32.6	32.5	32.3	32.6
37 Security[3]	33.1	32.0	29.8	29.1	32.7	34.5	35.4	37.2	36.4	35.5	37.9	38.2
38 Other loans and leases	51.4	59.5	59.8	59.3	59.7	58.8	59.3	61.9	61.8	62.9	61.5	61.1
39 Interbank loans	23.1	19.2	16.4	20.3	20.9	20.9	22.8	23.8	21.0	24.6	23.1	26.3
40 Cash assets[4]	30.9	28.2	28.5	28.8	30.1	31.3	32.5	32.3	31.8	32.9	31.8	32.6
41 Other assets[5]	48.2	42.0	44.5	41.5	33.6	36.8	38.2	38.6	37.0	38.6	38.8	39.2
42 **Total assets**[6]	**543.6**	**557.3**	**557.3**	**556.8**	**565.0**	**585.5**	**599.4**	**613.8**	**603.2**	**610.3**	**613.9**	**623.6**
Liabilities												
43 Deposits	166.8	177.5	178.8	185.6	203.2	207.6	223.9	231.0	230.1	230.5	226.9	235.7
44 Transaction	10.8	10.6	10.3	10.1	10.6	10.6	11.5	11.0	10.7	11.1	11.0	10.9
45 Nontransaction	156.0	166.9	168.5	175.4	192.6	197.0	212.5	220.0	219.4	219.4	215.8	224.9
46 Large time	149.4	163.9	166.2	173.2	190.4	194.8	209.9	215.1	215.0	213.8	211.1	219.8
47 Other	6.6	3.0	2.3	2.3	2.2	2.3	2.6	5.0	4.4	5.6	4.8	5.0
48 Borrowings	110.9	130.6	133.6	123.9	115.3	124.9	124.4	128.6	122.0	124.5	131.8	133.6
49 From banks in the U.S.	30.8	32.2	35.1	33.3	30.9	35.6	37.0	32.6	32.2	29.5	33.0	33.7
50 From others	80.1	98.3	98.5	90.6	84.4	89.3	87.4	96.0	89.8	95.0	98.8	100.0
51 Net due to related foreign offices	184.3	175.0	171.2	174.3	167.3	165.8	162.0	156.1	158.3	160.3	155.3	150.8
52 Other liabilities	77.9	70.2	69.8	68.6	73.2	80.8	82.0	90.5	85.0	87.1	92.3	95.6
53 **Total liabilities**	**539.8**	**553.3**	**553.3**	**552.4**	**559.0**	**579.0**	**592.4**	**606.1**	**595.5**	**602.4**	**606.2**	**615.8**
54 Residual (assets less liabilities)[7]	3.8	4.0	3.9	4.4	6.0	6.5	7.1	7.7	7.7	7.9	7.7	7.7
MEMO												
55 Revaluation gains on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	29.9	32.4	33.4	41.1	37.4	38.7	43.2	44.4
56 Revaluation losses on off-balance-sheet items[8]	n.a.	n.a.	n.a.	n.a.	29.4	31.6	32.6	40.3	36.3	37.7	42.8	43.9

Footnotes appear on page A21.

NOTES TO TABLE 1.26

NOTE. Tables 1.26, 1.27, and 1.28 have been revised to reflect changes in the Board's H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States." Table 1.27, "Assets and Liabilities of Large Weekly Reporting Commercial Banks," and table 1.28, "Large Weekly Reporting U.S. Branches and Agencies of Foreign Banks," are no longer being published in the *Bulletin*. Instead, abbreviated balance sheets for both large and small domestically chartered banks have been included in table 1.26, parts C and D. Data are both merger-adjusted and break-adjusted. In addition, data from large weekly reporting U.S. branches and agencies of foreign banks have been replaced by balance sheet estimates of all foreign-related institutions and are included in table 1.26, part E. These data are break-adjusted.

The not-seasonally-adjusted data for all tables now contain additional balance sheet items, which were available as of October 2, 1996.

1. Covers the following types of institutions in the fifty states and the District of Columbia: domestically chartered commercial banks that submit a weekly report of condition (large domestic); other domestically chartered commercial banks (small domestic); branches and agencies of foreign banks, and Edge Act and agreement corporations (foreign-related institutions). Excludes International Banking Facilities. Data are Wednesday values or *pro rata* averages of Wednesday values. Large domestic banks constitute a universe; data for small domestic banks and foreign-related institutions are estimates based on weekly samples and on quarter-end condition reports. Data are adjusted for breaks caused by reclassifications of assets and liabilities.

The data for large and small domestic banks presented on pp. A18 and A19 are adjusted to remove the estimated effects of mergers between these two groups. The adjustment for mergers changes past levels to make them comparable with current levels. Estimated quantities of balance sheet items acquired in mergers are removed from past data for the bank group that contained the acquired bank and put into past data for the group containing the acquiring bank. Balance sheet data for acquired banks are obtained from Call Reports, and a ratio procedure is used to adjust past levels.

2. Excludes federal funds sold to, reverse RPs with, and loans made to commercial banks in the United States, all of which are included in "Interbank loans."

3. Consists of reverse RPs with brokers and dealers and loans to purchase and carry securities.

4. Includes vault cash, cash items in process of collection, balances due from depository institutions, and balances due from Federal Reserve Banks.

5. Excludes the due-from position with related foreign offices, which is included in "Net due to related foreign offices."

6. Excludes unearned income, reserves for losses on loans and leases, and reserves for transfer risk. Loans are reported gross of these items.

7. This balancing item is not intended as a measure of equity capital for use in capital adequacy analysis. On a seasonally adjusted basis this item reflects any differences in the seasonal patterns estimated for total assets and total liabilities.

8. Fair value of derivative contracts (interest rate, foreign exchange rate, other commodity and equity contracts) in a gain/loss position, as determined under FASB Interpretation No. 39.

9. Includes mortgage-backed securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and private entities.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Item	Year ending December					1996					
	1992 Dec.	1993 Dec.	1994 Dec.	1995 Dec.	1996 Dec.	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**545,619**	**555,075**	**595,382**	**674,904**	**775,371**	**734,731**	**753,276**	**757,155**	**757,718**	**766,556**	**775,371**
Financial companies[1]											
2 Dealer-placed paper[2], total	226,456	218,947	223,038	275,815	361,147	317,426	329,026	336,833	349,288	354,400	361,147
3 Directly placed paper[3], total	171,605	180,389	207,701	210,829	229,662	222,583	230,318	226,599	225,977	228,553	229,662
4 Nonfinancial companies[4]	147,558	155,739	164,643	188,260	184,563	194,722	193,932	193,724	182,454	183,603	184,563
	Bankers dollar acceptances (not seasonally adjusted)[5]										
5 **Total**	**38,194**	**32,348**	**29,835**	**29,242**	**25,754**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
By holder											
6 Accepting banks	10,555	12,421	11,783	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
7 Own bills	9,097	10,707	10,462	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
8 Bills bought from other banks	1,458	1,714	1,321	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
Federal Reserve Banks[6]											
9 Foreign correspondents	1,276	725	410	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
10 Others	26,364	19,202	17,642	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
By basis											
11 Imports into United States	12,209	10,217	10,062	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
12 Exports from United States	8,096	7,293	6,355	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a
13 All other	17,890	14,838	13,417	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a

1. Institutions engaged primarily in commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
2. Includes all financial-company paper sold by dealers in the open market.
3. As reported by financial companies that place their paper directly with investors.
4. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
5. Data on bankers dollar acceptances are gathered from approximately 100 institutions. The reporting group is revised every January. Beginning January 1995, data for Bankers dollar acceptances are reported annually in September.
6. In 1977 the Federal Reserve discontinued operations in bankers dollar acceptances for its own account.

1.33 PRIME RATE CHARGED BY BANKS Short-Term Business Loans[1]

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1994—Mar. 24	6.25	1994	7.15	1995—Jan.	8.50	1996—Jan.	8.50
Apr. 19	6.75	1995	8.83	Feb.	9.00	Feb.	8.25
May 17	7.25	1996	8.27	Mar.	9.00	Mar.	8.25
Aug. 16	7.75			Apr	9.00	Apr.	8.25
Nov. 15	8.50	1994—Jan.	6.00	May	9.00	May	8.25
		Feb.	6.00	June	9.00	June	8.25
1995—Feb. 1	9.00	Mar.	6.06	July	8.80	July	8.25
July 7	8.75	Apr.	6.45	Aug.	8.75	Aug.	8.25
Dec. 20	8.50	May	6.99	Sept.	8.75	Sept.	8.25
		June	7.25	Oct.	8.75	Oct.	8.25
1996—Feb. 1	8.25	July	7.25	Nov.	8.75	Nov.	8.25
		Aug.	7.51	Dec.	8.65	Dec.	8.25
		Sept.	7.75				
		Oct.	7.75			1997—Jan.	8.25
		Nov.	8.15			Feb.	8.25
		Dec.	8.50				

1. The prime rate is one of several base rates that banks use to price short-term business loans. The table shows the date on which a new rate came to be the predominant one quoted by a majority of the twenty-five largest banks by asset size, based on the most recent Call Report. Data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Percent per year; figures are averages of business day data unless otherwise noted

Item	1994	1995	1996	1996			1997	1997, week ending				
				Oct.	Nov.	Dec.	Jan.	Jan. 3	Jan. 10	Jan. 17	Jan. 24	Jan. 31
MONEY MARKET INSTRUMENTS												
1 Federal funds[1,2,3]	4.21	5.83	5.30	5.24	5.31	5.29	5.25	5.37	5.28	5.19	5.19	5.18
2 Discount window borrowing[2,4]	3.60	5.21	5.02	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Commercial paper[3,5,6]												
3 1-month	4.43	5.93	5.43	5.37	5.39	5.70	5.43	5.71	5.43	5.43	5.42	5.44
4 3-month	4.66	5.93	5.41	5.43	5.41	5.51	5.45	5.55	5.45	5.47	5.44	5.45
5 6-month	4.93	5.93	5.42	5.45	5.40	5.44	5.48	5.49	5.47	5.51	5.48	5.48
Finance paper, directly placed[3,5,7]												
6 1-month	4.33	5.81	5.31	5.25	5.25	5.41	5.31	5.37	5.31	5.30	5.29	5.30
7 3-month	4.53	5.78	5.29	5.31	5.29	5.33	5.32	5.35	5.31	5.32	5.32	5.32
8 6-month	4.56	5.68	5.21	5.28	5.23	5.25	5.30	5.29	5.30	5.28	5.31	5.31
Bankers acceptances[3,5,8]												
9 3-month	4.56	5.81	5.31	5.32	5.29	5.35	5.34	5.34	5.34	5.34	5.33	5.33
10 6-month	4.83	5.80	5.31	5.36	5.29	5.33	5.35	5.32	5.35	5.36	5.36	5.36
Certificates of deposit, secondary market[3,9]												
11 1-month	4.38	5.87	5.35	5.28	5.30	5.50	5.35	5.45	5.36	5.34	5.33	5.34
12 3-month	4.63	5.92	5.39	5.41	5.38	5.44	5.43	5.45	5.42	5.44	5.42	5.42
13 6-month	4.96	5.98	5.47	5.51	5.43	5.47	5.54	5.50	5.53	5.55	5.54	5.53
14 Eurodollar deposits, 3-month[3,10]	4.63	5.93	5.38	5.41	5.38	5.43	5.44	5.44	5.44	5.44	5.44	5.44
U.S. Treasury bills												
Secondary market[3,5]												
15 3-month	4.25	5.49	5.01	4.99	5.03	4.91	5.03	5.05	5.03	5.03	5.04	5.04
16 6-month	4.64	5.56	5.08	5.11	5.07	5.04	5.10	5.12	5.10	5.08	5.12	5.10
17 1-year	5.02	5.60	5.22	5.25	5.14	5.18	5.30	5.25	5.31	5.30	5.30	5.30
Auction average[3,5,11]												
18 3-month	4.29	5.51	5.02	5.01	5.03	4.87	5.05	5.08	5.02	5.04	5.03	5.06
19 6-month	4.66	5.59	5.09	5.12	5.07	5.02	5.11	5.11	5.11	5.11	5.11	5.12
20 1-year	5.02	5.69	5.23	5.34	5.20	5.16	5.31	n.a.	5.31	n.a.	n.a.	n.a.
U.S. TREASURY NOTES AND BONDS												
Constant maturities[12]												
21 1-year	5.32	5.94	5.52	5.55	5.42	5.47	5.61	5.55	5.61	5.61	5.61	5.62
22 2-year	5.94	6.15	5.84	5.91	5.70	5.78	6.01	5.90	5.99	6.01	6.03	6.03
23 3-year	6.27	6.25	5.99	6.08	5.82	5.91	6.16	6.06	6.15	6.15	6.17	6.17
24 5-year	6.69	6.38	6.18	6.27	5.97	6.07	6.33	6.22	6.33	6.33	6.34	6.36
25 7-year	6.91	6.50	6.34	6.42	6.10	6.20	6.47	6.36	6.47	6.46	6.47	6.50
26 10-year	7.09	6.57	6.44	6.53	6.20	6.30	6.58	6.45	6.57	6.56	6.58	6.62
27 20-year	7.49	6.95	6.83	6.90	6.58	6.65	6.91	6.76	6.89	6.90	6.92	6.95
28 30-year	7.37	6.88	6.71	6.81	6.48	6.55	6.83	6.67	6.80	6.81	6.84	6.89
Composite												
29 More than 10 years (long-term)	7.41	6.93	6.80	6.87	6.55	6.63	6.89	6.75	6.88	6.89	6.90	6.93
STATE AND LOCAL NOTES AND BONDS												
Moody's series[13]												
30 Aaa	5.77	5.80	5.52	5.52	5.43	5.38	5.40	5.38	5.44	5.42	5.40	5.37
31 Baa	6.17	6.10	5.79	5.73	5.69	5.63	5.71	5.70	5.76	5.73	5.69	5.66
32 *Bond Buyer* series[14]	6.18	5.95	5.76	5.72	5.59	5.64	5.72	5.70	5.71	5.72	5.72	5.73
CORPORATE BONDS												
33 Seasoned issues, all industries[15]	8.26	7.83	7.66	7.68	7.41	7.50	7.71	7.59	7.72	7.69	7.71	7.76
Rating group												
34 Aaa	7.97	7.59	7.37	7.39	7.10	7.20	7.42	7.29	7.42	7.39	7.41	7.48
35 Aa	8.15	7.72	7.55	7.58	7.31	7.41	7.63	7.50	7.62	7.62	7.63	7.69
36 A	8.28	7.83	7.69	7.70	7.41	7.51	7.71	7.60	7.71	7.69	7.71	7.75
37 Baa	8.63	8.20	8.05	8.07	7.79	7.89	8.09	7.99	8.11	8.07	8.10	8.12
38 A-rated, recently offered utility bonds[16]	8.29	7.86	7.77	7.83	7.54	7.63	7.93	7.83	7.95	7.93	8.00	7.92
MEMO												
Dividend–price ratio[17]												
39 Common stocks	2.82	2.56	2.19	2.11	2.01	2.01	1.95	2.01	1.99	1.94	1.90	1.95

1. The daily effective federal funds rate is a weighted average of rates on trades through New York brokers.
2. Weekly figures are averages of seven calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.
3. Annualized using a 360-day year for bank interest.
4. Rate for the Federal Reserve Bank of New York.
5. Quoted on a discount basis.
6. An average of offering rates on commercial paper placed by several leading dealers for firms whose bond rating is AA or the equivalent.
7. An average of offering rates on paper directly placed by finance companies.
8. Representative closing yields for acceptances of the highest-rated money center banks.
9. An average of dealer offering rates on nationally traded certificates of deposit.
10. Bid rates for Eurodollar deposits at approximately 11:00 a.m. London time. Data are for indication purposes only.
11. Auction date for daily data; weekly and monthly averages computed on an issue-date basis.
12. Yields on actively traded issues adjusted to constant maturities. Source: U.S. Department of the Treasury.
13. General obligation bonds based on Thursday figures; Moody's Investors Service.
14. State and local government general obligation bonds maturing in twenty years are used in compiling this index. The twenty-bond index has a rating roughly equivalent to Moodys' A1 rating. Based on Thursday figures.
15. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
16. Compilation of the Federal Reserve. This series is an estimate of the yield on recently offered, A-rated utility bonds with a thirty-year maturity and five years of call protection. Weekly data are based on Friday quotations.
17. Standard & Poor's corporate series. Common stock ratio is based on the 500 stocks in the price index.

NOTE. Some of the data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1994	1995	1996	1996 May	1996 June	1996 July	1996 Aug.	1996 Sept.	1996 Oct.	1996 Nov.	1996 Dec.	1997 Jan.
	Prices and trading volume (averages of daily figures)[1]											
Common stock prices (indexes)												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	254.16	291.18	357.98	354.84	358.32	345.06	354.59	360.96	373.54	388.75	391.61	403.58
2 Industrial	315.32	367.40	453.57	452.63	458.30	438.58	444.91	459.69	473.98	490.60	494.38	509.18
3 Transportation	247.17	270.14	327.30	334.66	331.57	316.57	321.61	323.12	332.80	348.32	352.28	359.40
4 Utility	104.96	110.64	126.36	124.86	123.60	122.66	122.37	121.12	130.04	135.88	128.55	131.95
5 Finance	209.75	238.48	303.94	290.43	294.42	287.89	302.95	308.16	324.42	345.30	350.01	361.45
6 Standard & Poor's Corporation (1941–43 = 10)[2]	460.42	541.72	670.49	661.23	668.50	644.06	662.68	674.88	701.46	735.67	743.25	766.22
7 American Stock Exchange (Aug. 31, 1973 = 50)[3]	449.49	498.13	570.86	600.93	591.99	550.16	554.88	564.87	574.46	583.21	582.96	585.09
Volume of trading (thousands of shares)												
8 New York Stock Exchange	290,652	345,729	409,740	404,184	392,413	398,245	333,343	400,951	420,835	443,521	431,538	526,631
9 American Stock Exchange	17,951	20,387	22,567	28,127	23,903	21,281	17,916	19,449	18,780	22,151	23,648	24,019
	Customer financing (millions of dollars, end-of-period balances)											
10 Margin credit at broker–dealers[4]	**61,160**	**76,680**	**97,400**	**86,100**	**87,160**	**79,860**	**82,980**	**89,300**	**88,740**	**91,680**	**97,400**	**99,460**
Free credit balances at brokers[5]												
11 Margin accounts[6]	14,095	16,250	22,540[r]	16,890	16,800	17,700	17,520	17,940	19,890	20,020	22,540[r]	22,870
12 Cash accounts	28,870	34,340	40,430	33,760	33,775	32,935	32,680	35,360	36,610	36,650	40,430	41,280

Margin requirements (percent of market value and effective date)[7]	Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974
13 Margin stocks	70	80	65	55	65	50
14 Convertible bonds	50	60	50	50	50	50
15 Short sales	70	80	65	55	65	50

1. Daily data on prices are available upon request to the Board of Governors. For ordering address, see inside front cover.
2. In July 1976 a financial group, composed of banks and insurance companies, was added to the group of stocks on which the index is based. The index is now based on 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.
3. On July 5, 1983, the American Stock Exchange rebased its index, effectively cutting previous readings in half.
4. Since July 1983, under the revised Regulation T, margin credit at broker–dealers has included credit extended against stocks, convertible bonds, stocks acquired through the exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984.
5. Free credit balances are amounts in accounts with no unfulfilled commitments to brokers and are subject to withdrawal by customers on demand.
6. Series initiated in June 1984.
7. Margin requirements, stated in regulations adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit that can be used to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

On Jan. 1, 1977, the Board of Governors for the first time established in Regulation T the initial margin required for writing options on securities, setting it at 30 percent of the current market value of the stock underlying the option. On Sept. 30, 1985, the Board changed the required initial margin, allowing it to be the same as the option maintenance margin required by the appropriate exchange or self-regulatory organization; such maintenance margin rules must be approved by the Securities and Exchange Commission.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year			Calendar year					
				1996					1997
	1994	1995	1996	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
U.S. budget[1]									
1 Receipts, total	1,258,627	1,351,830	1,453,062	99,996	157,668	99,656	97,849	148,489	150,718
2 On-budget	923,601	1,000,751	1,085,570	71,505	125,806	73,644	70,018	119,528	113,841
3 Off-budget	335,026	351,079	367,492	28,491	31,862	26,012	27,831	28,961	36,877
4 Outlays, total	1,461,731	1,515,729	1,560,330	141,828	121,971	139,915	135,727	129,666	137,354
5 On-budget	1,181,469	1,227,065	1,259,872	113,840	89,981	113,290	106,327	120,429	110,552
6 Off-budget	279,372	288,664	300,458	27,987	31,989	26,625	29,400	9,237	26,802
7 Surplus or deficit (−), total	−203,104	−163,899	−107,268	−41,831	35,697	−40,259	−37,878	18,823	13,364
8 On-budget	−258,758	−226,314	−174,302	−42,335	35,825	−39,646	−36,309	−901	3,289
9 Off-budget	55,654	62,415	67,034	504	−127	−613	−1,569	19,724	10,075
Source of financing (total)									
10 Borrowing from the public	185,344	171,288	129,712	16,160	−5,892	15,588	45,459	−12,321	−16,776
11 Operating cash (decrease, or increase (−))	16,564	−2,007	−6,276	23,705	−31,159	18,592	−673	−6,488	−3,785
12 Other[2]	1,196	−5,382	−16,168	1,966	1,354	6,079	−6,908	−14	7,197
MEMO									
13 Treasury operating balance (level, end of period)	35,942	37,949	44,225	13,066	44,225	25,633	26,306	32,794	36,579
14 Federal Reserve Banks	6,848	8,620	7,700	5,149	7,700	5,897	4,857	7,742	6,770
15 Tax and loan accounts	29,094	29,329	36,525	7,917	36,525	19,736	21,449	25,052	29,809

1. Since 1990, off-budget items have been the social security trust funds (federal old-age survivors insurance and federal disability insurance) and the U.S. Postal Service.

2. Includes special drawing rights (SDRs); reserve position on the U.S. quota in the International Monetary Fund (IMF); loans to the IMF; other cash and monetary assets; accrued interest payable to the public; allocations of SDRs; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain or loss for U.S. currency valuation adjustment; net gain or loss for IMF loan-valuation adjustment; and profit on sale of gold.

SOURCE. Monthly totals: U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*; fiscal year totals: U.S. Office of Management and Budget, *Budget of the U.S. Government*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS[1]

Millions of dollars

Source or type	Fiscal year		Calendar year						
	1995	1996	1995		1996		1996		1997
			H1	H2	H1	H2	Nov.	Dec.	Jan.
RECEIPTS									
1 **All sources**	**1,351,830**	**1,453,062[r]**	**711,003**	**656,865**	**767,099**	**707,551**	**97,849**	**148,489**	**150,718**
2 Individual income taxes, net	590,244	656,417	307,498	292,393	347,285	323,884	46,270	59,423	87,239
3 Withheld	499,927	533,080	251,398	256,916	264,177	279,988	46,989	52,690	55,426
4 Nonwithheld	175,855	212,168	132,001	45,521	162,782	53,491	2,003	7,582	33,576
5 Refunds	85,538	88,897	75,959	10,058	79,735	9,604	2,724	850	1,763
Corporation income taxes									
6 Gross receipts	174,422	189,055	92,132	88,302	96,480	95,364	3,522	40,436	6,285
7 Refunds	17,418	17,231	10,399	7,518	9,704	10,053	1,183	1,479	1,477
8 Social insurance taxes and contributions, net	484,473	509,414	261,837	224,269	277,767	240,326	39,952	40,687	48,794
9 Employment taxes and contributions[2]	451,045	476,361	241,557	211,323	257,446	227,777	36,967	40,057	47,302
10 Unemployment insurance	28,878	28,584	18,001	10,702	18,068	10,302	2,574	259	1,137
11 Other net receipts[3]	4,550	4,469	2,279	2,247	2,254	2,245	411	371	355
12 Excise taxes	57,484	54,014	27,452	30,014	25,682	27,016	4,678	4,559	4,219
13 Customs deposits	19,301	18,670	8,848	9,849	8,731	9,294	1,219	1,520	1,468
14 Estate and gift taxes	14,763	17,189	7,425	7,718	8,775	8,835	1,394	1,371	1,615
15 Miscellaneous receipts[4]	28,561	25,534	16,211	11,839	12,087	12,886	1,997	1,973	2,574
OUTLAYS									
16 **All types**	**1,515,729**	**1,560,330**	**761,289**	**752,856**	**785,368**	**799,856[r]**	**135,727**	**129,666[r]**	**137,354**
17 National defense	272,066	265,748	135,648	132,887	132,601[r]	138,319	24,911	23,085	22,137
18 International affairs	16,434	13,496	4,797	6,908	8,074	8,770	814	1,371	1,405
19 General science, space, and technology	16,724	16,709	8,611	7,969	8,898[r]	9,498	1,586	1,590	1,429
20 Energy	4,936	2,836	2,358	1,992	1,355	801	−96	201	−52
21 Natural resources and environment	22,078	21,614	10,273	11,384	10,239[r]	11,592	1,888	2,150	2,018
22 Agriculture	9,778	9,159	4,039	3,073	71	10,771	1,405	2,240	2,169
23 Commerce and housing credit	−17,808	−10,646	−13,471	−3,941	−6,861	−6,154[r]	−4,535	−838[r]	−1,531
24 Transportation	39,350	39,565	18,193	20,725	18,290[r]	21,233	3,386	3,209	2,895
25 Community and regional development	10,641	10,685	5,073	5,569	5,237	6,157[r]	990	749[r]	1,005
26 Education, training, employment, and social services	54,263	52,001	25,893	26,295	26,137	26,175	4,973	3,799	4,676
27 Health	115,418	119,378	59,057	57,111	59,957	61,429	10,060	10,558	10,762
28 Social security and Medicare	495,701	523,901	251,975	251,386	264,649	269,409	45,936	44,779	46,641
29 Income security	220,493	225,989	117,190	104,760	121,032	107,046	19,646	17,278	19,587
30 Veterans benefits and services	37,890	36,985	19,269	18,687	18,164	21,133	5,156	3,088	3,281
31 Administration of justice	16,216	17,548	8,051	8,092	9,020[r]	9,602	1,897	1,563	1,745
32 General government	13,835	11,892	5,796	7,602	4,641	6,641	200	1,687	982
33 Net interest[5]	232,169	241,090	116,169	119,348	120,578[r]	122,627	20,144	19,997	21,092
34 Undistributed offsetting receipts[6]	−44,455	−37,620	−17,631	−26,995	−16,716	−25,196	−2,635	−6,839	−2,888

1. Functional details do not sum to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for receipts and outlays do not correspond to calendar year data because revisions from the *Budget* have not been fully distributed across months.
2. Old-age, disability, and hospital insurance, and railroad retirement accounts.
3. Federal employee retirement contributions and civil service retirement and disability fund.
4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.
5. Includes interest received by trust funds.
6. Rents and royalties for the outer continental shelf, U.S. government contributions for employee retirement, and certain asset sales.

SOURCE. Fiscal year totals: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1998*; monthly and half-year totals: U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*.

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars, end of month

Item	1994	1995				1996			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
1 **Federal debt outstanding**	**4,827**	**4,891**	**4,978**	**5,001**	**5,017**	**5,153**	**5,197**	**5,260**	**5,357**
2 Public debt securities	4,800	4,864	4,951	4,974	4,989	5,118	5,161	5,225	5,323
3 Held by public	3,543	3,610	3,635	3,653	3,684	3,764	3,739	3,778	n.a.
4 Held by agencies	1,257	1,255	1,317	1,321	1,305	1,354	1,422	1,447	n.a.
5 Agency securities	27	27	27	27	28	36	36	35	34
6 Held by public	27	26	27	27	28	28	28	27	n.a.
7 Held by agencies	0	0	0	0	0	8	8	8	n.a.
8 **Debt subject to statutory limit**	**4,711**	**4,775**	**4,861**	**4,885**	**4,900**	**5,030**	**5,073**	**5,137**	**5,237**
9 Public debt securities	4,711	4,774	4,861	4,885	4,900	5,030	5,073	5,137	5,237
10 Other debt[1]	0	0	0	0	0	0	0	0	0
MEMO									
11 Statutory debt limit	4,900	4,900	4,900	4,900	4,900	5,500	5,500	5,500	5,500

1. Consists of guaranteed debt of U.S. Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCE. U.S. Department of the Treasury, *Monthly Statement of the Public Debt of the United States* and *Treasury Bulletin*.

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1993	1994	1995	1996	1996			
					Q1	Q2	Q3	Q4
1 **Total gross public debt**	**4,535.7**	**4,800.2**	**4,988.7**	**5,323.2**	**5,117.8**	**5,161.1**	**5,224.8**	**5,323.2**
By type								
2 Interest-bearing	4,532.3	4,769.2	4,964.4	5,317.2	5,083.0	5,126.8	5,220.8	5,317.2
3 Marketable	2,989.5	3,126.0	3,307.2	3,459.7	3,375.1	3,348.4	3,418.4	3,459.7
4 Bills	714.6	733.8	760.7	777.4	811.9	773.6	761.2	777.4
5 Notes	1,764.0	1,867.0	2,010.3	2,112.3	2,014.1	2,025.8	2,098.7	2,112.3
6 Bonds	495.9	510.3	521.2	555.0	534.1	534.1	543.5	555.0
7 Nonmarketable[1]	1,542.9	1,643.1	1,657.2	1,857.5	1,707.9	1,778.3	1,802.4	1,857.5
8 State and local government series	149.5	132.6	104.5	101.3	96.5	97.8	95.7	101.3
9 Foreign issues[2]	43.5	42.5	40.8	37.4	40.4	37.8	37.5	37.4
10 Government	43.5	42.5	40.8	47.4	40.4	37.8	37.5	47.4
11 Public	.0	.0	.0	.0	.0	.0	.0	.0
12 Savings bonds and notes	169.4	177.8	181.9	182.4	183.0	183.8	184.2	182.4
13 Government account series[3]	1,150.0	1,259.8	1,299.6	1,505.9	1,357.7	1,428.5	1,454.7	1,505.9
14 Non-interest-bearing	3.4	31.0	24.3	6.0	34.8	34.3	4.0	6.0
By holder[4]								
15 U.S. Treasury and other federal agencies and trust funds	1,153.5	1,257.1	1,304.5	n.a.	1,353.8	1,422.4	1,447.0	n.a.
16 Federal Reserve Banks	334.2	374.1	391.0	n.a.	381.0	391.0	390.9	n.a.
17 Private investors	3,047.4	3,168.0	3,294.9	n.a.	3,382.8	3,347.3	3,396.2	n.a.
18 Commercial banks	322.2	290.1	278.3	n.a.	281.0	285.0	280.0	n.a.
19 Money market funds	80.8	67.6	71.3	n.a.	87.3	82.2	85.3	n.a.
20 Insurance companies	234.5	240.1	250.8	n.a.	256.0	258.0	240.0	n.a.
21 Other companies	213.0	226.5	228.8	n.a.	229.0	230.9	249.1	n.a.
22 State and local treasuries[5,6]	605.9	483.4	352.2	n.a.	336.8	340.0	300.0	n.a.
Individuals								
23 Savings bonds	171.9	180.5	185.0	n.a.	185.8	186.5	186.8	n.a.
24 Other securities	137.9	150.7	162.7	n.a.	161.4	161.1	167.2	n.a.
25 Foreign and international[7]	623.0	688.6	862.1	n.a.	930.3	958.2	1,027.7	n.a.
26 Other miscellaneous investors[6,8]	658.3	840.5	903.7	n.a.	915.2	845.4	860.1	n.a.

1. Includes (not shown separately) securities issued to the Rural Electrification Administration, depository bonds, retirement plan bonds, and individual retirement bonds.
2. Nonmarketable series denominated in dollars, and series denominated in foreign currency held by foreigners.
3. Held almost entirely by U.S. Treasury and other federal agencies and trust funds.
4. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
5. Includes state and local pension funds.
6. In March 1996, in a redefinition of series, fully defeased debt backed by nonmarketable federal securities was removed from "Other miscellaneous investors" and added to "State and local treasuries." The data shown here have been revised accordingly.
7. Consists of investments of foreign balances and international accounts in the United States.
8. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. Treasury deposit accounts, and federally sponsored agencies.

SOURCE. U.S. Treasury Department, data by type of security, *Monthly Statement of the Public Debt of the United States*; data by holder, *Treasury Bulletin*.

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Millions of dollars, daily averages

Item	1996			1996, week ending				1997, week ending				
	Oct.	Nov.	Dec.	Dec. 4	Dec. 11	Dec. 18	Dec. 25	Jan. 1	Jan. 8	Jan. 15	Jan. 22	Jan. 29
OUTRIGHT TRANSACTIONS[2]												
By type of security												
1 U.S. Treasury bills	46,500	48,828	48,957	51,501	55,470	58,612	38,766	37,030	51,775	47,443	41,017	41,075
Coupon securities, by maturity												
2 Five years or less	99,043	101,712	89,775	85,598	120,422	112,455	72,174	43,851	92,580	120,490	121,511	113,315
3 More than five years	53,211	62,469	50,436	56,359	65,565	68,412	34,018	21,031	51,136	57,872	47,757	58,845
4 Federal agency	30,349	33,010	34,571	34,415	33,041	36,674	35,498	33,046	37,737	35,055	34,683	34,473
5 Mortgage-backed	40,500	44,279	33,754	46,106	59,605	35,581	16,225	7,422	62,491	50,999	30,001	33,766
By type of counterparty												
With interdealer broker												
6 U.S. Treasury	114,131	120,115	104,432	104,562	139,705	127,703	81,471	54,113	112,516	127,881	122,617	124,947
7 Federal agency	848	823	584	718	613	668	479	447	1,029	1,192	1,146	1,147
8 Mortgage-backed	14,927	16,511	11,606	14,486	19,357	13,807	5,827	2,784	19,219	15,616	11,648	10,394
With other												
9 U.S. Treasury	84,624	92,894	84,737	88,895	101,752	111,776	63,487	47,799	82,975	97,924	87,668	88,289
10 Federal agency	29,502	32,187	33,987	33,698	32,428	36,006	35,019	32,599	36,709	33,863	33,536	33,325
11 Mortgage-backed	25,573	27,767	22,148	31,620	40,248	21,774	10,398	4,638	43,272	35,383	18,353	23,371
FUTURES TRANSACTIONS[3]												
By type of deliverable security												
12 U.S. Treasury bills	96	180	300	667	214	200	256	n.a.	289	221	106	176
Coupon securities, by maturity												
13 Five years or less	1,029	1,423	1,635	1,859	2,910	1,557	979	626	1,394	1,500	1,267	1,295
14 More than five years	11,938	14,514	12,347	12,821	17,869	14,013	10,116	5,237	13,066	14,732	12,630	14,056
15 Federal agency	0	0	0	0	0	0	0	0	0	0	0	0
16 Mortgage-backed	0	0	0	0	0	0	0	0	0	0	0	0
OPTIONS TRANSACTIONS[4]												
By type of underlying security												
17 U.S. Treasury bills	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
18 Five years or less	3,143	2,345	1,626	2,637	1,877	1,137	1,638	1,153	4,475	2,435	3,224	2,767
19 More than five years	4,548	4,881	3,559	3,577	3,928	4,408	3,777	1,803	4,135	5,036	4,849	6,008
20 Federal agency	0	0	0	0	0	0	0	0	0	0	0	0
21 Mortgage-backed	1,113	874	494	548	653	602	129	484	624	463	316	316

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Monthly averages are based on the number of trading days in the month. Transactions are assumed evenly distributed among the trading days of the report week. Immediate, forward, and futures transactions are reported at principal value, which does not include accrued interest; options transactions are reported at the face value of the underlying securities.

Dealers report cumulative transactions for each week ending Wednesday.

2. Outright transactions include immediate and forward transactions. Immediate delivery refers to purchases or sales of securities (other than mortgage-backed federal agency securities) for which delivery is scheduled in five business days or less and "when-issued" securities that settle on the issue date of offering. Transactions for immediate delivery of mortgage-backed agency securities include purchases and sales for which delivery is scheduled in thirty business days or less. Stripped securities are reported at market value by maturity of coupon or corpus.

Forward transactions are agreements made in the over-the-counter market that specify delayed delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty business days.

3. Futures transactions are standardized agreements arranged on an exchange. All futures transactions are included regardless of time to delivery.

4. Options transactions are purchases or sales of put and call options, whether arranged on an organized exchange or in the over-the-counter market, and include options on futures contracts on U.S. Treasury and federal agency securities.

NOTE. "n.a." indicates that data are not published because of insufficient activity.

Major changes in the report form filed by primary dealers induced a break in the dealer data series as of the week ending July 6, 1994.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Millions of dollars

Item	1996 Oct.	1996 Nov.	1996 Dec.	1996, week ending Dec. 4	Dec. 11	Dec. 18	Dec. 25	1997, week ending Jan. 1	Jan. 8	Jan. 15	Jan. 22
	Positions[2]										
NET OUTRIGHT POSITIONS[3]											
By type of security											
1 U.S. Treasury bills	607	8,847	14,525	17,011	22,945	15,313	13,028	3,871	10,493	5,963	5,555
Coupon securities, by maturity											
2 Five years or less	384	5,631	−7,743	2,409	−8,909	−9,597	−6,356	−12,607	−6,697	−7,078	−6,300
3 More than five years	−17,347	−17,797	−22,372	−19,313	−21,141	−21,893	−23,886	−24,641	−23,761	−25,389	−23,626
4 Federal agency	25,339	25,228	23,348	23,818	26,366	24,945	23,540	17,424	27,151	25,797	24,014
5 Mortgage-backed	39,361	42,015	43,300	39,571	45,233	45,617	42,121	42,201	37,959	39,337	35,474
NET FUTURES POSITIONS[4]											
By type of deliverable security											
6 U.S. Treasury bills	−1,315	−1,872	−2,418	−2,705	−1,890	−2,467	−2,385	−2,825	−1,963	−1,702	−2,116
Coupon securities, by maturity											
7 Five years or less	667	−1,285	−75	−2,261	349	843	29	−305	−356	569	597
8 More than five years	−10,401	−15,889	−13,806	−14,802	−14,088	−13,260	−14,444	−12,705	−8,197	−6,231	−9,072
9 Federal agency	0	0	0	0	0	0	0	0	0	0	0
10 Mortgage-backed	0	0	0	0	0	0	0	0	0	0	0
NET OPTIONS POSITIONS											
By type of deliverable security											
11 U.S. Treasury bills	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
12 Five years or less	−1,261	−1,779	−3,036	−2,569	−2,146	−2,914	−3,886	−3,535	−3,807	−3,735	−2,743
13 More than five years	−1,433	423	1,526	1,061	1,791	1,491	1,699	1,368	523	529	−172
14 Federal agency	0	0	0	0	0	0	0	0	0	0	0
15 Mortgage-backed	2,343	1,585	1,054	941	1,179	654	1,232	1,244	1,264	967	984
	Financing[5]										
Reverse repurchase agreements											
16 Overnight and continuing	253,416	264,568	255,137	286,573	265,542	248,671	230,772	258,011	269,405	292,423	273,371
17 Term	501,087	487,521	437,241	422,001	455,010	448,479	463,017	383,490	450,694	484,735	499,494
Securities borrowed											
18 Overnight and continuing	182,438[r]	190,478[r]	194,674	196,775[r]	197,089	194,704	189,200	196,807	199,817	200,979	196,784
19 Term	74,114[r]	69,309[r]	73,195	64,911[r]	71,634	74,200	80,679	70,637	74,331	78,666	82,326
Securities received as pledge											
20 Overnight and continuing	3,576[r]	3,617[r]	5,484	3,993[r]	4,735	5,155	6,620	6,412	6,453	6,897	5,137
21 Term	31[r]	40[r]	5	5[r]	n.a.	n.a.	n.a.	n.a.	8	24	23
Repurchase agreements											
22 Overnight and continuing	572,193	577,005	564,075	607,879	593,342	579,589	531,360	520,796	576,187	600,211	585,752
23 Term	445,809	447,089	393,364	366,756	406,167	401,929	424,994	349,274	409,830	445,471	446,183
Securities loaned											
24 Overnight and continuing	3,860	3,646	3,419	3,248	3,120	3,061	3,730	3,937	3,712	3,843	3,443
25 Term	3,566	3,613	4,117	n.a	n.a.	n.a.	n.a.	4,117	n.a.	3,832	3,844
Securities pledged											
26 Overnight and continuing	43,365	49,960	58,532	53,681	54,641	55,184	58,815	69,883	58,433	57,317	57,355
27 Term	6,843	4,294	1,682	1,462	1,440	1,378	1,955	2,148	1,894	2,387	2,548
Collateralized loans											
28 Overnight and continuing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
29 Term	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
30 Total	13,787	14,254	10,025	12,708	14,557	8,212	6,956	8,645	8,353	8,696	10,806
MEMO: Matched book[6]											
Securities in											
31 Overnight and continuing	252,532	264,391	254,678	278,870	267,009	255,178	233,858	247,872	277,020	291,332	279,622
32 Term	498,543	479,031	434,522	412,129	454,641	446,507	462,095	379,829	454,385	486,331	496,235
Securities out											
33 Overnight and continuing	362,320	357,386	334,841	358,492	352,896	338,440	311,026	321,596	343,682	368,703	356,229
34 Term	398,155	394,147	341,796	325,513	354,481	348,847	370,693	295,911	355,706	395,492	397,689

1. Data for positions and financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Weekly figures are close-of-business Wednesday data. Positions for calendar days of the report week are assumed to be constant. Monthly averages are based on the number of calendar days in the month.

2. Securities positions are reported at market value.

3. Net outright positions include immediate and forward positions. Net immediate positions include securities purchased or sold (other than mortgage-backed agency securities) that have been delivered or are scheduled to be delivered in five business days or less and "when-issued" securities that settle on the issue date of offering. Net immediate positions for mortgage-backed agency securities include securities purchased or sold that have been delivered or are scheduled to be delivered in thirty business days or less.

Forward positions reflect agreements made in the over-the-counter market that specify delayed delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty business days.

4. Futures positions reflect standardized agreements arranged on an exchange. All futures positions are included regardless of time to delivery.

5. Overnight financing refers to agreements made on one business day that mature on the next business day; continuing contracts are agreements that remain in effect for more than one business day but have no specific maturity and can be terminated without advance notice by either party; term agreements have a fixed maturity of more than one business day. Financing data are reported in terms of actual funds paid or received, including accrued interest.

6. Matched-book data reflect financial intermediation activity in which the borrowing and lending transactions are matched. Matched-book data are included in the financing breakdowns given above. The reverse repurchase and repurchase numbers are not always equal because of the "matching" of securities of different values or different types of collateralization.

NOTE. "n.a." indicates that data are not published because of insufficient activity.

Major changes in the report form filed by primary dealers induced a break in the dealer data series as of the week ending July 6, 1994.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1992	1993	1994	1995	1996				
					July	Aug	Sept.	Oct.	Nov.
1 **Federal and federally sponsored agencies**	**483,970**	**570,711**	**738,928**	**844,611**	**885,400**	**892,294**	**896,670**	**901,089**	n.a.
2 Federal agencies	41,829	45,193	39,186	37,347	30,939	30,730	30,599	30,800	n.a.
3 Defense Department[1]	7	6	6	6	6	6	6	6	n.a.
4 Export-Import Bank[2,3]	7,208	5,315	3,455	2,050	1,853	1,853	1,828	1,828	n.a.
5 Federal Housing Administration[4]	374	255	116	97	62	78	82	82	n.a.
6 Government National Mortgage Association certificates of participation[5]	n.a.	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7 Postal Service[6]	10,660	9,732	8,073	5,765	n.a.	n.a.	n.a.	n.a.	n.a.
8 Tennessee Valley Authority	23,580	29,885	27,536	29,429	28,956	28,793	28,683	28,884	n.a.
9 United States Railway Association[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.
10 Federally sponsored agencies[7]	442,141	523,452	699,742	807,264	854,461	861,564	866,071	870,289	882,191
11 Federal Home Loan Banks	114,733	139,512	205,817	243,194	251,169	253,847	254,920	253,836	252,868
12 Federal Home Loan Mortgage Corporation	29,631	49,993	93,279	119,961	146,534	148,729	146,954	148,435	158,158
13 Federal National Mortgage Association	166,300	201,112	257,230	299,174	310,503	312,374	319,153	321,110	324,378
14 Farm Credit Banks[8]	51,910	53,123	53,175	57,379	60,294	60,219	60,126	59,712	59,797
15 Student Loan Marketing Association[9]	39,650	39,784	50,335	47,529	46,053	46,459	44,962	47,225	46,991
16 Financing Corporation[10]	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170
17 Farm Credit Financial Assistance Corporation[11]	1,261	1,261	1,261	1,261	1,261	1,261	1,261	1,261	1,261
18 Resolution Funding Corporation[12]	29,996	29,996	29,996	29,996	29,996	29,996	29,996	29,996	29,996
MEMO									
19 **Federal Financing Bank debt**[13]	**154,994**	**128,187**	**103,817**	**78,681**	**62,233**	**61,971**	**62,846**	**61,051**	n.a.
Lending to federal and federally sponsored agencies									
20 Export-Import Bank[3]	7,202	5,309	3,449	2,044	1,847	1,847	1,822	1,822	n.a.
21 Postal Service[6]	10,440	9,732	8,073	5,765	n.a.	n.a.	n.a.	n.a.	n.a.
22 Student Loan Marketing Association	4,790	4,760	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
23 Tennessee Valley Authority	6,975	6,325	3,200	3,200	n.a.	n.a.	n.a.	n.a.	n.a.
24 United States Railway Association[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other lending[14]									
25 Farmers Home Administration	42,979	38,619	33,719	21,015	19,575	19,757	18,700	18,700	n.a.
26 Rural Electrification Administration	18,172	17,578	17,392	17,144	16,844	16,847	16,751	16,753	n.a.
27 Other	64,436	45,864	37,984	29,513	23,967	23,520	25,573	23,776	n.a.

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. On-budget since Sept. 30, 1976.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal year 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration, the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Small Business Administration, and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Includes Federal Agricultural Mortgage Corporation; therefore details do not sum to total. Some data are estimated.
8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, which is shown on line 17.
9. Before late 1982, the association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 22.
10. The Financing Corporation, established in August 1987 to recapitalize the Federal Savings and Loan Insurance Corporation, undertook its first borrowing in October 1987.
11. The Farm Credit Financial Assistance Corporation, established in January 1988 to provide assistance to the Farm Credit System, undertook its first borrowing in July 1988.
12. The Resolution Funding Corporation, established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, undertook its first borrowing in October 1989.
13. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Because FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table to avoid double counting.
14. Includes FFB purchases of agency assets and guaranteed loans; the latter are loans guaranteed by numerous agencies, with the amounts guaranteed by any one agency generally being small. The Farmers Home Administration entry consists exclusively of agency assets, whereas the Rural Electrification Administration entry consists of both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1994	1995	1996	1996 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1997 Jan.
1 **All issues, new and refunding**[1]	**153,950**	**145,657**	**171,222**[r]	**17,481**	**11,643**	**12,493**	**11,693**	**16,750**	**14,520**	**17,431**[r]	**10,225**
By type of issue											
2 General obligation	54,404	56,980	60,409	6,707	4,345	4,074	3,024	5,467	5,134	4,755	4,123
3 Revenue	99,546	88,677	110,813[r]	10,774	7,298	8,419	8,669	11,283	9,386	12,676[r]	6,102
By type of issuer											
4 State	19,186	14,665	13,651	1,074	671	376	874	1,769	1,351	663	722
5 Special district or statutory authority[2]	95,896	93,500	113,228[r]	10,700	7,241	8,433	8,137	10,923	9,091	12,315[r]	6,218
6 Municipality, county, or township	38,868	37,492	44,343	5,707	3,731	3,684	2,682	4,058	4,078	4,453	3,285
7 **Issues for new capital**	**105,972**	**102,390**	**112,298**[r]	**13,998**	**8,602**	**7,093**	**7,837**	**12,113**	**8,656**	**12,311**[r]	**6,164**
By use of proceeds											
8 Education	21,267	23,964	26,851	3,356	2,206	2,337	1,522	2,693	1,530	2,306	1,963
9 Transportation	10,836	11,890	12,324	1,399	580	622	850	2,907	1,164	736	806
10 Utilities and conservation	10,192	9,618	9,791	839	716	417	720	1,441	1,102	1,006	756
11 Social welfare	20,289	19,566	24,583	3,114	2,222	2,348	2,100	1,573	1,974	3,294	1,252
12 Industrial aid	8,161	6,581	6,287	708	396	274	439	556	460	1,081	232
13 Other purposes	35,227	30,771	32,462[r]	4,582	2,482	1,095	2,206	2,943	2,426	3,888[r]	1,155

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts.

SOURCE. Securities Data Company beginning January 1990; *Investment Dealer's Digest* before then.

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue, offering, or issuer	1994	1995	1996	1996 May	June	July[r]	Aug.	Sept.	Oct.	Nov.	Dec.
1 **All issues**[1]	**583,240**	n.a.	n.a.	**69,396**[r]	**66,966**[r]	**40,245**	**43,977**[r]	**60,252**[r]	**57,513**[r]	**56,781**[r]	**50,554**
2 **Bonds**[2]	**498,039**	**573,206**	n.a.	**55,814**	**53,926**	**32,493**	**38,215**	**53,585**[r]	**44,648**	**43,455**[r]	**38,873**
By type of offering											
3 Public, domestic	365,222	408,804[r]	386,280	46,745	44,925	26,481	32,135	44,367[r]	38,136	38,126[r]	35,312
4 Private placement, domestic[3]	76,065	87,492	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5 Sold abroad	56,755	76,910	74,793	9,069	9,001	6,012	6,081	9,218	6,512	5,329	3,561
By industry group											
6 Manufacturing	43,423	61,070[r]	41,959	5,887	6,009	4,066	2,882	4,030	6,673	4,086	5,325
7 Commercial and miscellaneous	40,735	50,689[r]	34,076	4,933	4,272	2,662	2,611	3,170	4,845	4,051	1,697
8 Transportation	6,867	8,430[r]	5,111	819	906	535	293	620	436	270	301
9 Public utility	13,322	13,751[r]	8,161	691	1,144	1,046	129	229	799	424	389
10 Communication	13,340	22,999[r]	13,320	1,097	2,231	647	1,450	829	700	425	495
11 Real estate and financial	380,352	416,269[r]	358,446	42,386	39,365	23,537	30,851	44,707[r]	31,196	34,199[r]	30,668
12 **Stocks**[2]	**85,155**	n.a.	n.a.	**13,582**[r]	**13,040**[r]	**7,752**	**5,762**[r]	**6,667**[r]	**12,865**[r]	**13,326**[r]	**11,681**
By type of offering											
13 Public preferred	12,570	10,964	35,861	1,660	3,287[r]	1,794	1,168[r]	1,890	3,855	5,656	8,128
14 Common	47,828	57,809	82,554	11,724[r]	9,710[r]	5,958	4,594[r]	4,777[r]	9,010[r]	7,671[r]	3,553
15 Private placement[3]	24,800	↑	↑	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
By industry group											
16 Manufacturing	17,798			2,505[r]	2,670[r]	1,759	1,023[r]	787[r]	1,570[r]	1,560[r]	883
17 Commercial and miscellaneous	15,713	n.a.	n.a.	5,913[r]	6,708[r]	2,628	2,143[r]	3,080[r]	5,700[r]	3,940[r]	2,843
18 Transportation	2,203			322	197	104	143	0	42	355	54
19 Public utility	2,214			297	569	300	306	212	100	210	203
20 Communication	494			1,223[r]	837	1,097	51	0	480[r]	42	20
21 Real estate and financial	46,733	↓	↓	3,322[r]	2,059	1,863	2,098[r]	2,589[r]	4,974[r]	7,219[r]	7,678

1. Figures represent gross proceeds of issues maturing in more than one year; they are the principal amount or number of units calculated by multiplying by the offering price. Figures exclude secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, equities sold abroad, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.
2. Monthly data cover only public offerings.
3. Monthly data are not available.

SOURCE. Beginning July 1993, Securities Data Company and the Board of Governors of the Federal Reserve System.

1.47 OPEN–END INVESTMENT COMPANIES Net Sales and Assets[1]

Millions of dollars

Item	1994	1995	1996 May	1996 June	1996 July	1996 Aug.	1996 Sept.	1996 Oct.	1996 Nov.	1996 Dec.
1 **Sales of own shares**[2]	**841,286**	**871,415**	**96,501**	**88,115**	**93,053**	**86,225**	**84,171**	**92,730**	**87,958**	**122,792**
2 Redemptions of own shares	699,823	699,497	69,419	69,072	76,485	64,993	65,601	72,537	65,949	87,949
3 Net sales[3]	141,463	171,918	27,082	19,044	16,568	21,232	18,570	20,193	22,009	34,843
4 **Assets**[4]	**1,550,490**	**2,067,337**	**2,356,307**	**2,363,024**	**2,297,216**	**2,366,030**	**2,474,339**	**2,517,049**	**2,652,884**	**2,637,398**
5 Cash[5]	121,296	142,572	145,554	144,275	148,647	155,129	156,689	149,937	146,044	137,973
6 Other	1,429,195	1,924,765	2,201,752	2,218,749	2,147,337	2,210,901	2,317,651	2,367,112	2,506,840	2,499,425

1. Data on sales and redemptions exclude money market mutual funds but include limited-maturity municipal bond funds. Data on asset positions exclude both money market mutual funds and limited-maturity municipal bond funds.
2. Includes reinvestment of net income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.
3. Excludes sales and redemptions resulting from transfers of shares into or out of money market mutual funds within the same fund family.
4. Market value at end of period, less current liabilities.
5. Includes all U.S. Treasury securities and other short-term debt securities.

SOURCE. Investment Company Institute. Data based on reports of membership, which comprises substantially all open–end investment companies registered with the Securities and Exchange Commission. Data reflect underwritings of newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data at seasonally adjusted annual rates

Account	1994	1995	1996	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4
1 Profits with inventory valuation and capital consumption adjustment	529.5	586.6	n.a.	560.0	562.3	612.5	611.8	645.1	655.8	661.2	n.a.
2 Profits before taxes	531.2	598.9	n.a.	594.5	589.6	607.2	604.2	642.2	644.6	635.6	n.a.
3 Profits-tax liability	195.3	218.7	n.a.	217.3	214.2	224.5	218.7	233.4	236.4	233.4	n.a.
4 Profits after taxes	335.9	380.2	n.a.	377.2	375.3	382.8	385.5	408.8	408.1	402.2	n.a.
5 Dividends	211.0	227.4	244.2	221.7	224.6	228.5	234.7	239.9	243.1	245.2	248.7
6 Undistributed profits	124.8	152.8	n.a.	155.5	150.8	154.3	150.8	168.9	165.1	156.9	n.a.
7 Inventory valuation	−13.3	−28.1	−7.2	−51.9	−42.3	−9.3	−8.8	−17.4	−11.0	2.0	−2.5
8 Capital consumption adjustment	11.6	15.9	23.3	17.4	15.0	14.6	16.5	20.4	22.3	23.6	26.9

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities[1]

Billions of dollars, end of period; not seasonally adjusted

Account	1993	1994	1995	1995				1996		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3[r]
ASSETS										
1 Accounts receivable, gross[2]	482.8	551.0	614.6	568.5	586.9	594.7	614.6	621.8	631.4	642.0
2 Consumer	116.5	134.8	152.0	135.8	141.7	146.2	152.0	151.9	154.6	154.8
3 Business	294.6	337.6	375.9	351.9	361.8	362.4	375.9	380.9	383.7	387.0
4 Real estate	71.7	78.5	86.6	80.8	83.4	86.1	86.6	89.1	93.1	100.2
5 LESS: Reserves for unearned income	50.7	55.0	63.2	58.9	62.1	61.2	63.2	61.5	59.6	58.9
6 Reserves for losses	11.2	12.4	14.1	12.9	13.7	13.8	14.1	14.2	14.1	14.7
7 Accounts receivable, net	420.9	483.5	537.3	496.7	511.1	519.7	537.3	546.1	557.7	568.4
8 All other	170.9	183.4	210.7	194.6	198.1	198.1	210.7	212.8	216.1	226.8
9 **Total assets**	**591.8**	**666.9**	**748.0**	**691.4**	**709.2**	**717.8**	**748.0**	**758.9**	**773.8**	**795.2**
LIABILITIES AND CAPITAL										
10 Bank loans	25.3	21.2	23.1	21.0	21.5	21.8	23.1	23.5	26.2	27.5
11 Commercial paper	159.2	184.6	184.5	181.3	181.3	178.0	184.5	184.8	186.9	189.4
Debt										
12 Owed to parent	42.7	51.0	62.3	52.5	57.5	59.0	62.3	62.3	68.4	71.9
13 Not elsewhere classified	206.0	235.0	284.7	254.4	264.4	272.1	284.7	291.4	301.3	311.5
14 All other liabilities	87.1	99.5	106.2	102.5	102.1	102.4	106.2	105.7	100.1	102.8
15 Capital, surplus, and undivided profits	71.4	75.7	87.2	79.7	82.5	84.4	87.2	91.1	90.9	92.1
16 **Total liabilities and capital**	**591.8**	**666.9**	**748.0**	**691.4**	**709.2**	**717.8**	**748.0**	**758.9**	**773.8**	**795.2**

1. Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data are amounts carried on the balance sheets of finance companies; securitized pools are not shown, as they are not on the books.

2. Before deduction for unearned income and losses.

1.52 DOMESTIC FINANCE COMPANIES Consumer, Real Estate, and Business Credit[1]

Millions of dollars, amounts outstanding, end of period

Type of credit	1994	1995	1996	1996					
				July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.
	Seasonally adjusted								
1 **Total**	**615,618**	**691,616**	**749,894**	**729,747**	**738,487**	**739,183**	**749,165**	**758,266**	**749,894**
2 Consumer	176,085	198,861	211,831	211,988	212,105	212,979	212,511	212,775	211,831
3 Real estate[2]	78,910	87,077	101,115	97,023	99,806	100,317	102,933	104,776	101,115
4 Business	360,624	405,678	436,948	420,736	426,576	425,887	433,720	440,715	436,948
	Not seasonally adjusted								
5 **Total**	**620,975**	**697,340**	**755,831**	**723,049**	**732,117**	**735,269**	**747,970**	**758,276**	**755,831**
6 Consumer	178,999	202,101	215,177	209,959	211,342	213,827	213,026	214,227	215,177
7 Motor vehicles	61,609	70,061	73,540	75,736	74,433	76,333	75,917	75,304	73,540
8 Other consumer[3]	73,221	81,988	80,984	79,112	78,928	78,451	77,527	77,868	80,984
9 Securitized motor vehicles[4]	31,897	33,633	35,644	34,381	35,830	34,846	34,603	34,177	35,644
10 Securitized other consumer[4]	12,272	16,419	25,009	20,730	22,151	24,197	24,979	26,878	25,009
11 Real estate[2]	78,479	86,606	100,571	97,276	100,295	100,182	103,184	104,943	100,571
12 Business	363,497	408,633	440,083	415,814	420,480	421,260	431,760	439,106	440,083
13 Motor vehicles	118,197	133,277	143,052	133,325	135,063	138,615	139,966	142,210	143,052
14 Retail loans[5]	21,514	25,304	28,793	28,649	28,404	28,875	29,088	28,825	28,793
15 Wholesale loans[6]	35,037	36,427	32,337	26,888	28,188	30,294	30,515	32,262	32,337
16 Leases	61,646	71,546	81,922	77,788	78,471	79,446	80,363	81,123	81,922
17 Equipment	157,953	177,297	184,942	183,119	182,816	181,111	179,997	182,080	184,942
18 Loans[7]	49,358	59,109	60,991	57,216	55,528	56,132	58,735	60,181	60,991
19 Leases	108,595	118,188	123,951	125,903	127,288	124,979	121,262	121,899	123,951
20 Other business[8]	61,495	65,363	71,110	64,397	68,367	67,290	74,055	75,345	71,110
21 Securitized business assets[4]	25,852	32,696	40,979	34,973	34,234	34,244	37,742	39,471	40,979
22 Retail loans	4,494	4,723	5,148	4,613	4,700	4,600	4,650	5,402	5,148
23 Wholesale loans	14,826	21,327	24,732	23,988	23,151	23,170	23,183	23,391	24,732
24 Leases	6,532	6,646	11,099	6,372	6,383	6,474	9,909	10,678	11,099

1. Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data are before deductions for unearned income and losses. Data in this table also appear in the Board's G.20 (422) monthly statistical release. For ordering address, see inside front cover.

2. Includes all loans secured by liens on any type of real estate, for example, first and junior mortgages and home equity loans.

3. Includes personal cash loans, mobile home loans, and loans to purchase other types of consumer goods such as appliances, apparel, general merchandise, and recreation vehicles.

4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

5. Passenger car fleets and commercial land vehicles for which licenses are required.

6. Credit arising from transactions between manufacturers and dealers, that is, floor plan financing.

7. Beginning with the June 1996 data, retail and wholesale business equipment loans have been combined and are no longer separately available.

8. Includes loans on commercial accounts receivable, factored commercial accounts, and receivable dealer capital; small loans used primarily for business or farm purposes; and wholesale and lease paper for mobile homes, campers, and travel trailers.

1.53 MORTGAGE MARKETS Mortgages on New Homes

Millions of dollars except as noted

Item	1994	1995	1996	1996 July	1996 Aug.	1996 Sept.	1996 Oct.	1996 Nov.	1996 Dec.	1997 Jan.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Terms[1]										
1 Purchase price (thousands of dollars)	170.4	175.8	182.4	194.0	184.8	187.1	183.9	188.1	170.8	172.4
2 Amount of loan (thousands of dollars)	130.8	134.5	139.2	144.2	141.1	141.7	139.0	143.3	129.9	133.6
3 Loan-to-price ratio (percent)	78.8	78.6	78.2	76.2	77.7	77.2	77.7	78.0	79.3	79.7
4 Maturity (years)	27.5	27.7	27.2	26.7	27.2	27.7	27.4	27.4	27.5	27.9
5 Fees and charges (percent of loan amount)[2]	1.29	1.21	1.21	1.25	1.38	1.28	1.11	1.19	1.01	1.02
Yield (percent per year)										
6 Contract rate[1]	7.26	7.65	7.56	7.80	7.85	7.77	7.76	7.60	7.63	7.65
7 Effective rate[1,3]	7.47	7.85	7.77	8.01	8.08	7.98	7.95	7.80	7.79	7.81
8 Contract rate (HUD series)[4]	8.58	8.05	8.03	8.28	8.45	8.23	8.01	7.73	7.91	7.94
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (Section 203)[5]	8.68	8.18	8.19	8.56	8.58	8.56	8.00	8.14	8.06	8.06
10 GNMA securities[6]	7.96	7.57	7.48	7.84	7.68	7.85	7.53	7.19	7.33	7.51
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	222,057	253,511	287,052	272,458	275,133	278,003	279,544	283,835	287,052	288,504
12 FHA/VA insured	27,558	28,762	30,592	30,830	30,803	30,840	30,815	30,744	30,592	30,352
13 Conventional	194,499	224,749	256,460	241,628	244,330	247,163	248,729	253,091	256,460	258,152
14 Mortgage transactions purchased (during period)	62,389	56,598	68,618	5,345	5,360	5,353	4,235	6,805	6,178	4,128
Mortgage commitments (during period)										
15 Issued[7]	54,038	56,092	65,859	5,036	5,673	4,264	5,199	6,533	3,991	4,384
16 To sell[8]	1,820	360	130	0	0	53	0	4	28	71
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
17 Total	72,693	107,424	137,755	125,574	127,345	129,426	132,259	135,270	137,755	138,935
18 FHA/VA insured	276	267	220	205	201	197	227	223	220	220
19 Conventional	72,416	107,157	137,535	125,369	127,144	129,229	132,032	135,047	137,535	138,715
Mortgage transactions (during period)										
20 Purchases	124,697	98,470	128,566	9,934	9,643	8,687	9,538	9,198	9,943	9,507
21 Sales	117,110	85,877	119,702	9,496	8,994	8,167	8,797	8,456	9,220	9,204
22 Mortgage commitments contracted (during period)[9]	136,067	118,659	128,995	10,626	8,992	9,315	8,214	9,032	9,905	9,022

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups for purchase of newly built homes; compiled by the Federal Housing Finance Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rate on loans closed for purchase of newly built homes, assuming prepayment at the end of ten years.
4. Average contract rate on new commitments for conventional first mortgages; from U.S. Department of Housing and Urban Development (HUD). Based on transactions on the first day of the subsequent month.
5. Average gross yield on thirty-year, minimum-downpayment first mortgages insured by the Federal Housing Administration (FHA) for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month.
6. Average net yields to investors on fully modified pass-through securities backed by mortgages and guaranteed by the Government National Mortgage Association (GNMA), assuming prepayment in twelve years on pools of thirty-year mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
7. Does not include standby commitments issued, but includes standby commitments converted.
8. Includes participation loans as well as whole loans.
9. Includes conventional and government-underwritten loans The Federal Home Loan Mortgage Corporation's mortgage commitments and mortgage transactions include activity under mortgage securities swap programs, whereas the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING[1]

Millions of dollars, end of period

Type of holder and property	1992	1993	1994	1995		1996		
				Q3	Q4	Q1	Q2	Q3^p
1 **All holders**	**4,091,827**	**4,266,932**	**4,472,718**	**4,657,899**	**4,706,615**	**4,781,996**	**4,869,404**	**4,949,067**
By type of property								
2 One- to four-family residences	3,036,251	3,225,545	3,429,424	3,587,143	3,626,329	3,689,189	3,757,694	3,824,932
3 Multifamily residences	274,234	270,824	275,705	284,201	287,994	291,893	296,974	301,129
4 Nonfarm, nonresidential	700,604	689,365	684,618	702,202	707,673	715,696	728,193	735,659
5 Farm	80,738	81,198	82,971	84,352	84,620	85,217	86,543	87,347
By type of holder								
6 Major financial institutions	1,769,187	1,768,093	1,815,845	1,895,350	1,888,970	1,901,524	1,925,040	1,951,812
7 Commercial banks[2]	894,513	940,595	1,004,322	1,072,844	1,080,366	1,087,207	1,099,585	1,112,970
8 One- to four-family	507,780	556,660	611,391	661,907	663,614	665,935	670,735	676,753
9 Multifamily	38,024	38,657	39,360	42,894	43,842	44,700	45,127	45,753
10 Nonfarm, nonresidential	328,826	324,413	331,004	344,219	349,081	352,641	359,162	365,640
11 Farm	19,882	20,866	22,567	23,824	23,829	23,931	24,561	24,825
12 Savings institutions[3]	627,972	598,437	596,191	604,614	596,789	602,631	612,889	627,999
13 One- to four-family	489,622	470,000	477,626	488,869	482,351	489,634	499,021	513,133
14 Multifamily	69,791	67,367	64,343	63,605	61,988	60,540	60,809	61,444
15 Nonfarm, nonresidential	68,235	60,765	53,933	51,849	52,162	52,155	52,739	53,102
16 Farm	324	305	289	291	288	302	320	320
17 Life insurance companies	246,702	229,061	215,332	217,892	211,815	211,686	212,565	210,842
18 One- to four-family	11,441	9,458	7,910	7,701	7,476	7,472	7,503	7,440
19 Multifamily	27,770	25,814	24,306	24,638	23,920	23,906	24,007	23,802
20 Nonfarm, nonresidential	198,269	184,305	173,539	175,910	170,783	170,681	171,402	169,944
21 Farm	9,222	9,484	9,577	9,643	9,636	9,627	9,653	9,656
22 Federal and related agencies	286,263	327,014	319,327	314,353	313,760	312,950	314,694	311,697
23 Government National Mortgage Association	30	22	6	2	2	2	2	2
24 One- to four-family	30	15	6	2	2	2	2	2
25 Multifamily	0	7	0	0	0	0	0	0
26 Farmers Home Administration[4]	41,695	41,386	41,781	41,858	41,791	41,594	41,547	41,575
27 One- to four-family	16,912	15,303	13,826	12,914	12,643	12,327	11,982	11,630
28 Multifamily	10,575	10,940	11,319	11,557	11,617	11,636	11,645	11,652
29 Nonfarm, nonresidential	5,158	5,406	5,670	6,096	6,248	6,365	6,552	6,681
30 Farm	9,050	9,739	10,966	11,291	11,282	11,266	11,369	11,613
31 Federal Housing and Veterans' Administrations	12,581	12,215	10,964	9,535	9,809	8,439	8,052	6,627
32 One- to four-family	5,153	5,364	4,753	4,918	5,180	4,228	3,861	3,190
33 Multifamily	7,428	6,851	6,211	4,617	4,629	4,211	4,191	3,438
34 Resolution Trust Corporation	32,045	17,284	10,428	4,889	1,864	0	0	0
35 One- to four-family	12,960	7,203	5,200	2,299	691	0	0	0
36 Multifamily	9,621	5,327	2,859	1,420	647	0	0	0
37 Nonfarm, nonresidential	9,464	4,754	2,369	1,170	525	0	0	0
38 Farm	0	0	0	0	0	0	0	0
39 Federal Deposit Insurance Corporation	0	14,112	7,821	5,015	4,303	5,553	5,016	4,025
40 One- to four-family	0	2,367	1,049	618	492	839	840	675
41 Multifamily	0	1,426	1,595	722	428	1,099	955	766
42 Nonfarm, nonresidential	0	10,319	5,177	3,674	3,383	3,616	3,221	2,584
43 Farm	0	0	0	0	0	0	0	0
44 Federal National Mortgage Association	137,584	166,642	178,059	182,229	183,782	183,531	186,041	185,221
45 One- to four-family	124,016	151,310	162,160	166,393	168,122	167,895	170,572	170,083
46 Multifamily	13,568	15,332	15,899	15,836	15,660	15,636	15,469	15,138
47 Federal Land Banks	28,664	28,460	28,555	28,151	28,428	28,891	29,362	29,579
48 One- to four-family	1,687	1,675	1,671	1,656	1,673	1,700	1,728	1,740
49 Farm	26,977	26,785	26,885	26,495	26,755	27,191	27,634	27,839
50 Federal Home Loan Mortgage Corporation	33,665	46,892	41,712	42,673	43,781	44,939	44,674	44,668
51 One- to four-family	31,032	44,345	38,882	39,239	39,929	40,877	40,477	40,304
52 Multifamily	2,633	2,547	2,830	3,434	3,852	4,062	4,197	4,364
53 Mortgage pools or trusts[5]	1,433,183	1,562,925	1,717,991	1,795,041	1,853,607	1,894,686	1,946,135	1,987,981
54 Government National Mortgage Association	419,516	414,066	450,934	463,654	472,292	475,829	485,441	497,248
55 One- to four-family	410,675	404,864	441,198	453,114	461,447	464,650	473,950	485,303
56 Multifamily	8,841	9,202	9,736	10,540	10,845	11,179	11,491	11,945
57 Federal Home Loan Mortgage Corporation	407,514	447,147	490,851	503,370	515,051	524,327	536,671	545,608
58 One- to four-family	401,525	442,612	487,725	500,417	512,238	521,722	534,238	543,341
59 Multifamily	5,989	4,535	3,126	2,953	2,813	2,605	2,433	2,267
60 Federal National Mortgage Association	444,979	495,525	530,343	559,585	582,959	599,546	621,285	636,362
61 One- to four-family	435,979	486,804	520,763	548,400	569,724	585,527	606,271	619,869
62 Multifamily	9,000	8,721	9,580	11,185	13,235	14,019	15,014	16,493
63 Farmers Home Administration[4]	38	28	19	12	11	10	9	7
64 One- to four-family	8	5	3	2	2	1	1	0
65 Multifamily	0	0	0	0	0	0	0	0
66 Nonfarm, nonresidential	17	13	9	5	5	5	4	4
67 Farm	13	10	7	5	4	4	4	3
68 Private mortgage conduits	161,136	206,159	245,844	268,420	283,294	294,974	302,729	308,756
69 One- to four-family[6]	139,637	171,988	194,145	207,679	214,635	219,392	221,380	224,280
70 Multifamily	6,305	8,701	14,925	18,903	21,279	24,477	26,809	28,141
71 Nonfarm, nonresidential	15,194	25,469	36,774	41,838	47,380	51,104	54,541	56,336
72 Farm	0	0	0	0	0	0	0	0
73 Individuals and others[7]	603,194	608,901	619,555	653,155	650,279	672,835	683,535	697,576
74 One- to four-family	447,795	455,572	461,117	491,015	486,111	506,987	515,134	527,190
75 Multifamily	64,688	65,398	69,615	71,896	73,239	73,823	74,826	75,926
76 Nonfarm, nonresidential	75,441	73,922	76,142	77,441	78,105	79,129	80,573	81,369
77 Farm	15,270	14,009	12,681	12,804	12,824	12,896	13,002	13,091

1. Multifamily debt refers to loans on structures of five or more units.
2. Includes loans held by nondeposit trust companies but not loans held by bank trust departments.
3. Includes savings banks and savings and loan associations.
4. FmHA-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:Q4 because of accounting changes by the Farmers Home Administration.
5. Outstanding principal balances of mortgage-backed securities insured or guaranteed by the agency indicated.
6. Includes securitized home equity loans.
7. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and finance companies.

SOURCE. Based on data from various institutional and government sources. Separation of nonfarm mortgage debt by type of property, if not reported directly, and interpolations and extrapolations, when required for some quarters, are estimated in part by the Federal Reserve. Line 69 from Inside Mortgage Securities and other sources

1.55 CONSUMER CREDIT[1]

Millions of dollars, amounts outstanding, end of period

Holder and type of credit	1994	1995	1996	1996[r] July	Aug.	Sept.	Oct.	Nov.	Dec.
	Seasonally adjusted								
1 **Total**	**966,457**	**1,103,296**	**1,195,369**	**1,169,116**	**1,177,482**	**1,178,600**	**1,185,444**	**1,190,531**	**1,195,369**
2 Automobile	317,182	350,848	377,269	373,555	373,525	374,476	376,768	376,671	377,269
3 Revolving	339,337	413,894	462,764	451,018	454,252	453,722	456,366	460,395	462,764
4 Other[2]	309,939	338,554	355,336	344,543	349,705	350,402	352,310	353,465	355,336
	Not seasonally adjusted								
5 **Total**	**990,247**	**1,131,881**	**1,227,074**	**1,159,379**	**1,174,309**	**1,182,632**	**1,187,202**	**1,198,411**	**1,227,074**
By major holder									
6 Commercial banks	462,923	507,753	528,194	510,222	516,719	517,145	519,006	519,553	528,194
7 Finance companies	134,830	152,624	154,524	154,848	153,361	154,784	153,443	153,171	154,524
8 Credit unions	119,594	131,939	146,425	138,249	140,635	141,968	144,423	145,075	146,425
9 Savings institutions	38,468	40,106	47,780	43,038	43,986	44,934	45,883	46,831	47,780
10 Nonfinancial business[3]	86,621	85,061	79,597	69,885	70,996	68,513	67,900	69,708	79,597
11 Pools of securitized assets[4]	147,811	214,398	270,554	243,137	248,612	255,288	256,547	264,073	270,554
By major type of credit[5]									
12 Automobile	319,715	354,055	380,898	372,377	374,974	377,898	381,069	380,846	380,898
13 Commercial banks	141,895	149,094	152,909	153,872	154,451	153,143	154,566	154,287	152,909
14 Finance companies	61,609	70,626	73,540	75,736	74,433	76,333	75,916	75,303	73,540
15 Pools of securitized assets[4]	36,376	44,411	51,079	46,397	47,465	48,135	48,020	48,242	51,079
16 Revolving	357,307	435,674	487,011	444,651	451,294	453,656	455,854	464,055	487,011
17 Commercial banks	182,021	210,298	222,996	207,291	209,757	211,185	213,150	214,233	222,996
18 Nonfinancial business[3]	56,790	53,525	46,901	40,465	41,258	38,816	38,105	39,275	46,901
19 Pools of securitized assets[4]	96,130	147,934	189,147	171,641	174,640	177,958	178,590	183,987	189,147
20 Other	313,225	342,152	359,165	342,351	348,041	351,078	350,279	353,510	359,165
21 Commercial banks	139,007	148,361	152,289	149,059	152,511	152,817	151,290	151,033	152,289
22 Finance companies	73,221	81,998	80,984	79,112	78,928	78,451	77,527	77,868	80,984
23 Nonfinancial business[3]	29,831	31,536	32,696	29,420	29,738	29,697	29,795	30,433	32,696
24 Pools of securitized assets[4]	15,305	22,053	30,328	25,099	26,507	29,195	29,937	31,844	30,328

1. The Board's series on amounts of credit covers most short- and intermediate-term credit extended to individuals. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.
2. Comprises mobile home loans and all other loans that are not included in automobile or revolving credit, such as loans for education, boats, trailers, or vacations. These loans may be secured or unsecured.
3. Includes retailers and gasoline companies.
4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.
5. Totals include estimates for certain holders for which only consumer credit totals are available.

1.56 TERMS OF CONSUMER CREDIT[1]

Percent per year except as noted

Item	1994	1995	1996	1996 June	July	Aug.	Sept.	Oct.	Nov.	Dec.
INTEREST RATES										
Commercial banks[2]										
1 48-month new car	8.12	9.57	9.05	n.a.	n.a.	9.11	n.a.	n.a.	9.03	n.a.
2 24-month personal	13.19	13.94	13.54	n.a.	n.a.	13.37	n.a.	n.a.	13.62	n.a.
Credit card plan										
3 All accounts	15.69	16.02	15.63	n.a.	n.a.	15.65	n.a	n.a.	15.62	n.a.
4 Accounts assessed interest	15.77	15.79	15.50	n.a.	n.a.	15.64	n.a.	n.a.	15.52	n.a.
Auto finance companies										
5 New car	9.79	11.19	9.89	9.53	9.81	10.49	10.52	10.40	10.31	9.25
6 Used car	13.49	14.48	13.53	13.62	13.77	13.92	13.87	13.75	13.56	13.42
OTHER TERMS[3]										
Maturity (months)										
7 New car	54.0	54.1	51.6	50.4	50.5	51.4	51.9	52.5	52.3	52.3
8 Used car	50.2	52.2	51.4	51.6	51.7	51.3	51.0	51.1	50.3	49.9
Loan-to-value ratio										
9 New car	92	92	91	91	91	92	91	89	90	90
10 Used car	99	99	100	100	100	100	100	101	102	100
Amount financed (dollars)										
11 New car	15,375	16,210	16,987	16,854	16,926	16,927	17,182	17,435	17,719	17,670
12 Used car	10,709	11,590	11,711	12,249	12,242	12,132	12,108	12,326	12,393	6,847

1. The Board's series on amounts of credit covers most short- and intermediate-term credit extended to individuals. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.
2. Data are available for only the second month of each quarter.
3. At auto finance companies.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS[1]

Billions of dollars; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1991	1992	1993	1994	1995	1995				1996		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**481.7**	**543.0**	**627.0**	**621.2**	**720.4**	**845.7**	**866.0**	**578.7**	**591.4**	**874.5**	**693.7**	**670.4**
By sector and instrument												
2 Federal government	278.2	304.0	256.1	155.9	144.4	247.8	184.7	86.0	59.3	239.9	62.4	161.3
3 Treasury securities	292.0	303.8	248.3	155.7	142.9	249.0	183.1	85.6	54.1	242.2	60.2	164.4
4 Budget agency securities and mortgages	−13.8	.2	7.8	.2	1.5	−1.2	1.6	.4	5.1	−2.3	2.2	−3.1
5 Nonfederal	203.5	239.0	370.9	465.4	576.0	597.9	681.3	492.7	532.1	634.6	631.3	509.1
By instrument												
6 Commercial paper	−18.4	8.6	10.0	21.4	18.1	6.0	34.3	18.1	14.1	30.1	10.7	−16.5
7 Municipal securities	87.8	30.5	74.8	−29.3	−44.2	−54.9	−2.2	−107.2	−12.6	−14.2	36.9	−76.2
8 Corporate bonds	78.8	67.6	75.2	23.3	73.3	53.0	98.4	59.8	82.0	60.9	71.5	73.8
9 Bank loans n.e.c.	−40.9	−13.7	3.6	73.2	99.6	145.5	99.1	75.3	78.5	29.8	78.8	132.9
10 Other loans and advances	−48.5	10.1	−9.4	54.4	59.0	82.5	57.3	35.2	61.0	32.9	26.9	56.9
11 Mortgages	158.4	130.9	155.2	196.0	228.6	228.2	239.5	255.0	191.7	363.6	318.7	268.0
12 Home mortgages	173.6	187.6	185.8	203.9	196.9	209.9	190.8	227.9	159.1	319.1	248.8	224.2
13 Multifamily residential	−5.5	−10.4	−6.0	1.7	10.5	6.6	10.9	11.3	13.3	13.8	18.4	14.7
14 Commercial	−10.0	−47.8	−25.0	−11.3	19.5	10.0	36.1	13.7	18.2	28.4	46.1	26.0
15 Farm	.4	1.4	.5	1.8	1.6	1.7	1.7	2.2	1.1	2.4	5.3	3.2
16 Consumer credit	−13.7	5.0	61.5	126.3	141.6	137.6	155.0	156.4	117.5	131.5	87.8	70.2
By borrowing sector												
17 Household	183.8	198.3	255.9	372.4	383.1	382.3	389.9	424.6	335.6	461.0	398.4	329.7
18 Nonfinancial business	−61.9	19.5	52.7	136.4	241.5	269.8	300.4	178.4	217.4	186.2	202.7	255.9
19 Corporate	−53.0	34.1	46.5	121.7	205.1	230.4	268.3	140.5	181.3	139.8	158.4	215.9
20 Nonfarm noncorporate	−11.0	−16.0	4.2	11.9	34.8	38.5	29.1	34.4	37.1	46.3	37.2	41.6
21 Farm	2.1	1.3	2.0	2.8	1.6	.8	3.0	3.5	−1.0	.1	7.1	−1.5
22 State and local government	81.6	21.1	62.3	−43.4	−48.6	−54.2	−9.0	−110.3	−20.9	−12.5	30.1	−76.5
23 Foreign net borrowing in United States	14.8	23.7	70.4	−15.3	69.5	67.1	45.5	88.3	76.9	49.2	36.6	105.8
24 Open market paper	6.4	5.2	−9.0	−27.3	13.6	43.2	−8.7	23.7	−3.9	−8.4	9.6	38.6
25 Bonds	15.0	16.8	82.9	12.2	48.3	13.9	51.2	55.2	72.7	47.9	11.1	59.4
26 Bank loans n.e.c.	3.1	2.3	.7	1.4	8.5	8.1	5.6	8.2	11.9	8.7	15.1	4.7
27 Other loans and advances	−9.8	−.6	−4.2	−1.6	−.8	1.9	−2.6	1.3	−3.9	1.1	.7	3.1
28 **Total domestic plus foreign**	**496.5**	**566.7**	**697.4**	**606.0**	**789.9**	**912.8**	**911.4**	**667.0**	**668.3**	**923.7**	**730.3**	**776.3**
	Financial sectors											
29 **Total net borrowing by financial sectors**	**155.6**	**240.0**	**292.2**	**466.7**	**446.7**	**267.7**	**439.9**	**507.0**	**572.0**	**330.3**	**687.5**	**453.7**
By instrument												
30 U.S. government-related	145.7	155.8	165.3	287.5	205.1	86.7	196.5	227.7	309.5	143.8	302.0	244.4
31 Government-sponsored enterprise securities	9.2	40.3	80.6	176.9	106.9	62.9	127.2	101.5	136.1	37.4	132.9	84.0
32 Mortgage pool securities	136.6	115.6	84.7	115.4	98.2	23.8	69.3	126.2	173.4	106.5	169.1	160.4
33 Loans from U.S. government	.0	.0	.0	−4.8	.0	.0	.0	.0	.0	.0	.0	.0
34 Private	9.8	84.2	126.9	179.2	241.6	181.0	243.4	279.3	262.5	186.5	385.5	209.3
35 Open market paper	−32.0	−.7	−6.2	41.6	42.6	37.6	33.9	43.7	55.1	17.8	105.7	85.2
36 Corporate bonds	69.9	82.7	120.1	117.5	184.7	167.6	182.3	217.6	171.6	143.8	201.8	74.7
37 Bank loans n.e.c.	8.8	2.2	−13.0	−12.3	5.5	−5.0	20.7	7.9	−1.8	24.9	23.6	9.6
38 Other loans and advances	−37.3	−.6	22.4	22.6	3.4	−24.5	1.3	4.9	32.0	−5.5	48.6	33.9
39 Mortgages	.5	.6	3.6	9.8	5.3	5.2	5.2	5.2	5.6	5.5	5.8	5.8
By borrowing sector												
40 Commercial banking	−13.2	10.0	13.4	20.1	22.5	21.7	39.0	38.9	−9.7	−32.6	40.1	11.1
41 Savings institutions	−44.7	−7.0	11.3	12.8	2.6	−18.9	−7.2	5.1	31.5	11.0	42.1	31.2
42 Credit unions	.0	.0	.2	.2	−.1	−.3	−1	.1	.0	−.1	−.2	.3
43 Life insurance companies	.0	.0	.2	.3	−.1	.0	.1	−.1	−.4	2.5	.3	−4.4
44 Government-sponsored enterprises	9.1	40.2	80.6	172.1	106.9	62.9	127.2	101.5	136.1	37.4	132.9	84.0
45 Federally related mortgage pools	136.6	115.6	84.7	115.4	98.2	23.8	69.3	126.2	173.4	106.5	169.1	160.4
46 Issuers of asset-backed securities (ABSs)	54.0	58.5	83.3	68.5	132.3	67.6	113.2	164.8	183.5	132.8	128.2	86.2
47 Finance companies	17.7	−1.6	.2	50.2	51.6	80.2	52.0	19.8	54.3	47.1	68.4	30.9
48 Mortgage companies	−2.4	8.0	.0	−11.5	.4	−7.4	14.8	4.0	−10.0	20.0	16.0	6.6
49 Real estate investment trusts (REITs)	1.2	.3	3.4	13.7	5.4	5.2	5.2	5.2	6.0	5.9	6.5	6.7
50 Brokers and dealers	3.7	2.7	12.0	.5	−5.0	−29.5	−.1	2.1	7.7	−31.8	13.2	5.6
51 Funding corporations	−6.5	13.2	2.9	24.2	32.0	62.5	26.4	39.4	−.4	31.6	70.9	35.0

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS[1]—Continued

Transaction category or sector	1991	1992	1993	1994	1995	1995				1996		
						Q1	Q2	Q3	Q4	Q1	Q2	Q3
	All sectors											
52 **Total net borrowing, all sectors**	**652.1**	**806.6**	**989.6**	**1,072.7**	**1,236.5**	**1,180.5**	**1,351.3**	**1,174.0**	**1,240.3**	**1,254.0**	**1,417.8**	**1,229.9**
53 Open market paper	−44.0	13.1	−5.1	35.7	74.3	86.8	59.5	85.5	65.3	39.5	126.0	107.3
54 U.S. government securities	424.0	459.8	421.4	448.1	349.5	334.5	381.1	313.7	368.8	383.7	364.4	405.7
55 Municipal securities	87.8	30.5	74.8	−29.3	−44.2	−54.9	−2.2	−107.2	−12.6	−14.2	36.9	−76.2
56 Corporate and foreign bonds	163.6	167.1	278.2	153.0	306.3	234.5	331.9	332.5	326.3	252.5	284.5	207.9
57 Bank loans n.e.c.	−29.1	−9.3	−8.6	62.3	113.5	148.7	125.4	91.4	88.6	63.3	117.5	147.1
58 Other loans and advances	−95.6	8.9	8.7	70.7	61.6	59.8	56.0	41.3	89.2	28.6	76.2	94.0
59 Mortgages	158.9	131.5	158.8	205.8	233.9	233.4	244.7	260.3	197.2	369.1	324.5	273.9
60 Consumer credit	−13.7	5.0	61.5	126.3	141.6	137.6	155.0	156.4	117.5	131.5	87.8	70.2
	Funds raised through mutual funds and corporate equities											
61 **Total net issues**	**224.1**	**312.5**	**453.6**	**152.2**	**155.3**	**50.1**	**147.0**	**196.8**	**227.3**	**295.6**	**416.5**	**141.4**
62 Corporate equities	76.9	103.4	129.9	23.3	−18.6	−34.0	−18.0	−5.2	−17.2	8.0	65.3	−60.7
63 Nonfinancial corporations	18.3	27.0	21.3	−44.9	−73.8	−60.0	−71.3	−92.8	−71.2	−85.2	−16.0	−98.4
64 Financial corporations	28.0	44.0	45.2	20.1	4.5	9.6	12.5	−.6	−3.5	3.4	11.7	11.9
65 Foreign shares purchased by U.S. residents	30.7	32.4	63.4	48.1	50.7	16.4	40.8	88.2	57.4	89.8	69.7	25.8
66 Mutual funds	147.2	209.1	323.7	128.9	173.9	84.1	165.0	202.0	244.5	287.6	351.2	202.1

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.2 through F.5. For ordering address, see inside front cover.

1.58 SUMMARY OF FINANCIAL TRANSACTIONS[1]

Billions of dollars except as noted; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1991	1992	1993	1994	1995	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3
NET LENDING IN CREDIT MARKETS[2]												
1 **Total net lending in credit markets**	**652.1**	**806.6**	**989.6**	**1,072.7**	**1,236.5**	**1,180.5**	**1,351.3**	**1,174.0**	**1,240.3**	**1,254.0**	**1,417.8**	**1,229.9**
2 Domestic nonfederal nonfinancial sectors	113.7	105.3	77.1	248.4	-101.0	9.1	-161.5	-67.7	-183.9	-74.9	212.0	-185.6
3 Households	38.0	98.5	65.2	293.3	32.7	155.1	-117.3	189.3	-96.4	12.4	184.9	-93.2
4 Nonfinancial corporate business	30.7	27.8	9.1	49.6	-6.0	-41.7	37.7	-53.1	33.0	-4.4	53.9	35.7
5 Nonfarm noncorporate business	-5.3	-.1	-1.1	.2	.3	.3	.3	.3	.3	.4	.4	.4
6 State and local governments	50.3	-20.9	3.9	-94.8	-127.9	-104.5	-82.2	-204.2	-120.8	-83.3	-27.3	-128.6
7 Federal government	10.5	-11.9	-18.4	-24.2	-21.5	-13.1	-24.2	-24.3	-24.4	-20.7	-15.2	-26.3
8 Rest of the world	13.3	98.4	129.3	132.3	272.7	249.9	322.2	361.0	157.6	341.1	268.2	470.9
9 Financial sectors	514.6	614.9	801.6	716.2	1,086.4	934.6	1,214.8	905.0	1,291.0	1,008.5	952.8	971.1
10 Monetary authority	31.1	27.9	36.2	31.5	12.7	18.4	16.7	-4.1	19.7	16.9	9.4	19.3
11 Commercial banking	80.8	95.3	142.2	163.4	265.9	333.0	319.4	244.8	166.2	121.7	190.1	195.2
12 U.S. chartered banks	35.7	69.5	149.6	148.1	186.5	178.7	222.4	227.0	118.1	80.5	125.5	123.6
13 Foreign banking offices in United States	48.5	16.5	-9.8	11.2	75.4	153.5	86.6	25.6	36.1	44.2	57.5	72.8
14 Bank holding companies	-1.5	5.6	.0	.9	-.3	-1.5	5.3	-9.6	4.6	-5.1	5.3	-1.8
15 Banks in U.S. affiliated areas	-1.9	3.7	2.4	3.3	4.2	2.4	5.2	1.8	7.4	2.1	1.7	.7
16 Savings institutions	-158.9	-79.0	-23.3	6.7	-7.5	17.8	-11.7	32.2	-68.4	34.1	45.2	40.0
17 Credit unions	12.8	17.7	21.7	28.1	16.2	11.6	22.8	11.0	19.5	22.1	34.8	13.9
18 Bank personal trusts and estates	10.0	8.0	9.5	7.1	-18.8	-10.8	-20.6	-23.7	-20.2	-18.1	-12.3	-9.3
19 Life insurance companies	86.5	78.5	100.9	66.4	99.1	134.9	135.5	72.9	53.2	48.7	2.4	45.4
20 Other insurance companies	30.0	6.7	27.7	24.9	21.5	20.8	20.9	21.9	22.3	23.6	23.7	24.9
21 Private pension funds	35.4	41.1	45.9	47.0	61.3	58.9	57.2	50.5	78.5	82.6	127.5	45.9
22 State and local government retirement funds	33.8	5.9	21.1	30.7	22.7	62.9	4.9	2.6	20.2	58.7	50.0	32.5
23 Money market mutual funds	32.7	4.7	20.4	30.0	86.5	56.4	134.4	30.0	125.1	175.0	18.4	88.5
24 Mutual funds	80.1	126.2	159.5	-7.1	52.5	-13.4	23.4	58.0	141.9	67.5	63.7	34.2
25 Closed-end funds	12.8	18.2	14.4	-3.3	13.3	8.4	15.1	16.7	13.2	10.9	9.8	9.0
26 Government sponsored enterprises	15.1	68.8	88.6	120.6	88.9	22.2	93.0	50.0	190.5	39.4	127.8	85.9
27 Federally related mortgage pools	136.6	115.6	84.7	115.4	98.2	23.8	69.3	126.2	173.4	106.5	169.1	160.4
28 Asset-backed securities issuers (ABSs)	50.0	53.7	80.8	61.9	112.1	55.5	100.9	154.4	137.4	113.0	118.1	59.4
29 Finance companies	-9.2	7.5	-9.0	68.2	64.2	85.1	67.2	50.8	53.7	40.9	38.9	38.7
30 Mortgage companies	11.2	.1	.0	-22.9	-3.4	-14.4	29.9	7.3	-36.4	47.9	-17.3	13.2
31 Real estate investment trusts (REITs)	-.7	1.1	.6	4.7	1.8	1.8	1.8	1.8	1.9	1.9	1.7	2.4
32 Brokers and dealers	17.5	-1.3	14.8	-44.2	90.1	30.5	146.2	-1.8	185.6	-109.0	-72.0	23.6
33 Funding corporations	7.0	18.2	-34.9	-12.7	9.2	31.2	-11.4	3.5	13.7	124.1	23.8	47.8
RELATION OF LIABILITIES TO FINANCIAL ASSETS												
34 **Net flows through credit markets**	**652.1**	**806.6**	**989.6**	**1,072.7**	**1,236.5**	**1,180.5**	**1,351.3**	**1,174.0**	**1,240.3**	**1,254.0**	**1,417.8**	**1,229.9**
Other financial sources												
35 Official foreign exchange	-5.9	-1.6	.8	-5.8	8.8	17.8	10.3	9.0	-1.9	-.9	1.6	-26.6
36 Special drawing rights certificates	.0	-2.0	.0	.0	2.2	.0	.0	8.6	.0	.0	.0	-1.8
37 Treasury currency	.0	.2	.4	.7	.6	.7	.7	.8	.0	.0	.0	2.3
38 Foreign deposits	-26.5	-3.5	-18.5	54.0	33.5	34.6	110.8	-29.5	18.2	85.0	.9	45.4
39 Net interbank transactions	-3.4	49.4	50.5	89.7	10.0	-22.3	-4.8	-13.5	80.6	-89.2	-52.1	-90.6
40 Checkable deposits and currency	86.3	113.5	117.3	-9.7	-12.8	31.3	100.2	-113.1	-69.3	43.3	4.5	110.7
41 Small time and savings deposits	1.5	-57.2	-70.3	-40.0	96.5	29.8	95.6	145.6	114.9	212.5	-4.6	36.9
42 Large time deposits	-58.5	-73.2	-23.5	19.6	65.6	108.8	74.4	80.2	-.9	55.1	83.5	161.4
43 Money market fund shares	41.6	4.5	20.2	43.3	142.3	74.2	221.1	122.9	151.1	244.0	4.1	147.4
44 Security repurchase agreements	-16.5	43.1	71.2	78.3	110.7	172.5	115.6	95.0	59.8	-19.1	117.7	-24.7
45 Corporate equities	76.9	103.4	129.9	23.3	-18.6	-34.0	-18.0	-5.2	-17.2	8.0	65.3	-60.7
46 Mutual fund shares	147.2	209.1	323.7	128.9	173.9	84.1	165.0	202.0	244.5	287.6	351.2	202.1
47 Trade payables	31.0	46.6	52.4	114.0	96.3	85.0	80.7	129.3	90.1	62.7	126.8	99.4
48 Security credit	51.4	4.6	61.4	-.1	26.7	-5.4	30.1	32.3	49.7	120.6	-37.7	-25.2
49 Life insurance reserves	25.9	28.0	36.0	34.5	44.9	50.7	57.6	33.1	38.3	20.1	42.8	43.0
50 Pension fund reserves	201.6	241.9	250.5	251.9	240.3	271.8	290.4	211.2	187.8	258.4	287.4	220.8
51 Taxes payable	-7.4	9.7	5.2	3.2	1.3	12.0	1.0	2.4	-10.2	5.6	6.6	-1.3
52 Investment in bank personal trusts	16.1	-7.1	1.6	18.8	-47.7	-44.3	-45.6	-63.9	-37.1	-47.3	-20.2	-13.5
53 Noncorporate proprietors' equity	.5	16.7	19.7	25.9	41.3	41.7	39.9	45.3	38.3	38.1	23.4	44.0
54 Miscellaneous	262.3	264.9	353.4	268.0	501.3	320.9	422.2	426.5	835.5	570.0	279.0	379.7
55 **Total financial sources**	**1,476.4**	**1,797.5**	**2,371.5**	**2,171.3**	**2,753.7**	**2,410.5**	**3,098.7**	**2,492.9**	**3,012.5**	**3,108.6**	**2,697.9**	**2,478.7**
Liabilities not identified as assets (−)												
56 Treasury currency	-.6	-.2	-.2	-.2	-.5	-.2	-.4	-.3	-1.0	-1.1	-1.0	1.4
57 Foreign deposits	-24.0	-2.8	-7.0	44.9	27.2	41.6	101.5	-55.7	21.5	61.4	23.6	22.6
58 Net interbank liabilities	26.2	-4.9	4.2	-2.7	-3.1	-.4	-.9	12.3	-23.6	10.9	-26.9	-9.2
59 Security repurchase agreements	-10.7	4.1	34.2	32.4	2.8	68.9	-52.4	26.6	-31.9	-34.5	82.5	-85.9
60 Taxes payable	-2.2	11.9	11.1	8.6	8.7	-7.5	31.0	9.3	2.2	-23.2	24.9	11.8
61 Miscellaneous	-13.2	-32.2	-139.7	-106.0	-7.5	-251.4	15.1	-34.8	241.0	-198.1	-259.5	-41.9
Floats not included in assets (−)												
62 Federal government checkable deposits	-13.1	.7	-1.5	-4.8	-6.0	4.6	-18.6	3.8	-13.8	8.6	-10.5	28.0
63 Other checkable deposits	4.5	1.6	-1.3	-2.8	-3.8	-3.6	-3.8	-3.2	-4.7	-3.8	-4.2	-4.0
64 Trade credit	36.1	11.3	-4.0	-3.1	-23.3	48.9	30.0	-46.7	-125.5	43.1	25.6	-33.0
65 **Total identified to sectors as assets**	**1,473.3**	**1,808.1**	**2,475.6**	**2,205.1**	**2,759.2**	**2,509.6**	**2,997.1**	**2,581.6**	**2,948.4**	**3,245.2**	**2,843.3**	**2,588.9**

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.6 and F.7. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING[1]

Billions of dollars, end of period

Transaction category or sector	1992	1993	1994	1995	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3
	Nonfinancial sectors										
1 **Total credit market debt owed by domestic nonfinancial sectors**	**11,894.6**	**12,536.4**	**13,163.8**	**13,884.2**	**13,339.7**	**13,547.7**	**13,700.5**	**13,884.2**	**14,080.4**	**14,228.8**	**14,406.5**
By sector and instrument											
2 Federal government	3,080.3	3,336.5	3,492.3	3,636.7	3,557.9	3,583.5	3,603.4	3,636.7	3,717.2	3,693.8	3,733.1
3 Treasury securities	3,061.6	3,309.9	3,465.6	3,608.5	3,531.5	3,556.7	3,576.5	3,608.5	3,689.6	3,665.5	3,705.7
4 Budget agency securities and mortgages	18.8	26.6	26.7	28.2	26.4	26.8	26.9	28.2	27.6	28.2	27.4
5 Nonfederal	8,814.2	9,199.9	9,671.5	10,247.5	9,781.8	9,964.2	10,097.1	10,247.5	10,363.2	10,535.0	10,673.4
By instrument											
6 Commercial paper	107.1	117.8	139.2	157.4	149.8	162.9	163.3	157.4	174.2	181.7	...
7 Municipal securities and loans	1,302.8	1,377.5	1,348.2	1,304.0	1,335.4	1,331.7	1,308.2	1,304.0	1,302.0	1,307.8	1,291.5
8 Corporate bonds	1,154.5	1,229.7	1,253.0	1,326.3	1,266.3	1,290.9	1,305.8	1,326.3	1,341.5	1,359.4	1,377.9
9 Bank loans n.e.c.	672.2	675.9	749.0	848.6	782.7	810.7	824.3	848.6	853.9	876.8	904.3
10 Other loans and advances	686.5	677.1	737.8	796.8	762.6	776.9	782.1	796.8	809.3	815.7	826.2
11 Mortgages	4,088.7	4,258.0	4,454.0	4,682.6	4,494.1	4,560.3	4,635.2	4,682.6	4,756.6	4,842.5	4,920.8
12 Home mortgages	3,037.4	3,225.5	3,429.4	3,626.3	3,465.0	3,519.0	3,587.1	3,626.3	3,689.2	3,757.7	3,824.9
13 Multifamily residential	272.5	267.9	269.5	280.1	271.2	273.9	276.7	280.1	283.5	288.1	291.8
14 Commercial	698.1	683.4	672.1	691.6	674.6	683.6	687.0	691.6	698.7	710.2	716.7
15 Farm	80.7	81.2	83.0	84.6	83.4	83.8	84.4	84.6	85.2	86.5	87.3
16 Consumer credit	802.4	863.9	990.2	1,131.9	990.9	1,030.8	1,078.2	1,131.9	1,125.8	1,151.0	1,179.7
By borrowing sector											
17 Households	4,021.5	4,279.7	4,651.8	5,034.9	4,696.9	4,801.4	4,925.9	5,034.9	5,094.8	5,203.3	5,306.6
18 Nonfinancial business	3,696.8	3,761.9	3,904.9	4,146.4	3,982.8	4,066.0	4,098.8	4,146.4	4,203.8	4,263.0	4,314.5
19 Corporate	2,437.6	2,496.5	2,624.8	2,829.9	2,695.4	2,767.3	2,790.0	2,829.9	2,878.3	2,923.0	2,963.9
20 Nonfarm noncorporate	1,122.9	1,127.1	1,139.0	1,173.8	1,148.5	1,155.9	1,164.0	1,173.8	1,185.2	1,194.7	1,204.5
21 Farm	136.3	138.3	141.2	142.7	138.9	142.8	144.8	142.7	140.3	145.3	146.1
22 State and local government	1,095.9	1,158.2	1,114.8	1,066.2	1,102.2	1,096.8	1,072.4	1,066.2	1,064.6	1,068.7	1,052.4
23 **Foreign credit market debt held in United States**	**315.2**	**385.6**	**370.4**	**439.9**	**385.7**	**396.8**	**419.8**	**439.9**	**450.8**	**459.6**	**487.0**
24 Commercial paper	77.7	68.7	41.4	55.0	50.9	48.1	55.8	55.0	51.5	53.4	64.8
25 Bonds	147.2	230.1	242.3	290.6	245.8	258.6	272.4	290.6	302.5	305.3	320.2
26 Bank loans n.e.c.	23.9	24.6	26.1	34.6	28.2	29.6	31.6	34.6	36.8	40.5	41.7
27 Other loans and advances	66.4	62.1	60.6	59.7	60.8	60.5	60.0	59.7	60.0	60.4	60.4
28 **Total credit market debt owed by nonfinancial sectors, domestic and foreign**	**12,209.8**	**12,921.9**	**13,534.2**	**14,324.1**	**13,725.4**	**13,944.5**	**14,120.3**	**14,324.1**	**14,531.2**	**14,688.4**	**14,893.6**
	Financial sectors										
29 **Total credit market debt owed by financial sectors**	**3,025.0**	**3,322.6**	**3,794.6**	**4,243.9**	**3,861.5**	**3,971.9**	**4,096.3**	**4,243.9**	**4,324.7**	**4,496.6**	**4,607.6**
By instrument											
30 Federal government-related	1,720.0	1,885.2	2,172.7	2,377.8	2,196.2	2,247.1	2,300.1	2,377.8	2,416.6	2,493.5	2,550.3
31 Government-sponsored enterprises securities	443.1	523.7	700.6	807.5	716.3	748.1	773.5	807.5	816.9	850.1	871.1
32 Mortgage pool securities	1,272.0	1,356.8	1,472.1	1,570.3	1,479.9	1,499.0	1,526.6	1,570.3	1,599.7	1,643.4	1,679.2
33 Loans from U.S. government	4.8	4.8	.0	.0	.0	.0	.0	.0	.0	.0	.0
34 Private	1,305.1	1,437.4	1,621.9	1,866.0	1,665.3	1,724.8	1,796.2	1,866.0	1,908.1	2,003.1	2,057.3
35 Open market paper	394.3	393.5	442.8	488.0	454.1	462.8	473.6	488.0	491.9	518.5	539.6
36 Corporate bonds	738.4	858.5	973.5	1,158.2	1,012.3	1,056.4	1,112.6	1,158.2	1,190.8	1,239.8	1,260.7
37 Bank loans n.e.c.	80.5	67.6	55.3	60.8	53.4	58.4	60.3	60.8	66.4	72.2	74.4
38 Other loans and advances	86.6	108.9	131.6	135.0	125.4	125.7	127.0	135.0	133.6	145.8	154.2
39 Mortgages	5.4	8.9	18.7	24.0	20.0	21.3	22.6	24.0	25.4	26.9	28.3
By borrowing sector											
40 Commercial banks	80.0	84.6	94.5	102.6	95.0	99.9	102.0	102.6	100.5	103.6	106.7
41 Bank holding companies	114.6	123.4	133.6	148.0	137.7	142.9	150.3	148.0	141.3	148.4	148.0
42 Savings institutions	88.4	99.6	112.4	115.0	107.7	105.9	107.2	115.0	117.8	128.3	136.1
43 Credit unions	.0	.2	.5	.4	.4	.3	.4	.4	.4	.3	.4
44 Life insurance companies	.0	.2	.6	.5	.6	.6	.6	.5	1.1	1.2	.1
45 Government-sponsored enterprises	447.9	528.5	700.6	807.5	716.3	748.1	773.5	807.5	816.9	850.1	871.1
46 Federally related mortgage pools	1,272.0	1,356.8	1,472.1	1,570.3	1,479.9	1,499.0	1,526.6	1,570.3	1,599.7	1,643.4	1,679.2
47 Issuers of asset-backed securities (ABSs)	404.3	487.6	556.1	688.4	570.0	596.8	639.8	688.4	718.2	748.9	772.6
48 Brokers and dealers	21.7	33.7	34.3	29.3	26.9	26.8	27.4	29.3	21.4	24.6	26.1
49 Finance companies	390.4	390.5	440.7	492.3	456.7	467.2	471.9	492.3	499.8	514.4	521.9
50 Mortgage companies	30.2	30.2	18.7	19.1	16.9	20.6	21.6	19.1	24.1	28.1	29.8
51 Real estate investment trusts (REITs)	13.9	17.4	31.1	36.5	32.4	33.7	35.0	36.5	38.0	39.6	41.3
52 Funding corporations	161.6	169.9	199.3	233.9	221.1	230.0	239.9	233.9	245.6	265.6	274.5
	All sectors										
53 **Total credit market debt, domestic and foreign**	**15,234.8**	**16,244.5**	**17,328.8**	**18,568.0**	**17,586.9**	**17,916.3**	**18,216.6**	**18,568.0**	**18,855.9**	**19,185.0**	**19,501.2**
54 Open market paper	579.0	580.0	623.5	700.4	654.7	673.8	692.7	700.4	717.6	753.6	777.4
55 U.S. government securities	4,795.5	5,216.9	5,665.0	6,014.6	5,754.1	5,830.6	5,903.5	6,014.6	6,133.8	6,187.2	6,283.4
56 Municipal securities	1,302.8	1,377.5	1,348.2	1,304.0	1,335.4	1,331.7	1,308.2	1,304.0	1,302.0	1,307.8	1,291.5
57 Corporate and foreign bonds	2,040.1	2,318.3	2,468.8	2,775.1	2,524.4	2,605.9	2,690.8	2,775.1	2,834.9	2,904.6	2,958.8
58 Bank loans n.e.c.	776.6	768.0	830.4	943.9	864.3	898.7	916.2	943.9	957.0	989.6	1,020.5
59 Other loans and advances	844.2	852.9	929.9	991.5	948.8	963.2	969.1	991.5	1,002.9	1,021.8	1,040.9
60 Mortgages	4,094.1	4,266.9	4,472.7	4,706.6	4,514.2	4,581.6	4,657.9	4,706.6	4,782.0	4,869.4	4,949.1
61 Consumer credit	802.4	863.9	990.2	1,131.9	990.9	1,030.8	1,078.2	1,131.9	1,125.8	1,151.0	1,179.7

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.2 through L.4. For ordering address, see inside front cover.

1.60 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES[1]

Billions of dollars except as noted, end of period

Transaction category or sector	1992	1993	1994	1995	1995				1996		
					Q1	Q2	Q3	Q4	Q1	Q2	Q3
CREDIT MARKET DEBT OUTSTANDING[2]											
1 **Total credit market assets**	**15,234.8**	**16,244.5**	**17,328.8**	**18,568.0**	**17,586.9**	**17,916.3**	**18,216.6**	**18,568.0**	**18,855.9**	**19,185.0**	**19,501.2**
2 Domestic nonfederal nonfinancial sectors	2,688.8	2,758.7	3,037.4	2,901.2	3,001.7	2,950.9	2,953.4	2,901.2	2,857.8	2,882.4	2,858.7
3 Households	1,635.0	1,688.5	2,012.2	2,009.6	2,033.1	1,987.9	2,055.5	2,009.6	2,013.0	2,023.4	2,020.7
4 Nonfinancial corporate business	257.8	271.5	321.1	315.1	292.6	303.5	290.6	315.1	291.3	307.9	320.1
5 Nonfarm noncorporate business	38.1	37.0	37.2	37.5	37.3	37.3	37.4	37.5	37.6	37.7	37.8
6 State and local governments	757.9	761.7	666.9	539.0	638.7	622.1	569.9	539.0	515.9	513.4	480.2
7 Federal government	236.1	231.7	207.5	186.1	204.2	198.2	192.2	186.1	180.8	177.0	170.5
8 Rest of the world	1,023.0	1,147.8	1,254.7	1,561.8	1,324.0	1,402.1	1,493.4	1,561.8	1,653.6	1,718.2	1,837.2
9 Financial sectors	11,286.9	12,106.3	12,829.1	13,918.9	13,057.1	13,365.2	13,577.6	13,918.9	14,163.8	14,407.3	14,634.8
10 Monetary authority	300.4	336.7	368.2	380.8	367.1	375.7	370.6	380.8	379.6	386.3	386.2
11 Commercial banking	2,948.6	3,090.8	3,254.3	3,520.1	3,327.8	3,410.1	3,473.2	3,520.1	3,541.6	3,590.8	3,641.6
12 U.S. chartered banks	2,571.9	2,721.5	2,869.6	3,056.1	2,906.5	2,963.7	3,023.7	3,056.1	3,068.8	3,101.3	3,135.3
13 Foreign banking offices in United States	335.8	326.0	337.1	412.6	373.6	396.0	401.1	412.6	422.2	437.1	454.2
14 Bank holding companies	17.5	17.5	18.4	18.0	18.0	19.3	16.9	18.0	16.8	18.1	17.6
15 Banks in U.S. affiliated areas	23.4	25.8	29.2	33.4	29.8	31.1	31.5	33.4	33.9	34.3	34.5
16 Savings institutions	937.4	914.1	920.8	913.3	925.3	922.4	930.4	913.3	921.8	933.1	943.1
17 Credit unions	197.1	218.7	246.8	263.0	248.1	255.0	258.5	263.0	267.0	276.9	281.0
18 Bank personal trusts and estates	231.5	240.9	248.0	229.2	245.3	240.2	234.2	229.2	224.7	221.6	219.3
19 Life insurance companies	1,309.1	1,420.6	1,487.1	1,586.2	1,523.1	1,557.1	1,575.5	1,586.2	1,600.5	1,601.0	1,612.6
20 Other insurance companies	389.4	422.7	446.4	468.7	451.9	457.3	463.0	468.7	474.5	480.2	486.4
21 Private pension funds	571.7	617.6	664.6	725.9	679.3	693.6	706.2	725.9	746.5	778.4	789.8
22 State and local government retirement funds	402.3	423.4	454.1	476.8	469.4	470.9	470.6	476.8	491.1	504.0	511.4
23 Money market mutual funds	408.6	429.0	459.0	545.5	480.6	508.0	505.7	545.5	595.6	594.7	606.6
24 Mutual funds	566.4	725.9	718.8	771.3	719.3	724.8	739.2	771.3	792.4	807.9	816.2
25 Closed-end funds	67.7	82.0	78.7	92.0	80.8	84.6	88.7	92.0	94.8	97.2	99.5
26 Government-sponsored enterprises	457.8	546.4	667.0	756.0	671.9	695.9	708.4	756.0	765.2	797.8	819.3
27 Federally related mortgage pools	1,272.0	1,356.8	1,472.1	1,570.3	1,479.9	1,499.0	1,526.6	1,570.3	1,599.7	1,643.4	1,679.2
28 Asset-backed securities issuers (ABSs)	378.0	458.8	520.7	632.7	531.5	555.2	595.7	632.7	657.6	685.7	702.8
29 Finance companies	496.4	482.8	551.0	615.2	568.5	586.9	594.7	615.2	621.7	632.6	637.1
30 Mortgage companies	60.5	60.4	37.5	34.1	33.9	41.4	43.2	34.1	46.1	41.7	45.0
31 Real estate investment trusts (REITs)	8.1	8.6	13.3	15.1	13.8	14.2	14.7	15.1	15.6	16.1	16.6
32 Brokers and dealers	122.7	137.5	93.3	183.4	101.0	137.5	137.0	183.4	156.2	138.2	144.1
33 Funding corporations	161.3	132.5	127.5	139.3	138.6	135.5	141.4	139.3	171.8	179.6	196.9
RELATION OF LIABILITIES TO FINANCIAL ASSETS											
34 **Total credit market debt**	**15,234.8**	**16,244.5**	**17,328.8**	**18,568.0**	**17,586.9**	**17,916.3**	**18,216.6**	**18,568.0**	**18,855.9**	**19,185.0**	**19,501.2**
Other liabilities											
35 Official foreign exchange	51.8	53.4	53.2	63.7	64.1	67.1	65.1	63.7	62.1	61.4	54.3
36 Special drawing rights certificates	8.0	8.0	8.0	10.2	8.0	8.0	10.2	10.2	10.2	10.2	9.7
37 Treasury currency	16.5	17.0	17.6	18.2	17.8	18.0	18.2	18.2	18.2	18.2	18.8
38 Foreign deposits	267.7	271.8	324.6	361.4	333.3	361.0	353.6	361.4	382.7	382.9	394.3
39 Net interbank liabilities	138.5	189.3	280.0	290.7	272.8	265.9	267.2	290.7	266.3	249.9	230.0
40 Checkable deposits and currency	1,134.4	1,251.7	1,242.0	1,229.3	1,193.7	1,246.2	1,200.3	1,229.3	1,183.3	1,212.3	1,221.7
41 Small time and savings deposits	2,293.5	2,223.2	2,183.3	2,279.7	2,200.2	2,222.6	2,255.8	2,279.7	2,342.3	2,340.1	2,345.5
42 Large time deposits	415.2	391.7	411.2	476.9	441.2	456.3	477.5	476.9	493.6	511.1	552.3
43 Money market fund shares	539.5	559.6	602.9	745.3	634.0	678.5	702.7	745.3	816.9	809.5	838.1
44 Security repurchase agreements	399.9	471.1	549.4	660.1	603.4	629.3	655.5	660.1	666.2	692.1	688.8
45 Mutual fund shares	992.5	1,375.4	1,477.3	1,852.8	1,553.3	1,661.0	1,782.0	1,852.8	1,994.3	2,130.6	2,221.7
46 Security credit	217.7	279.0	279.0	305.6	269.5	277.9	286.2	305.6	326.9	318.6	312.6
47 Life insurance reserves	434.8	470.8	505.3	550.2	518.0	532.4	540.6	550.2	555.2	565.9	576.7
48 Pension fund reserves	4,225.4	4,638.5	4,846.9	5,567.1	5,030.8	5,224.2	5,439.5	5,567.1	5,749.7	5,897.7	6,061.0
49 Trade payables	995.1	1,048.2	1,162.2	1,258.5	1,155.1	1,177.5	1,211.1	1,258.5	1,246.0	1,278.6	1,304.8
50 Taxes payable	79.7	84.9	88.0	89.3	94.3	89.2	91.9	89.3	94.3	90.3	92.1
51 Investment in bank personal trusts	660.6	691.3	699.4	767.4	719.7	739.7	758.6	767.4	781.6	790.9	799.5
52 Miscellaneous	4,784.5	5,173.0	5,436.9	5,839.8	5,516.4	5,574.1	5,684.4	5,839.8	5,974.4	5,988.9	6,102.2
53 **Total liabilities**	**32,890.0**	**35,442.4**	**37,496.2**	**40,934.0**	**38,212.4**	**39,145.2**	**40,017.0**	**40,934.0**	**41,820.1**	**42,534.3**	**43,325.3**
Financial assets not included in liabilities (+)											
54 Gold and special drawing rights	19.6	20.1	21.1	22.1	22.7	22.9	22.1	22.1	22.1	22.0	21.2
55 Corporate equities	5,456.8	6,280.0	6,263.3	8,389.9	6,797.5	7,348.4	7,972.4	8,389.9	8,875.8	9,170.9	9,387.4
56 Household equity in noncorporate business	2,460.1	2,495.5	2,587.5	2,699.6	2,607.2	2,641.1	2,655.0	2,699.6	2,736.1	2,758.3	2,772.0
Liabilities not identified as assets (−)											
57 Treasury currency	−4.9	−5.1	−5.4	−5.8	−5.4	−5.5	−5.6	−5.8	−6.1	−6.3	−6.0
58 Foreign deposits	217.6	232.6	278.7	309.0	289.1	314.5	300.6	309.0	324.4	330.3	335.9
59 Net interbank transactions	−9.3	−4.7	−6.5	−9.0	−2.7	−2.9	.1	−9.0	−2.6	−8.0	−11.6
60 Security repurchase agreements	41.9	76.1	108.5	111.2	130.7	110.2	131.2	111.2	106.7	118.2	113.0
61 Taxes payable	25.2	26.8	35.4	44.1	20.5	35.9	39.1	44.1	23.9	38.0	42.4
62 Miscellaneous	−698.8	−816.7	−876.0	−911.7	−877.2	−830.6	−793.8	−911.7	−981.8	−1,057.0	−1,039.9
Floats not included in assets (−)											
63 Federal government checkable deposits	6.8	5.6	3.4	3.1	4.2	2.0	.6	3.1	.0	−3.4	−1.7
64 Other checkable deposits	42.0	40.7	38.0	34.2	33.3	35.7	27.3	34.2	29.6	31.8	23.1
65 Trade credit	−251.1	−248.0	−252.0	−275.4	−295.1	−306.2	−330.0	−275.4	−326.5	−336.2	−354.5
66 **Total identified to sectors as assets**	**41,457.1**	**44,930.6**	**47,044.0**	**52,745.9**	**48,342.6**	**49,804.6**	**51,297.2**	**52,745.9**	**54,286.6**	**55,378.2**	**56,405.2**

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.6 and L.7. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

Monthly data seasonally adjusted, and indexes 1992=100, except as noted

Measure	1994	1995	1996	1996 May	1996 June	1996 July	1996 Aug.	1996 Sept.	1996 Oct.[r]	1996 Nov.[r]	1996 Dec.	1997 Jan.
1 **Industrial production**[1]	**108.6**	**112.1**	**115.2[r]**	**114.8**	**115.5**	**115.5**	**115.8**	**116.0**	**116.2**	**117.1**	**117.7**	**117.7**
Market groupings												
2 Products, total	106.8	109.3	111.9	111.4	112.3	112.3	112.2	112.7	112.8	113.9	114.2[r]	114.3
3 Final, total	107.1	109.9	112.8[r]	112.2	113.1	113.4	113.0	113.3	113.6	114.7	115.3[r]	115.7
4 Consumer goods	107.4	108.9	110.4[r]	110.0	110.8	110.7	110.1	110.5	110.8	112.1	112.8[r]	112.9
5 Equipment	106.6	111.6	116.8	116.0	117.1	118.1	117.9	118.1	118.4	119.1	119.6[r]	120.5
6 Intermediate	106.1	107.5	109.3[r]	108.9	109.7	108.9	110.0	110.6	110.2	111.5	110.7[r]	110.2
7 Materials	111.3	116.6	120.3	120.1	120.5	120.5	121.5	121.2	121.7	122.2	123.2[r]	123.0
Industry groupings												
8 Manufacturing	109.4	113.2	116.4[r]	115.7	116.4	117.0	117.2	117.4	117.6	118.5	119.4[r]	119.1
9 Capacity utilization, manufacturing (percent)[2]	83.1	83.1	82.1	82.0	82.3	82.4	82.3	82.1	82.0	82.4	82.7[r]	82.2
10 Construction contracts[3]	117.7[r]	121.7[r]	129.7[r]	134.0[r]	133.0[r]	131.0	134.0[r]	137.0[r]	132.0	125.0	128.0[r]	120.0
11 Nonagricultural employment, total[4]	112.0	115.0	117.3	117.0	117.2	117.5	117.8	117.8	118.0	118.2	118.4	118.7
12 Goods-producing, total	96.9	98.1	98.3	98.3	98.4	98.3	98.5	98.3	98.4	98.6	98.7	98.9
13 Manufacturing, total	96.4	97.2	96.2	96.3	96.3	96.2	96.3	96.0	96.1	96.1	96.2	96.3
14 Manufacturing, production workers	97.5	98.7	97.5	97.5	97.5	97.4	97.5	97.2	97.3	97.4	97.4	97.5
15 Service-producing	116.8	120.3	123.3	123.0	123.3	123.6	123.9	124.0	124.3	124.4	124.7	125.0
16 Personal income, total	148.4	157.7	166.4	165.2	166.6	166.7	167.7	168.6	168.8	169.8	171.2	n.a.
17 Wages and salary disbursements	142.6	150.9	159.7	158.3	160.3	159.8	161.1	162.2	162.0	163.2	165.2	n.a.
18 Manufacturing	124.9	130.4	135.3	135.1	135.8	135.8	136.9	136.7	136.7	137.3	139.4	n.a.
19 Disposable personal income[5]	149.3	158.2	166.2	165.1	166.4	166.5	167.4	168.2	168.4	169.4	170.8	n.a.
20 Retail sales[5]	144.8	152.3[r]	159.8	160.4	159.4	159.6	159.6	160.7	161.8	161.7	162.1[r]	163.0
Prices[6]												
21 Consumer (1982–84=100)	148.2	152.4	156.9	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	159.1
22 Producer finished goods (1982=100)	125.5	127.9	131.3	131.1	131.7	131.5	131.9	131.8[r]	132.5	132.5	132.7	132.6

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in January 1997. See "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67–92. The article contains a description of the new aggregation system for industrial production and capacity utilization. For a detailed description of the industrial production index, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.
2. Ratio of index of production to index of capacity. Based on data from the Federal Reserve, DRI McGraw-Hill, U.S. Department of Commerce, and other sources.
3. Index of dollar value of total construction contracts, including residential, nonresidential, and heavy engineering, from McGraw-Hill Information Systems Company, F.W. Dodge Division.
4. Based on data from U.S. Department of Labor, *Employment and Earnings*. Series covers employees only, excluding personnel in the armed forces.
5. Based on data from U.S. Department of Commerce, *Survey of Current Business*.
6. Based on data not seasonally adjusted. Seasonally adjusted data for changes in the price indexes can be obtained from the U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*.

NOTE. Basic data (not indexes) for series mentioned in notes 4 and 5, and indexes for series mentioned in notes 3 and 6, can also be found in the *Survey of Current Business*.

Figures for industrial production for the latest month are preliminary, and many figures for the three months preceding the latest month have been revised. See "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pp. 411–35. See also "Industrial Production Capacity and Capacity Utilization since 1987," *Federal Reserve Bulletin*, vol. 79 (June 1993), pp. 590–605.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data seasonally adjusted

Category	1994	1995	1996	1996 June	1996 July	1996 Aug.	1996 Sept.	1996 Oct.	1996 Nov.[r]	1996 Dec.[r]	1997 Jan.
HOUSEHOLD SURVEY DATA[1]											
1 Civilian labor force[2]	131,056	132,304	133,943	133,709	134,165	133,898	134,291	134,636	134,831	135,022	135,848
Employment											
2 Nonagricultural industries[3]	119,651	121,460	123,264	123,182	123,419	123,570	123,768	124,167	124,290	124,429	125,112
3 Agriculture	3,409	3,440	3,443	3,408	3,470	3,418	3,480	3,450	3,354	3,426	3,468
Unemployment											
4 Number	7,996	7,404	7,236	7,119	7,276	6,910	7,043	7,019	7,187	7,167	7,268
5 Rate (percent of civilian labor force)	6.1	5.6	5.4	5.3	5.4	5.2	5.2	5.2	5.3	5.3	5.4
ESTABLISHMENT SURVEY DATA											
6 **Nonagricultural payroll employment**[4]	**114,172**	**117,203**	**119,549**	**119,537**	**119,772**	**120,052**	**120,050**	**120,311**	**120,492**	**120,753**	**121,024**
7 Manufacturing	18,321	18,468	18,282	18,298	18,267	18,291	18,241	18,254	18,262	18,276	18,294
8 Mining	601	580	570	575	570	570	567	566	566	564	564
9 Contract construction	4,986	5,158	5,405	5,401	5,427	5,437	5,449	5,464	5,491	5,519	5,533
10 Transportation and public utilities	5,993	6,165	6,318	6,329	6,333	6,342	6,337	6,338	6,350	6,341	6,357
11 Trade	26,670	27,585	28,178	28,143	28,256	28,275	28,321	28,446	28,508	28,585	28,611
12 Finance	6,896	6,830	6,977	6,967	6,987	6,999	7,009	7,026	7,038	7,054	7,063
13 Service	31,579	33,107	34,360	34,378	34,448	34,532	34,607	34,709	34,780	34,880	35,047
14 Government	19,128	19,310	19,459	19,446	19,484	19,606	19,519	19,508	19,497	19,534	19,555

1. Beginning January 1994, reflects redesign of current population survey and population controls from the 1990 census.
2. Persons sixteen years of age and older, including Resident Armed Forces. Monthly figures are based on sample data collected during the calendar week that contains the twelfth day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures.
3. Includes self-employed, unpaid family, and domestic service workers.
4. Includes all full- and part-time employees who worked during, or received pay for, the pay period that includes the twelfth day of the month; excludes proprietors, self-employed persons, household and unpaid family workers, and members of the armed forces. Data are adjusted to the March 1992 benchmark, and only seasonally adjusted data are available at this time.

SOURCE. Based on data from U.S. Department of Labor, *Employment and Earnings*.

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION[1]

Seasonally adjusted

Series	Output (1992=100) 1996 Q1	Q2	Q3	Q4	Capacity (percent of 1992 output) 1996 Q1	Q2	Q3	Q4	Capacity utilization rate (percent)[2] 1996 Q1	Q2	Q3	Q4
1 **Total industry**	**113.1**	**114.8**	**115.8**	**117.0**	**136.7**	**137.9**	**139.2**	**140.5**	**82.8**	**83.3**	**83.2**	**83.3**
2 Manufacturing	114.0	115.8	117.2	118.5	139.6	141.0	142.5	143.9	81.7	82.1	82.3	82.3
3 Primary processing[3]	110.1	111.7	113.2	113.9	129.1	129.9	130.7	131.5	85.3	86.0	86.6	86.7
4 Advanced processing[4]	115.9	117.8	119.1	120.7	144.7	146.5	148.2	150.0	80.1	80.4	80.4	80.5
5 Durable goods	122.3	125.4	127.2	128.2	150.0	152.2	154.5	156.9	81.6	82.4	82.3	81.7
6 Lumber and products	107.1	111.0	110.5	110.6	127.3	128.2	129.1	130.0	84.1	86.6	85.6	85.0
7 Primary metals	114.0	116.5	118.6	119.3	127.6	128.7	129.8	131.0	89.3	90.5	91.4	91.1
8 Iron and steel	113.3	115.8	117.9	119.2	128.8	130.3	131.9	133.5	88.0	88.8	89.4	89.3
9 Nonferrous	114.6	117.2	119.4	119.4	125.9	126.5	127.1	127.8	91.0	92.7	93.9	93.4
10 Industrial machinery and equipment	150.7	154.6	158.9	161.5	166.9	171.6	176.3	181.3	90.3	90.1	90.1	89.1
11 Electrical machinery	159.0	162.3	164.5	167.5	186.0	193.2	200.6	208.5	85.5	84.0	82.0	80.3
12 Motor vehicles and parts	120.6	130.4	131.3	126.4	173.6	174.9	176.1	177.3	69.5	74.6	74.5	71.3
13 Aerospace and miscellaneous transportation equipment	81.5	83.8	86.7	90.6	121.0	120.6	120.2	119.8	67.4	69.5	72.2	75.7
14 Nondurable goods	105.1	105.5	106.5	108.1	128.5	129.0	129.6	130.1	81.8	81.8	82.2	83.1
15 Textile mill products	104.5	106.5	107.9	107.7	128.7	129.4	130.1	130.8	81.2	82.3	82.9	82.3
16 Paper and products	105.2	107.9	109.0	109.8	121.9	122.4	122.9	123.3	86.3	88.2	88.7	89.1
17 Chemicals and products	106.8	107.3	109.2	112.0	136.7	137.9	139.2	140.3	78.1	77.8	78.4	79.8
18 Plastics materials	117.3	122.1	125.3	...	127.3	129.5	131.8	..	92.1	94.3	95.1	..
19 Petroleum products	105.6	106.0	106.7	107.8	113.4	113.5	113.7	113.8	93.1	93.4	93.9	94.7
20 Mining	100.8	103.5	103.7	103.9	113.9	113.7	113.7	113.7	88.5	91.0	91.2	91.4
21 Utilities	113.4	114.0	110.5	111.6	123.9	124.5	125.2	125.9	91.6	91.6	88.2	88.7
22 Electric	113.4	114.0	110.8	111.6	122.1	122.8	123.6	124.4	92.9	92.8	89.6	89.7

Series	1973 High	1975 Low	Previous cycle[5] High	Low	Latest cycle[6] High	Low	1996 Jan.	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.	1997 Jan.[p]
	Capacity utilization rate (percent)[2]												
1 **Total industry**	**89.2**	**72.6**	**87.3**	**71.1**	**85.3**	**78.1**	**82.4**	**83.2**	**83.1**	**83.0**	**83.4**	**83.5**	**83.3**
2 Manufacturing	88.5	70.5	86.9	69.0	85.7	76.6	81.5	82.3	82.1	82.0	82.4	82.7	82.2
3 Primary processing[3]	91.2	68.2	88.1	66.2	88.9	77.8	85.0	86.5	86.6	86.7	86.6	86.7	86.0
4 Advanced processing[4]	87.2	71.8	86.7	70.4	84.2	76.1	79.9	80.4	80.2	79.9	80.5	80.9	80.6
5 Durable goods	89.2	68.9	87.7	63.9	84.5	73.2	81.4	82.5	81.9	81.5	81.8	81.9	81.5
6 Lumber and products	88.7	61.2	87.9	60.8	93.6	75.5	82.9	86.3	85.5	84.2	86.7	84.2	83.4
7 Primary metals	100.2	65.9	94.2	45.1	92.7	73.7	87.8	91.2	91.8	93.5	89.6	90.2	89.2
8 Iron and steel	105.8	66.6	95.8	37.0	95.2	71.8	87.6	89.6	88.7	92.6	87.7	87.5	86.7
9 Nonferrous	90.8	59.8	91.1	60.1	89.3	74.2	88.3	93.2	95.7	94.7	92.2	93.5	92.4
10 Industrial machinery and equipment	96.0	74.3	93.2	64.0	85.4	72.4	89.7	90.5	89.6	89.1	89.2	89.1	88.7
11 Electrical machinery	89.2	64.7	89.4	71.6	84.0	75.1	84.8	82.0	81.3	80.5	80.2	80.4	78.7
12 Motor vehicles and parts	93.4	51.3	95.0	45.5	89.1	55.9	73.6	75.4	71.9	68.5	72.7	72.7	73.8
13 Aerospace and miscellaneous transportation equipment	78.4	67.6	81.9	66.6	87.3	79.2	65.8	72.0	73.3	74.6	75.6	76.8	77.5
14 Nondurable goods	87.8	71.7	87.5	76.4	87.3	80.7	81.6	82.0	82.4	82.7	83.0	83.6	83.1
15 Textile mill products	91.4	60.0	91.2	72.3	90.4	77.7	79.8	82.7	82.2	82.4	82.9	81.8	81.4
16 Paper and products	97.1	69.2	96.1	80.6	93.5	85.0	86.5	88.0	88.4	87.4	89.4	90.4	90.2
17 Chemicals and products	87.6	69.7	84.6	69.9	86.2	79.3	78.4	78.1	78.6	79.5	79.6	80.4	80.2
18 Plastics materials	102.0	50.6	90.9	63.4	97.0	74.8	91.6	94.9	95.4	94.0	92.4	..	...
19 Petroleum products	96.7	81.1	90.0	66.8	88.5	85.1	92.8	94.8	94.0	95.3	94.4	94.5	93.2
20 Mining	94.3	88.2	96.0	80.3	86.8	86.1	86.9	91.9	91.0	91.0	91.0	92.3	91.6
21 Utilities	96.2	82.9	89.1	75.9	92.6	83.4	91.0	88.5	88.6	89.0	89.9	87.1	89.4
22 Electric	99.0	82.7	88.2	78.9	95.0	87.1	92.4	90.2	89.6	90.2	90.6	88.2	90.3

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in January 1997. See "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67–92. The article contains a description of the new aggregation system for industrial production and capacity utilization. For a detailed description of the industrial production index, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.

2. Capacity utilization is calculated as the ratio of the Federal Reserve's seasonally adjusted index of industrial production to the corresponding index of capacity.

3. Primary processing includes textiles; lumber; paper; industrial chemicals; synthetic materials; fertilizer materials; petroleum products; rubber and plastics, stone, clay, and glass; primary metals; and fabricated metals.

4. Advanced processing includes foods; tobacco; apparel; furniture and fixtures; printing and publishing; chemical products such as drugs and toiletries; agricultural chemicals; leather and products, machinery; transportation equipment, instruments, and miscellaneous manufactures.

5. Monthly highs, 1978–80; monthly lows, 1982.

6. Monthly highs, 1988–89; monthly lows, 1990–91.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]

Monthly data seasonally adjusted

Group	1992 proportion	1996 avg.	1996 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.	1997 Jan.[p]
			Index (1992 = 100)												
MAJOR MARKETS															
1 **Total index**	**100.0**	**115.2**	**112.4**	**113.8**	**113.2**	**114.3**	**114.8**	**115.5**	**115.5**	**115.8**	**116.0**	**116.2**	**117.1**	**117.7**	**117.7**
2 Products	60.5	111.9	109.1	110.8	110.4	111.0	111.4	112.3	112.3	112.2	112.7	112.8	113.9	114.2	114.3
3 Final products	46.3	112.8	109.8	111.7	111.1	112.1	112.2	113.1	113.4	113.0	113.3	113.6	114.7	115.3	115.7
4 Consumer goods, total	29.1	110.4	108.3	109.9	109.4	109.8	110.0	110.8	110.7	110.1	110.5	110.8	112.1	112.8	112.9
5 Durable consumer goods	6.1	126.2	121.1	124.7	120.8	125.7	126.9	129.9	129.7	128.0	127.1	124.5	127.1	129.4	128.0
6 Automotive products	2.6	125.8	121.1	125.6	115.1	126.0	126.9	130.0	132.1	128.7	127.7	122.0	127.4	128.0	130.1
7 Autos and trucks	1.7	132.6	126.2	133.0	111.2	135.0	135.0	137.7	145.7	138.7	134.6	125.7	133.8	135.7	138.7
8 Autos, consumer	.9	120.3	115.3	121.6	93.5	126.1	129.0	133.3	137.8	132.5	129.9	112.3	123.5	116.2	120.2
9 Trucks, consumer	.7	147.2	142.3	150.3	135.4	150.3	147.3	148.7	161.3	152.3	146.6	147.4	152.4	164.9	167.0
10 Auto parts and allied goods	.9	114.6	112.1	113.7	117.7	111.9	114.0	117.4	112.4	113.5	116.2	114.4	116.4	115.5	116.5
11 Other	3.5	126.4	121.1	123.9	124.7	125.3	126.7	129.7	128.0	127.5	126.6	126.2	126.8	130.2	126.4
12 Appliances, televisions, and air conditioners	1.0	173.4	157.4	164.4	165.8	170.2	172.0	180.1	181.1	175.9	174.2	176.5	177.1	186.0	170.7
13 Carpeting and furniture	.8	109.9	106.8	108.0	110.8	109.1	112.4	114.6	107.0	111.1	110.5	108.6	110.8	109.5	109.5
14 Miscellaneous home goods	1.6	107.9	107.2	108.6	108.0	108.0	108.1	108.7	108.5	108.0	107.6	106.5	106.4	109.4	109.3
15 Nondurable consumer goods	23.0	106.5	105.1	106.2	106.6	105.9	105.8	106.0	106.0	105.6	106.3	107.3	108.3	108.7	109.1
16 Foods and tobacco	10.3	106.2	104.6	105.8	106.8	105.7	105.3	105.8	105.9	105.4	106.1	106.6	107.2	108.8	108.6
17 Clothing	2.4	95.5	94.5	96.5	95.8	96.1	95.9	95.6	95.4	95.4	95.1	95.5	95.3	95.4	94.0
18 Chemical products	4.5	112.8	111.1	111.3	110.5	110.0	110.5	110.6	112.6	111.3	113.5	115.5	117.2	119.0	119.7
19 Paper products	2.9	101.1	98.5	99.8	99.7	100.0	100.7	100.2	101.4	101.8	101.9	102.9	102.9	103.2	102.4
20 Energy	2.9	111.6	111.8	112.8	114.1	112.8	112.8	113.2	109.1	109.4	109.4	110.7	113.6	109.1	112.9
21 Fuels	.8	106.7	104.4	106.7	106.9	106.4	106.8	106.7	106.7	107.7	105.4	108.1	107.8	107.4	106.2
22 Residential utilities	2.1	113.6	115.0	115.4	117.1	115.5	115.4	116.0	109.9	110.0	110.9	111.7	116.0	109.7	115.7
23 Equipment	17.2	116.8	112.4	114.8	113.9	115.9	116.0	117.1	118.1	117.9	118.1	118.4	119.1	119.6	120.5
24 Business equipment	13.2	126.6	122.0	124.6	122.6	125.1	125.0	126.6	128.1	127.7	128.3	128.8	129.9	130.5	131.5
25 Information processing and related	5.4	143.2	135.9	139.4	139.8	140.5	140.8	143.9	144.1	144.6	146.3	147.4	147.1	148.0	149.3
26 Computer and office equipment	1.4	297.0	246.0	258.0	265.4	272.2	279.7	289.4	301.7	306.2	314.3	318.8	323.6	328.4	332.6
27 Industrial	4.0	126.9	126.0	127.7	127.1	127.5	126.5	126.3	127.2	126.7	126.3	127.0	127.0	127.4	127.0
28 Transit	2.5	100.0	93.5	96.7	87.4	97.5	97.5	100.6	104.1	103.0	103.8	101.9	106.9	107.0	110.2
29 Autos and trucks	1.2	115.3	111.9	115.6	95.2	118.5	118.0	120.8	126.5	120.9	117.7	109.4	115.9	113.1	116.9
30 Other	1.3	116.4	114.2	114.9	114.7	114.7	115.3	114.3	118.0	116.1	115.5	118.7	120.2	120.6	120.9
31 Defense and space equipment	3.3	77.0	74.8	76.4	77.6	77.4	77.9	77.0	77.7	77.9	77.7	77.0	76.2	76.8	75.9
32 Oil and gas well drilling	.6	120.5	109.0	113.2	119.8	123.7	127.0	127.8	122.1	122.6	117.5	120.2	120.7	123.6	130.8
33 Manufactured homes	.2	162.0	155.6	156.4	162.5	164.8	165.7	167.9	163.0	167.4	165.6	165.3	159.8	. .	. . .
34 Intermediate products, total	14.2	109.3	106.9	108.1	108.4	107.7	108.9	109.7	108.9	110.0	110.6	110.2	111.5	110.7	110.2
35 Construction supplies	5.3	116.7	110.8	113.3	115.5	114.2	116.1	118.3	117.5	119.2	119.8	117.7	119.5	117.3	116.5
36 Business supplies	8.9	105.0	104.6	105.0	104.3	103.9	104.6	104.6	103.9	104.6	105.3	105.8	106.8	106.7	106.4
37 Materials	39.5	120.3	117.5	118.5	117.7	119.5	120.1	120.5	120.5	121.5	121.2	121.7	122.2	123.2	123.0
38 Durable goods materials	20.8	134.0	130.2	131.5	129.5	132.6	133.5	134.0	134.5	136.2	135.5	135.8	136.4	138.1	137.8
39 Durable consumer parts	4.0	129.0	131.0	128.3	117.0	130.1	130.6	130.4	131.1	133.9	128.3	126.6	130.1	131.7	131.6
40 Equipment parts	7.6	159.2	149.6	154.0	154.6	155.7	157.2	158.9	159.6	161.7	162.6	163.4	165.3	168.3	169.0
41 Other	9.2	118.1	115.9	116.8	116.8	117.2	117.8	117.9	118.2	119.2	119.2	120.0	118.8	119.5	118.5
42 Basic metal materials	3.1	113.1	109.0	111.3	112.0	112.1	112.2	112.6	112.9	113.6	114.7	117.2	114.0	115.4	114.5
43 Nondurable goods materials	8.9	106.5	104.1	104.5	104.4	105.5	105.9	106.2	107.4	106.5	106.9	108.0	108.7	109.5	109.4
44 Textile materials	1.1	106.4	102.2	103.6	104.6	105.6	106.1	106.3	109.9	107.4	107.1	108.4	108.6	106.8	106.0
45 Paper materials	1.8	107.3	104.7	104.9	104.4	106.9	106.4	105.2	109.1	108.2	107.0	108.0	110.8	111.5	111.9
46 Chemical materials	3.9	105.9	103.7	103.5	103.5	104.1	104.7	105.3	106.1	106.2	106.8	109.3	108.2	109.9	109.6
47 Other	2.1	106.2	104.7	105.9	105.4	106.5	107.1	108.0	107.1	104.7	106.2	103.9	107.5	107.3	107.5
48 Energy materials	9.7	103.8	102.5	103.5	104.5	104.2	104.6	104.8	102.4	104.0	103.9	103.9	103.9	103.7	103.7
49 Primary energy	6.3	102.6	100.9	102.6	103.9	104.0	103.5	103.5	101.7	103.2	102.2	102.0	101.7	102.2	101.4
50 Converted fuel materials	3.3	106.1	105.4	105.3	105.7	104.6	106.7	107.2	103.9	105.4	107.0	107.5	108.0	106.7	108.0
SPECIAL AGGREGATES															
51 Total excluding autos and trucks	97.1	114.9	112.1	113.4	113.4	113.9	114.4	115.0	114.9	115.4	115.7	116.1	116.8	117.4	117.4
52 Total excluding motor vehicles and parts	95.1	114.6	111.6	113.1	113.5	113.5	114.0	114.7	114.6	115.0	115.4	115.9	116.5	117.1	117.0
53 Total excluding computer and office equipment	98.2	112.9	110.6	111.9	111.2	112.2	112.6	113.2	113.1	113.4	113.5	113.7	114.5	115.0	115.0
54 Consumer goods excluding autos and trucks	27.4	109.2	107.3	108.6	109.2	108.4	108.7	109.3	108.9	108.6	109.2	109.9	110.8	111.5	111.5
55 Consumer goods excluding energy	26.2	110.3	107.8	109.5	108.8	109.4	109.6	110.4	110.9	110.2	110.6	110.8	111.8	113.3	112.9
56 Business equipment excluding autos and trucks	12.0	127.7	123.0	125.5	125.3	125.8	125.7	127.2	128.2	128.3	129.3	130.7	131.3	132.2	133.0
57 Business equipment excluding computer and office equipment	12.1	115.8	113.6	115.6	113.1	115.3	114.7	115.8	116.8	116.1	116.3	116.6	117.5	117.8	118.7
58 Materials excluding energy	29.8	125.4	122.1	123.1	121.7	124.2	124.9	125.4	126.1	127.0	126.6	127.1	127.8	129.2	128.9

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]—Continued

Group	SIC[2] code	1992 proportion	1996 avg.	1996 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.	1997 Jan.[p]
				Index (1992 = 100)												
MAJOR INDUSTRIES																
59 **Total index**	...	**100.0**	**115.2**	**112.4**	**113.8**	**113.2**	**114.3**	**114.8**	**115.5**	**115.5**	**115.8**	**116.0**	**116.2**	**117.1**	**117.7**	**117.7**
60 Manufacturing	..	85.4	116.4	113.4	114.8	113.9	115.2	115.7	116.4	117.0	117.2	117.4	117.6	118.5	119.4	119.1
61 Primary processing	...	26.5	112.2	109.5	110.1	110.8	111.0	111.7	112.6	113.0	113.1	113.5	113.8	113.8	114.1	113.4
62 Advanced processing	...	58.9	118.4	115.2	117.1	115.4	117.3	117.6	118.3	118.9	119.2	119.3	119.5	120.8	121.9	122.0
63 Durable goods	..	45.0	125.8	121.5	123.6	121.8	124.6	125.2	126.3	126.9	127.5	127.2	127.1	128.4	129.2	129.1
64 Lumber and products	24	2.0	109.8	105.3	106.3	109.7	110.3	110.4	112.4	109.3	111.4	110.7	109.2	112.8	109.7	109.0
65 Furniture and fixtures	25	1.4	108.9	107.4	107.9	105.8	108.1	110.3	109.5	108.1	108.8	108.8	110.4	111.0	110.5	110.4
66 Stone, clay, and glass products	32	2.1	111.0	110.1	109.1	108.7	108.5	109.8	111.3	114.1	111.8	113.1	111.7	112.1	111.4	110.4
67 Primary metals	33	3.1	117.1	111.7	114.6	115.6	116.1	116.3	117.0	118.0	118.3	119.5	122.1	117.4	118.5	117.6
68 Iron and steel	331,2	1.7	116.5	112.3	113.9	113.8	114.6	115.7	117.1	118.0	118.2	117.4	123.2	117.1	117.3	116.7
69 Raw steel	331PT	.1	112.2	112.3	111.2	112.7	112.1	112.9	114.9	113.3	113.6	112.6	111.5	108.7	112.5	109.2
70 Nonferrous	333–6,9	1.4	117.6	111.0	115.3	117.6	117.9	116.9	116.8	117.9	118.5	121.8	120.7	117.7	119.7	118.5
71 Fabricated metal products	34	5.0	118.6	116.7	117.9	117.6	117.8	118.4	118.9	119.1	119.4	119.3	119.3	119.5	119.4	118.9
72 Industrial machinery and equipment	35	8.0	156.4	148.3	151.4	152.5	153.3	154.3	156.1	157.7	159.6	159.4	159.9	161.7	162.9	163.8
73 Computer and office equipment	357	1.8	297.0	251.8	263.6	270.8	277.3	284.7	294.3	306.5	310.8	319.0	323.6	328.5	333.4	337.6
74 Electrical machinery	36	7.3	163.3	155.8	161.0	160.3	161.1	161.8	164.0	163.8	164.6	165.2	165.6	167.1	169.8	168.3
75 Transportation equipment	37	9.5	106.2	103.3	104.4	94.9	106.4	106.8	107.1	109.5	109.3	107.3	105.3	109.6	110.5	112.0
76 Motor vehicles and parts	371	4.9	127.1	127.6	127.4	106.8	130.3	130.5	130.4	134.1	132.8	127.0	121.2	128.8	129.3	131.5
77 Autos and light trucks	371PT	2.6	124.6	118.4	124.8	103.0	127.1	127.6	130.4	137.3	131.0	127.4	117.3	125.7	125.7	128.8
78 Aerospace and miscellaneous transportation equipment	372–6,9	4.6	85.7	79.7	81.9	82.8	83.2	83.8	84.3	85.7	86.5	87.9	89.4	90.6	91.8	92.7
79 Instruments	38	5.4	102.8	101.0	102.9	102.9	102.3	102.4	103.3	102.3	103.0	103.0	103.4	103.0	103.6	103.4
80 Miscellaneous	39	1.3	112.9	110.3	112.4	112.5	112.0	112.2	113.1	113.0	112.9	113.0	113.0	114.1	116.6	116.6
81 Nondurable goods	...	40.4	106.3	104.6	105.3	105.4	105.2	105.5	105.9	106.4	106.2	106.9	107.4	108.0	108.9	108.5
82 Foods	20	9.4	106.4	104.8	105.7	106.2	105.9	105.6	106.1	106.5	105.5	106.2	107.1	107.6	108.9	109.2
83 Tobacco products	21	1.6	105.6	104.1	107.4	111.3	106.3	103.7	105.1	102.5	104.1	104.9	104.0	105.6	108.4	104.8
84 Textile mill products	22	1.8	106.7	102.5	104.0	107.0	105.3	106.1	108.0	108.7	107.7	107.2	107.6	108.4	107.2	106.8
85 Apparel products	23	2.2	98.2	96.8	99.2	98.1	99.0	99.0	99.0	98.3	98.5	98.2	97.8	97.5	97.4	96.6
86 Paper and products	26	3.6	108.0	105.3	104.6	105.8	107.5	107.8	108.5	110.2	108.1	108.8	107.6	110.2	111.5	111.5
87 Printing and publishing	27	6.7	98.5	98.2	99.2	97.6	96.9	97.9	97.1	97.6	97.9	99.1	99.7	100.3	100.1	99.3
88 Chemicals and products	28	9.9	108.8	106.8	107.0	106.6	106.9	107.2	107.9	109.0	108.7	109.7	111.3	111.7	113.1	113.2
89 Petroleum products	29	1.4	106.5	105.2	106.0	105.7	105.5	106.2	106.3	105.3	107.8	106.9	108.4	107.4	107.6	106.1
90 Rubber and plastic products	30	3.5	120.6	118.2	118.6	119.3	118.0	119.8	120.9	120.7	122.0	122.8	121.4	121.7	123.3	121.4
91 Leather and products	31	.3	80.0	80.1	81.7	81.2	81.1	80.7	81.0	80.0	79.5	79.4	78.4	77.3	79.5	77.9
92 Mining	..	6.9	103.0	99.0	100.8	102.8	102.9	103.2	104.4	103.1	104.5	103.4	103.4	103.4	104.9	104.2
93 Metal	10	.5	101.9	97.0	97.1	101.7	99.4	100.9	101.7	103.1	104.0	105.3	105.6	102.6	104.3	105.2
94 Coal	12	1.0	105.9	96.6	101.2	105.9	105.3	108.0	108.9	102.7	109.6	106.2	107.5	108.8	109.6	104.0
95 Oil and gas extraction	13	4.8	100.4	98.0	98.9	100.2	100.9	100.5	101.5	100.9	101.1	100.5	100.0	100.4	101.8	102.3
96 Stone and earth minerals	14	.6	118.4	112.1	117.4	117.9	116.3	117.4	120.6	120.6	121.7	118.5	120.0	117.6	120.7	117.1
97 Utilities	...	7.7	112.4	112.5	113.3	114.4	113.5	114.6	114.0	109.4	110.8	111.1	111.9	113.1	109.8	113.0
98 Electric	491,493PT	6.2	112.5	112.6	113.6	114.0	113.1	114.8	114.2	110.1	111.5	110.9	112.0	112.7	110.0	112.9
99 Gas	492,493PT	1.6	112.2	112.3	112.2	115.8	115.0	113.6	113.6	107.1	108.5	111.8	111.3	114.6	109.3	113.4
SPECIAL AGGREGATES																
100 Manufacturing excluding motor vehicles and parts	..	80.5	115.7	112.5	114.1	114.3	114.3	114.8	115.6	116.0	116.3	116.8	117.3	117.9	118.8	118.4
101 Manufacturing excluding office and computing machines	...	83.6	113.7	111.3	112.6	111.6	112.8	113.2	113.8	114.3	114.4	114.5	114.7	115.5	116.3	116.1
				Gross value (billions of 1992 dollars, annual rates)												
MAJOR MARKETS																
102 **Products, total**	...	**2,001.9**	**2,233.3**	**2,203.1**	**2,240.3**	**2,220.1**	**2,249.1**	**2,255.7**	**2,274.2**	**2,276.1**	**2,272.9**	**2,273.4**	**2,270.7**	**2,298.7**	**2,299.9**	**2,304.9**
103 Final	..	1,552.1	1,736.9	1,720.2	1,752.5	1,727.8	1,760.0	1,761.9	1,775.7	1,782.8	1,773.6	1,771.6	1,771.8	1,793.0	1,798.8	1,806.8
104 Consumer goods	...	1,049.6	1,146.8	1,144.1	1,163.2	1,150.9	1,164.3	1,165.5	1,172.5	1,171.6	1,165.5	1,163.0	1,164.7	1,179.6	1,184.6	1,186.8
105 Equipment	...	502.5	589.4	575.6	588.7	576.3	595.0	595.7	602.4	610.5	607.4	607.8	606.3	612.6	613.4	619.3
106 Intermediate	.	449.9	496.7	483.3	488.5	492.3	489.9	494.4	499.0	494.3	499.7	502.1	499.3	506.1	501.9	499.2

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in January 1997. See "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67–92. For a detailed description of the industrial production index, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76, (April 1990), pp. 187–204.

2. Standard industrial classification.

2.14 HOUSING AND CONSTRUCTION

Monthly figures at seasonally adjusted annual rates except as noted

Item	1994	1995	1996	1996 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.
	Private residential real estate activity (thousands of units except as noted)												
NEW UNITS													
1 Permits authorized	1,372	1,332	1,427	1,423	1,459	1,452	1,415	1,457	1,423	1,399	1,362	1,418	1,422
2 One-family	1,068	997	1,070	1,097	1,115	1,098	1,085	1,073	1,078	1,040	1,011	1,025	1,015
3 Two-family or more	303	335	357	326	344	354	330	384	345	359	351	393	407
4 Started	1,457	1,354	1,475	1,429[r]	1,522[r]	1,476[r]	1,488[r]	1,492[r]	1,515[r]	1,470[r]	1,407	1,486	1,323
5 One-family	1,198	1,076	1,160	1,156[r]	1,215[r]	1,142[r]	1,214[r]	1,164[r]	1,222[r]	1,148[r]	1,104	1,133	1,005
6 Two-family or more	259	278	315	273[r]	307[r]	334	274[r]	328[r]	293[r]	322[r]	303	353	318
7 Under construction at end of period[1]	762	776	797	816	826	826	829	823	820	826	823	828	820
8 One-family	558	547	557	581	591	590	596	592	593	592	586	585	577
9 Two-family or more	204	229	241	235	235	236	233	231	227	234	237	243	243
10 Completed	1,347	1,313	1,410	1,391	1,350	1,408	1,418	1,447	1,445	1,377	1,368	1,417	1,462
11 One-family	1,160	1,066	1,125	1,112	1,073	1,120	1,128	1,145	1,151	1,118	1,120	1,136	1,149
12 Two-family or more	187	247	285	279	277	288	290	302	294	259	248	281	313
13 Mobile homes shipped	304	340	363	368[r]	373[r]	366[r]	372	366[r]	369	372[r]	364	354	338
Merchant builder activity in one-family units													
14 Number sold	670	665	757	713	740	734	733	780	820	779[r]	672	791	783
15 Number for sale at end of period[1]	337	372	327	368	369	362	356	353	343	330[r]	333	330	327
Price of units sold (thousands of dollars)[2]													
16 Median	130.4	133.4	139.6	137.0	140.0	136.4	140.0	144.2	137.0	139.0[r]	142.0	146.5	142.0
17 Average	153.7	157.6	165.9	162.1	170.0	163.3	166.5	168.4	159.7	167.4[r]	167.0	174.2	173.2
EXISTING UNITS (one-family)													
18 Number sold	3,946	3,801	4,085	4,200	4,200	4,280	4,160	4,150	4,140	4,030	3,970	4,010	3,870
Price of units sold (thousands of dollars)[2]													
19 Median	109.6	112.2	118.0	115.7	116.5	117.6	122.9	121.5	122.3	117.8	116.6	117.4	118.8
20 Average	136.4	138.4	144.6	140.1	141.9	144.4	150.2	149.6	149.9	144.7	143.6	144.2	147.1
	Value of new construction (millions of dollars)[3]												
CONSTRUCTION													
21 Total put in place	**527,063**	**547,079**	**568,680**	**556,983**	**564,623**	**558,481**	**563,122**	**559,312**	**564,715**	**572,262**	**579,994**	**591,571**	**587,661**
22 Private	400,007	410,197	427,227	419,726	424,233	418,120	423,106	419,293	426,703	428,361	433,874	443,539	441,531
23 Residential	238,873	236,598	246,409	245,881	248,013	247,486	246,909	244,931	246,019	246,407	244,268	247,010	248,011
24 Nonresidential	161,134	173,599	180,818	173,845	176,220	170,634	176,197	174,362	180,684	181,954	189,606	196,529	193,520
25 Industrial buildings	28,947	32,301	30,037	30,593	30,285	27,310	28,755	28,770	27,082	29,656	32,920	31,613	28,927
26 Commercial buildings	59,728	67,528	70,313	65,503	67,565	65,834	69,280	68,262	72,146	70,672	74,310	77,414	77,026
27 Other buildings	26,961	26,923	29,344	27,884	27,457	27,723	28,533	28,514	29,764	29,812	30,404	32,564	32,537
28 Public utilities and other	45,498	46,847	51,124	49,865	50,913	49,767	49,629	48,816	51,692	51,814	51,972	54,938	55,030
29 Public	127,056	136,884	141,448	137,257	140,390	140,361	140,016	140,020	138,012	143,901	146,120	148,032	146,130
30 Military	2,319	3,005	2,901	3,126	3,168	3,020	3,140	2,439	2,307	2,583	3,082	2,378	2,427
31 Highway	37,673	38,161	39,464	39,527	39,454	37,715	38,308	39,194	36,507	40,485	39,409	40,278	42,477
32 Conservation and development	6,370	6,389	5,734	5,811	5,956	5,756	6,004	5,793	5,660	5,473	6,097	5,953	5,395
33 Other	80,694	89,329	93,349	88,793	91,812	93,870	92,564	92,594	93,538	95,360	97,532	99,423	95,831

1. Not at annual rates.
2. Not seasonally adjusted.
3. Recent data on value of new construction may not be strictly comparable with data for previous periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes, see *Construction Reports* (C–30–76–5), issued by the Census Bureau in July 1976.

SOURCE. Bureau of the Census estimates for all series except (1) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (2) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from the originating agency. Permit authorizations are those reported to the Census Bureau from 19,000 jurisdictions beginning in 1994.

2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (annual rate)				Change from 1 month earlier					Index level, Jan. 1997[1]
	1996 Jan.	1997 Jan.	1996[r]				1996[r]				1997	
			Mar.	June	Sept.	Dec.	Sept.	Oct.	Nov.	Dec.	Jan.	
CONSUMER PRICES[2] (1982–84=100)												
1 **All items**	**2.7**	**3.0**	**4.0**	**2.9**	**3.1**	**3.3**	**.3**	**.3**	**.3**	**.3**	**.1**	**159.1**
2 Food	2.4	3.6	3.8	4.3	5.3	3.4	.5	.5	.4	.0	−.3	156.5
3 Energy items	.8	7.9	13.7	4.9	1.1	16.2	.2	1.1	1.2	1.5	.8	113.3
4 All items less food and energy	3.0	2.5	3.0	2.5	2.7	2.4	.3	.2	.2	.2	.1	167.5
5 Commodities	1.9	.9	2.3	.0	1.1	.9	.4	.1	.1	.1	.1	141.5
6 Services	3.4	3.3	3.4	3.4	3.4	3.1	.3	.2	.3	.3	.1	182.4
PRODUCER PRICES (1982=100)												
7 Finished goods	2.2	2.5	2.5	2.5	2.5	4.3	.3	.2	.2	.6	−.3	132.6
8 Consumer foods	2.2	2.5	1.5	5.3	4.6	2.4	.4	.7	.0	−.1	−1.0	134.0
9 Consumer energy	2.5	10.4	13.8	2.5	7.0	27.3	.7	1.2	1.5	3.4	−.2	86.7
10 Other consumer goods	2.4	.8	.0	2.2	.6	.3	.1	−.1	.0	.1	.0	145.1
11 Capital equipment	1.8	.5	.3	.6	1.2	−.3	.1	−.3	.1	.1	.0	139.0
Intermediate materials												
12 Excluding foods and feeds	2.0	.8	−1.0	.6	1.0	2.2	.3	.0	.2	.4	.2	126.4
13 Excluding energy	1.7	−.5	−3.5	.0	.0	.0	.2	−.2	.1	.1	.1	134.1
Crude materials												
14 Foods	12.2	−2.0	1.7	47.4	−9.4	−28.2	−3.5	−3.2	−2.2	−2.7	−1.0	112.4
15 Energy	11.9	50.1	52.8	−14.1	18.7	169.7	−3.3	2.1	7.7	16.5	12.9	117.2
16 Other	−6.9	−3.7	−8.6	−9.3	−2.6	−1.6	.5	.1	−.5	.0	2.0	156.1

1. Not seasonally adjusted.
2. Figures for consumer prices are for all urban consumers and reflect a rental-equivalence measure of homeownership.

SOURCE. U.S. Department of Labor, Bureau of Labor Statistics.

2.16 GROSS DOMESTIC PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1994	1995	1996	1995	1996			
				Q4	Q1	Q2	Q3	Q4
GROSS DOMESTIC PRODUCT								
1 **Total**	**6,935.7**	**7,253.8**	**7,580.0**	**7,350.6**	**7,426.8**	**7,545.1**	**7,616.3**	**7,731.7**
By source								
2 Personal consumption expenditures	4,700.9	4,924.9	5,152.0	4,990.5	5,060.5	5,139.4	5,165.4	5,242.6
3 Durable goods	580.9	606.4	632.2	612.8	625.2	637.6	630.5	635.5
4 Nondurable goods	1,429.7	1,485.9	1,545.1	1,494.2	1,522.1	1,544.7	1,546.5	1,567.2
5 Services	2,690.3	2,832.6	2,974.7	2,883.5	2,913.2	2,957.1	2,988.5	3,039.9
6 Gross private domestic investment	1,014.4	1,065.3	1,119.8	1,064.0	1,068.9	1,096.0	1,156.2	1,158.2
7 Fixed investment	954.9	1,028.2	1,100.5	1,046.2	1,070.7	1,088.0	1,119.6	1,123.9
8 Nonresidential	667.2	738.5	790.4	749.7	769.0	773.8	807.0	811.7
9 Structures	180.2	199.7	213.7	204.0	208.4	207.4	213.5	225.6
10 Producers' durable equipment	487.0	538.8	576.6	545.7	560.6	566.3	593.5	586.1
11 Residential structures	287.7	289.8	310.2	296.5	301.7	314.2	312.6	312.2
12 Change in business inventories	59.5	37.0	19.3	17.8	−1.7	8.0	36.6	34.3
13 Nonfarm	48.0	39.6	20.5	19.9	2.7	11.3	35.4	32.4
14 Net exports of goods and services	−94.4	−94.7	−99.6	−67.2	−86.3	−99.2	−120.2	−92.5
15 Exports	719.1	807.4	855.4	837.0	839.5	850.0	844.3	887.7
16 Imports	813.5	902.0	954.9	904.2	925.8	949.2	964.5	980.2
17 Government consumption expenditures and gross investment	1,314.7	1,358.3	1,407.7	1,363.4	1,383.7	1,408.8	1,414.8	1,423.5
18 Federal	516.4	516.6	524.1	507.7	518.6	529.6	525.5	522.9
19 State and local	798.4	841.7	883.6	855.7	865.1	879.2	889.3	900.6
By major type of product								
20 Final sales, total	6,876.2	7,216.7	7,560.7	7,332.8	7,428.6	7,537.1	7,579.6	7,697.4
21 Goods	2,534.4	2,662.2	2,784.5	2,698.0	2,749.3	2,782.0	2,785.0	2,821.8
22 Durable	1,086.2	1,147.3	1,218.9	1,166.4	1,192.1	1,219.1	1,225.5	1,238.9
23 Nondurable	1,448.3	1,515.0	1,565.6	1,531.7	1,557.1	1,562.9	1,559.5	1,582.9
24 Services	3,746.5	3,926.9	4,105.8	3,992.4	4,027.9	4,087.0	4,122.0	4,186.1
25 Structures	595.3	627.6	670.4	642.3	651.4	668.0	672.6	689.6
26 Change in business inventories	59.5	37.0	19.3	17.8	−1.7	8.0	36.6	34.3
27 Durable goods	31.9	34.9	16.2	27.3	12.3	9.9	34.7	7.8
28 Nondurable goods	27.7	2.2	3.2	−9.4	−14.0	−1.9	2.0	26.5
MEMO								
29 **Total GDP in chained 1992 dollars**	**6,608.7**	**6,742.9**	**6,911.0**	**6,780.7**	**6,814.3**	**6,892.6**	**6,928.4**	**7,008.7**
NATIONAL INCOME								
30 **Total**	**5,501.6**	**5,813.5**	n.a.	**5,927.4**	**6,015.3**	**6,118.7**	**6,203.0**	n.a.
31 Compensation of employees	4,009.8	4,222.7	4,448.5	4,301.1	4,344.3	4,420.9	4,482.9	4,546.0
32 Wages and salaries	3,257.3	3,433.2	3,630.1	3,501.1	3,540.2	3,606.5	3,659.6	3,714.0
33 Government and government enterprises	602.5	621.7	641.1	626.9	634.0	638.9	644.6	647.0
34 Other	2,654.8	2,811.5	2,988.9	2,874.2	2,906.1	2,967.5	3,015.1	3,067.0
35 Supplement to wages and salaries	752.4	789.5	818.5	800.1	804.1	814.4	823.3	832.0
36 Employer contributions for social insurance	350.2	365.5	382.3	369.8	375.0	380.4	384.6	389.1
37 Other labor income	402.2	424.0	436.2	430.2	429.1	434.0	438.6	442.9
38 Proprietors' income[1]	450.9	478.3	518.1	486.7	499.5	515.2	526.3	531.5
39 Business and professional[1]	415.9	449.3	471.9	454.9	461.1	469.4	474.6	482.5
40 Farm[1]	35.0	29.0	46.2	31.8	38.4	45.8	51.8	49.0
41 Rental income of persons[2]	116.6	122.2	127.2	125.8	126.9	124.5	127.0	130.5
42 Corporate profits[1]	529.5	586.6	n.a.	611.8	645.1	655.8	661.2	n.a.
43 Profits before tax[3]	531.2	598.9	n.a.	604.2	642.2	644.6	635.6	n.a.
44 Inventory valuation adjustment	−13.3	−28.1	−7.2	−8.8	−17.4	−11.0	2.0	−2.5
45 Capital consumption adjustment	11.6	15.9	23.3	16.5	20.4	22.3	23.6	26.9
46 Net interest	394.9	403.6	n.a.	401.9	399.5	402.3	405.6	n.a.

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.
3. For after-tax profits, dividends, and the like, see table 1.48.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1994	1995	1996	1995	1996			
				Q4	Q1	Q2	Q3	Q4
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**5,753.1**	**6,115.1**	**6,452.8**	**6,234.5**	**6,308.5**	**6,412.4**	**6,501.4**	**6,588.8**
2 Wage and salary disbursements	3,241.8	3,430.6	3,630.1	3,500.2	3,538.2	3,606.5	3,659.6	3,715.9
3 Commodity-producing industries	824.9	863.5	902.8	873.9	878.7	900.3	911.0	921.0
4 Manufacturing	621.1	648.4	672.6	654.7	654.8	671.8	678.5	685.1
5 Distributive industries	739.2	783.7	827.7	800.7	810.5	822.3	832.4	845.4
6 Service industries	1,075.2	1,161.6	1,258.5	1,198.6	1,215.1	1,244.9	1,271.6	1,302.6
7 Government and government enterprises	602.5	621.7	641.1	626.9	634.0	638.9	644.6	647.0
8 Other labor income	402.2	424.0	436.2	430.2	429.1	434.0	438.6	442.9
9 Proprietors' income[1]	450.9	478.3	518.1	486.7	499.5	515.2	526.3	531.5
10 Business and professional[1]	415.9	449.3	471.9	454.9	461.1	469.4	474.6	482.5
11 Farm[1]	35.0	29.0	46.2	31.8	38.4	45.8	51.8	49.0
12 Rental income of persons[2]	116.6	122.2	127.2	125.8	126.9	124.5	127.0	130.5
13 Dividends	199.6	214.8	230.6	221.7	226.6	229.3	231.5	234.8
14 Personal interest income	663.7	717.1	738.0	727.2	726.1	733.1	742.9	749.9
15 Transfer payments	956.3	1,022.6	1,080.1	1,041.4	1,063.0	1,075.6	1,085.1	1,096.8
16 Old-age survivors, disability, and health insurance benefits	472.9	507.4	539.2	516.1	529.9	536.3	541.7	548.7
17 LESS: Personal contributions for social insurance	278.1	294.5	307.6	298.8	301.0	305.8	309.7	313.7
18 EQUALS: Personal income	5,753.1	6,115.1	6,452.8	6,234.5	6,308.5	6,412.4	6,501.4	6,588.8
19 LESS: Personal tax and nontax payments	731.4	794.3	863.8	807.2	824.9	870.6	872.5	887.1
20 EQUALS: Disposable personal income	5,021.7	5,320.8	5,589.0	5,427.3	5,483.5	5,541.8	5,628.9	5,701.6
21 LESS: Personal outlays	4,832.3	5,071.5	5,314.5	5,144.7	5,218.1	5,300.7	5,329.8	5,409.5
22 EQUALS: Personal saving	189.4	249.3	274.4	282.6	265.4	241.1	299.1	292.2
MEMO								
Per capita (chained 1992 dollars)								
23 Gross domestic product	25,349.8	25,628.8[r]	26,030.1	25,684.5	25,753.3	25,990.0	26,066.2	26,308.9
24 Personal consumption expenditures	17,158.2[r]	17,399.6[r]	17,667.1	17,459.9	17,570.2	17,675.7	17,657.9	17,764.0
25 Disposable personal income	18,330.0	18,799.0	19,166.0	18,986.0	19,041.0	19,063.0	19,242.0	19,318.0
26 Saving rate (percent)	3.8	4.7	4.9	5.2	4.8	4.3	5.3	5.1
GROSS SAVING								
27 **Gross saving**	**1,056.3**	**1,151.8**	n.a.	**1,220.6**	**1,217.9**	**1,244.5**	**1,314.0**	n.a.
28 Gross private saving	1,006.7	1,071.8	n.a.	1,138.9	1,133.8	1,121.6	1,196.1	n.a.
29 Personal saving	189.4	249.3	274.4	282.6	265.4	241.1	299.1	292.2
30 Undistributed corporate profits[1]	123.2	140.6	n.a.	158.4	171.8	176.3	182.5	n.a.
31 Corporate inventory valuation adjustment	−13.3	−28.1	−7.2	−8.8	−17.4	−11.0	2.0	−2.5
Capital consumption allowances								
32 Corporate	441.0	454.0	473.8	463.6	465.6	471.0	477.2	481.5
33 Noncorporate	237.7	225.2	235.0	233.4	229.1	233.2	237.4	240.2
34 Gross government saving	49.6	80.0	n.a.	81.7	84.1	122.9	117.8	n.a.
35 Federal	−119.6	−87.9	n.a.	−80.7	−82.0	−54.1	−48.4	n.a.
36 Consumption of fixed capital	70.6	73.8	72.5	73.8	73.2	72.6	72.3	71.9
37 Current surplus or deficit (−), national accounts	−190.2	−161.7	n.a.	−154.5	−155.2	−126.7	−120.8	n.a.
38 State and local	169.2	167.9	n.a.	162.4	166.1	177.0	166.3	n.a.
39 Consumption of fixed capital	69.4	72.9	76.5	74.3	75.1	76.0	77.1	78.0
40 Current surplus or deficit (−), national accounts	99.7	95.0	n.a.	88.1	91.0	101.0	89.2	n.a.
41 **Gross investment**	**1,090.4**	**1,150.9**	n.a.	**1,173.9**	**1,167.9**	**1,187.0**	**1,215.9**	n.a.
42 Gross private domestic investment	1,014.4	1,065.3	1,119.8	1,064.0	1,068.9	1,096.0	1,156.2	1,158.2
43 Gross government investment	212.3	221.9	233.0	220.1	228.8	235.1	234.2	233.9
44 Net foreign investment	−136.4	−136.3	n.a.	−110.2	−129.9	−144.2	−174.6	n.a.
45 **Statistical discrepancy**	**34.1**	**−.9**	n.a.	**−46.7**	**−50.0**	**−57.5**	**−98.1**	n.a.

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data seasonally adjusted except as noted[1]

Item credits or debits	1993	1994	1995	1995		1996		
				Q3	Q4	Q1	Q2	Q3
1 Balance on current account	−99,936	−148,405	−148,154	−37,688	−30,435	−34,869	−40,210	−47,961
2 Merchandise trade balance[2]	−132,609	−166,121	−173,424	−42,548	−38,026	−42,730	−46,996	−51,593
3 Merchandise exports	456,832	502,463	575,940	144,984	149,422	150,028	153,095	149,937
4 Merchandise imports	−589,441	−668,584	−749,364	−187,532	−187,448	−192,758	−200,091	−201,530
5 Military transactions, net	880	1,963	3,585	1,120	978	489	725	710
6 Other service transactions, net	59,691	59,779	64,776	17,093	17,657	18,014	17,694	17,049
7 Investment income, net	9,742	−4,159	−8,016	−4,361	−1,890	262	−2,264	−4,705
8 U.S. government grants	−16,823	−15,816	−10,959	−2,933	−2,799	−4,259	−2,364	−2,502
9 U.S. government pensions and other transfers	−4,081	−4,544	−3,420	−964	−731	−960	−1,029	−1,034
10 Private remittances and other transfers	−16,736	−19,506	−20,696	−5,095	−5,624	−5,685	−5,976	−5,886
11 Change in U.S. government assets other than official reserve assets, net (increase, −)	−342	−341	−280	252	−199	−152	−353	72
12 Change in U.S. official reserve assets (increase, −)	−1,379	5,346	−9,742	−1,893	191	17	−523	7,489
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	−537	−441	−808	362	−147	−199	−133	848
15 Reserve position in International Monetary Fund	−44	494	−2,466	−991	−163	−849	−220	−183
16 Foreign currencies	−797	5,293	−6,468	−1,264	501	1,065	−170	6,824
17 Change in U.S. private assets abroad (increase, −)	−192,889	−155,700	−297,834	−37,954	−98,206	−68,615	−49,850	−62,237
18 Bank-reported claims[3]	29,947	−8,161	−69,146	8,476	−7,272	1,714	−74	−32,482
19 Nonbank-reported claims	1,581	−32,804	−34,219	7,500	−14,278	−12,707	−3,374	...
20 U.S. purchases of foreign securities, net	−146,253	−60,270	−98,960	−35,839	−32,539	−34,420	−20,200	−21,314
21 U.S. direct investments abroad, net	−78,164	−54,465	−95,509	−18,091	−44,117	−23,202	−26,202	−8,441
22 Change in foreign official assets in United States (increase, +)	72,153	40,253	109,757	39,186	11,369	52,021	13,566	23,642
23 U.S. Treasury securities	48,952	30,745	68,813	20,489	12,984	55,600	−3,384	25,335
24 Other U.S. government obligations	4,062	6,077	3,734	518	764	52	1,258	1,217
25 Other U.S. government liabilities[4]	1,713	2,344	1,082	−71	1,249	−156	220	755
26 Other U.S. liabilities reported by U.S. banks[3]	14,841	3,560	32,862	18,478	−3,908	−3,264	14,187	−2,080
27 Other foreign official assets[5]	2,585	−2,473	3,266	−228	280	−211	1,285	−1,585
28 Change in foreign private assets in United States (increase, +)	178,843	245,123	314,705	79,630	87,860	47,450	86,983	100,357
29 U.S. bank-reported liabilities[3]	20,859	111,842	25,283	−21,542	32,765	−35,571	1,925	265
30 U.S. nonbank-reported liabilities	10,489	−7,710	34,578	6,945	11,272	6,506	7,296	...
31 Foreign private purchases of U.S. Treasury securities, net	24,381	34,225	99,340	37,269	1,734	11,832	31,212	41,982
32 Foreign purchases of other U.S. securities, net	80,092	57,006	95,268	31,971	27,321	35,993	29,122	32,961
33 Foreign direct investments in United States, net	43,022	49,760	60,236	24,987	14,768	28,690	17,428	25,149
34 Allocation of special drawing rights	0	0	0	0	0	0	0	0
35 Discrepancy	43,550	13,724	31,548	−41,533	29,420	4,148	−9,613	−21,362
36 Due to seasonal adjustment	...	...	...	−7,407	1,153	6,279	−801	−8,699
37 Before seasonal adjustment	43,550	13,724	31,548	−34,126	28,267	−2,131	−8,812	−12,663
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	−1,379	5,346	−9,742	−1,893	191	17	−523	7,489
39 Foreign official assets in United States, excluding line 25 (increase, +)	70,440	37,909	108,675	39,257	10,120	52,177	13,346	22,887
40 Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22)	−3,717	−1,529	3,959	6,147	−1,435	−992	5,555	5,347

1. Seasonal factors are not calculated for lines 12–16, 18–20, 22–34, and 38–40.
2. Data are on an international accounts basis. The data differ from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise trade data and are included in line 5.
3. Reporting banks include all types of depository institutions as well as some brokers and dealers.
4. Associated primarily with military sales contracts and other transactions arranged with or through foreign official agencies.
5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*.

3.11 U.S. FOREIGN TRADE[1]

Millions of dollars; monthly data seasonally adjusted

Item	1994	1995	1996	1996						
				June	July	Aug[r]	Sept.[r]	Oct.[r]	Nov.	Dec.[p]
1 Goods and services, balance	−104,381	−105,064	−114,229	−8,370	−11,755	−10,494	−11,438	−8,006	−7,939	−10,287
2 Merchandise	−166,123	−173,424	−187,617	−14,620	−17,492	−16,424	−17,525	−14,092	−14,273	−16,578
3 Services	61,742	68,360	73,388	6,250	5,737	5,930	6,087	6,086	6,334	6,291
4 Goods and services, exports	698,301	786,529	835,653	69,725[r]	67,249	69,678	68,839	71,723	72,521	71,395
5 Merchandise	502,462	575,939	611,721	50,971[r]	48,779	51,094	50,297	52,877	53,293	52,159
6 Services	195,839	210,590	223,932	18,754	18,470	18,584	18,542	18,846	19,228	19,236
7 Goods and services, imports	−802,682	−891,593	−949,882	−78,095[r]	−79,004	−80,172	−80,277	−79,729	−80,460	−81,682
8 Merchandise	−668,585	−749,363	−799,338	−65,591[r]	−66,271	−67,518	−67,822	−66,969	−67,566	−68,737
9 Services	−134,097	−142,230	−150,544	−12,504	−12,733	−12,654	−12,455	−12,760	−12,894	−12,945

1. Data show monthly values consistent with quarterly figures in the U.S. balance of payments accounts.

SOURCE. *FT900*, U.S Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Asset	1993	1994	1995	1996							1997
				June	July	Aug	Sept.	Oct.	Nov.	Dec.	Jan.[p]
1 **Total**	**73,442**	**74,335**	**85,832**	**83,455**	**85,099**	**76,781**	**75,509**	**75,558**	**75,444**	**75,090**	**68,200**
2 Gold stock, including Exchange Stabilization Fund[1]	11,053	11,051	11,050	11,050	11,050	11,050	11,050	11,049	11,049	11,049	11,048
3 Special drawing rights[2,3]	9,039	10,039	11,037	11,046	11,216	10,307	10,177	10,226	10,386	10,312	9,793
4 Reserve position in International Monetary Fund[2]	11,818	12,030	14,649	15,282	15,665	15,597	15,421	15,517	15,516	15,435	14,372
5 Foreign currencies[4]	41,532	41,215	49,096	46,077	47,168	39,827	38,861	38,765	38,493	38,294	32,987

1. Gold held "under earmark" at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13, line 3. Gold stock is valued at $42.22 per fine troy ounce.

2. Special drawing rights (SDRs) are valued according to a technique adopted by the International Monetary Fund (IMF) in July 1974. Values are based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, sixteen currencies were used; since January 1981, five currencies have been used. U.S. SDR holdings and reserve positions in the IMF also have been valued on this basis since July 1974.

3. Includes allocations of SDRs by the International Monetary Fund on Jan. 1 of the year indicated, as follows: 1970—$867 million; 1971—$717 million; 1972—$710 million; 1979—$1,139 million; 1980—$1,152 million; 1981—$1,093 million; plus net transactions in SDRs.

4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS[1]

Millions of dollars, end of period

Asset	1993	1994	1995	1996							1997
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan[p]
1 **Deposits**	**386**	**250**	**386**	**182**	**166**	**171**	**265**	**176**	**170**	**167**	**167**
Held in custody											
2 U.S. Treasury securities[2]	379,394	441,866	522,170	572,839	580,277	590,367	609,801	619,987	634,165	638,049	646,130
3 Earmarked gold[3]	12,327	12,033	11,702	11,296	11,273	11,217	11,210	11,204	11,198	11,197	11,765

1. Excludes deposits and U.S. Treasury securities held for international and regional organizations.

2. Marketable U.S. Treasury bills, notes, and bonds and nonmarketable U.S. Treasury securities, in each case measured at face (not market) value.

3. Held in foreign and international accounts and valued at $42.22 per fine troy ounce; not included in the gold stock of the United States.

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1994	1995	1996						
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.[p]
1 **Total**[1]	**520,934**	**630,867**	**696,384**	**699,525**	**703,875**	**719,557**	**722,701[r]**	**737,466**	**752,233**
By type									
2 Liabilities reported by banks in the United States[2]	73,386	107,343	118,258	113,445	111,034	116,328	109,937[r]	107,014	111,949
3 U.S. Treasury bills and certificates[3]	139,571	168,534	187,171	186,061	189,726	182,122	186,180	197,692	193,435
U.S. Treasury bonds and notes									
4 Marketable	254,059	293,690	327,821	337,450	341,037	358,225	363,063	366,903	380,464
5 Nonmarketable[4]	6,109	6,491	5,941	5,980	6,018	6,057	5,890	5,928	5,967
6 U.S. securities other than U.S. Treasury securities[5]	47,809	54,809	57,193	56,589	56,060	56,825	57,631	59,929	60,418
By area									
7 Europe[1]	215,374	222,406	245,368	245,405	246,760	246,342	246,542	250,873	252,963
8 Canada	17,235	19,473	21,250	20,153	21,662	21,351	21,764	21,360	21,343
9 Latin America and Caribbean	41,492	66,720	70,153	68,020	69,076	69,338	70,479[r]	76,976	81,689
10 Asia	236,824	310,966	346,103	350,747	354,266	369,471	371,210	375,253	382,928
11 Africa	4,180	6,296	6,997	6,910	6,722	6,944	6,587	7,034	7,380
12 Other countries	5,827	5,004	6,511	8,288	5,387	6,109	6,117	5,968	5,928

1. Includes the Bank for International Settlements.
2. Principally demand deposits, time deposits, bankers acceptances, commercial paper, negotiable time certificates of deposit, and borrowings under repurchase agreements.
3. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
4. Excludes notes issued to foreign official nonreserve agencies. Includes current value of zero-coupon Treasury bond issues to foreign governments as follows: Mexico, beginning March 1988, 20-year maturity issue and beginning March 1990, 30-year maturity issue; Venezuela, beginning December 1990, 30-year maturity issue; Argentina, beginning April 1993, 30-year maturity issue.
5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.

SOURCE. Based on U.S. Department of the Treasury data and on data reported to the department by banks (including Federal Reserve Banks) and securities dealers in the United States, and on the 1989 benchmark survey of foreign portfolio investment in the United States.

3.16 LIABILITIES TO, AND CLAIMS ON, FOREIGNERS Reported by Banks in the United States[1] Payable in Foreign Currencies

Millions of dollars, end of period

Item	1992	1993	1994	1995	1996		
				Dec.	Mar.	June	Sept.
1 Banks' liabilities	72,796	78,259	89,308	109,763	107,514	111,651	111,140
2 Banks' claims	62,799	62,017	60,711	74,016	69,159	65,864	68,195[r]
3 Deposits	24,240	20,993	19,661	22,696	22,208	20,876	23,931[r]
4 Other claims	38,559	41,024	41,050	51,320	46,951	44,988	44,264
5 Claims of banks' domestic customers[2]	4,432	12,854	10,878	6,145	6,353	7,464	7,130

1. Data on claims exclude foreign currencies held by U.S. monetary authorities.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of the domestic customers.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. dollars

Millions of dollars, end of period

Item	1994	1995	1996	1996 June	July	Aug.	Sept.	Oct.	Nov.	Dec.[p]
BY HOLDER AND TYPE OF LIABILITY										
1 **Total, all foreigners**	**1,014,996**	**1,099,548**	**1,134,427**	**1,097,671**	**1,088,244**	**1,074,289**	**1,089,888**	**1,120,227[r]**	**1,114,197**	**1,134,427**
2 Banks' own liabilities	718,591	753,460	756,088	731,143	718,715	701,959	722,802	753,557[r]	738,420	756,088
3 Demand deposits	23,386	24,448	27,112	27,369	24,992	23,147	25,504	23,867[r]	27,662	27,112
4 Time deposits[2]	186,512	192,556	188,741	189,456	193,491	196,561	192,463	197,386	192,541	188,741
5 Other[3]	113,215	140,115	139,043	149,173	144,309	129,039	148,499	146,556[r]	141,341	139,043
6 Own foreign offices[4]	395,478	396,341	401,192	365,145	355,923	353,212	356,336	385,748	376,876	401,192
7 Banks' custodial liabilities[5]	296,405	346,088	378,339	366,528	369,529	372,330	367,086	366,670	375,777	378,339
8 U.S. Treasury bills and certificates[6]	162.938	197,355	220,837	218,608	217,548	219,949	212,478	214,609	225,046	220,837
9 Other negotiable and readily transferable instruments[7]	42,539	52,200	64,036	51,528	56,345	55,552	57,702	54,045	54,568	64,036
10 Other	90,928	96,533	93,466	96,392	95,636	96,829	96,906	98,016	96,163	93,466
11 Nonmonetary international and regional organizations[8]	8,606	11,039	13,274	12,158	11,742	12,675	14,443	16,115[r]	14,570	13,274
12 Banks' own liabilities	8,176	10,347	12,765	10,914	10,545	12,084	13,843	15,284[r]	13.232	12,765
13 Demand deposits	29	21	29	123	22	49	26	67	46	29
14 Time deposits[2]	3,298	4,656	5,815	4,052	3,747	4,738	5,441	6,005	4,906	5,815
15 Other[3]	4,849	5,670	6,921	6,739	6,776	7,297	8.376	9.212[r]	8.280	6,921
16 Banks' custodial liabilities[5]	430	692	509	1,244	1,197	591	600	831	1,338	509
17 U.S. Treasury bills and certificates[6]	281	350	244	874	865	345	399	600	1.088	244
18 Other negotiable and readily transferable instruments[7]	149	341	265	370	330	246	201	231	226	265
19 Other	0	1	0	0	2	0	0	0	24	0
20 Official institutions[9]	212,957	275,877	305,384	305,429	299,506	300,760	298,450	296,117[r]	304,706	305,384
21 Banks' own liabilities	59,935	83,396	79,256	91,925	83,812	81,462	85,969	83,648[r]	82,657	79,256
22 Demand deposits	1,564	2,098	1,510	2,211	2,211	1,459	2,049	1,316	2,181	1,510
23 Time deposits[2]	23,511	30,716	33,662	38,916	37,137	37,708	34,902	35,551[r]	35,292	33,662
24 Other[3]	34,860	50,582	44,084	50,798	44,464	42,295	49,018	46,781	45,184	44,084
25 Banks' custodial liabilities[5]	153,022	192,481	226,128	213,504	215,694	219,298	212,481	212,469	222,049	226,128
26 U.S. Treasury bills and certificates[6]	139,571	168,534	193,435	187,171	186,061	189,726	182,122	186,180	197,692	193,435
27 Other negotiable and readily transferable instruments[7]	13,245	23,603	32,265	25,900	29,262	29,281	30,051	25,085	24,000	32,265
28 Other	206	344	428	433	371	291	308	1,204	357	428
29 Banks[10]	678,532	691,464	680,301	654,108	646,031	635,007	649,430	678,641	667,835	680,301
30 Banks' own liabilities	563,617	567,886	562,552	530,411	523,939	510,274	524,645	554,225	546,851	562,552
31 Unaffiliated foreign banks	168,139	171,545	161,360	165,266	168,016	157,062	168,309	168,477	169,975	161,360
32 Demand deposits	10,633	11,758	13,694	12,380	11,809	11,116	12,764	11,156	13,304	13,694
33 Time deposits[2]	111,171	103,472	91,168	90,481	95,128	94,867	91,906	96,223	94,345	91,168
34 Other[3]	46,335	56,315	56,498	62,405	61,079	51,079	63,639	61,098	62,326	56,498
35 Own foreign offices[4]	395,478	396,341	401,192	365,145	355,923	353,212	356,336	385,748	376,876	401,192
36 Banks' custodial liabilities[5]	114,915	123,578	117,749	123,697	122,092	124,733	124,785	124,416	120,984	117,749
37 U.S. Treasury bills and certificates[6]	11,264	15,872	13,886	18,241	18,091	18,670	18,556	16,865	14,227	13,886
38 Other negotiable and readily transferable instruments[7]	14,506	13,035	12,322	11,021	10,359	10,864	11,298	12,455	13,295	12,322
39 Other	89,145	94.671	91,541	94,435	93,642	95,199	94,931	95,096	93,462	91,541
40 Other foreigners	114,901	121,168	135,468	125,976	130,965	125,847	127,565	129,354[r]	127,086	135,468
41 Banks' own liabilities	86,863	91,831	101,515	97,893	100,419	98,139	98,345	100,400[r]	95,680	101,515
42 Demand deposits	11,160	10,571	11,879	12,655	10,950	10,523	10,665	11,328[r]	12,131	11,879
43 Time deposits[2]	48,532	53,712	58,096	56,007	57,479	59,248	60,214	59,607[r]	57,998	58,096
44 Other[3]	27,171	27,548	31,540	29,231	31,990	28,368	27,466	29,465	25,551	31,540
45 Banks' custodial liabilities[5]	28,038	29,337	33,953	28,083	30,546	27,708	29,220	28,954	31,406	33,953
46 U.S. Treasury bills and certificates[6]	11,822	12,599	13,272	12,322	12,531	11,208	11,401	10,964	12,039	13,272
47 Other negotiable and readily transferable instruments[7]	14,639	15,221	19,184	14,237	16,394	15,161	16,152	16,274	17,047	19,184
48 Other	1,577	1,517	1,497	1,524	1,621	1,339	1,667	1,716	2,320	1,497
MEMO										
49 Negotiable time certificates of deposit in custody for foreigners	17,895	9,103	9,934	9,645	7,922	8,276	10,466	11,657	10,540	9,934

1. Reporting banks include all types of depository institutions as well as some brokers and dealers. Excludes bonds and notes of maturities longer than one year.
2. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
3. Includes borrowing under repurchase agreements.
4. For U.S. banks, includes amounts owed to own foreign branches and foreign subsidiaries consolidated in quarterly Consolidated Reports of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of amounts owed to the head office or parent foreign bank, and to foreign branches, agencies, or wholly owned subsidiaries of the head office or parent foreign bank.
5. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks for foreign customers.
6. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
7. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
8. Principally the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Asian Development Bank. Excludes "holdings of dollars" of the International Monetary Fund.
9. Foreign central banks, foreign central governments, and the Bank for International Settlements.
10. Excludes central banks, which are included in "Official institutions."

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]—Continued

Item	1994	1995	1996	1996 June	July	Aug.	Sept.	Oct.	Nov.	Dec.p
AREA										
50 **Total, all foreigners**	**1,014,996**	**1,099,548**	**1,134,427**	**1,097,671**	**1,088,244**	**1,074,289**	**1,089,888**	**1,120,227r**	**1,114,197**	**1,134,427**
51 **Foreign countries**	**1,006,390**	**1,088,509**	**1,121,153**	**1,085,513**	**1,076,502**	**1,061,614**	**1,075,445**	**1,104,112r**	**1,099,627**	**1,121,153**
52 Europe	390,869	362,819	366,340	363,220	355,894	355,380	350,316	371,282r	379,116	366,340
53 Austria	3,588	3,537	5,101	3,209	3,002	4,683	6,017	6,816	6,250	5,101
54 Belgium and Luxembourg	21,877	24,792	23,676	20,856	22,093	25,155	22,482	23,232	21,006	23,676
55 Denmark	2,884	2,921	2,450	2,796	2,871	2,501	2,652	1,802	2,790	2,450
56 Finland	1,436	2,831	1,463	1,589	1,200	1,113	812	1,509	1,557	1,463
57 France	44,365	39,218	33,404	40,583	36,342	37,363	37,094	41,069	38,920	33,404
58 Germany	27,109	24,035	24,554	25,876	24,375	23,128	23,599	23,522	21,650	24,554
59 Greece	1,400	2,014	1,811	1,690	1,811	1,722	1,854	1,666	2,222	1,811
60 Italy	10,885	10,868	10,701	12,103	12,785	12,552	12,509	12,793	10,262	10,701
61 Netherlands	16,033	13,745	10,995	12,159	11,863	11,460	9,626	12,017	11,133	10,995
62 Norway	2,338	1,394	1,288	1,388	1,435	1,556	1,622	1,552	1,882	1,288
63 Portugal	2,846	2,761	1,865	1,401	1,784	1,328	1,473	1,388	1,723	1,865
64 Russia	2,726	7,948	7,571	6,938	6,047	4,988	4,761	5,602	8,215	7,571
65 Spain	14,675	10,011	16,921	20,314	19,366	17,505	20,359	17,665	18,228	16,921
66 Sweden	3,094	3,246	1,302	2,693	2,738	1,591	1,814	1,424	1,521	1,302
67 Switzerland	40,724	43,625	44,215	39,006	39,626	39,074	42,226	32,541	38,116	44,215
68 Turkey	3,341	4,124	6,724	4,926	5,619	7,272	7,992	8,019	7,311	6,724
69 United Kingdom	163,733	139,183	150,260	143,258	137,668	136,242	132,424	158,018r	164,826	150,260
70 Yugoslavia[11]	245	177	206	217	208	207	214	216	232	206
71 Other Europe and other former U.S.S.R.[12]	27,770	26,389	21,833	22,218	25,061	25,940	20,786	20,431r	21,272	21,833
72 Canada	24,768	30,468	38,031	33,391	28,811	30,727	33,199	35,153	33,057	38,031
73 Latin America and Caribbean	423,847	440,212	464,931	432,734	438,641	424,120	433,522	444,440r	438,265	464,931
74 Argentina	17,203	12,235	13,794	13,579	12,501	13,320	11,989	11,701	13,860	13,794
75 Bahamas	104,014	94,991	87,915	85,265	93,362	87,994	86,625	101,007	91,184	87,915
76 Bermuda	8,424	4,897	5,299	4,312	4,205	4,150	4,880	4,910	6,443	5,299
77 Brazil	9,145	23,797	27,663	25,902	23,183	24,518	23,817	24,083	26,920	27,663
78 British West Indies	229,599	239,083	250,372	234,550	234,205	227,024	233,782	229,493r	226,502	250,372
79 Chile	3,127	2,826	2,915	2,921	2,833	2,462	3,205	2,767	2,728	2,915
80 Colombia	4,615	3,659	3,256	3,642	3,329	3,263	2,889	2,968	2,838	3,256
81 Cuba	13	8	21	10	10	14	33	17	18	21
82 Ecuador	875	1,314	1,767	1,301	1,405	1,433	1,449	1,383	1,574	1,767
83 Guatemala	1,121	1,275	1,282	1,073	1,092	1,176	1,181	1,207	1,235	1,282
84 Jamaica	529	481	628	534	562	625	623	580	564	628
85 Mexico	12,227	24,560	31,251	24,771	26,312	24,399	26,808	27,673r	27,982	31,251
86 Netherlands Antilles	5,217	4,673	5,956	5,163	5,532	3,615	5,290	5,076r	4,437	5,956
87 Panama	4,551	4,265	4,077	3,878	3,852	3,994	3,950	4,056r	4,002	4,077
88 Peru	900	974	834	1,013	1,029	1,077	936	1,024r	942	834
89 Uruguay	1,597	1,836	1,888	1,769	1,836	1,799	1,751	1,841r	1,753	1,888
90 Venezuela	13,986	11,808	17,361	14,899	15,261	15,029	15,596	16,369r	17,377	17,361
91 Other	6,704	7,530	8,652	8,152	8,132	8,228	8,718	8,285r	7,906	8,652
92 Asia	154,346	240,595	236,744	239,593	236,006	237,624	243,208	239,416	233,803	236,744
China										
93 Mainland	10,066	33,750	30,441	25,483	28,587	34,224	32,068	26,998	29,411	30,441
94 Taiwan	9,844	11,714	15,991	16,650	16,125	14,775	15,721	15,450	16,614	15,991
95 Hong Kong	17,104	20,197	18,741	18,216	17,058	18,609	17,485	17,053	18,712	18,741
96 India	2,338	3,373	3,936	4,012	3,954	4,012	3,793	3,709	3,832	3,936
97 Indonesia	1,587	2,708	2,307	2,316	2,561	2,161	2,204	2,436	2,401	2,307
98 Israel	5,157	4,041	6,042	5,168	4,444	4,364	4,134	7,162	5,723	6,042
99 Japan	62,981	109,193	107,017	114,131	112,737	109,262	112,537	112,600	103,678	107,017
100 Korea (South)	5,124	5,749	6,003	6,679	5,622	5,406	5,908	5,545	5,897	6,003
101 Philippines	2,714	3,092	3,365	2,970	3,041	2,539	3,429	3,191	3,264	3,365
102 Thailand	6,466	12,279	10,912	12,253	11,713	10,691	11,759	11,972	12,729	10,912
103 Middle Eastern oil-exporting countries[13]	15,494	15,582	14,303	13,379	12,947	13,891	14,715	13,032r	13,145	14,303
104 Other	15,471	18,917	17,686	18,336	17,217	17,690	19,455	20,268r	18,397	17,686
105 Africa	6,524	7,641	8,071	7,509	7,558	7,259	7,440	7,058	7,671	8,071
106 Egypt	1,879	2,136	2,012	1,831	2,114	1,920	1,894	1,904	1,901	2,012
107 Morocco	97	104	112	115	133	121	78	74	66	112
108 South Africa	433	739	458	666	648	632	482	435	641	458
109 Zaire	9	10	10	6	13	6	6	11	10	10
110 Oil-exporting countries[14]	1,343	1,797	2,608	2,013	1,928	2,075	2,051	1,940	2,384	2,608
111 Other	2,763	2,855	2,871	2,878	2,722	2,505	2,929	2,694	2,669	2,871
112 Other	6,036	6,774	7,036	9,066	9,592	6,504	7,760	6,763	7,715	7,036
113 Australia	5,142	5,647	5,468	7,981	8,387	5,465	5,522	4,786	6,196	5,468
114 Other	894	1,127	1,568	1,085	1,205	1,039	2,238	1,977	1,519	1,568
115 Nonmonetary international and regional organizations	8,606	11,039	13,274	12,158	11,742	12,675	14,443	16,115r	14,570	13,274
116 International[15]	7,537	9,300	11,401	10,824	10,303	10,988	12,761	14,336r	12,772	11,401
117 Latin American regional[16]	613	893	1,339	527	831	1,024	1,193	1,304	1,172	1,339
118 Other regional[17]	456	846	534	807	608	663	489	475	626	534

11. Since December 1992, has excluded Bosnia, Croatia, and Slovenia.
12. Includes the Bank for International Settlements. Since December 1992, has included all parts of the former U.S.S.R. (except Russia), and Bosnia, Croatia, and Slovenia.
13. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
14. Comprises Algeria, Gabon, Libya, and Nigeria.
15. Principally the International Bank for Reconstruction and Development. Excludes "holdings of dollars" of the International Monetary Fund.
16. Principally the Inter-American Development Bank.
17. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. Dollars

Millions of dollars, end of period

Area or country	1994	1995	1996	1996						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.[p]
1 **Total, all foreigners**	**483,220**	**532,539**	**600,887**	**536,045**	**544,126**	**546,607**	**544,717**	**563,488[r]**	**575,495[r]**	**600,887**
2 **Foreign countries**	**478,629**	**530,608**	**598,283**	**533,016**	**542,012**	**544,575**	**543,019**	**560,410[r]**	**574,022[r]**	**598,283**
3 Europe	123,358	132,150	166,509	146,160	143,424	150,054	155,277	165,634	168,794[r]	166,509
4 Austria	692	565	1,662	1,088	1,128	849	988	1,197	1,097	1,662
5 Belgium and Luxembourg	6,738	7,624	6,727	6,921	7,021	7,018	6,903	6,828	6,403	6,727
6 Denmark	1,129	403	492	432	319	230	408	480	651	492
7 Finland	512	1,055	971	1,013	1,629	1,296	1,350	1,068	1,228[r]	971
8 France	12,146	15,033	15,250	11,767	10,570	11,570	12,078	12,792	12,198[r]	15,250
9 Germany	7,608	9,263	8,475	11,831	9,497	7,559	8,670	8,546	7,195	8,475
10 Greece	604	469	568	563	527	433	397	426	571	568
11 Italy	6,043	5,370	6,439	5,721	6,023	6,625	5,870	5,007	5,918	6,439
12 Netherlands	2,959	5,346	7,080	6,546	6,360	6,565	6,956	7,386	7,350	7,080
13 Norway	504	665	808	1,243	1,397	1,342	1,199	1,617	1,894	808
14 Portugal	938	888	418	704	667	548	484	517	341	418
15 Russia	973	660	1,669	440	514	794	1,135	1,413	1,533	1,669
16 Spain	3,530	2,166	3,211	2,519	3,341	3,073	4,152	3,885	4,181	3,211
17 Sweden	4,098	2,080	2,673	2,799	2,802	2,726	2,976	2,919	2,882	2,673
18 Switzerland	5,746	7,474	19,798	12,145	9,520	9,266	10,930	16,110	18,071	19,798
19 Turkey	878	803	1,109	1,042	1,018	1,044	1,083	962	1,131	1,109
20 United Kingdom	66,824	67,784	85,057	75,689	77,775	85,355	85,732	89,961	92,182	85,057
21 Yugoslavia[2]	265	147	115	164	159	87	87	118	112	115
22 Other Europe and other former U.S.S.R.[3]	1,171	4,355	3,987	3,533	3,157	3,674	3,879	4,402	3,856[r]	3,987
23 Canada	18,490	20,874	26,436	22,242	23,981	25,132	25,343	23,066	22,013[r]	26,436
24 Latin America and Caribbean	223,523	256,944	274,234	239,977	253,177	249,693	240,634	243,634[r]	253,761[r]	274,234
25 Argentina	5,844	6,439	7,390	6,448	6,592	7,062	7,101	7,057	7,212	7,390
26 Bahamas	66,410	58,818	71,885	60,608	59,300	62,297	61,830	61,991	64,911[r]	71,885
27 Bermuda	8,481	5,741	4,103	3,620	3,579	3,052	3,640	4,438[r]	5,019[r]	4,103
28 Brazil	9,583	13,297	17,397	15,076	15,197	15,155	15,261	15,417	16,141	17,397
29 British West Indies	95,741	124,037	105,485	102,838	101,043	99,363	102,157	105,891	105,234	105,485
30 Chile	3,820	4,864	5,128	4,388	4,321	4,174	4,388	4,288[r]	4,554[r]	5,128
31 Colombia	4,004	4,550	6,255	4,538	4,512	4,725	4,723	4,811	4,960	6,255
32 Cuba	0	0	0	0	0	0	0	0	0	0
33 Ecuador	682	825	1,031	962	897	932	965	957	952	1,031
34 Guatemala	366	457	620	452	463	476	507	546	568	620
35 Jamaica	258	323	345	359	346	335	339	362	365[r]	345
36 Mexico	17,749	18,024	18,407	16,816	16,971	17,540	17,715	17,742	17,993	18,407
37 Netherlands Antilles	1,396	9,229	25,209	12,888	29,224	23,713	11,207	9,406	15,074	25,209
38 Panama	2,198	3,008	2,786	2,567	2,211	2,211	2,257	2,354	2,621[r]	2,786
39 Peru	997	1,829	2,727	2,395	2,568	2,463	2,541	2,563	2,629[r]	2,727
40 Uruguay	503	466	589	623	589	562	530	547	551	589
41 Venezuela	1,831	1,661	1,692	1,390	1,402	1,728	1,513	1,636	1,626	1,692
42 Other	3,660	3,376	3,185	4,009	3,962	3,905	3,960	3,628	3,351[r]	3,185
43 Asia	107,079	115,431	122,638	118,251	114,986	113,912	113,702	120,092	120,860[r]	122,638
China										
44 Mainland	836	1,023	1,401	2,141	1,349	2,033	1,700	1,420	1,292	1,401
45 Taiwan	1,448	1,713	1,894	1,500	1,312	1,023	1,700	1,305	1,413	1,894
46 Hong Kong	9,161	12,821	12,802	15,997	13,412	12,464	13,882	12,975	13,550	12,802
47 India	994	1,846	1,946	1,794	1,785	2,118	1,975	2,190	2,027	1,946
48 Indonesia	1,470	1,696	1,757	1,562	1,744	1,572	1,653	1,577	1,636[r]	1,757
49 Israel	688	739	633	620	659	667	576	1,017	624	633
50 Japan	59,151	61,468	60,038	53,831	53,441	54,583	52,326	59,343	59,886	60,038
51 Korea (South)	10,286	14,070	18,989	19,246	18,624	17,644	17,608	17,032	18,080	18,989
52 Philippines	662	1,318	1,697	1,289	1,265	1,205	1,255	1,335	1,519	1,697
53 Thailand	2,902	2,612	2,685	3,194	2,824	2,864	2,705	2,699	2,820	2,685
54 Middle Eastern oil-exporting countries[4]	13,748	9,639	10,424	8,348	9,478	9,489	10,111	11,372	10,311	10,424
55 Other	5,733	6,486	8,372	8,729	9,093	8,250	8,211	7,827	7,702	8,372
56 Africa	3,050	2,742	2,776	2,741	2,605	2,735	2,757	2,638	2,557	2,776
57 Egypt	225	210	247	198	216	221	241	204	212	247
58 Morocco	429	514	524	639	602	577	565	543	587	524
59 South Africa	671	465	584	515	441	512	572	614	551	584
60 Zaire	2	1	0	1	1	11	1	1	0	0
61 Oil-exporting countries[5]	856	552	422	474	470	462	429	414	427	422
62 Other	867	1,000	999	914	875	952	949	862	780	999
63 Other	3,129	2,467	5,690	3,645	3,839	3,049	5,306	5,346	6,037	5,690
64 Australia	2,186	1,622	4,577	2,363	3,020	2,439	3,641	3,798	4,336	4,577
65 Other	943	845	1,113	1,282	819	610	1,665	1,548	1,701	1,113
66 Nonmonetary international and regional organizations[6]	4,591	1,931	2,604	3,029	2,114	2,032	1,698	3,078	1,473	2,604

1. Reporting banks include all types of depository institutions as well as some brokers and dealers.
2. Since December 1992, has excluded Bosnia, Croatia, and Slovenia.
3. Includes the Bank for International Settlements. Since December 1992, has included all parts of the former U.S.S.R. (except Russia), and Bosnia, Croatia, and Slovenia.
4. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
5. Comprises Algeria, Gabon, Libya, and Nigeria.
6. Excludes the Bank for International Settlements, which is included in "Other Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1994	1995	1996[r]	1996						
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.[p]
1 **Total**	**599,499**	**655,306**	..	**660,084**	...	...	**688,310**	...	..	...
2 Banks' claims	483,220	532,539	600,887	536,045	544,126	546,607	544,717	563,488[r]	575,495	600,887
3 Foreign public borrowers	23,416	22,518	21,924	22,946	20,234	18,875	22,719	24,929	20,106	21,924
4 Own foreign offices[2]	283,015	307,427	343,118	307,510	297,799	299,828	311,588	330,377	335,089	343,118
5 Unaffiliated foreign banks	109,346	101,595	113,576	105,546	108,921	111,881	109,616	108,778[r]	108,584	113,576
6 Deposits	59,368	37,658	33,983	33,998	36,145	39,338	35,286	36,239[r]	32,982	33,983
7 Other	49,978	63,937	79,593	71,548	72,776	72,543	74,330	72,539[r]	75,602	79,593
8 All other foreigners	67,443	100,999	122,269	100,043	117,172	116,023	100,794	99,404[r]	111,716	122,269
9 Claims of banks' domestic customers[3]	116,279	122,767	..	124,039	..	...	143,593	...	...	..
10 Deposits	64,829	58,519	.	70,403	.	...	80,695	...	...	..
11 Negotiable and readily transferable instruments[4]	36,008	44,161	...	37,331	...	...	46,491	...	...	...
12 Outstanding collections and other claims	15,442	20,087	..	16,305	.	.	16,407	...	...	...
MEMO										
13 Customer liability on acceptances	8,427	8,410	. .	9,335	.		9,396	.	.	..
14 Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[5]	32,796	30,717	42,491	31,136	32,270	33,527	34,125	40,326	41,581	42,491

1. For banks' claims, data are monthly; for claims of banks' domestic customers, data are for quarter ending with month indicated.
Reporting banks include all types of depository institution as well as some brokers and dealers.
2. For U.S. banks, includes amounts due from own foreign branches and foreign subsidiaries consolidated in quarterly Consolidated Reports of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of amounts due from the head office or parent foreign bank, and from foreign branches, agencies, or wholly owned subsidiaries of the head office or parent foreign bank.
3. Assets held by reporting banks in the accounts of their domestic customers.
4. Principally negotiable time certificates of deposit, bankers acceptances, and commercial paper.
5. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Maturity, by borrower and area[2]	1992	1993	1994	1995	1996		
				Dec.	Mar.	June	Sept.
1 **Total**	**195,119**	**202,566**	**200,070**	**225,027**	**233,482**	**228,571**	**231,389[r]**
By borrower							
2 Maturity of one year or less	163,325	172,662	168,359	178,857	193,870	185,881	187,302
3 Foreign public borrowers	17,813	17,828	15,435	14,995	19,544	14,847	15,523
4 All other foreigners	145,512	154,834	152,924	163,862	174,326	171,034	171,779
5 Maturity of more than one year	31,794	29,904	31,711	46,170	39,612	42,690	44,087[r]
6 Foreign public borrowers	13,266	10,874	7,838	7,522	8,131	8,126	6,922
7 All other foreigners	18,528	19,030	23,873	38,648	31,481	34,564	37,165[r]
By area							
Maturity of one year or less							
8 Europe	53,300	57,413	55,770	55,622	57,979	57,138	57,075
9 Canada	6,091	7,727	6,690	6,751	5,470	6,806	8,811
10 Latin America and Caribbean	50,376	60,490	58,877	72,504	84,385	78,622	79,622
11 Asia	45,709	41,418	39,851	40,296	40,312	38,078	37,199
12 Africa	1,784	1,820	1,376	1,295	1,326	1,279	1,320
13 All other[3]	6,065	3,794	5,795	2,389	4,398	3,958	3,275
Maturity of more than one year							
14 Europe	5,367	5,310	4,203	4,995	6,835	8,193	7,134
15 Canada	3,287	2,581	3,505	2,751	2,563	3,689	3,533
16 Latin America and Caribbean	15,312	14,025	15,717	27,681	19,368	19,511	21,382[r]
17 Asia	5,038	5,606	5,318	8,036	8,466	9,291	9,928
18 Africa	2,380	1,935	1,583	1,421	1,449	1,410	1,349
19 All other[3]	410	447	1,385	1,286	931	596	761

1. Reporting banks include all types of depository institutions as well as some brokers and dealers.
2. Maturity is time remaining until maturity.
3. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. and Foreign Offices of U.S. Banks[1]

Billions of dollars, end of period

Area or country	1992	1993	1994		1995				1996		
			Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
1 **Total**	**344.7**	**407.7**	**486.4**	**497.3[r]**	**543.1**	**528.8**	**531.2[r]**	**551.9**	**573.0[r]**	**607.7[r]**	**609.8[r]**
2 G-10 countries and Switzerland	131.3	161.8	182.6	190.6	211.5	204.4	200.0	206.0	202.2[r]	222.1[r]	234.9[r]
3 Belgium and Luxembourg	.0	7.4	9.6	7.0	10.2	9.4	10.7	13.6	11.0	7.9	11.8
4 France	15.3	12.0	20.7	19.1	19.9	19.9	18.0	19.4	17.9	18.0	17.6
5 Germany	9.1	12.6	24.0	24.7	31.2	30.0	27.5	27.3	31.5	31.4	36.0
6 Italy	6.5	7.7	11.6	11.8	10.6	10.7	12.6	11.5	13.2	14.9	16.4
7 Netherlands	.0	4.7	3.4	3.6	3.5	4.3	4.4	3.7	3.0	4.7	6.3
8 Sweden	2.3	2.7	2.6	2.7	3.1	3.1	2.9	2.7	3.3	2.7	3.0
9 Switzerland	4.8	5.9	5.5	5.1	5.7	6.2	6.6	6.7	5.2	6.3	6.3
10 United Kingdom	59.7	84.3	78.4	85.7[r]	90.1	87.1	80.3	82.4	84.7[r]	101.5[r]	101.1[r]
11 Canada	6.3	6.9	10.2	10.0	10.8	11.3	13.0	10.3	9.7	11.1	13.7
12 Japan	18.8	17.6	16.5	20.7	26.2	22.7	24.0	28.5	22.7[r]	23.6[r]	22.8
13 Other industrialized countries	24.0	25.6	42.6	45.2	44.1	43.3	50.2	50.2	61.3	55.5	63.5[r]
14 Austria	1.2	.4	1.0	1.1	.9	.7	1.2	.9	1.3	1.2	1.0
15 Denmark	.9	1.0	1.0	1.3	1.7	1.1	1.8	2.6	3.4	3.3	1.8
16 Finland	.7	.4	.8	.9	1.1	.5	.7	.8	.7	.6	.6
17 Greece	3.0	3.2	4.3	4.5	4.9	5.0	5.1	5.7	5.6	5.6	6.1
18 Norway	1.2	1.7	1.6	2.0	2.4	1.8	2.3	3.2	2.1	2.3	3.0
19 Portugal	.4	.8	1.0	1.2	1.0	1.2	1.9	1.3	1.6	1.6	1.4
20 Spain	8.9	9.9	14.0	13.6	14.1	13.3	13.3	11.6	17.5	13.6	17.3
21 Turkey	1.3	2.1	1.8	1.6	1.4	1.4	2.0	1.9	2.0	2.3[r]	2.8
22 Other Western Europe	1.7	2.6	1.0	2.7	2.5	2.6	3.0	4.7	3.8	3.4	4.8
23 South Africa	1.7	1.1	1.2	1.0	1.5	1.4	1.3	1.2	1.7	2.0	1.9
24 Australia	2.9	2.3	15.0	15.4	12.6	14.3	17.4	16.4	21.7	19.6[r]	22.8[r]
25 OPEC[2]	15.8	17.4	21.7	23.9	19.5	20.3	22.4	22.1	21.2	20.1	19.4
26 Ecuador	.6	.5	.4	.5	.5	.7	.7	.7	.8	.9	1.0
27 Venezuela	5.2	5.1	3.9	3.7	3.5	3.5	3.0	2.7	2.9	2.3	2.3
28 Indonesia	2.7	3.3	3.3	3.8	4.0	4.1	4.4	4.8	4.7	4.9	5.5
29 Middle East countries	6.2	7.4	13.0	15.0	10.7	11.4	13.6	13.3	12.3	11.5	10.1
30 African countries	1.1	1.2	1.1	.9	.7	.6	.6	.6	.6	.5	.4
31 Non-OPEC developing countries	72.6	83.1	93.2	96.0	98.5	103.6	104.0	112.6	118.1	126.1	125.7[r]
Latin America											
32 Argentina	6.6	7.7	10.5	11.2	11.4	12.3	10.9	12.9	12.7	14.1	16.2
33 Brazil	10.8	12.0	9.3	8.4	9.2	10.0	13.6	13.7	18.3	21.7	18.1
34 Chile	4.4	4.7	5.5	6.1	6.4	7.1	6.4	6.8	6.4	6.7	6.7
35 Colombia	1.8	2.1	2.4	2.6	2.6	2.6	2.9	2.9	2.9	2.8	3.1
36 Mexico	16.0	17.8	19.8	18.4	17.9	17.6	16.3	17.3	16.1	15.4	16.4
37 Peru	.5	.4	.6	.5	.6	.8	.7	.8	.9	1.2	1.4
38 Other	2.6	3.1	2.8	2.7	2.4	2.6	2.6	2.8	3.1	3.0[r]	3.0[r]
Asia											
China											
39 Mainland	.7	2.0	1.0	1.1	1.1	1.4	1.7	1.8	3.3	2.9	2.6
40 Taiwan	5.2	7.3	6.9	9.2	8.5	9.0	9.0	9.4	9.7	9.8	10.3
41 India	3.2	3.2	3.9	4.2	3.8	4.0	4.4	4.4	4.7	4.2	3.8
42 Israel	.4	.5	.4	.4	.6	.7	.5	.5	.5	.6	.5
43 Korea (South)	6.6	6.7	14.4	16.2	16.9	18.7	18.0	19.1	19.3[r]	21.7[r]	21.9[r]
44 Malaysia	3.1	4.4	3.9	3.1	3.9	4.1	4.3	4.4	4.7	5.0	5.1
45 Philippines	3.6	3.1	2.9	3.3	3.0	3.6	3.3	4.1	3.9	4.7	5.4
46 Thailand	2.2	3.1	3.5	2.1	3.3	3.8	3.9	4.9	5.2	5.4	4.7
47 Other Asia	3.1	3.1	3.4	4.7	4.9	3.5	3.7	4.5	4.3	4.8[r]	4.1
Africa											
48 Egypt	.2	.4	.3	.3	.4	4	.4	.4	.5	.5	.6
49 Morocco	.6	.7	.7	.6	.6	.9	.9	.7	.7	.8	.7
50 Zaire	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
51 Other Africa[3]	1.0	.8	.9	.8	.7	.6	.8	.9	.8	.8	1.0
52 Eastern Europe	3.1	3.2	3.0	2.7	2.3	1.8	3.4	4.2	6.2	5.0	5.4
53 Russia[4]	1.9	1.6	1.1	.8	.7	.4	.6	1.0	1.4	1.0	1.8
54 Yugoslavia[5]	.6	.6	.5	.5	.4	.3	.4	.3	.3	.3	.3
55 Other	.6	.9	1.5	1.4	1.2	1.0	2.3	2.8	4.5	3.7	3.3
56 Offshore banking centers	58.1	73.0	77.2	72.2	84.8	82.8[r]	86.9	99.2	101.2[r]	106.2[r]	106.1
57 Bahamas	6.9	10.9	13.8	10.2	12.5	8.4	12.6	11.0	13.9	17.3	14.8
58 Bermuda	6.2	8.9	6.0	8.4	8.7	8.4	6.1	6.3	5.3	4.1	4.0
59 Cayman Islands and other British West Indies	21.5	18.0	21.5	20.8	19.8	24.3[r]	24.4[r]	32.4[r]	28.8[r]	26.1[r]	32.1
60 Netherlands Antilles	1.1	2.6	1.7	1.3	.9	2.4	5.5	9.9	10.7	13.0	11.5
61 Panama[6]	1.9	2.4	1.9	1.3	1.1	1.3	1.3	1.4	1.6	1 7	1.7
62 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
63 Hong Kong	13.9	18.7	20.3	19.9	22.5	23.1	23.6[r]	25.0[r]	25.3[r]	27.8	26.4
64 Singapore	6.5	11.2	11.8	10.1	19.2	14.8	13.3	13.1	15.4	15.9	15.4
65 Other[7]	.0	.1	.0	.1	.0	0	.1	.1	.1	.1	.1
66 Miscellaneous and unallocated[8]	39.7	43.4	65.8	66.7	82.2	72.3	64.0	57.3	62.2	72.3	54.3

1. The banking offices covered by these data include U.S. offices and foreign branches of U.S. banks, including U.S. banks that are subsidiaries of foreign banks. Offices not covered include U.S. agencies and branches of foreign banks. Beginning March 1994, the data include large foreign subsidiaries of U.S. banks. The data also include other types of U.S. depository institutions as well as some types of brokers and dealers. To eliminate duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution.

These data are on a gross claims basis and do not necessarily reflect the ultimate country risk or exposure of U.S. banks. More complete data on the country risk exposure of U.S. banks are available in the quarterly Country Exposure Lending Survey published by the Federal Financial Institutions Examination Council.

2. Organization of Petroleum Exporting Countries, shown individually; other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates); and Bahrain and Oman (not formally members of OPEC).
3. Excludes Liberia. Beginning March 1994 includes Namibia.
4. As of December 1992, excludes other republics of the former Soviet Union.
5. As of December 1992, excludes Croatia, Bosnia and Hercegovinia, and Slovenia.
6. Includes Canal Zone.
7. Foreign branch claims only
8. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States

Millions of dollars, end of period

Type of liability, and area or country	1992	1993	1994	1995			1996		
				June	Sept.	Dec.	Mar.	June	Sept.[p]
1 **Total**	**45,511**	**50,597**	**54,309**	**49,973**	**47,673**	**46,448**	**49,907**	**48,990**	**51,105**
2 Payable in dollars	37,456	38,728	38,298	34,281	33,908	33,903	36,273	35,385	36,402
3 Payable in foreign currencies	8,055	11,869	16,011	15,692	13,765	12,545	13,634	13,605	14,703
By type									
4 Financial liabilities	23,841	29,226	32,954	29,282	26,237	24,241	26,570	24,844	25,107
5 Payable in dollars	16,960	18,545	18,818	15,028	13,872	12,903	13,831	12,212	11,256
6 Payable in foreign currencies	6,881	10,681	14,136	14,254	12,365	11,338	12,739	12,632	13,851
7 Commercial liabilities	21,670	21,371	21,355	20,691	21,436	22,207	23,337	24,146	25,998
8 Trade payables	9,566	8,802	10,005	10,527	10,061	11,013	10,815	11,081	11,605
9 Advance receipts and other liabilities	12,104	12,569	11,350	10,164	11,375	11,194	12,522	13,065	14,393
10 Payable in dollars	20,496	20,183	19,480	19,253	20,036	21,000	22,442	23,173	25,146
11 Payable in foreign currencies	1,174	1,188	1,875	1,438	1,400	1,207	895	973	852
By area or country									
Financial liabilities									
12 Europe	13,387	18,810	21,703	18,223	16,401	15,622	16,950	16,434	16,054
13 Belgium and Luxembourg	414	175	495	778	347	369	483	498	547
14 France	1,623	2,539	1,727	1,101	1,365	999	1,679	1,011	1,220
15 Germany	889	975	1,961	1,589	1,670	1,974	2,161	1,850	2,276
16 Netherlands	606	534	552	530	474	466	479	444	519
17 Switzerland	569	634	688	1,056	948	895	1,260	1,156	830
18 United Kingdom	8,610	13,332	15,543	12,138	10,518	10,138	10,246	10,790	9,821
19 Canada	544	859	629	893	797	632	1,166	951	881
20 Latin America and Caribbean	4,053	3,359	2,034	1,950	1,904	1,783	1,876	969	1,018
21 Bahamas	379	1,148	101	81	79	59	78	31	50
22 Bermuda	114	0	80	138	144	147	126	28	25
23 Brazil	19	18	207	58	111	57	57	8	9
24 British West Indies	2,850	1,533	998	1,030	930	866	946	826	764
25 Mexico	12	17	0	3	3	12	16	11	4
26 Venezuela	6	5	5	4	3	2	2	1	0
27 Asia	5,818	5,956	8,403	8,023	6,947	5,988	6,390	6,351	6,927
28 Japan	4,750	4,887	7,314	7,141	6,308	5,436	5,980	6,051	6,602
29 Middle Eastern oil-exporting countries[1]	19	23	35	25	25	27	26	26	25
30 Africa	6	133	135	151	149	150	131	72	132
31 Oil-exporting countries[2]	0	123	123	122	122	122	122	61	121
32 All other[3]	33	109	50	42	39	66	57	67	95
Commercial liabilities									
33 Europe	7,398	6,827	6,773	6,776	7,263	7,700	8,425	7,916	8,654
34 Belgium and Luxembourg	298	239	241	311	349	331	370	326	427
35 France	700	655	728	504	528	481	648	678	657
36 Germany	729	684	604	556	660	767	867	839	959
37 Netherlands	535	688	722	448	566	500	659	617	668
38 Switzerland	350	375	327	432	255	413	428	516	409
39 United Kingdom	2,505	2,039	2,444	2,902	3,351	3,568	3,525	3,266	3,664
40 Canada	1,002	879	1,037	1,146	1,219	1,040	959	998	1,094
41 Latin America and Caribbean	1,533	1,658	1,857	1,836	1,607	1,740	2,110	2,301	2,306
42 Bahamas	3	21	19	3	1	1	28	35	33
43 Bermuda	307	350	345	397	219	205	570	509	355
44 Brazil	209	214	161	107	143	98	128	119	159
45 British West Indies	33	27	23	12	5	56	10	10	15
46 Mexico	457	481	574	420	357	416	468	475	441
47 Venezuela	142	123	276	204	175	221	243	283	332
48 Asia	10,594	10,980	10,741	9,978	10,275	10,421	10,474	11,389	12,229
49 Japan	3,612	4,314	4,555	3,531	3,475	3,315	3,725	3,943	4,150
50 Middle Eastern oil-exporting countries[1]	1,889	1,534	1,576	1,790	1,647	1,912	1,747	1,784	1,951
51 Africa	568	453	428	481	589	619	708	924	1,013
52 Oil-exporting countries[2]	309	167	256	252	241	254	254	435	404
53 Other[3]	575	574	519	474	483	687	661	618	702

1. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
2. Comprises Algeria, Gabon, Libya, and Nigeria.
3. Includes nonmonetary international and regional organizations.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States

Millions of dollars, end of period

	Type of claim, and area or country	1992	1993	1994	1995			1996		
					June	Sept.	Dec.	Mar.	June	Sept.
1	**Total**	**45,073**	**49,159**	**57,888**	**58,051**	**53,424**	**52,509**	**55,406**	**58,845**	**57,230**
2	Payable in dollars	42,281	45,161	53,805	54,138	49,696	48,711	51,007	54,000	52,555
3	Payable in foreign currencies	2,792	3,998	4,083	3,913	3,728	3,798	4,399	4,845	4,675
	By type									
4	Financial claims	26,509	27,771	33,897	34,574	29,891	27,398	30,772	33,994	32,857
5	Deposits	17,695	15,717	18,507	22,046	17,974	15,133	17,595	18,364	18,941[r]
6	Payable in dollars	16,872	15,182	18,026	21,351	17,393	14,654	17,044	17,926	18,317[r]
7	Payable in foreign currencies	823	535	481	695	581	479	551	438	624
8	Other financial claims	8,814	12,054	15,390	12,528	11,917	12,265	13,177	15,630	13,916[r]
9	Payable in dollars	7,890	10,862	14,306	11,370	10,689	10,976	11,290	13,233	11,827[r]
10	Payable in foreign currencies	924	1,192	1,084	1,158	1,228	1,289	1,887	2,397	2,089
11	Commercial claims	18,564	21,388	23,991	23,477	23,533	25,111	24,634	24,851	24,373
12	Trade receivables	16,007	18,425	21,158	21,326	21,409	22,998	22,123	22,276	22,010
13	Advance payments and other claims	2,557	2,963	2,833	2,151	2,124	2,113	2,511	2,575	2,363
14	Payable in dollars	17,519	19,117	21,473	21,417	21,614	23,081	22,673	22,841	22,411
15	Payable in foreign currencies	1,045	2,271	2,518	2,060	1,919	2,030	1,961	2,010	1,962
	By area or country									
	Financial claims									
16	Europe	9,331	7,299	7,936	7,927	7,840	7,609	8,929	9,241	8,500
17	Belgium and Luxembourg	8	134	86	155	160	193	159	151	126
18	France	764	826	800	730	753	803	1,015	679	733
19	Germany	326	526	540	356	301	436	320	296	272
20	Netherlands	515	502	429	601	522	517	486	488	520
21	Switzerland	490	530	523	514	530	498	470	461	431
22	United Kingdom	6,252	3,585	4,649	4,790	4,924	4,303	5,568	6,169	5,333
23	Canada	1,833	2,032	3,581	3,705	3,526	2,851	5,269	4,773	4,502
24	Latin America and Caribbean	13,893	16,224	19,536	21,159	15,345	14,500	13,827	17,644	17,184
25	Bahamas	778	1,336	2,424	2,355	1,552	1,965	1,538	2,168	1,746
26	Bermuda	40	125	27	85	35	81	77	84	113
27	Brazil	686	654	520	502	851	830	1,019	1,242	1,417
28	British West Indies	11,747	12,699	15,228	17,013	11,816	10,393	10,100	13,024	12,809
29	Mexico	445	872	723	635	487	554	461	392	411
30	Venezuela	29	161	35	27	50	32	40	23	17
31	Asia	864	1,657	1,871	1,235	2,160	1,579	1,890	1,571	1,826
32	Japan	668	892	953	471	1,404	871	1,171	852	1,001
33	Middle Eastern oil-exporting countries[1]	3	3	141	3	4	3	13	9	13
34	Africa	83	99	373	138	188	276	277	197	176
35	Oil-exporting countries[2]	9	1	0	9	6	5	5	5	13
36	All other[3]	505	460	600	410	832	583	580	568	669
	Commercial claims									
37	Europe	8,451	9,105	9,540	9,200	8,862	9,824	9,776	9,812	9,162
38	Belgium and Luxembourg	189	184	213	218	224	231	247	239	213
39	France	1,537	1,947	1,881	1,669	1,706	1,830	1,803	1,658	1,525
40	Germany	933	1,018	1,027	1,023	997	1,070	1,410	1,335	1,239
41	Netherlands	552	423	311	341	338	452	442	481	420
42	Switzerland	362	432	557	612	438	520	579	602	588
43	United Kingdom	2,094	2,377	2,556	2,469	2,479	2,656	2,607	2,651	2,514
44	Canada	1,286	1,781	1,988	2,003	1,971	1,951	2,045	2,074	2,032
45	Latin America and Caribbean	3,043	3,274	4,117	4,370	4,359	4,364	4,151	4,340	4,156
46	Bahamas	28	11	9	21	26	30	30	28	14
47	Bermuda	255	182	234	210	245	272	273	264	290
48	Brazil	357	460	612	777	745	898	809	837	857
49	British West Indies	40	71	83	83	66	79	106	103	119
50	Mexico	924	990	1,243	1,109	1,026	993	870	1,021	901
51	Venezuela	345	293	348	319	325	285	308	313	302
52	Asia	4,866	6,014	6,982	6,516	6,826	7,312	7,100	6,883	7,216
53	Japan	1,903	2,275	2,655	2,011	1,998	1,870	2,010	1,877	1,918
54	Middle Eastern oil-exporting countries[1]	693	704	708	707	775	974	1,024	879	930
55	Africa	554	493	454	478	544	654	667	688	716
56	Oil-exporting countries[2]	78	72	67	60	74	87	107	83	142
57	Other[3]	364	721	910	910	971	1,006	895	1,054	1,091

1. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
2. Comprises Algeria, Gabon, Libya, and Nigeria.
3. Includes nonmonetary international and regional organizations.

3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transaction, and area or country	1995	1996	1996 Jan.–Dec.	1996 June	July	Aug.	Sept.	Oct.	Nov.	Dec.[p]
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	462,950	625,598	625,598	43,374	49,557	46,136	42,599	57,758	67,406	57,054
2 Foreign sales	451,710	612,366	612,366	42,361	52,211	44,071	42,550	56,751	65,470	56,629
3 Net purchases, or sales (−)	**11,240**	**13,232**	**13,232**	**1,013**	**−2,654**	**2,065**	**49**	**1,007**	**1,936**	**425**
4 Foreign countries	**11,445**	**13,306**	**13,306**	**1,013**	**−2,653**	**2,051**	**75**	**1,013**	**1,939**	**454**
5 Europe	4,912	6,332	6,332	−308	−386	3,310	200	447	53	−226
6 France	−1,099	−2,343	−2,343	−339	−188	−209	−109	−219	−237	−1,064
7 Germany	−1,837	1,101	1,101	218	363	83	−85	116	−8	−18
8 Netherlands	3,507	1,365	1,365	129	124	219	−13	−132	139	−160
9 Switzerland	−2,283	2,706	2,706	78	615	538	−123	144	682	−470
10 United Kingdom	8,066	3,928	3,928	−416	−1,490	2,551	475	909	464	1,490
11 Canada	−1,517	2,253	2,253	81	31	−250	191	742	736	−9
12 Latin America and Caribbean	5,814	5,558	5,558	42	−1,077	1,046	252	−653	959	994
13 Middle East[1]	−337	−1,602	−1,602	−114	−15	−179	−153	15	−57	−7
14 Other Asia	2,503	898	898	1,359	−1,347	−1,642	−575	511	259	−232
15 Japan	−2,725	−318	−318	802	−611	−791	104	313	−525	−343
16 Africa	2	−81	−81	−4	33	−33	−6	5	−23	10
17 Other countries	68	−52	−52	−43	108	−201	166	−54	12	−76
18 Nonmonetary international and regional organizations	**−205**	**−74**	**−74**	**0**	**−1**	**14**	**−26**	**−6**	**−3**	**−29**
BONDS[2]										
19 Foreign purchases	293,533	421,750	421,750	35,152	27,962	32,333	37,407	40,668[r]	47,406	42,381
20 Foreign sales	206,951	295,013	295,013	25,688	17,458	20,901	23,858	30,277	34,667	32,880
21 Net purchases, or sales (−)	**86,582**	**126,737**	**126,737**	**9,464**	**10,504**	**11,432**	**13,549**	**10,391[r]**	**12,739**	**9,501**
22 Foreign countries	**87,036**	**126,566**	**126,566**	**9,449**	**10,387**	**11,453**	**13,551**	**10,406[r]**	**12,749**	**9,501**
23 Europe	70,318	74,945	74,945	5,020	6,502	6,184	8,350	6,279[r]	5,710	4,593
24 France	1,143	5,200	5,200	337	345	169	565	713	98	252
25 Germany	5,938	5,136	5,136	40	255	626	381	−260	209	−27
26 Netherlands	1,463	2,440	2,440	53	442	146	244	93	533	148
27 Switzerland	494	882	882	233	258	125	403	59	−132	−30
28 United Kingdom	57,591	54,585	54,585	3,800	4,790	4,305	6,231	5,316[r]	4,357	4,321
29 Canada	2,569	4,230	4,230	314	514	474	122	181	435	391
30 Latin America and Caribbean	6,141	22,872	22,872	770	1,811	1,272	1,144	2,954	2,222	2,890
31 Middle East[1]	1,869	1,637	1,637	218	205	201	65	211	513	412
32 Other Asia	5,659	22,607	22,607	3,140	1,186	3,243	3,681	787	3,727	1,143
33 Japan	2,250	13,193	13,193	1,912	905	2,583	1,963	1,037	2,245	894
34 Africa	234	600	600	50	31	17	109	45	132	79
35 Other countries	246	−325	−325	−63	138	62	80	−51	10	−7
36 Nonmonetary international and regional organizations	**−454**	**171**	**171**	**15**	**117**	**−21**	**−2**	**−15**	**−10**	**0**
	Foreign securities									
37 Stocks, net purchases, or sales (−)	−50,291	−57,876	−57,876	−7,527	−5,139	−1,197	−1,733	−2,329[r]	−2,206	−5,389
38 Foreign purchases	345,540	459,288	459,288	36,728	37,643	34,016	31,195	40,117[r]	48,253	42,997
39 Foreign sales	395,831	517,164	517,164	44,255	42,782	35,213	32,928	42,446[r]	50,459	48,386
40 Bonds, net purchases, or sales (−)	−48,405	−45,217	−45,217	−2,035	−3,418	−5,189	−4,430	−5,771	−1,233	−10,427
41 Foreign purchases	889,541	1,118,141	1,118,141	82,833	80,692	84,461	113,087	116,354	105,181	98,644
42 Foreign sales	937,946	1,163,358	1,163,358	84,868	84,110	89,650	117,517	122,125	106,414	109,071
43 Net purchases, or sales (−), of stocks and bonds	**−98,696**	**−103,093**	**−103,093**	**−9,562**	**−8,557**	**−6,386**	**−6,163**	**−8,100[r]**	**−3,439**	**−15,816**
44 Foreign countries	**−97,891**	**−102,222**	**−102,222**	**−9,509**	**−8,620**	**−6,244**	**−5,637**	**−8,122[r]**	**−3,471**	**−15,805**
45 Europe	−48,125	−56,257	−56,257	−8,506	−5,960	−5,298	−5,505	−6,093[r]	−2,710	−10,293
46 Canada	−7,812	−5,717	−5,717	−470	807	882	222	−574	−258	−2,196
47 Latin America and Caribbean	−7,634	−7,420	−7,420	975	−2,181	−1,470	−1,277	937	3,943	−1,497
48 Asia	−34,056	−27,647	−27,647	−1,401	−1,174	−1,016	971	−819	−4,073	−783
49 Japan	−25,072	−5,904	−5,904	−1,229	231	486	2,456	656	−585	2,195
50 Africa	−327	−1,529	−1,529	−116	−53	−25	−49	−468	−115	36
51 Other countries	63	−3,652	−3,652	9	−59	683	1	−1,105	−258	−1,072
52 Nonmonetary international and regional organizations	**−805**	**−871**	**−871**	**−53**	**63**	**−142**	**−526**	**22**	**32**	**−11**

1. Comprises oil-exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Includes state and local government securities and securities of U.S. government agencies and corporations. Also includes issues of new debt securities sold abroad by U.S. corporations organized to finance direct investments abroad.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions[1]

Millions of dollars; net purchases, or sales (−) during period

Area or country	1995	1996	1996	1996						
			Jan.–Dec.	June	July	Aug.	Sept.	Oct.	Nov.	Dec.[p]
1 **Total estimated**	**134,115**	**244,171**	**244,171**	**8,520**	**47,960**	**12,340**	**14,738**	**24,321**	**20,831[r]**	**47,560**
2 Foreign countries	133,676	246,013	246,013	9,331	48,396	12,304	14,895	23,784	22,023[r]	46,417
3 Europe	49,976	117,409	117,409	5,674	18,471	7,103	13,104	12,992	8,478[r]	14,676
4 Belgium and Luxembourg	591	1,481	1,481	221	−39	73	489	−320	330	370
5 Germany	6,136	18,072	18,072	1,196	1,233	467	−264	2,813	3,449	1,499
6 Netherlands	1,891	−529	−529	1,067	694	−237	116	−423	729	855
7 Sweden	358	2,350	2,350	−29	322	−282	431	169	−45	26
8 Switzerland	−472	480	480	−842	395	−730	718	−599	−54	−517
9 United Kingdom	34,754	64,428	64,428	5,130	11,245	7,623	7,977	10,121	−152[r]	7,265
10 Other Europe and former U.S.S.R.	6,718	31,127	31,127	−1,069	4,621	189	3,637	1,231	4,221	5,178
11 Canada	252	2,725	2,725	−139	1,734	−988	−215	−1,744	313[r]	−780
12 Latin America and Caribbean	48,609	25,540	25,540	1,524	23,991	−491	−19,359	1,479	12,906[r]	15,228
13 Venezuela	−2	−69	−69	13	16	146	−45	−29	−68	212
14 Other Latin America and Caribbean	25,152	13,233	13,233	−4,434	986	3,088	−1,547	926	2,922[r]	5,292
15 Netherlands Antilles	23,459	12,376	12,376	5,945	22,989	−3,725	−17,767	582	10,052	9,724
16 Asia	32,467	97,962	97,962	2,851	3,964	6,327	20,713	9,889	1,298	16,744
17 Japan	16,979	41,508	41,508	805	2,384	2,924	4,875	6,629	1,337	7,593
18 Africa	1,464	1,085	1,085	22	−31	163	30	−13	−12	−2
19 Other	908	1,292	1,292	−601	267	190	622	1,181	−960	551
20 Nonmonetary international and regional organizations	439	−1,842	−1,842	−811	−436	36	−157	537	−1,192	1,143
21 International	9	−1,390	−1,390	−747	−395	−287	−52	338	−1,146	773
22 Latin American regional	261	−779	−779	7	−3	347	−90	−4	−2	252
MEMO										
23 Foreign countries	133,676	246,013	246,013	9,331	48,396	12,304	14,895	23,784	22,023[r]	46,417
24 Official institutions	39,631	86,774	86,774	−6,648	9,629	3,587	17,188	4,838	3,840	13,561
25 Other foreign	94,045	159,239	159,239	15,979	38,767	8,717	−2,293	18,946	18,183[r]	32,856
Oil-exporting countries										
26 Middle East[2]	3,075	10,232	10,232	793	−219	323	4,969	−1,876	337	2,279
27 Africa[3]	2	1	1	−1	0	−1	1	0	0	0

1. Official and private transactions in marketable U.S. Treasury securities having an original maturity of more than one year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS[1]

Percent per year, averages of daily figures

Country	Rate on Feb. 28, 1997		Country	Rate on Feb. 28, 1997	
	Percent	Month effective		Percent	Month effective
Austria	2.5	Apr. 1996	Germany	2.5	Apr. 1996
Belgium	2.5	Apr. 1995	Italy	6.75	Jan. 1997
Canada	3.25	Nov. 1996	Japan	.5	Sept. 1995
Denmark	3.25	Apr. 1996	Netherlands	2.5	Apr. 1996
France[2]	3.10	Jan. 1997	Switzerland	1.0	Sept. 1996

1. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper or government securities for commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood that the central bank transacts the largest proportion of its credit operations.

2. Since February 1981, the rate has been that at which the Bank of France discounts Treasury bills for seven to ten days.

3.27 FOREIGN SHORT-TERM INTEREST RATES[1]

Percent per year, averages of daily figures

Type or country	1994	1995	1996	1996					1997	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 Eurodollars	4.63	5.93	5.38	5.41	5.49	5.41	5.38	5.43	5.44	5.36
2 United Kingdom	5.45	6.63	5.99	5.72	5.75	5.93	6.27	6.31	6.28	6.16
3 Canada	5.57	7.14	4.49	4.30	4.10	3.54	3.05	3.16	3.18	3.16
4 Germany	5.25	4.43	3.21	3.20	3.02	3.04	3.09	3.13	3.03	3.08
5 Switzerland	4.03	2.94	1.92	2.21	1.82	1.56	1.80	1.99	1.72	1.61
6 Netherlands	5.09	4.30	2.91	2.90	2.70	2.82	2.92	2.99	2.94	2.95
7 France	5.72	6.43	3.81	3.84	3.63	3.39	3.35	3.33	3.23	3.22
8 Italy	8.45	10.43	8.79	8.77	8.42	7.99	7.40	7.22	7.21	7.33
9 Belgium	5.65	4.73	3.19	3.21	3.04	3.02	3.03	3.01	3.00	3.10
10 Japan	2.24	1.20	.58	62	.53	.52	.51	.51	.53	.54

1. Rates are for three-month interbank loans, with the following exceptions: Canada, finance company paper; Belgium, three-month Treasury bills; and Japan, CD rate.

3.28 FOREIGN EXCHANGE RATES[1]

Currency units per dollar except as noted

Country/currency unit	1994	1995	1996	1996 Sept.	1996 Oct.	1996 Nov.	1996 Dec.	1997 Jan.	1997 Feb.
1 Australia/dollar[2]	73.161	74.073	78.283	79.279	79.179	79.684	79.661	77.756	76.768
2 Austria/schilling	11.409	10.076	10.589	10.610	10.748	10.640	10.923	11.289	11.785
3 Belgium/franc	33.426	29.472	30.970[r]	31.056	31.471	31.153	31.992[r]	33.087	34.556
4 Canada/dollar	1.3664	1.3725	1.3638	1.3694	1.3508	1.3381	1.3622	1.3494	1.3556
5 China, P.R./yuan	8.6397[r]	8.3700	8.3389[r]	8.3341	8.3299	8.3294	8.3290	8.3260	8.3227
6 Denmark/krone	6.3561	5.5999	5.8003[r]	5.8057	5.8576	5.8053	5.9428	6.1199	6.3867
7 Finland/markka	5.2340	4.3763	4.5948	4.5421	4.5694	4.5512	4.6388	4.7766	4.9792
8 France/franc	5.5459	4.9864	5.1158	5.1307	5.1652	5.1156	5.2427	5.4145	5.6536
9 Germany/deutsche mark	1.6216	1.4321	1.5049	1.5080	1.5277	1.5118	1.5525	1.6047	1.6747
10 Greece/drachma	242.50	231.68	240.82	239.67	239.76	238.38	245.70	251.54	262.42
11 Hong Kong/dollar	7.7290	7.7357	7.7345	7.7328	7.7322	7.7323	7.7355	7.7397	7.7474
12 India/rupee	31.394	32.418	35.506[r]	35.870	35.804	35.839[r]	35.882	35.904	35.891
13 Ireland/pound[2]	149.69	160.35	159.95	160.96	160.83	166.45	165.93	163.11	158.60
14 Italy/lira	1,611.49	1,629.45	1,542.76	1,520.48	1,523.82	1,513.66	1,528.44	1,567.91	1,655.00
15 Japan/yen	102.18	93.96	108.78	109.93	112.41	112.30	113.98	117.91	122.96
16 Malaysia/ringgit	2.6237	2.5073	2.5154	2.5009	2.5074	2.5234	2.5251	2.4900	2.4866
17 Netherlands/guilder	1.8190	1.6044	1.6863	1.6905	1.7141	1.6958	1.7420	1.8023	1.8812
18 New Zealand/dollar[2]	59.358	65.625	68.765	69.640	70.071	70.975	70.501	70.088	69.084
19 Norway/krone	7.0553	6.3355	6.4594	6.4613	6.4810	6.3554	6.4716	6.4589	6.6323
20 Portugal/escudo	165.93	149.88	154.28	153.99	154.28	152.83	156.54	160.53	168.24
21 Singapore/dollar	1.5275	1.4171	1.4100	1.4086	1.4124	1.4025	1.3999	1.4061	1.4193
22 South Africa/rand	3.5526	3.6284	4.3011[r]	4.5039[r]	4.5799	4.6577	4.6873	4.6402	4.4557
23 South Korea/won	806.93	772.69	805.00	822.40	828.24	830.56	841.92	854.07	868.39
24 Spain/peseta	133.88	124.64	126.68	127.11	128.60	127.28	130.69	134.79	141.85
25 Sri Lanka/rupee	49.170	51.047	55.289	56.050	57.016	56.987	56.730	57.278	57.772
26 Sweden/krona	7.7161	7.1406	6.7082	6.6427	6.6006	6.6269	6.8283	7.0692	7.4069
27 Switzerland/franc	1.3667	1.1812	1.2361	1.2343	1.2586	1.2752	1.3290	1.3913	1.4541
28 Taiwan/dollar	26.465	26.495	27.468	27.500	27.532	27.522	27.516	27.477	27.554
29 Thailand/baht	25.161	24.921	25.359	25.407	25.474	25.459	25.600	25.726	25.957
30 United Kingdom/pound[2]	153.19	157.85	156.07	155.93	158.63	166.23	166.39	165.85	162.56
MEMO									
31 United States/dollar[3]	91.32	84.25	87.34	87.46	87.99	86.97	88.71[r]	91.01	94.52

1. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) monthly statistical release. For ordering address, see inside front cover.
2. Value in U.S. cents.
3. Index of weighted-average exchange value of U.S. dollar against the currencies of ten industrial countries. The weight for each of the ten countries is the 1972–76 average world trade of that country divided by the average world trade of all ten countries combined. Series revised as of August 1978 (see *Federal Reserve Bulletin*, vol. 64 (August 1978), p. 700).

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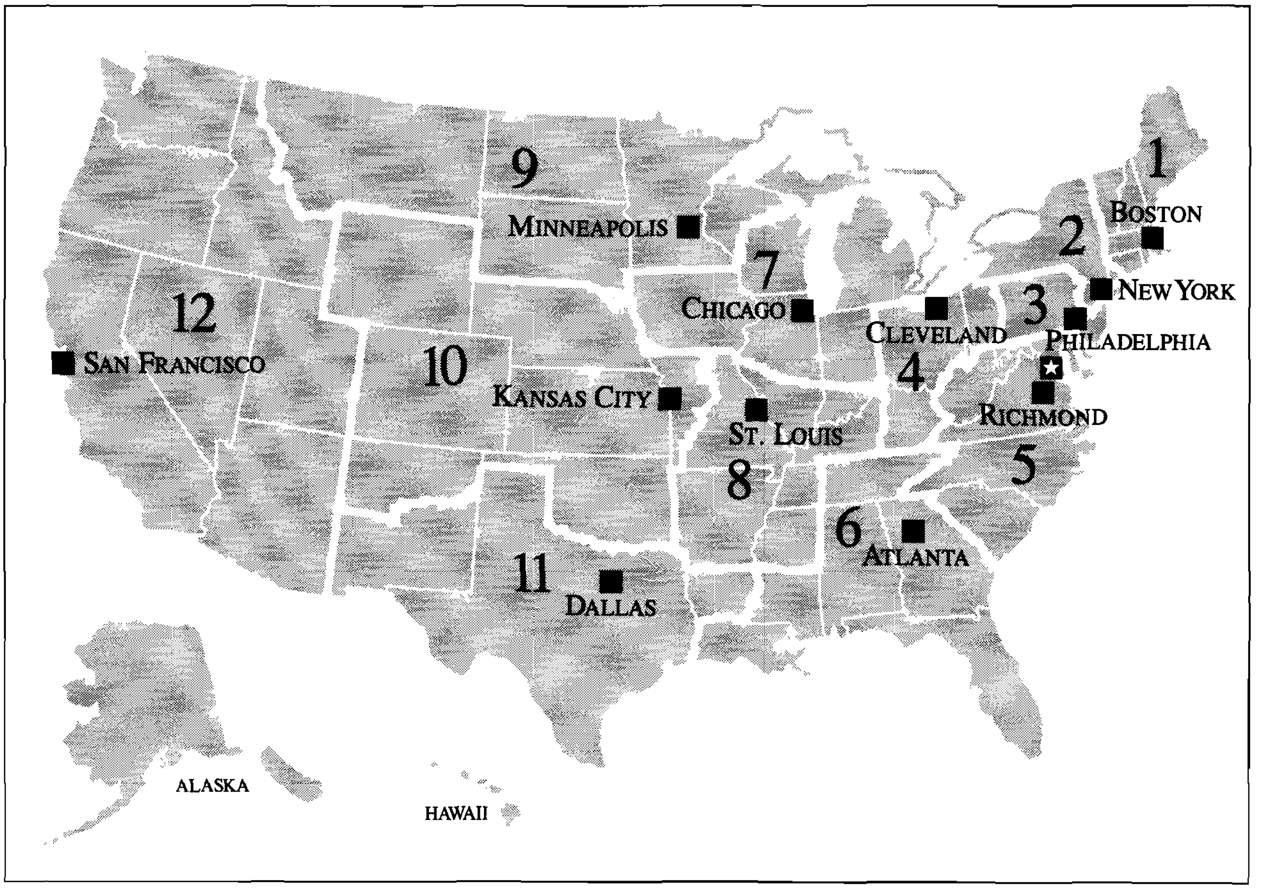


Legend

Both pages

■ Federal Reserve Bank city

☒ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

• Federal Reserve Branch city

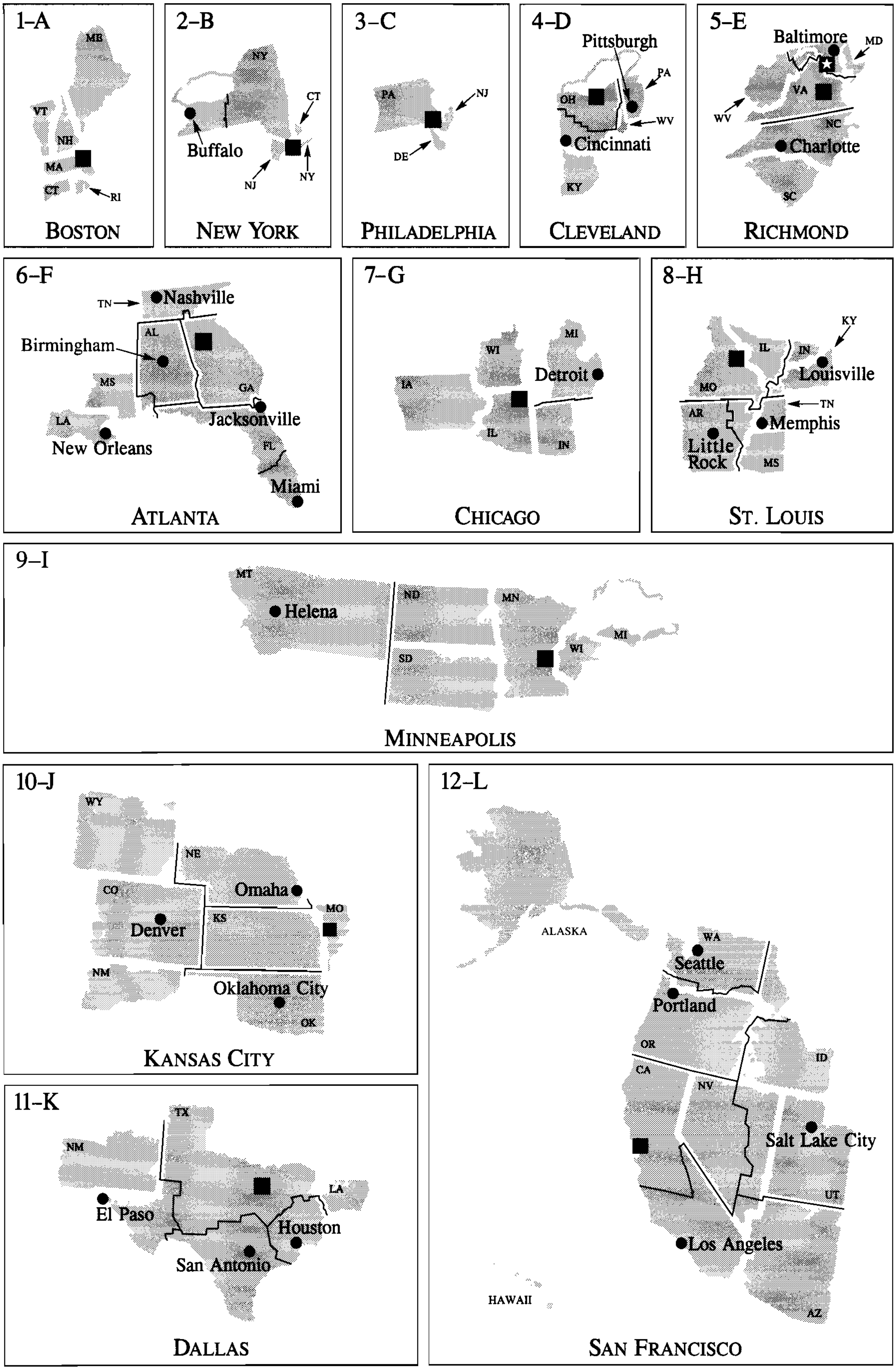
— Branch boundary

Note

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System most recently in February 1996.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