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Table of Contents

Major Borrowing and Lending Trends in the U.S. Economy, 1981–85

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The past five years have witnessed considerable change in the scale and pattern of borrowing and lending in U.S. financial markets. Although demands for funds by both financial and nonfinancial sectors of the economy typically grow with economic activity, such demands have been unusually strong in recent years, giving rise to a marked expansion of debt. Total credit market debt of all sectors expanded from \$4.7 trillion to \$8.2 trillion between the end of 1980 and the end of 1985, and that of domestic nonfinancial sectors rose from \$3.9 trillion to \$6.9 trillion during the same period.

The rapid debt growth of the past five years has given rise to concerns about widespread payment problems in the event of an economic downturn. Also, the convergence of heavy federal and nonfederal credit demands has raised fears about "crowding out," that is, the potential shouldering aside of private borrowers through high interest rates, with the consequent impairment of capital formation. Rapid debt growth also has drawn attention to the increasing role of foreign capital in satisfying credit demands in U.S. capital markets.

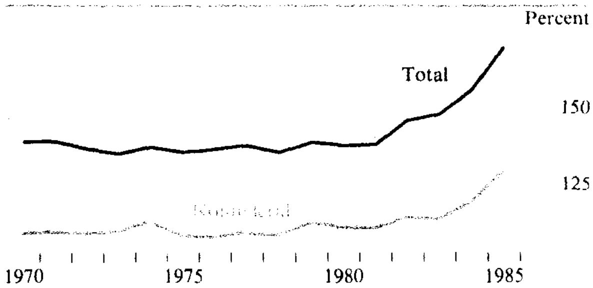
This article provides, first, a broad overview of borrowing trends in the domestic economy during the past five years, focusing primarily on the federal government, state and local governments, nonfinancial businesses, and households. It then reviews the major sources of funds to credit markets and discusses structural changes that have facilitated the flow of credit to final users. It concludes with a closer look at the balance sheets of nonfinancial corporations and households, that is, at the asset and liability positions that have emerged from the saving, borrowing, and lending activities of these sectors.

USES OF FUNDS IN CREDIT MARKETS

Throughout the 1960s and 1970s, the debt of domestic nonfinancial sectors had a fairly stable relationship to gross national product. In fact, during the 1970s total debt of domestic nonfinancial sectors fluctuated mostly between 136 percent and 138 percent of GNP throughout the decade (chart 1). The approximate stability of total debt relative to GNP during much of the postwar period reflected substantial increases in nonfederal debt and offsetting declines in the federal component (chart 2). During recessions the ratio of federal debt to GNP often would depart from its downward trend, but this tended to be in conjunction with a drop in the ratios for the nonfederal sectors. During expansions the federal debt ratio would resume its downward course while private borrowing strengthened. Since 1981, however, the growth of total debt has far outpaced the rate of expansion of domestic output.

The unusual acceleration of debt in the 1980s was triggered by the heavy needs of the federal

1. Domestic nonfinancial debt relative to nominal GNP



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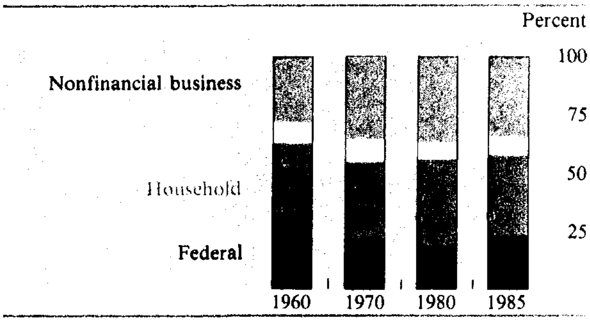
2. Composition, by sector, of domestic nonfinancial debt



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government during a period of deep recession, but for several years the pace of borrowing by businesses, state and local governments, and households remained moderate. Since 1983, however, debt of these nonfederal sectors also has accelerated. On balance, as illustrated in chart 1 and table 1, these developments have sharply raised the amount of debt in the economy relative to output. The ratio of total domestic nonfinancial debt to GNP has risen from 138 percent in 1980 to 169 percent at the end of 1985. Indeed, with the slowing of economic growth in the past two years, the debt ratio has climbed at an unprecedented rate.

Federal Government

Federal borrowing in the flow of funds accounts is "net borrowing from the public," which excludes changes in holdings of government trust funds. The amount of this borrowing differs from, and is usually higher than, the federal deficit in the national income and product accounts because the geographic and financial coverage of the two systems differ. For instance, government loan programs affect borrowing requirements but are not part of the national income measure of deficits, which in each of the past five years has been $8 billion to $25 billion lower than net federal borrowing. Borrowing, however, tends to run parallel to the underlying deficits, which remain its principal determinant.

Since 1981, several factors have contributed to unprecedented federal deficits. Large cuts in personal income taxes were enacted early in the period, and businesses were offered liberal depreciation allowances to stimulate capital formation. At the same time, there was a substantial defense buildup, and cuts in nondefense programs were not large enough to offset the associated spending rise. The combination of these policy shifts and the severe economic downturn of the 1981–82 period resulted in a massive federal deficit. Between 1981 and 1982, net federal borrowing from the public almost doubled, to $161 billion, and the growth rate of federal debt, which had been a little less than 12 percent in each of the previous two years, suddenly accelerated to 19½ percent. The dollar value of federal borrowing has continued to rise in each year through the subsequent economic recovery—to $224 billion in calendar 1985—although the percentage growth rate of federal debt has tapered

1. Domestic nonfinancial debt and borrowing

Category	1971–75, average	1976–80, average	1981	1982	1983	1984	1985
	Annual percentage change, end-of-period basis						
Debt							
Federal	8.4	10.8	11.8	19.4	18.8	16.9	16.2
Nonfederal	10.1	11.7	9.0	6.8	9.7	14.0	14.6
Households	9.8	13.5	8.3	5.6	11.3	13.0	14.1
Nonfinancial business	11.0	11.8	11.1	7.6	7.7	15.4	11.3
State and local governments	8.2	6.1	2.3	8.5	11.4	12.2	34.2
Total	**9.7**	**11.6**	**9.5**	**9.2**	**11.6**	**14.7**	**15.0**
MEMO: Growth of nominal GNP	10.3	11.2	9.3	3.2	10.0	9.0	5.4
	Average annual amounts, billions of dollars						
Net borrowing							
Federal	29	59	87	161	187	199	224
Nonfederal	139	274	285	234	356	567	674
Households	57	139	120	88	187	239	294
Nonfinancial business	68	120	159	120	131	283	240
State and local governments	14	15	7	26	38	45	141
Total	**168**	**333**	**373**	**395**	**543**	**766**	**898**

FLOW OF FUNDS ACCOUNTS

The flow of funds accounts, published by the Federal Reserve Board, are a broad statistical system to integrate financial market activities with the national income and product accounts prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce. Flow of funds accounts measure the financial flows that accompany the economy's nonfinancial activities. In the household sector, for instance, consumer credit tends to expand in support of personal consumption expenditures. In the federal sector, borrowing tends to move with the government's deficit.

The financial accounts present a statement of sources and uses of funds that correspond to national income concepts. Each sector of the economy receives income flows that support its current spending and saving. A sector's saving and net borrowing enable it to make investments which, through time, reflect collective preferences for tangible and financial assets in relation to liabilities. By complementing BEA data on tangible assets with statistics on financial assets and liabilities, the financial accounts also permit the construction of sectoral balance sheets.

In addition to sectoral financing statements, the accounts provide summaries of flows and balances by major types of credit market instruments and transactions. The Federal Reserve Board publishes estimates of sources and uses of funds quarterly in the *Flow of Funds Accounts*. Data on the "outstandings" counterparts to the flow figures are published annually in *Financial Assets and Liabilities*. Sectoral balance sheets are published semiannually in *Balance Sheets for the U.S. Economy*.

off to about 16 percent. For the 1981–85 period as a whole, net federal demands on credit markets totaled $858 billion, and outstanding U.S. government debt held by the public rose 115 percent, to a total of $1.6 trillion.

Legislative developments have created a near-term outlook for considerable diminution in the growth rate of federal debt, even if the amount of borrowing remains high for the next several years. The Gramm–Rudman–Hollings Deficit Reduction Act, if fully implemented, targets the complete elimination of the federal deficit by 1991. Even if this goal is not attained, debt growth could slow substantially and the amount of federal debt outstanding recede in relation to GNP. The recent drop in interest rates, if maintained, also will help promote deficit reduction by slowing the growth of interest payments on the national debt.

Households

The rate of growth of household debt slowed each year from 1979 to 1982, but it has outpaced GNP growth each year since, surging to more than 14 percent in 1985 (table 1). In addition, household debt growth exceeded that of disposable personal income over the past five years. Since 1980 the increase in income has averaged about 8 percent per year, while household debt has grown at an average rate of 10½ percent.

Growth in overall household debt was particularly low in the 1981–82 economic downturn, with both the home mortgage and consumer credit components expanding by less than 5 percent in 1982, the recession trough. Since 1982, however, consumer credit has expanded rapidly, with annual increases of 14 to 20 percent in the 1983–85 interval. Although home mortgage debt has not grown as rapidly as in the late 1970s, it also has maintained a brisk pace, nearing 12 percent in 1985. Net borrowing for home mortgages, which had averaged about $100 billion per year during the late 1970s, dropped to half that amount during the 1982 downturn; it subsequently picked up sharply, increasing to $155 billion in 1985 with the decline in interest rates and the revival of residential construction activity.

Some tax-exempt borrowing, such as student loan bonds and issues for nonprofit hospitals, is attributed to households in the flow of funds statistics. For reasons covered in detail below, this form of debt also moved up sharply in the last five years, reaching an estimated $75 billion at the end of 1985, more than four times the amount outstanding in 1980.

The rise in household debt relative to disposable income—together with signs that delinquency rates on mortgages and consumer credit are increasing—has raised questions about the sustainability of these burdens. A later section of this article will discuss household liabilities and assets in more detail.

Nonfinancial Business

Debt of nonfinancial businesses has grown less rapidly in the 1980s—about 10½ percent per year on average—than in the previous decade, and it has shown considerable year-to-year volatility. Nonetheless, business borrowing, which totaled $930 billion in the 1981–85 period, has exceeded apparent financing needs.

Corporations were responsible for almost 65 percent of the growth in business debt during the 1981–85 period, but noncorporate borrowing likewise grew quickly, buoyed by increased activity in multifamily residential and commercial real estate. In contrast, net borrowing by the farm sector slowed during the first half of the 1980s after expanding rapidly between the mid-1970s and 1981. Farm debt actually contracted in both 1984 and 1985 as farm operators experienced serious economic difficulties. Although the business sector of the flow of funds accounts includes farms and unincorporated enterprises, the dollar volume of transactions in the sector is dominated by nonfinancial corporations, and the following discussion focuses on these entities.

The underlying borrowing needs of corporations are often measured by the so-called financing gap, that is, the difference between capital expenditures and internal funds generated from retained earnings and depreciation allowances (table 2). This indicator of external financing needs climbed to around $60 billion during the 1979–81 period, but during the past four years it has averaged $27 billion, about average for the past two decades and rather low in comparison with the increased scale of business output. On average, over the severe economic downturn and sharp recovery of the early 1980s, nominal spending on fixed investment by corporations rose 8½ percent per year during the 1981–85 period, only half the inflation-fueled annual rate of the previous four years. With the exception of 1984, credit demands associated with inventory accumulation likewise have not been particularly large. On the other hand, internally generated funds have been relatively ample. Pretax profits measured on an economic basis rose to record levels during the 1983–85 period, and depreciation continued to grow, also contributing to cash flow in the business sector. Notwithstanding these favorable developments, nonfinancial corporations borrowed a net $590 billion between 1981 and 1985, or about 3½ times the total financing gap during this period (table 2).

2. Financing gap and funds raised in markets by nonfinancial corporations

Billions of dollars

Year	Capital expenditures	Internal funds	Financing gap	Credit market borrowing	Net equity issuance
1981...	311	250	61	104	−11
1982...	267	237	30	72	11
1983...	281	277	4	56	28
1984...	382	322	59	192	−77
1985...	369	353	17	166	−82
Total ..	**1,610**	**1,439**	**171**	**590**	**−131**

Much of the growth in corporate business debt—especially during the past two years—can be attributed to the massive volume of equity retirements associated with the heavy wave of mergers, acquisitions, leveraged buyouts, and share repurchases that occurred throughout the economy. Typically these operations are accomplished by purchasing (and retiring) stock in existing companies. Between 1983 and 1985 approximately $200 billion in stock of nonfinancial corporations was taken off the market in this fashion. Although it is not always possible to link borrowing directly to equity retirements, in many cases (notably some mergers involving companies with more than $1 billion in assets) large bank financings, commercial paper issues, and bonds are known to have been used for such purposes. Moreover, indications from some large mergers suggest that, initially, the preponderance of equity retirements were financed by borrowing. For the past two years at least, this activity has dominated the financing gap as the mainspring of business borrowing.

Subsequent financial adjustments by companies involved in mergers and buyouts are much less visible than initial borrowing details. Some of the initial debt may have been paid down from cash flows and sales of assets; the balance possibly has been rolled over or transformed into longer maturities as interest rates have fallen, but it nonetheless remains on corporate balance sheets.

The use of private-purpose, tax-exempt obligations, often known as industrial development bonds (IDBs), has flourished in the last five years. Such tax-exempt debt is attributed in the flow of funds accounts to the business sector, rather than to the state and local government sector, because individual enterprises bear the repayment obligation. Net tax-exempt borrowing by businesses totaled about $81 billion in the 1981–85 period; the growth rate of this form of debt, 23 percent per year on average, was more than double the rate of expansion of other forms of business debt.

The use of tax-exempt bonds for private enterprises has come under fire, and several pieces of legislation have imposed tighter restrictions on the volume of these bonds. For example, the Tax Equity and Fiscal Responsibility Act of 1982 limited the use of IDBs for auto service and food and beverage establishments, and for sports and recreational facilities. The Tax Reform Act of 1983 set state-by-state caps on permissible volumes and imposed further limitations on IDBs. Although volume limits so far have proved largely nonbinding, prospective further restrictions have encouraged the issuance of sizable quantities of private-purpose tax-exempt securities in each of the past two years. The 1985 net volume—$25 billion—was particularly heavy, with almost half of the total concentrated in the last quarter.

State and Local Governments

Net borrowing by state and local governments has for some years moved up strongly despite the rising surpluses shown by these governments in the national income and product accounts. Borrowing soared from about $7 billion in 1981 to $45 billion in 1984 and to $141 billion in 1985, yet during the last five years, investable surpluses of such governments have averaged about $11 billion per year. The rapid pace of borrowing by these governments often has been influenced by refunding opportunities on outstanding debt, plans for future capital expenditures, and, before recent tightenings of rules on asset acquisition, even by chances for financial arbitrage.

As with tax-exempt business borrowing, actual and threatened restrictions have had a pronounced effect on the amount and timing of state and local financing for several years. The most striking example of anticipatory effects came in the fourth quarter of 1985, when state and local governments borrowed $75 billion net, and their debt expanded at a 63 percent annual rate. This borrowing surge was induced by pending legislation, mentioned above, that would further restrict private-purpose issues such as housing bonds, limit arbitrage and advance refundings, and tighten the definition of what constitutes a public-purpose bond.

As this overview suggests, special influences have caused federal borrowing and several important components of nonfederal borrowing to rise strongly in the past five years, contributing to the rapid rise in debt of both federal and nonfederal sectors. Some of these influences appear to be waning, and there is little reason to believe that major surges and timing distortions in certain forms of debt will continue indefinitely. Legislation already in place is expected to have a restraining effect on federal borrowing, and prospects are good for somewhat tighter limits on tax-exempt debt for both public and private purposes. In addition, the general rise in equity prices may lead to a slowing of the stock

FOMC-MONITORED DEBT

Since 1983 the Federal Open Market Committee has set a monitoring range for total debt of domestic nonfinancial sectors. This "credit" aggregate was established as a tool to assist the Committee in following developments in the economy and in financial markets. As monitored by the FOMC and published in the Board's H.6 release, "Money Stock, Liquid Assets, and Debt Measures," debt is measured on a period-average basis rather than the period-end basis presented in the flow of funds accounts. Although definitionally the same as domestic nonfinancial debt in this article, the published levels and growth rates of the FOMC aggregate may differ from those shown in the accounts because of the averaging and the removal of statistical discontinuities that may arise in the series. The table below shows the growth of the FOMC debt aggregate since 1983.

Year	Percent changes, fourth quarter to fourth quarter	
	Monitoring range	Actual
1983	8½ to 11½	11.2
1984	8 to 11	14.3
1985	9 to 12	14.0
1986[1]	8 to 11	12.7

1. Through June 1986.

repurchases that have spurred the growth of business debt in the last two years. A moderation of debt growth therefore seems likely, even though underlying trends suggest further increases in the ratio of debt to gross national product.

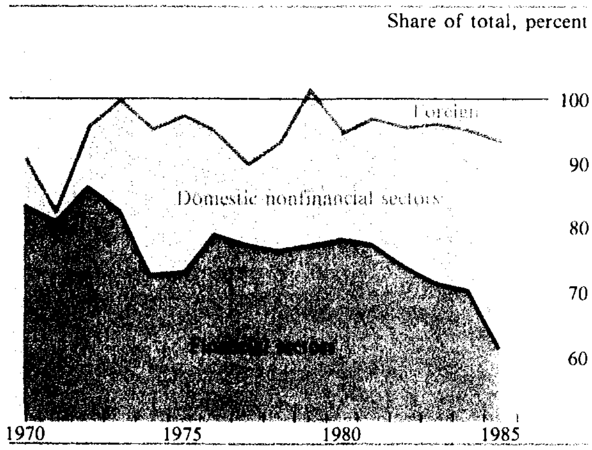
SUPPLIES OF FUNDS TO CREDIT MARKETS

All told, domestic nonfinancial sectors have borrowed almost $3 trillion in credit markets during the past five years (table 1), and financial sectors of the economy have raised almost $600 billion more (excluding deposits at banks and thrifts). The supply of funds has expanded correspondingly, and sources have displayed noticeable shifts in sectoral origin. The following discussion of supplies will encompass the provision of credit market funds to all sectors, rather than to domestic nonfinancial sectors alone, because current data sources do not permit the isolation of issues of financial obligors from those of nonfinancial obligors in most debt-holders' portfolios. But since the largest portion of credit clearly flows to nonfinancial sectors, the inclusion of funds supplied to financial sectors has little effect on the picture.

The scope for net financial investment by each sector of the economy is defined by the excess of its saving over its capital outlays. Total net supplies of funds to credit markets thus originate primarily in nonfinancial sectors because they generate the bulk of national saving. Investment choices made by nonfinancial sectors—such as acquiring deposit claims on financial intermediaries, buying equities, or directly purchasing credit market assets—therefore have a major role in determining proximate sources of funds to markets.

A notable feature of the debt financing of recent years has been the gradual decline in the relative role of financial institutions in the direct provision of credit and the corresponding rise in direct credit market advances by private domestic nonfinancial sectors (chart 3). The share of intermediaries in all lending fell from an average of about 82 percent in the 1970s to about 62 percent of the total in 1985, while the share of private domestic nonfinancial sectors more than

3. Sources of funds to credit markets



Annual data.

doubled, to 29 percent. The share of credit provided by the federal government continues to represent only a few percentage points of the total, and purchases of credit market instruments by foreigners—measured through the balance of payments statistics—have oscillated in the 4 to 7 percent range for most of this period, moving up only a little on balance.

Financial intermediaries and nonfinancial sectors both provide funds to credit markets on a substantial scale. For the most part, assets acquired by intermediaries are classified as "credit market instruments," such as loans, securities, and mortgages; thus the expansion of their balance sheets runs largely parallel to their supply of funds to credit markets. In contrast, a large share of assets of nonfinancial sectors are in the form of deposit claims on intermediaries. For instance, at the end of 1985 only 13 percent of financial assets of households were held directly in credit market forms.

The most striking feature of net credit market lending in the 1981–85 period is the almost fivefold rise of direct credit extensions by private domestic nonfinancial sectors in a period when overall borrowing roughly doubled (table 3). Foreign lending also rose briskly, but direct lending by the federal government remained small. Lending by financial institutions moved higher during this period but proportionately less than that by nonfinancial lenders. Among financial institutions, commercial banks remain the preeminent lenders, providing roughly 30 percent of

3. Net lending in U.S. credit markets

Billions of dollars

Sector	1976–80, average	1981	1982	1983	1984	1985
Nonfinancial sectors	92	110	128	186	270	415
Private domestic	55	70	89	149	207	322
State and local governments	15	8	27	48	50	134
Households	36	48	46	74	126	185
Nonfinancial business	4	14	15	27	31	3
U.S. government	16	24	16	10	17	17
Foreign	21	16	23	27	46	76
Financial sectors	320	379	364	465	637	678
Commercial banking	100	102	107	136	182	197
Thrift institutions	66	28	30	140	146	86
Federally related mortgage pools	17	15	50	66	44	80
Mutual funds	2	5	13	15	26	90
Other	135	229	164	108	239	225
Total	**412**	**489**	**491**	**651**	**907**	**1093**
MEMO: Percent of total lending						
Domestic nonfinancial sectors	17.2	19.2	21.4	24.4	24.7	31.0
Foreign	5.1	3.3	4.5	4.1	5.1	7.0
Financial sectors	77.7	77.5	74.1	71.4	70.2	62.0

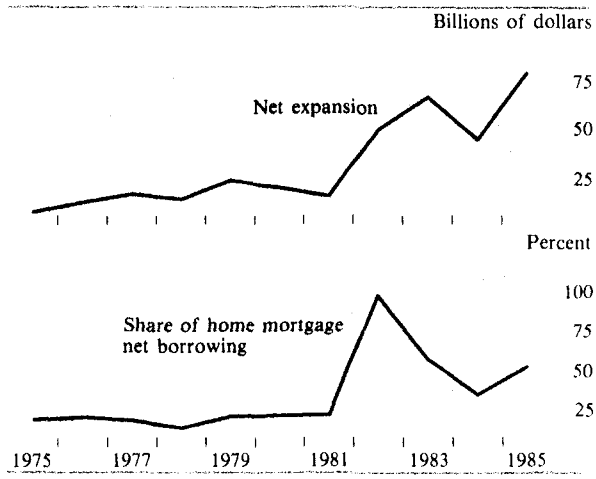
all credit (loans and purchases of securities) extended by domestic financial entities, whereas the varying share of thrift institutions has mirrored gyrations in housing markets and financial difficulties among the institutions themselves.

Structural Shifts in Credit Supplies

Several developments in recent years have had noticeable effects on the structure of credit market supplies. Among these are the increasing packaging of mortgage loans into marketable securities and the resurgence of mutual funds as an indirect channel to credit markets. Large quantities of formerly illiquid mortgages, typically carried to maturity by depository institutions, are being converted through mortgage pools into securities, for which markets are potentially much wider. (Mortgage pools are, broadly, a form of activity, but they are treated as a financial institution in the flow of funds accounts because of their legal form as trust accounts separate from other sectors and because of the way purchasers report their holdings of these assets.) The rise in the popularity of mutual funds has been spurred by heavy advertising, specialization, and the advantages of liquidity and diversification offered to small investors.

The share of lending by mortgage pools in recent years has doubled since the late 1970s, to about 10 percent of net credit extended by financial sectors. Most mortgage pools have been issued with the backing of agencies such as the Government National Mortgage Association, and at the end of 1985 federally related pools held almost one-quarter of outstanding home mortgage debt. The steep rise of pool lending is illustrated in the top panel of chart 4, and the increased role that pools now play in home mortgage markets is shown in the bottom panel. The substantial spike evident in 1981–82 reflects the major difficulties faced by savings institu-

4. Mortgage pools



Annual data.

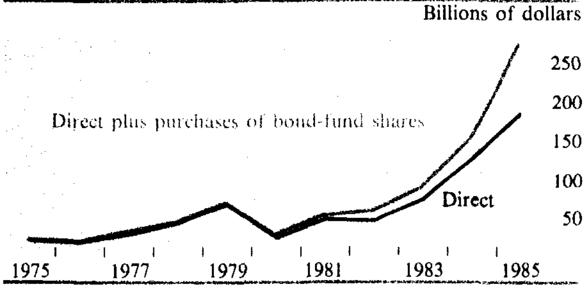
tions at that time. Both the sharp drop in net home mortgage borrowing and sales of existing mortgages into pools drove the pool "share" of mortgage borrowing above 100 percent for a short time.

Pooling of both new and existing mortgages into marketable securities lends support to underlying borrowing by opening new channels between potential purchasers of credit market instruments and primary mortgage markets, in which such purchasers formerly had virtually no role. In addition to providing this liquidity to markets, mortgage pools provide flexibility to the balance-sheet choices of thrift institutions and other originators of the mortgages underlying the securities.

Open-end investment funds (mutual funds) are another financial sector whose operations have expanded sharply toward credit market debt in recent years after a period of relative quiescence. In 1970, when total fund assets were $46 billion, 85 percent of the total was invested in corporate equities. Net expansion of mutual funds was negligible in the last half of the 1970s (aside from capital gains), but between 1981 and 1985 net investment soared $196 billion, of which $148 billion was directed into instruments such as taxable and tax-exempt bonds, with the remainder going to equities. At the end of 1985, about 47 percent of mutual fund assets were in credit market instruments, even after substantial increases in the value of their equity holdings.

The shares issued by mutual funds are treated as equities in the flow of funds accounts, so purchases of these shares by households are not included as funds supplied directly to credit markets. Such purchases are, however, similar to direct supplies because they reflect conscious decisions to acquire fund shares backed by credit market assets. These purchases, $5 billion in 1981, climbed to $26 billion in 1984 and then to $90 billion last year. If these indirect acquisitions are taken into account, the share of nonfinancial sectors in total credit market lending during 1981–85 rises even more than shown in chart 3. By 1984, investment through mutual funds had become a substantial channel into credit markets, and the sharp expansion of bond-fund shares in 1985 equalled almost 50 percent of direct household purchases of credit market instruments (chart 5).

5. Household net credit market lending



Annual data.

Money market mutual funds are another example of indirect flows between households and credit markets. In the 1981–85 period, assets of these funds rose $133 billion, more than 75 percent of which went into short-term credit market instruments. The effect is much the same as with mutual funds, underscoring the link between financial surpluses of households and expansion of certain financial intermediaries.

The Role of Foreign Funds

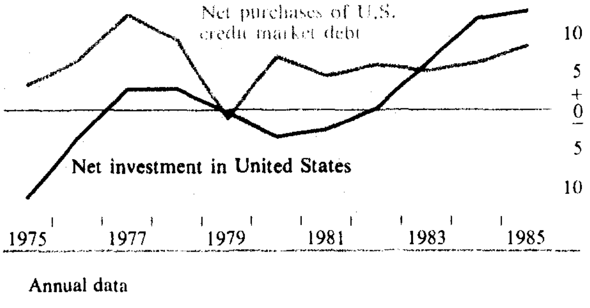
In recent years foreign capital has played an increasing role in the supply of funds to U.S. credit markets. Any domestic imbalance between domestic saving and investment has as its counterpart a net capital flow with the rest of the world. In effect, the "foreign sector" provides the saving (net capital flow) needed when there is a domestic shortfall relative to investment, or absorbs such saving when there is an excess. The striking plunge of the U.S. current account (or, in terms of the national income accounts, net foreign investment) during the past few years represents a greater dependence of the U.S. economy on net capital inflows. U.S. net foreign investment, which averaged close to zero in the 1976–80 period, has fallen precipitously since 1982, and in 1985 it reached a negative $115 billion.

Chart 6 gives some perspective on the role of foreign capital flows in meeting domestic credit market demands. Domestic nonfinancial sector borrowing is taken as a frame of reference because nonfinancial sectors are the principal final demanders of credit, and it is their saving/investment imbalances that are the main determinants of the changing U.S. foreign investment position. As chart 6 shows, measured direct purchases of U.S. credit market instruments by foreigners as a share of domestic nonfinancial borrowing have climbed only moderately, from an average of 6.5 percent in 1978–80 to about 8.2 percent in 1985. Direct purchases of securities by foreigners draw much commentary, but they are only part of the story.

A broader measure of total foreign support to U.S. credit markets is provided by the relation between U.S. net foreign investment and domestic nonfinancial borrowing. Net foreign investment is an overall balance, capturing measured inward and outward flows of both U.S. and foreign-owned capital, as well as components that have not been measured directly (the statistical discrepancy). The rise in the total net capital inflow corresponding to the fall in the U.S. international investment position is striking (chart 6). It implies that direct and indirect foreign support to nonfinancial borrowing reached almost 13 percent of credit flows in 1985, up from negative values only a few years earlier.

In terms of total supplies of funds to domestic credit markets, an adjustment of the U.S. external sector toward smaller deficits implies a decline in dependence on foreign sources or, expressed differently, a greater dependence on domestic saving in order to finance domestic investment. This fact has been cited by many observers as one reason for reducing the federal deficit, lest the potential for crowding out of private capital formation become a reality as the U.S. external position comes into better balance.

6. Foreign capital flows in relation to domestic nonfinancial borrowing



Annual data

"Double Counting" in Credit Markets

Changes in the liabilities of financial intermediaries are closely linked to movements in their financial assets. Although borrowing by nonfinancial sectors usually is associated overwhelmingly with expenditures, it is also sometimes done directly or indirectly to purchase credit market instruments. As examples, some part of corporate borrowing helps support the accumulation of liquid assets, and in recent years many households have borrowed in order to fund tax-deferred financial investments such as individual retirement accounts. In this sense a certain amount of "double counting" always resides in the totals for borrowing by the nonfinancial sectors; however, seldom is it large enough to inflate debt growth noticeably beyond the underlying trend.

The upsurge in funds supplied to credit markets by state and local governments in the past three years provides an illustration of double counting on an uncommonly large scale. These entities, which can borrow in tax-exempt markets and invest at rates available in taxable markets, have an incentive to engage in financial arbitrage. The rules on permissible investments by these governmental units are complicated and have been tightened in the past few years, but changing market conditions and legislative developments still provide temporary opportunities for such activity. Most of the funds raised in the huge rush to market tax-exempt debt late in 1985, for instance, were rolled back into credit market lending pending future debt retirements or capital expenditures. The result was an estimated $134 billion "supply" of funds to credit markets by state and local governments, more than twice any previous amount (table 3). About $110 billion of this appears to be in excess of normal historical relations, so that about 12 percent of total net borrowing in 1985 may represent almost pure double counting in the figures.

This example illustrates how both borrowing and lending patterns occasionally can be disturbed by special influences. Double counting on the scale noted here usually is not a major feature of the nonfinancial accounts, but in 1985 it was perceptible. Assuming, however, that the substantial investments of state and local governments are liquidated in the future to support debt retirements or expenditures, double counting will tend to dissipate with time. It should be noted that the unusually high volume of state and local lending in 1985—mostly in purchases of U.S. government securities—had only a limited influence on federal borrowing itself. Except in the short term, purchases of federal debt by municipal governments substitute for sales in the market to other domestic and foreign purchasers.

Financial Accounts of Nonfinancial Corporations

As discussed above, stock retirements have been a major force behind the expansion of corporate borrowing well in excess of the financing gap during the past few years. One consequence of this has been a marked increase in corporate debt-equity ratios. If tangible assets are valued at original cost, the ratio of nonfinancial corporate debt to net worth climbed from 61 percent to 78 percent between 1980 and 1985, following about a decade of little movement in this ratio. If tangibles assets are valued at current prices, the ratio rose from 35 percent in 1980 to more than 46 percent at the end of 1985, the highest figure since the early 1970s.

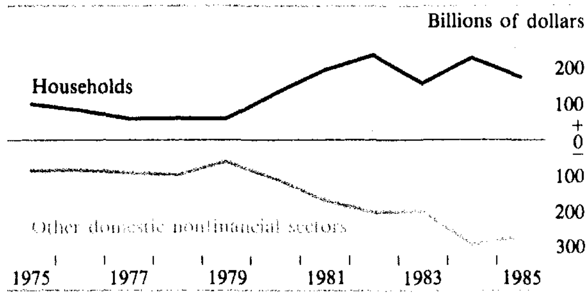
In addition to stock retirements, interest-rate developments also may have contributed to the dominance, until recently, of short-term borrowing in corporate use of credit markets during the past five years. The maturity structure of corporate debt, in fact, has gradually drifted toward greater reliance on short-term liabilities for many years. In 1960, for instance, about 71 percent of total corporate debt was in long-term forms—bonds and mortgages—but by 1980 the figure was 54 percent. Sharp increases in interest rates in the early 1980s, combined with a steep yield curve, provided incentives for businesses to borrow more intensively in short-term markets, both to meet basic needs and to finance stock retirements. More than half of the total net borrowing in the 1981–85 interval—about $330 billion—was in the form of loans from banks and finance companies and of short-term market paper. Near the end of the period the long-term component of corporate debt had sunk to less than half of the total, a historical low.

As interest rates declined sharply in 1985, however, corporations rapidly increased their activity in the bond markets. Net issuance of taxable bonds for the year totaled $73 billion, more than during the previous two years combined; this trend has continued in even more vigorous form through mid-1986. Although much of the recent surge in gross corporate bonds has been associated with calls and retirements of existing debt (especially by utilities), net bond issuance continued at unprecedented levels through the first half of this year, and only 40 percent of funds borrowed have been in short-term markets. The effect of the resurgence of long-term borrowing has been to lower the cost of existing corporate debt and to push up the long-term debt ratio a little by the end of 1985 and somewhat more this year. Although it is too soon to judge how much further these balance sheet improvements will proceed, it is apparent that businesses are now actively restructuring their accounts while conditions are perceived to be favorable.

As indicated by the national income accounts, corporate gross saving represents a substantial share of total national saving. Corporate capital expenditures also are large, however, so their acquistions of financial assets tend to be small, and their net financial investment usually is negative. Companies accumulate liquid assets primarily to maintain desired amounts of working capital and for transactions purposes. Sources of information on changes in corporate financial assets are scarce, but those available suggest that asset accumulation has been quite small by historical standards.

Holdings of liquid assets relative to nonfinancial business product increased from about 11½ percent in 1981 to about 14 percent at the end of 1985. However, the share of liquid assets relative to short-term debt on corporate balance sheets has declined for more than two decades and was only about 40 percent of such debt in 1985. Although corporate holdings of liquid assets may be low, the potential supply of funds through channels such as bank lines of credit has expanded greatly in recent years, and therefore the cutback in liquid assets may simply be an adaptation to changed circumstances rather than a source of concern. The composition of liquid assets also has changed markedly. Demand deposits and currency, which represented more than half of corporate liquid assets in the early 1970s, fell to about one-fourth of the total by 1985. Time deposits and holdings of commercial paper approximately tripled their share in the same period, to about one-half of the total.

7. Net financial investment



Annual data.

HOUSEHOLDS

The household sector in the flow of funds and the national income accounts consists primarily of ordinary households but also includes personal trusts and nonprofit organizations. Households are the largest sector in the economy, with about 41 percent of all financial assets at the end of 1985 (table 4). Taking into account their holdings of tangible assets, households also have the largest net worth of any economic sector.

Households are the principal source of net saving in the economy; they typically invest much more in financial assets than they borrow, thereby making funds available to other sectors, which tend to be net absorbers of funds. The weight of the household sector thus implies that its activities have major effects on all other sectors of the economy. Most important for flows of finance are the amounts and rates of personal saving. Household financial surpluses directly and indirectly support the major part of net funds absorbed by other nonfinancial sectors such as businesses and governments (chart 7). Remaining imbalances have been filled to a small extent by net surpluses of financial sectors and, to an increasing extent, by the foreign capital flow associated with the U.S. external imbalance.

Given the importance of saving in the household sector for the rest of the economy, it is significant that, after rising to 7.5 percent in 1981, the personal saving rate fell by 1985 to 4.6 percent, the lowest rate since 1949. This drop came despite the enactment of legislation designed to encourage the growth of saving, such as the 1981 liberalization of individual retirement accounts and of deferred income plans. Even in dollar terms, between 1981 and 1985 personal saving followed an erratic downward course to the $129 billion recorded last year, and in comparison with domestic nonfinancial borrowing household saving has fallen greatly. Personal saving represented almost 43 percent of domestic nonfinancial borrowing in 1981, but by 1985 the ratio had shrunk to 14 percent.

4. Financial assets in the U.S. economy

Sector	1975	1980	1985	1975	1980	1985
	Billions of dollars, year-end			Percent		
Households	2,541	4,498	7,723	42.1	41.4	41.4
Nonfinancial business	617	1,083	1,504	10.2	10.0	8.1
Private financial sectors	2,156	3,886	6,810	35.7	35.8	36.5
Commercial banking	835	1,390	2,234	13.8	12.8	12.0
Mutual funds and money market mutual funds	47	138	504	.8	1.3	2.7
Other[1]	1,274	2,359	4,072	21.1	21.7	21.8
Federally related mortgage pools	29	114	369	.5	1.0	2.0
Foreign	235	464	813	3.9	4.3	4.4
Other[2]	460	807	1,439	7.6	7.4	7.7
Total	**6,038**	**10,852**	**18,658**	**100**	**100**	**100**

1. Savings institutions, insurance companies, private pension funds, state and local government retirement funds, finance companies, real estate investment trusts, and securities brokers and dealers.

2. Federal and state and local governments, monetary authority, and sponsored credit agencies.

One factor that may have contributed to the decline in saving in recent years is the rise in the value of tangible assets and of financial assets such as equities; if households perceive their asset positions to be comfortable, they may save less from current income. Another factor may have been the increasing availability of credit sources, making saving in advance for large consumer purchases appear to be less necessary than in earlier years. Factors such as these tend to bolster household borrowing in credit markets and to reduce acquisitions of financial assets because they contribute to higher spending relative to income flows.

Demographic factors may also have contributed to the savings decline, as may have certain technical factors, such as the treatment of private pension plans in the national income accounts. The increased share of interest payments in personal outlays from current household income—a result of rising debt—has also played a role. The effect of these and other influences on household behavior has been to narrow the scope for net financial investment. Yet net acquisitions of financial assets by households have not diminished, but rather increased about 85 percent in the past five years, reaching $477 billion in 1985.

Household Debts and Assets, 1981–85

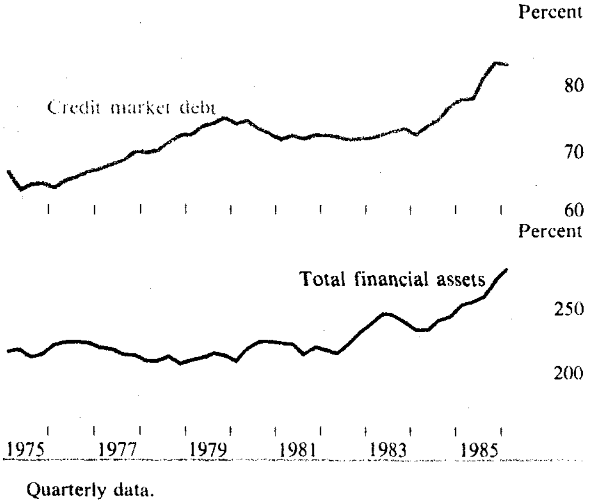
Household purchases of financial assets have exceeded personal saving by margins of $150 to $250 billion per year in each of the last five years, a fact which underscores the important role played by borrowing in financing these acquisitions. Indeed, as noted earlier, household debt reached a historical high of $2.4 trillion at the end of 1985, a 64 percent increase in five years. The following discussion will look in somewhat greater detail at the structure of household debts and at certain features of household financial assets, focusing on the question of potential repayment burdens.

Debt of the household sector at the end of 1985 consisted mainly of home mortgages (61 percent) and consumer credit (28 percent), but also included miscellaneous loans from other sources and tax-exempt obligations issued to finance nonprofit hospitals and student loans. Home mortgage indebtedness, after rising 225 percent during the 1970s, decelerated markedly, growing only 54 percent in the 1981–85 period to a total of $1,456 billion. Consumer credit has expanded by 77 percent in the last five years (to $666 billion at year-end 1985), and its share in the household total has advanced. Although the expansion of consumer credit often follows cyclical patterns, the past five years have witnessed the fastest growth in the past 40 years.

The great surge in household debt raises the possibility that borrowers are becoming overextended and would have difficulty in repaying their obligations in the event of economic adversity. Conversely, some observers claim that the rise in household assets more than offsets the growing debt burden. In this regard it is helpful to consider the relation of debts and financial assets to disposable income as background to the discussion (chart 8); both these ratios have climbed noticeably in the past few years. The ratio of household debt to disposable personal income, for instance, reached a postwar high of almost 84 percent at the end of 1985, and the asset ratio was about 271 percent.

Assessing the potential burden of household debt is difficult because of factors that cannot be easily illuminated with existing statistics. Consumer debt plainly has risen relative to income, but this fact alone may not be a convincing indicator of potential debt service problems (see "The Growth of Consumer Debt," FEDERAL RESERVE BULLETIN, June 1985). For example,

8. Household sector debt and financial assets in relation to disposable personal income



Quarterly data.

there is evidence that automobile loan maturities are lengthening—which tends to reduce current repayment obligations per dollar of debt outstanding—and that consumer debt is concentrated among upper-income households, which are most able to repay it. In addition, the bulk of household debt is in the form of home mortgages, which are repayable over long periods of time. The burden of current payments on this debt varies with the maturities of the obligations and with the interest rates at which they were contracted, and it may change quickly in certain circumstances, as the current flood of home mortgage refinancing perhaps illustrates. In the past several years, many households also have taken on adjustable-rate mortgages on which the payment burden fluctuates periodically. The ability of households to service their debts depends in part on a correct assessment of future income flows in relation to payment obligations and, also, on the amount of financial assets that can be mobilized for such a purpose.

Total financial assets of households rose from $4.5 trillion at the end of 1980 to $7.7 trillion at the end of 1985, an increase of about 72 percent during the interval. About 60 percent of these assets are concentrated in deposits (including shares in money market funds) and holdings of equities (including mutual fund shares), a proportion that has declined moderately in the past 10 years (table 5). Direct holdings of credit market instruments are a small and rather stable share of the portfolio, but the share of assets in pension fund reserves has risen by almost 40 percent. Three factors contribute to changes in the value of household financial assets: saving, borrowing, and market valuation. Total personal saving in the 1981–85 period represented less than 25 percent of the rise in the value of household portfolios, and net credit market borrowing by households was less than 30 percent of the increase. As these figures suggest, market valuation therefore plays a significant and sometimes dominant role in changes in the value of household financial positions; for instance, in the past five years households have made net sales of about $90 billion of equities, but capital gains on their equity portfolios have totaled about $850 billion in this period. More than half of the $1.1 trillion increase in total household financial assets in 1985 alone can be attributed to changes in market valuation; personal saving represented less than one-eighth of this gain in wealth.

5. Structure of household balance sheets
Percent of total

Category	1975	1980	1985	MEMO Billions of dollars, 1985
Financial assets				
Deposits	37.0	36.0	34.6	2,675
Equities (including mutual funds)	25.5	26.4	25.2	1,945
Credit market instruments	13.3	11.7	13.0	1,005
Pension fund reserves	16.0	19.1	22.2	1,716
Other	8.2	6.8	4.9	381
Total	**100**	**100**	**100**	**7,723**
Credit market debt				
Home mortgages	64.0	65.1	61.4	1,456
Consumer credit	30.4	15.9	28.1	666
Other	5.6	9.0	10.5	249
Total	**100**	**100**	**100**	**2,372**

Total financial assets of households considerably exceed their liabilities (chart 8), and from that perspective the sector's net financial position might be deemed comfortable. Aggregate measures, however, may conceal relevant information, and other considerations, such as liquidity, also bear on assessments of household financial conditions.

Although household assets have grown, imbalances in the distribution of assets and liabilities within the sector are always a potential source of stress in the event of an economic setback. Information on these distributions cannot be obtained from the flow of funds accounts; such data can be derived only from microstudies of consumer financial positions. The latest such effort was the 1983 Survey of Consumer Finances, carried out by the Survey Research Center at the University of Michigan with support from the Federal Reserve and other agencies. Results of the survey (whose findings on the aggregate distributions of household assets by type accord well with flow of funds data) tend to reinforce the view that household debts and assets both may be concentrated in upper-income strata (see FEDERAL RESERVE BULLETIN, September 1984, December 1984, and March 1986). Although those findings are consistent with the view that aggregate household positions are comfortable, they would not be inconsistent with the emergence of localized problems.

Another factor affecting the interpretation of aggregate assets is the fact that the "household sector" of the flow of funds (and national income) accounts contains private foundations and a wide array of nonprofit organizations. Except for the tax-exempt borrowing of nonprofit hospitals and a small amount of mortgages, available data show that the credit market debt of these entities is minimal relative to their financial assets (such as university and foundation endowments). Research at the Federal Reserve indicates these financial assets totaled more than $500 billion in 1984. Although that amount was less than 10 percent of total assets in the household sector at the time, the presence of such entities in the statistics should be borne in mind because debts are largely those of true households, while a perceptible share of assets are not. Moreover, some evidence also suggests that nonprofit organizations have grown in relative importance in recent years.

Discussions that relate household debts and assets likewise should take account of the fact that a rising proportion of financial assets of households are in forms that may not be easily accessible for debt service should such a need arise. Assets embedded in pension funds and personal trusts may not be readily accessible by households that are the ultimate owners, even though they are a part of the sector's total claims. As table 5 demonstrates, these kinds of assets constitute a rising share of total portfolios. From a share of only 3 percent in household portfolios in 1945, pension fund reserves reached 19 percent in 1980 and more than 22 percent in 1985. Finally, despite the net selloff by households of corporate equities in the past few years, market revaluations have pushed up the value of the considerable amount that remains, contributing substantially to the total rise in the value of household financial assets during the period under review. The value of equities and other financial instruments in any portfolio remains subject to future market movements, which therefore represent a potential source of large gains or losses in household wealth.

SUMMARY

A striking feature of U.S. financial developments in the past few years has been the enormous rise in borrowing and lending and the associated rise in debt and assets. A review of these developments shows that special factors may have contributed to exceptionally heavy borrowing during the 1981–85 period, but these do not account fully for the rise in debt relative to historical norms. Although the underlying pace of borrowing appears to be slowing, growth of debt still exceeds that of GNP by a considerable margin. These heavy credit demands have been met through shifts in the structure of the supply of funds, by the more active role played by financial transformations such as mortgage pools and mutual funds, and, notably, by the net inflows of foreign saving associated with disequilibrium in the U.S. current account. Adjustment of the external accounts toward better balance and the corresponding fall in the supply of foreign saving may be a significant factor in domestic credit markets in the period ahead.

The financial statements of businesses have changed rapidly in the past few years. Large amounts of debt have replaced equity on business balance sheets, especially in connection with the unusual surge of merger activity. Until recently, short-term debt continued to advance as a share of the total, but with the resurgence of bond markets in 1985 businesses are now actively restructuring their debts toward long-term forms. Corporations appear to be acquiring financial assets at a slow pace, but this may be a natural adaptation to changing relations between nonfinancial and financial businesses.

Finally, despite a sharp decline in the personal saving rate, household financial positions appear to be reasonably comfortable at present, even though only rough judgments can be made from the aggregate statistics. These aggregates show a wide and increasing margin of comfort between financial assets and debts. However, the margin for true households is exaggerated by the existence of nonprofit organizations, which hold a portion of the sector's total assets. Moreover, the distribution of debts and assets within the sector, the accessibility of the assets, and, especially, future changes in the market value of assets could have significant effects on the financial condition of households. □

Treasury and Federal Reserve Foreign Exchange Operations

This quarterly report, covering the period February through April 1986, provides information on Treasury and System foreign exchange operations. It was prepared by Sam Y. Cross, Manager of Foreign Operations of the System Open Market Account and Executive Vice President in charge of the Foreign Group of the Federal Reserve Bank of New York.[1]

The dollar moved substantially lower against all major currencies during the three months ending in April, declining more than 8 percent against most European currencies and almost 12 percent against the Japanese yen. The depreciation was a continuation of the trend that emerged in early 1985 and gained momentum after the September G-5 meeting. The U.S. authorities did not intervene for their own account in the exchange markets during the February–April period, and the dollar's decline proceeded without any new concerted intervention in the exchange markets.

The decline took place against a background of downward-moving interest rates and narrowing interest rate differentials favoring the dollar. The market's attitude also seemed influenced by the implications of continuing large current account imbalances and by assessments of the varying inflation prospects in different countries as a result of oil price changes. Market participants were also influenced by perceptions of official views about the dollar, particularly in light of the January meeting of G-5 Finance Ministers and Central Bank Governors at which they expressed satisfaction with the trend of exchange rates since the September meeting.

1. The charts for the report are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

EXCHANGE RATE DEVELOPMENTS DURING THE PERIOD

As the period opened, the foreign exchange markets were in a sensitive phase. The dollar had already declined a substantial amount from its highs of the year before. Yet there was little evidence that the U.S. economy or its trade position had reaped enough benefit to allay concerns among market participants that U.S. authorities would wish to see further dollar depreciation. Indeed, statistics then being released indicated the U.S. deficit on merchandise trade had widened substantially during December, and the external sector continued to exert a significant drag on domestic production. The mid-February estimate of growth in gross national product for the final quarter of 1985 revealed a disappointing, downward adjustment. Statistics for personal income and consumption in January were also worse than expected, leading many in the market to conclude that the outlook for 1986 was even less optimistic than they had believed earlier. Subsequent data were interpreted as indicating points of weakness, rather than strength, for the U.S. economic outlook.

At the same time, concern faded about potentially adverse effects on prices of any continuing dollar depreciation. Inflationary expectations in the United States were being rapidly scaled back in response to further dramatic drops in prices for oil and some other commodities. Thus, the risk of an accelerating decline in dollar exchange rates was seen by many market observers to be less than before. In addition, through early April, interest rates in the United States continued to ease at a faster pace than those abroad as many market participants expected that the Federal Reserve might ease monetary policy considerably. As a result, interest differentials favoring the dollar continued to narrow. By April 16, interest differentials on long-term government securities fell to within 200 basis points vis-à-vis German and Japanese securities.

Beginning in February, a heavy schedule of statements and testimonies about U.S. economic policies, together with the approach of a number of important international meetings, provided opportunities for officials here and abroad to be questioned about their attitude toward exchange rate trends. Administration officials generally expressed satisfaction with the decline in dollar rates since the G-5 agreement in September. They noted that the dollar's decline had been orderly and denied that there was any particular level or range of rates at which they expected or desired the dollar to trade. The President, in his annual State of the Union address, noted the problems that previous exchange rate fluctuations had caused for many Americans and asked Secretary of the Treasury Baker to determine whether it would be useful to hold an international conference to discuss with other countries the role and relationships of currencies. Market participants and journalists tended to conclude from these statements that U.S. authorities would welcome a further depreciation of the dollar, notwithstanding the repeated denials by U.S. officials that they had a target range for the dollar. In these circumstances, the market's attitude toward the dollar was predominantly bearish.

During February and early March, the dollar declined across the board without interruption. The focus of market attention initially was the yen. It was supported by mounting monthly trade surpluses and the view that declining oil prices would be particularly beneficial to the Japanese economy. The dollar, which had closed at ¥191.40 at the end of January, declined steadily throughout early February to breach the psychologically important ¥180 level and to reach ¥177.40, a seven and one-half year low, by February 19. The yen's rise then stalled after Japan's Finance Ministry confirmed that it was developing plans to ease regulations on capital outflows, which could have the effect of raising the demand for dollars by Japanese institutional investors.

At this point market participants shifted their focus to the dollar–mark exchange rate. Forecasts of German economic growth in 1986 were being revised upward toward 4 percent. Given the relatively lackluster growth performance in the United States during the last quarter of 1985 and the weakness in several U.S. business indicators early in 1986, Germany emerged as a likely candidate for relatively high growth. Moreover, the German trade surplus had been increasing during the previous few months. The continued drop in oil prices made it appear possible that Germany's trade surplus for 1986 would be double the level of the previous year. Traders also anticipated a possible realignment within the European Monetary System (EMS) in which the mark would be revalued. With these expectations in the minds of market participants, the dollar declined against the mark until early March as far as DM2.1960.

On March 6 and 7, the central banks of Germany, Japan, the United States, France, and the Netherlands lowered their official interest rates. The central banks of the United Kingdom, Italy, and Sweden soon followed by cutting their official lending rates. These actions had little immediate impact on exchange rates since the reductions had been widely anticipated and international differentials in market rates were expected to be largely unchanged. But the concerted round of interest rate reductions underscored to the market the potential for further coordinated policy actions. For some time thereafter, most dollar exchange rates moved narrowly as markets reassessed the near-term outlook for the dollar and the prospects for other coordinated actions.

Early in April, the dollar resumed its decline. Indications that world oil exporters were failing to agree on a plan to support oil prices kept alive expectations that inflation in the major countries would continue to slow. Thus dealers anticipated that the major central banks would act soon to cut interest rates again. Some market participants even thought that the Federal Reserve might cut its discount rate more than other central banks. In the United States, there was concern about the impact of lower oil prices on U.S. banks with exposure to the oil-exporting developing countries and to the domestic energy sector. In Germany, the central bank had expressed doubts that a further cut in the discount rate would be appropriate given existing conditions in the domestic economy.

Selling pressures against the dollar then emerged, especially against the yen. That currency has already appreciated significantly during the past year, and Japanese exporters, particularly small- and medium-sized firms, were facing a substantial drop in the demand for their products. Under these circumstances, Japanese officials began to voice concern whenever the yen advanced toward the level of ¥175 against the dollar. Dealers therefore remained wary that foreign exchange market intervention or some other official action might be taken to curb the exchange rate move. But the demand pressures on the yen were becoming so strong as to bring into question the Japanese authorities' ability to resist its appreciation unilaterally, and the yen strengthened relative to all major currencies.

Against the major European currencies, the dollar was influenced early in April by strains emanating from a realignment of exchange rates within the joint intervention arrangement of the EMS. Market participants had long expected that some adjustment in exchange rates might occur soon after the March elections in France to adjust for inflation differentials that had existed between the participating countries since the general realignment in 1983. As such an event was thought to become more imminent, the dollar's decline against the mark slowed. Some dealers were anticipating that the dollar might benefit from speculative reflows out of the mark after the realignment. But the realignment that occurred over the first weekend in April unleashed a strong demand for French francs against all currencies. French residents unwound long-standing commercial leads and lags and nonresidents sought quickly to build up investment positions in francs and to benefit from the relatively high interest rates in France. As a result, the dollar again came on offer against the European currencies after the realignment.

By late April, the dollar had declined 10 percent against the Continental currencies and 13 percent against the yen from levels at the end of January. It touched ¥166.10 against the yen, a record low for the postwar period, and DM2.1520 against the mark, the lowest level against the German currency since April 1981. At this point the dollar was more then 37 percent below its highs vis-à-vis those currencies of about a year before.

Meanwhile, the financial markets around the world were astir with talk of a renewed drop in interest rates in many major countries. The plunge in oil prices was beginning to show through in reduced inflation rates for a number of countries. Partly in sympathy, interest rates on U.S. long-term securities had declined almost to the level of the federal funds rate, indicating strong market expectations that a further cut in the Federal Reserve's discount rate was in the offing. Japanese bond yields fell to postwar lows. And in Europe, a number of countries that had not participated fully in the easing of interest rates before the EMS realignment were seen as having increased scope to cut rates.

In fact, the moderation of global inflationary expectations did provide the impetus for a lowering of official interest rates in a number of countries. The Federal Reserve and the Bank of Japan both lowered their discount rates by ½ percentage point, effective April 21. Central banks in the United Kingdom, France, and Italy lowered their official rates in one or two steps ½ percentage point or more at about the same time. The German central bank, feeling more constrained by the weakness of the mark within the EMS, did not join in this second round of reductions of official lending rates.

At the end of April, the dollar's decline paused. Some foreign exchange and bond dealers had expressed concern that investors might be

Net profits or losses (−) on U.S. Treasury and Federal Reserve current foreign exchange operations
Millions of dollars

Period[1]	Federal Reserve	U.S. Treasury Exchange Stabilization Fund
February 2, 1986–April 30, 1986	0	0
Valuation profits and losses on outstanding assets and liabilities as of April 30, 1986[2]	962.9	1,031.4

1. Data are on a value-date basis.
2. Valuation gains represent the increase in the dollar value of outstanding currency assets valued at end-of-period exchange rates compared with the rates prevailing at the time the foreign currencies were acquired.

reluctant to acquire the additional dollar-denominated assets needed to finance the continuing U.S. current account and fiscal deficits. Market participants were also well aware of pressures on foreign governments to ease the pain for their own industries of too-rapid a fall of the dollar.

Accordingly, they considered the possibility that some agreement to support the dollar might emerge from the discussions at the Economic Summit in Tokyo early in May. In addition, by late April, there was evidence that foreign participation in U.S. securities markets continued to be strong. The dollar therefore moved up somewhat from its lows by the close of the period under review.

THE EMS REALIGNMENT

On April 6, the European Community announced a realignment of the central rates within the EMS. This was the first overall realignment of EMS central rates in more than three years. The realignment was initiated by the new French Government as part of its program to restore competitiveness in the French economy and to dismantle exchange and other financial controls. It involved in effect a devaluation of almost 6 percent for the French franc's bilateral central rates against the German mark and the Dutch guilder. Other adjustments against the mark and the guilder were much smaller, including 3 percent effective devaluations in the central rates of the Italian lira and the Irish pound and 2 percent for the Danish krone and the Belgian franc.

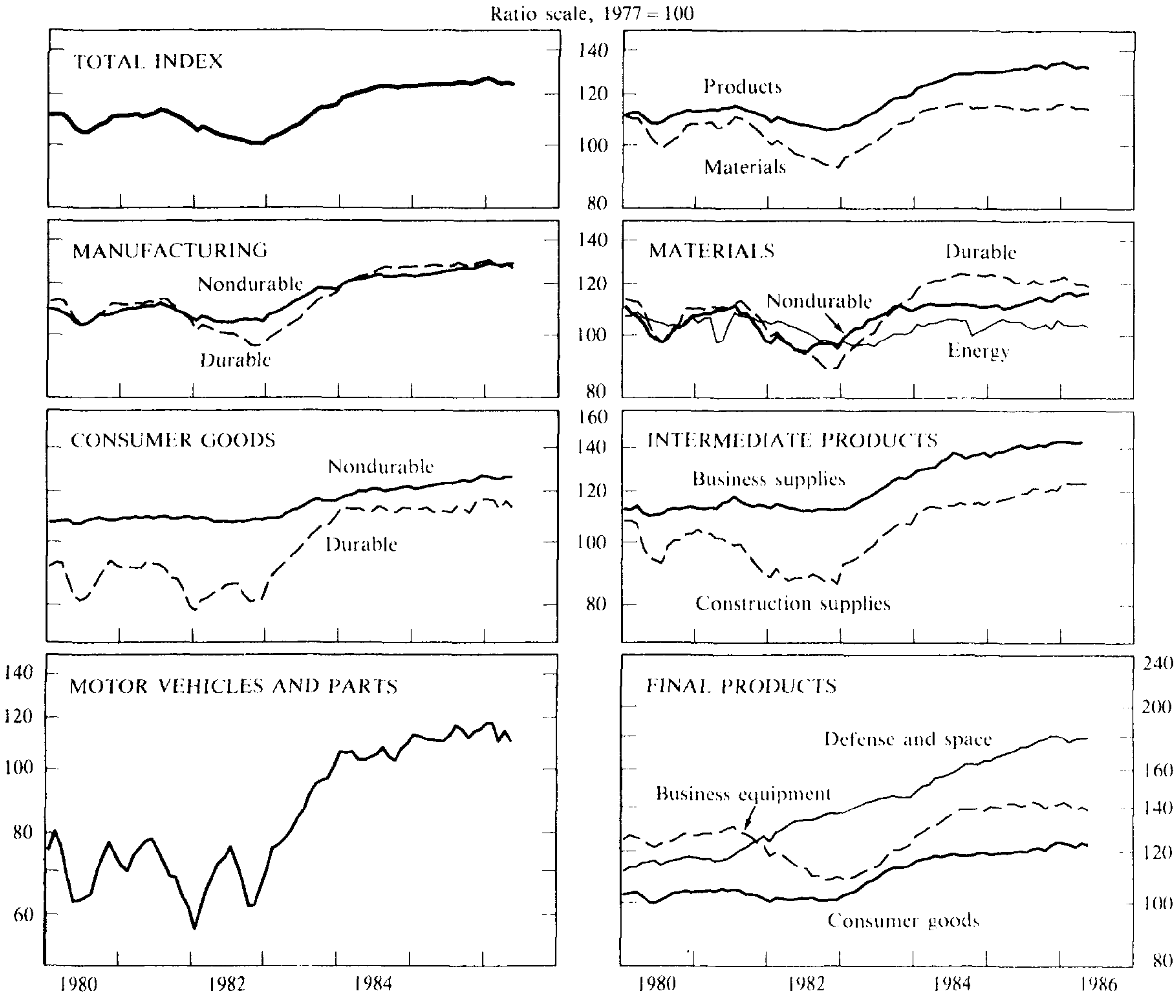
Movements of the market exchange rates for the EMS currencies after the realignment were relatively small. The French franc depreciated 3½ percent against the mark, substantially less than the 6 percent devaluation of its bilateral rate with the German currency. In other respects the configuration of exchange rates within the EMS also showed only modest changes—except for the German mark, together with the Dutch guilder, which moved from the top to the bottom of the narrow band. Heavy reflows of funds following the realignment were reflected in substantial changes in the foreign exchange reserves of several countries. German reserves declined by almost $4 billion equivalent during the two weeks following the realignment, although much of this decline was recouped later in the month. At the same time, there were large increases in the foreign-currency reserves of France and Italy during April. These two countries, as well as the other countries whose EMS central rates were effectively lowered against the guilder and the mark, took advantage of the relief from exchange market pressure late in April to add reserves, ease exchange controls, and lower interest rates.

Industrial Production

Released for publication June 13

Industrial production decreased an estimated 0.6 percent in May, more than offsetting an upward revised increase of 0.4 percent in April. In addition, revised data now indicate larger declines for both February and March. Reductions in output were widespread in May, with the most significant declines occurring in motor vehicles, business equipment, oil and gas well drilling, and durable goods materials. At 124.2 percent of the 1977 average, the total index in May was 2 percent below the recent high in January and about the same as it was a year earlier.

In market groups, output of consumer goods retreated somewhat in May and has been, on balance, stagnant since the beginning of the year. The recent monthly movements in output of



All series are seasonally adjusted. Latest figures: May.

Group	1977 = 100		Percentage change from preceding month					Percentage change, May 1985 to May 1986
	1986		1986					
	Apr.	May	Jan.	Feb.	Mar.	Apr.	May	
	Major market groups							
Total industrial production	**125.0**	**124.2**	**.3**	**−.9**	**−.9**	**.4**	**−.6**	**.1**
Products, total	132.6	131.8	.2	−1.0	−.9	.6	−.6	.3
Final products	132.2	131.2	.0	−1.2	−1.1	.7	−.7	−.4
Consumer goods	123.6	123.0	−.3	−.6	−.8	1.2	−.5	2.5
Durable	116.0	113.7	−.1	−.3	−2.8	2.6	−2.0	1.7
Nondurable	126.4	126.4	−.4	−.7	−.2	.7	.0	2.7
Business equipment	140.3	138.8	1.0	−1.3	−1.4	.9	−1.1	−2.2
Defense and space	179.0	179.3	−.8	−1.4	1.0	.3	.2	4.7
Intermediate products	134.0	133.8	1.1	−.2	−.3	.2	−.1	2.7
Construction supplies	123.5	123.3	2.7	−.4	−.1	.1	−.2	4.4
Materials	114.6	113.9	.3	−.7	−.9	.2	−.6	−.2
	Major industry groups							
Manufacturing	128.6	127.9	.6	−.8	−.8	.6	−.5	1.0
Durable	128.4	127.2	.4	−1.0	−1.1	.6	−1.0	−.6
Nondurable	128.8	128.9	.8	−.5	−.4	.6	.1	3.3
Mining	101.8	99.6	.1	−2.0	−2.5	−.9	−2.1	−9.3
Utilities	114.1	114.5	−1.6	−1.9	1.1	.4	.3	.7

NOTE. Indexes are seasonally adjusted.

consumer goods have been dominated by swings in motor vehicle production. Auto manufacturers, faced with a high level of inventories relative to sales, curtailed assemblies from a seasonally adjusted annual rate of 8.1 million units in April to a rate of 7.6 million units in May. Production of durable consumer goods other than autos also declined, while the output of nondurable consumer goods was unchanged in May after a rise of 0.7 percent in April.

Output of business equipment declined 1.1 percent in May; since reaching a peak in January, the index for business equipment has fallen nearly 3 percent. Reductions in the output of transit equipment, especially business autos and trucks, have been a large contributor to the recent decline, as has the weakness in production of farm and mining equipment. Most other components of business equipment, including computers, also have weakened since the beginning of the year. In contrast, output of defense and space equipment increased moderately again last month. Outside the final products sector, the production of construction supplies remained near record levels, but materials production declined 0.6 percent in May, with metals and parts for consumer durables and equipment especially weak.

In industry groups, manufacturing output declined 0.5 percent in May, as durables declined 1.0 percent while production of nondurables edged up. Mining output declined 2.1 percent and is now 9.3 percent below its level a year earlier, mainly reflecting the plunge in oil and gas well drilling. May output at utilities rose 0.3 percent after a similar rise in April, but was only 0.7 percent higher than it was a year earlier.

Statements to Congress

Statement by Manuel H. Johnson, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, June 4, 1986.

I appreciate the opportunity to appear before the subcommittee today on behalf of the Federal Reserve Board to discuss H.R. 3567, the Depository Institutions Examination Improvement Act, and H.R. 2282, the Truth in Savings Act. I will begin by offering the Board's evaluation of H.R. 3567 and then turn to H.R. 2282. The Board's responses to the questions posed in Chairman St Germain's letter of May 27, 1986, are appended to this testimony.[1]

The purpose of the proposed legislation is to improve the quality of depository institutions supervision by assuring that the federal supervisory agencies provide adequate compensation and benefits to attract and retain competent personnel, by improving the efficiency of examiner training programs, and by providing for the certification of state supervisory agencies. We are in agreement with the basic objectives of the proposed legislation, and have taken steps to achieve many of them. We do have reservations concerning the arrangements that the bill would establish to accomplish certain of the objectives, however, and I will discuss them as I proceed.

With respect to the major provisions of the bill that would exempt the supervisory agencies from federal civil service laws and the federal budgetary process, we would point out that the Federal Reserve is already exempt from these constraints under specific provisions of the Federal Reserve Act. Accordingly, the Board believes that the Federal Reserve should be excluded from this portion of the bill. At the same time, the Board supports the legislation insofar as it applies to the other supervisory agencies. The legislation will provide them with the flexibility necessary to establish their own employee compensation programs and budgets and thereby enable them to maintain a qualified examination and supervisory staff.

The proposed legislation would also require that the Examination Council conduct regional studies of private sector pay scales and employee benefits for jobs comparable to those of federal examiners. The council would report the results of these studies to the federal regulatory agencies, which would be required to take them into account in setting pay scales for their personnel.

Under existing practice, the Federal Reserve Banks, which employ substantially all of the System's examiners, set their salary levels commensurate with those being offered by banks and other financial institutions in their local areas. In determining what the local salary levels are, the Federal Reserve Banks conduct surveys that are essentially the same as those envisioned for the council. The Federal Reserve would be prepared to share with the council the information that the Reserve Banks gather. Our survey experience, we would point out, is that, while the federal pay scale is below going compensation levels in certain sections of the country, it is significantly above local levels in other sections.

As important as the issue of examiner compensation is, it cannot be considered without regard for the continuing need to control costs governmentwide and to achieve budgetary savings consistent with the Gramm–Rudman–Hollings legislation. Although the Federal Reserve System is not covered by Gramm–Rudman, Chairman Volcker has stated the Federal Reserve System's intention to comply voluntarily with the spirit of that legislation. Accordingly, the Board's 1986 budget was revised to meet the 4.3 percent reduction mandated by Gramm–Rudman for other government agencies, and comparable reduc-

1. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

tions were made by the Reserve Banks. Despite this commitment to budgetary restraint, the Federal Reserve is increasing the number of its onsite examinations and hiring additional examiners to help conduct them. These measures are, in our opinion, necessary to meet growing supervisory concerns regarding banks and bank holding companies that are under the Federal Reserve's regulatory authority. Because of these concerns with supervision, we support the bill's objective to provide the other supervisory agencies with adequate budgetary flexibility to meet increased requirements for bank supervision.

It is, of course, particularly difficult to strengthen our supervisory function at a time when our overall budget is being reduced. Of necessity, we have expanded the supervisory function less than we had planned and, to meet the added expenses of the expansion that has been accomplished, have had to make cuts in other areas of our budget. Thus, if the Congress were to provide the other agencies with flexible compensation and budgetary authority, we would take guidance from this action in setting our own salary and budgetary policies.

The proposed legislation would also provide for the development of a proposal to consolidate all training programs for federal agency examiners under the Examination Council and would require that the council study the feasibility of establishing a graduate education program for examiners. As I understand it, the council has the concept of a graduate education program under study and is not, under its current authority, restricted from offering such a program. With respect to consolidating all other examiner training in the council, we believe that besides the present schools the council conducts for all the agencies, serious consideration should be given to having the council assume responsibility for conducting certain "core" courses for examiners. We would stop short, however, of having the council assume all educational responsibilities for the agencies. Each agency has unique activities and responsibilities that require specialized training for its examiners—for example, in the area of bank holding company inspections and Edge Act corporation examinations. Thus, it is essential that the agencies retain the flexibility to offer their own courses to meet their special training needs.

The proposed legislation would also direct the council to establish standards for judging the adequacy of state supervisory agencies and to conduct reviews of individual state supervisory departments to determine whether federal agencies should rely on their examinations. It seems more appropriate to have the federal supervisory agencies ultimately charged with the responsibility for ensuring the safety and soundness of state institutions assigned the requisite legal authority for certifying the states. Thus, the Board cannot support this portion of the proposed legislation because it does not establish the necessary interrelationship of authority and responsibility.

I would point out that the federal agencies that have statutory supervisory responsibility over state-chartered institutions already have in place programs to coordinate their supervisory efforts with state authorities. The Federal Reserve, for example, has voluntary arrangements with several qualified states to conduct alternate examinations on an annual or more frequent basis. Furthermore, we have recently undertaken to expand its use of examination reports prepared by state examiners.

I might add that the Federal Reserve System has also taken steps to help supplement the training programs for state examiners. The Board has authorized scholarship funds for the Education Foundation of State Bank Supervisors and instructed the Reserve Banks to provide financial assistance directly to state bank examiners who attend Federal Reserve training schools.

In summary, we support the main thrust of the bill to provide, when needed, adequate compensation and budgetary flexibility—authority that the Federal Reserve already has—to assure a continued high priority for adequate supervision of the nation's depository institutions. We also see that certain benefits are to be gained from further coordinating the examiner training programs of the agencies. We do not, however, believe that it is appropriate to vest in the council the responsibility for certifying the acceptability of a state's examination reports for use by the federal supervisory agencies.

I would now like to direct the balance of my comments to the provisions of H.R. 2282.

H.R. 2282 would address deposit account advertising and disclosures by establishing uniform requirements applicable to all depository institutions. The bill calls for advertisements regarding interest rates to state an annual percentage yield and an annual rate of simple interest as well as other factors. With respect to disclosures, depository institutions would be required to provide schedules of fees and charges for all existing accounts and before any changes in the schedules. Rule-writing authority to implement these requirements for all institutions is given to the Board of Governors of the Federal Reserve System.

Since 1969, the Board has had comprehensive regulations on advertising in Regulation Q. In January 1986, the Board proposed a series of amendments to update, clarify, and simplify its current advertising requirements. This proposal addresses many of the same advertising issues covered by H.R. 2282, such as requiring an annual percentage yield and a statement concerning service charges in advertisements. At the same time the Board directed its staff to explore the need for action on disclosure of detailed account information to bank customers. The Board also supports providing bank customers with clear and complete information when they open their accounts and is planning a policy statement encouraging disclosures by member banks.

In considering this policy statement, the Board has taken into account the fact that the level of information provided to bank customers has been high. Over the past two years, only approximately 4 percent of the total complaints received by the Board on member banks pertained to advertising and disclosure issues similar to these contained in the bill. Moreover, a January 1986 Survey of Consumer Attitudes conducted for the Board by the University of Michigan indicated that 94 percent of current deposit account owners felt that they had received the information that they needed to know about the terms and conditions of their accounts. Eighty-two percent of the families who opened a checking account and 73 percent of those who opened a savings account in the past two years reported that they had received a *written* explanation of the terms and conditions of their new account. Although the survey did not provide information on the nature of the disclosures made in written form, it did indicate that a significant majority of consumers are receiving what they believe to be adequate disclosures on their accounts in written or oral form.

While H.R. 2282 would have the advantage of extending uniform advertising and disclosure requirements to all depository institutions, including member and nonmember banks, thrift institutions, and credit unions, it may unduly limit flexibility. In particular, by attempting to establish uniform requirements applicable to all accounts, H.R. 2282 does not allow sufficient latitude to tailor advertising and disclosure requirements to individual account characteristics and individual customers' use of accounts. For example, H.R. 2282 requires advertisements regarding the rate of interest payable on an account to state the annual percentage yield (APY) and the annual rate of simple interest. Similarly in its January proposal, the Board included three alternatives for advertising interest on deposits: simple interest, or an APY, or both. While the Board's Consumer Advisory Council supports requiring both the APY and the simple interest rate, public commenters were divided as to which alternative was most appropriate. Given this difference of opinion, flexibility may be required in determining if the same requirements should apply to all.

Other provisions of H.R. 2282 may also hamper regulatory flexibility in establishing clear and simple advertising requirements. It may be unnecessary to require advertisements containing annual percentage yields to refer to the method of compounding or to require advertisements to state the method of paying interest. Similarly, the statement concerning account charges required by H.R. 2282 refers to elements that are characteristic of transaction accounts, such as transaction fees, and elements of time deposits, such as early withdrawal penalties, and might be simplified to avoid confusing bank customers as to the charges applicable to their account.

With respect to disclosures, H.R. 2282 could be read to require depository institutions to provide customers with schedules of fees and charges applicable to all accounts and services and a description of all changes in the previous schedules when account terms are changed, even though such schedules may not be applicable to the customer's account. To avoid confusion, disclosure requirements should be limited to changes in information relevant to a customer's deposit relationship with the institution.

Allow me, at this point, to reiterate our basic position. The Board supports clear advertising and full disclosure by depository institutions, has proposed for comment amendments to update and clarify its advertising rules, and is working toward a policy statement that will address disclosures by member banks. Since both of these efforts would be limited to member banks, the Board is consulting with the other regulatory agencies in an effort to obtain a uniform application of these concepts to all depository institutions. While we are not seeking legislation, if the Congress believes that legislation is necessary to achieve uniformity among the agencies, the Board believes that the legislation should provide a more flexible statutory mandate. This flexibility would permit the Board to structure rules that would enhance customer benefits as new types of deposits evolve while minimizing customer confusion and the burden on depository institutions. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, June 5, 1986.

I appreciate this opportunity to discuss and review the Federal Reserve System's expenses and budget with this subcommittee. In view of my testimony in late January on the broader issues of Federal Reserve budgetary independence, I will concentrate today on the record of our expense and budget performance over time and prospects for 1986. I will also present the Board's views on H.R. 2204.

The committee has been given copies of our new publication entitled *Annual Report: Budget Review*. It brings together in one place detailed information about our spending plans for 1986 and comparisons with expenditures in 1984 and 1985. We are now in the process of reviewing the format of that document for 1987 and would welcome any comments and suggestions you may have to make next year's edition even more useful. We have also supplied the committee with answers to specific questions raised in Chairman Fauntroy's letter, other information requested by your staff, and copies of our Planning and Control System (PACS) reports, which detail expenditures, employment, and productivity, service by service and unit by unit.

In my January testimony I summarized the planning, budget, and control processes that we have established for both the Reserve Banks and the Board of Governors. Additional detail is presented in the *Budget Review*, and I would be happy to answer any questions that you may have about the process.

I believe the process is thorough and effective, supported by strong management and staffs. Within the Reserve Banks, experienced and widely respected directors, drawn from business and various professions, are an integral part of the process. Many of those directors are responsible in their private capacities for managing large organizations and staffs. Their input to management of the Reserve Banks—I think unique for a public body—is truly one of the strengths of the System. I am delighted to have with me today Chairmen Rogers and Weitnauer of the Federal Reserve Banks of Atlanta and Dallas respectively, and who, I am sure, would be happy to respond to any questions you would like to direct to them.

As another matter of general background, Reserve Banks' budgets are in large part subject to the competitive discipline of the marketplace. Specifically, about 40 percent of Reserve Bank expenses arises from services provided to depository institutions for which, by law, we charge fees adequate to cover costs and imputed taxes and profits; in fact, fees collected for these services amount to some 50 percent of all our spending. These services, to a great extent, are actually and potentially available elsewhere, so there is a strong and direct incentive to maintain efficiency. Indeed, in some respects the Federal Reserve is at a competitive disadvantage because of our commitment to provide our basic services to all depository institutions that request them on a nondiscriminatory basis. In other words, we neither price on the basis of what the market can bear nor limit our provisions of particular services to "profitable," high-volume areas.

A 10-YEAR OVERVIEW

The effectiveness of our budget process must be measured by its results. As I indicated in my January testimony, in the 10-year period from 1976 to 1986 Federal Reserve spending has increased at an average annual rate of about 0.8 percent in constant dollars or 6.8 percent in nominal terms. During that period, as you know, System operations, and therefore expenses, were heavily impacted by the Monetary Control Act (MCA), which extended reserve requirements to all nonmember banks and thrift institutions, requiring us to create and maintain new data collection and account maintenance systems, and extended access to our services to all depository institutions. In 1980, for instance, only 5,400 member banks were subject to reserve requirements; today some 17,250 banks and thrift institutions have such requirements.

If the 10-year period is divided into roughly three equal parts—pre-MCA, a transition period for implementation, and post-MCA—performance stands out even more clearly:

1. Pre-MCA, from 1976 to 1979, nominal expenses increased at an annual rate of 4.7 percent, more slowly than the consumer price index.
2. During the MCA implementation phase from 1980 to 1982, expenses increased at an annual rate of 11.7 percent, only 1.7 percent faster than consumer prices despite the large outlays involved in dealing with so many more institutions.
3. Post-MCA, from 1983 to 1986, expenses increased 4.7 percent on average, about 1 percent faster than the consumer price index.

Total employment in the Federal Reserve System is budgeted at 24,886 for 1986, a decline of 1,746 or 6.6 percent from the level at the end of 1976. During that period, weighted measures of the aggregate unit volume of services increased 41.2 percent. Clearly, productivity in the System has increased very significantly by almost 4 percent per year.

The attached charts and tables depict changes in real unit costs and volumes for various priced and nonpriced services since 1977 (the first year of entirely comparable data).[1] For priced services—wire and securities transfers, check processing, and automated clearinghouse (ACH) transactions—the data show that during the transition period to pricing of our services, there were sharp losses in volume, particularly in check collection, by far the most costly service. Because of substantial elements of fixed costs, real expenses could not be cut at the same rate as volume decreased; thus, real unit costs increased. However, since 1983 unit costs have again declined in almost every area, bringing real unit costs substantially lower than in the 1970s.

Gains in productivity have also been made in nonpriced service areas, which are comprised principally of fiscal agency operations for other governmental units and the provision of currency and coin. In these services also, volumes have increased and real unit costs have declined or risen only slightly during the same time periods.

GRAMM-RUDMAN-HOLLINGS

Before I review the 1986 budgets for the Reserve Banks and the Board, let me comment on our actions in response to the Gramm-Rudman-Hollings Act. As I indicated to the subcommittee in January, even though the System is not covered by the act, the Board decided to reduce total System budgeted expenses for 1986 in a manner consistent with the spirit of the law. The Board carefully reviewed possible approaches to comparability with Gramm-Rudman-Hollings requirements and determined that a reduction of $18 million in the System's (Reserve Banks and Board of Governors) approved 1986 budget for nonpriced services (and for the total budget) was appropriate. The Board also decided that the reduction should be borne by the Reserve Banks and the Board on the basis of both the relative size of the budgets of each of the 13 components of the System and the relative size of their

1. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

expense increases over the past three years. The Board provided guidance on the areas in which cuts were to be avoided if possible—including bank supervision—and the Reserve Banks and the Board responded with specific plans for achieving the required reductions.

The revised budget for the Reserve Banks now totals $1,165 million, an increase of 4.3 percent over 1985 expenses, and a staff level of 23,381, an increase of 1.7 percent or 397 positions over 1985 staff levels. More than half the staff increase is due to increases in supervision and regulation. The Board's budget now totals $85 million, an increase of 3.9 percent over 1985 expenses. Board employment is budgeted at 1,505, a decline of 26 or 1.7 percent from 1985.

Our revised budget for the System now totals $1,251 million, an increase of $51 million or 4.3 percent over actual expenses for 1985.[2]

RESERVE BANK BUDGETS FOR 1986

The 1986 budgets for the Federal Reserve Banks are affected by several new initiatives, which we believe to be of high priority. These initiatives include those shown in the accompanying table. Excluding these initiatives and one-time costs, adjusted Reserve Bank budgets would increase only 2.2 percent from the 1985 expense level.

On a service line basis, the largest budget increase is planned in *Supervision and Regulation* in which the 1986 budget totals $166 million, an increase of 9.0 percent over 1985 expenses. Examination activities alone are budgeted to increase 18 percent to provide for increasing the frequency and scope of bank and bank holding company examinations and for improving communications with those institutions' directors. Most Reserve Banks began to implement the new program in 1985, and it is expected to be fully in place by the end of 1987.

Employment in supervision and regulation as a whole is budgeted to increase 219, or 11.4 percent; within this total we are planning to add 180 people to the expanded supervisory program. Our total bank and bank holding company field examination force is budgeted at 983 by year-end. Increases in applications, offsite monitoring and analysis of banks and bank holding companies, and monitoring of reserve accounts also require additional supervisory personnel. As indicated, this area has been one of personnel growth, but at a far slower rate than most activity measures.

Expenses for *Services to Financial Institutions and the Public* constitute the largest portion of Reserve Bank budgets at $764 million, nearly 66 percent of the total budget for the Reserve Banks.[3] Expenses are budgeted to increase $21 million, to a level 2.8 percent higher than those in 1985.

Most of this expense category ($489 million) relates to services offered to depository institutions for which fees are collected in accordance with the provisions of the MCA. The volume of priced services from year to year is largely driven by demand, and expenses are fully recovered by revenue received, which is anticipated to be $617 million in 1986. This revenue amount provides for full recovery of actual expenses plus imputed costs that would have actually been incurred if a private business firm had provided the service—largely taxes and cost of capital.

Volumes are expected to increase in all major operations while real unit costs are expected to decline. Staff for these services is budgeted at 8,859, an increase of 105 or 1.2 percent. Those staff increases are primarily devoted to improvements to the payments mechanism, such as the wire notification program for the return of large dollar checks.

Expenses for *Services to the U.S. Treasury and Government Agencies* total $140 million, an increase of $9 million or 6.8 percent over 1985.[4] Most of this increase is accounted for by the new "Treasury Direct" system for on-line book entry safekeeping of marketable Treasury securities

2. Budget data exclude expenditures for new currency paid to the Bureau of Engraving and Printing, budgeted at $186 million in 1986.

3. These services include the following: (1) check and noncash collection, wire transfers, automated clearinghouse transactions, book-entry securities transfers, securities safekeeping, and cash transportation, primarily on a priced basis; and (2) currency and coin processing, government check processing, loans to depository institutions, and public programs, on a nonpriced basis.

4. These services include savings bonds, sales and safekeeping of government securities, government account and coupon processing, funds and ACH transfers, and processing of checks.

Initiative	Budget expense	Additional staff
Supervision and regulation Efforts to increase frequency and scope of examinations of state member banks and inspections of bank holding companies	$8.2 million	180
Treasury direct access book-entry On-line book-entry system for safekeeping of marketable Treasury securities for individuals and small investors	$5.4 million	111
Notification of large dollar return items Implementation of a program on large dollar return item notification consistent with legislative proposals to improve funds availability to consumers	$4.0 million	118
Small and disadvantaged businesses Implementation of procedures for acquiring goods and services from small and disadvantaged businesses	$1.2 million	16
Building moves One-time expenses relating to current year costs incurred in moving into three new branch buildings and renovating one head-office building	$5.1 million	...

for individual investors. Reserve Banks expect to add about 111 additional people to run "Treasury Direct." At the same time, the Treasury will be able to reduce its staff by approximately 400 as a result of the transfer of this function to the System, resulting in considerable overall cost savings to the government.

In the past a sizable proportion of the costs from the services provided to the Treasury and other government agencies has been reimbursed by those agencies. We had anticipated receiving $107 million in reimbursements from the U.S. Treasury and other government agencies at the time the Reserve Bank budgets were approved. We have been informed by the Treasury, however, that its reimbursement to us this year could be considerably less—perhaps only 30 percent of the amount budgeted. This matter is obviously one of concern to us, and we believe that it is inconsistent with appropriate budgetary policies especially when we are acting, at their request, as fiscal agent. Other agencies for which we provide fiscal services reimburse our full costs.

The *Monetary and Economic Policy* service line budget totals $96 million, an increase of $5 million or 5.4 percent over 1985, with no changes in employment. The increase in expenses reflects primarily growth in salaries and benefits as well as the design and development of new computer programs for banking statistics to provide for uniform systems for the entire System and to enhance our capacity to process and analyze financial data from depository institutions.

Besides analyzing the budgets of the Reserve Banks by service lines, we also look at individual objects of expense. Of the 1986 budget increase of $48 million, personnel expenses are expected to increase $29 million or 4.2 percent, including provisions for staff growth of about 397 persons as previously noted. Because personnel expenses account for about 60 percent of Reserve Bank expenses, human resources receive considerable attention in the System. We pride ourselves on our ability to attract and retain high-caliber employees. At the Reserve Banks our salary policies are based on those prevalent in the area in which each office is located. Market salary surveys are conducted annually to help establish salary ranges.

According to our internal studies, the practice of using local salary surveys resulted in annual 1984 savings to the Federal Reserve System of $28.5 million in salary costs relative to costs that would have been incurred if the Reserve Bank employees had been paid under the federal government's pay schedules. In some areas, including bank examination and data processing, it is, of course, particularly important that we maintain reasonably competitive salary levels, and that requires special attention.

Equipment costs account for 13 percent of the total budget and are budgeted at $160 million, an increase of 9.4 percent. Several automation efforts significantly affect equipment expense growth. The System's long-range automation strategy commits us to standardize automation and communication capabilities and software applications across all Reserve Banks and the

Board. That standardization costs money now, but we expect both savings and better "back up" capability in the future.

The System's plans also include upgrading and replacing obsolete check equipment to provide better service and continuing implementation of enhanced office automation systems and thus to achieve greater productivity. We plan to purchase additional personal computers used in our communications network with financial institutions to expand the number of depository institutions that have electronic access to the Federal Reserve's financial services.

Equipment expenses primarily reflect rental, repairs and maintenance, and depreciation. The depreciation expenses ($75 million) reflect the current-year effect of both current and prior year capital outlays in accordance with GAAP accounting. Total capital outlays of $124 million for equipment are anticipated in 1986, with about 75 percent accounted for by data processing and data communications equipment. These outlays are accounted for directly in a capital budget.

I might add that, as part of our planning process, the Reserve Banks develop long-range automation and communication plans that cover virtually all acquisitions of data processing and data communications equipment over a five-year planning period, with specific cost projections over three years. Reserve Bank policies require that competitive bidding practices be followed and that careful lease-versus-buy analyses be performed.

Current building expenses are another large component of Reserve Bank budgets. These expenses are expected to increase 7.4 percent to $99 million in 1986, reflecting increases in local tax rates and assessments, utility rates and usage, renovations and refurbishments, and rental costs in some Districts.

New buildings are expected to be completed this year in Jacksonville, Omaha, and Los Angeles. One-time costs of moving into new buildings are treated as current expenses, and are expected to total $5.4 million in 1986. The building being replaced in Omaha was occupied in 1925, while the Los Angeles building was constructed in 1928, and the Jacksonville building in 1952. Rapid growth in operational volumes has resulted in insufficient space in the present buildings, and needs for modernization have also contributed to the need for new facilities. In each case a thorough analysis was made to explore the justification for, and all alternatives to, a new building project. This analysis included costs of the proposed building project, projections of volume growth, the impact on operating efficiency, and the alternative possibilities of renovation of old buildings or lease.

Board Budget

The budget and personnel of the Board of Governors in Washington is a relatively small part of total System expense, amounting to about 6.8 percent of the whole.

The Board's 1986 budget is affected by three major factors as shown in the accompanying table.

Factor	1986 budget	1986 positions
1. *Program improvement project (PIP)* Self-initiated staff reduction project designed to enhance productivity and eliminate lower-priority work; reduction of 9 positions in 1984, 91 in 1985, and 51 in 1986 (151 positions) expected to yield $4.5 million in full-year savings in 1987	($1.3 million) savings	(51) savings
2. *Supervision and regulation* Increase in staff, consistent with a Systemwide effort, to enhance supervision of state member banks and bank holding companies	$.9 million	29
3. *Automation* Provides for operating expense, including depreciation, for a new computer that is expected to meet a usage demand increase of 80 percent over three years and office automation equipment to improve staff productivity	$1.1 million	0

In 1984 the Board of Governors undertook, at its own initiative, a project to reduce or eliminate lower priority programs to increase the overall efficiency of our operations. The PIP program reduces staffing by 151 or 9.2 percent over a two-year period. A variety of personnel programs were used in an effort to minimize the impact of the program—early retirement, internal training and reassignment, and outplacement. Some personnel savings will be offset by a decision to add 29 positions to the supervision and regulation function.

Expenses in the Board's largest functional area, *Monetary and Economic Policy*, are budgeted to increase only 2.2 percent to $46 million in 1986. The increase provides additional automation resources necessary to improve handling of the large volume of data required in analyzing and implementing monetary and economic trends.

The *Supervision and Regulation* function is expected to grow 5.2 percent to $20 million in 1986. The increase in the supervision area, which supports expanded and more frequent examinations, is held down by the slower rate of growth in the area of consumer affairs supervision and regulation.

The Board's budget for personnel services totals $60 million, an increase of $1 million or 2.1 percent from 1985. This increase is significantly smaller than those registered in recent years because of the deferral of a general pay increase, savings from the PIP project, and continued efforts to reduce costs of fringe benefits.

In general, the Board of Governors has followed federal pay scales in compensating its staff. As a result, salary relationships are seriously distorted, with salary distinctions among our top-level people entirely insufficient to reflect differences in levels of responsibilities. Adverse effects on the Board's ability to attract and retain the high caliber young professionals we need are becoming clearer. Naturally, in the light of our responsibilities this matter is a serious one.

The Board's operating budget for nonpersonnel services in 1986 totals $25 million, an increase of $3 million or 14.8 percent. The largest factor in this rise is equipment costs (including depreciation because of the addition of office automation equipment), a new computer, and a backup data processing system.

MISCELLANEOUS TOPICS

You have asked that I specifically address certain other topics. One of these topics is the cost of the several advisory councils to the Federal Reserve. The aggregate cost of the advisory councils to the Federal Reserve Banks, including those established for small business and agriculture, was about $92,000 in 1985. These councils are comprised of some 250 representatives of nonmember banks and thrift institutions, small businesses, and agriculture. Our expenditures represent travel reimbursements and meals at council meetings. There are also three advisory councils to the Board of Governors: (1) the Federal Advisory Council; (2) the Consumer Advisory Council, created by statute; and (3) the Thrift Institutions Advisory Council, created by the Board when the MCA was enacted. In 1985, the cost of these three councils was $164,000, representing travel, lodging, meals, and compensation.

We believe the cost to us of having the Advisory Councils is minor compared with the benefits we and the council members derive from the exchange of information and views between the private sector representatives and System officials. We believe that this interaction has been very beneficial to the System in its ongoing operations and has provided additional insights into conditions in the economies in which we operate.

In the case of cafeteria subsidies, Reserve Banks are authorized to absorb up to two-thirds of the costs of employees' food, equipment, and miscellaneous operating expenditures. As a matter of practice, no Reserve Bank provides a subsidy of this magnitude. On average the subsidy is about 55 percent and has been declining in recent years.

The Federal Reserve Board spends around $1.2 million annually for printing of publications for distribution to the public. Most of this cost is offset by receipts of about $1.1 million, primarily from subscriptions to the Federal Reserve Regulatory Service. At the Federal Reserve Banks about $4 million is spent for publications, with roughly $150,000 offset by receipts. The policy of the Federal Reserve has been to provide to the public at minimal or no charge publications that improve public understanding of the monetary policy process and the central bank. We are, however, looking at our publications' policy throughout the System to identify areas in which additional cost recovery may be appropriate.

The cost of acquiring currency has increased in recent years. Essentially, the Board must incur these expenses to provide the public with sufficient currency to meet its demands. The actual cost of printing the currency is controlled by the Bureau of Engraving and Printing. Nevertheless, the Board, to the extent possible, endeavors to control these expenditures through continuing contact and consultation with the Bureau to encourage the use of the lowest-cost methods consistent with quality. The Board also monitors the currency-processing operations at the Reserve Banks to ensure that the amounts of currency destroyed are the minimum necessary to meet System guidelines on the quality of currency. In this way the Board minimizes the number of new notes ordered each year and the cost of printing new currency.

H.R. 2204

I would also like to express today the Board's support for H.R. 2204, which would increase the number of Class C directors of the Federal Reserve Banks from three to five.

The Federal Reserve System derives significant benefits from the participation of directors drawn from each District. The System receives from the directors of Federal Reserve Banks and branches the benefit of their close contact with emerging economic developments and opinion throughout the nation as well as leadership and management skills in directing the operations of the Reserve Banks that would not otherwise be available at any price.

Under the Federal Reserve Act, the nine directors of each Reserve Bank are divided into three classes of three directors each, designated as Classes A, B, and C. The Class A and B directors are elected by the member banks of the District; the Class C directors are appointed by the Board of Governors. The act specifies that all directors shall be chosen without discrimination on the basis of race, creed, color, sex, or national origin.

Class A directors are representative of the member banks, and in practice have always been officers or directors of such banks or of their holding companies. Class B and C directors are to be selected to represent the public, with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers.

In appointing Class C directors, the Board seeks individuals from diversified backgrounds so that a variety of viewpoints may be brought to bear upon decisions relating to both the administration of the Reserve Banks and to decisions and advice with respect to monetary and other policies. By increasing the number of Class C directors from three to five, H.R. 2204 would broaden further the opportunity for diversity among the directors appointed by the Board of Governors.

Passage of H.R. 2204 would also address an issue raised by the changed relationship of the Federal Reserve to nonmember banks and thrift institutions as a result of the Monetary Control Act. As I mentioned before, the Monetary Control Act applied reserve requirements to all depository institutions over a certain size and made access to the Federal Reserve discount window and payments services available to these institutions as well. The System has taken a number of steps to ensure more effective mutual communication with nonmember banks and thrift institutions, including the appointment of thrift industry representatives to the boards of 19 of our 25 Reserve Bank *branches*. Nevertheless, among the types of depository institutions subject to reserve requirements and with access to the discount window and payments services, at present only member banks are assured of representation on the Boards of Directors of the Reserve Banks. The Board therefore supports inclusion by H.R. 2204 of nonmember depository institutions specifically among the various groups that should be considered in choosing Class C directors.

I might add that the Board would undertake normally to provide that one Class C director at each Federal Reserve Bank would be drawn from nonmember banks or the thrift industry, with some diversity across the System of individuals with nonmember bank, savings and loan, savings bank, and credit union backgrounds. We would also continue to encourage the service of those individuals on branch boards.

In summary, the Board believes that providing an opportunity for nonmember banks and thrift institutions to participate in the deliberations of the Reserve Bank Boards of Directors as provided by H.R. 2204, would be beneficial. At the same time, the larger number of Class C directors, from a greater variety of backgrounds, would permit the Board added flexibility in the selection process to assure that our Reserve Bank directors adequately reflect the diversity of the American economy and society.

CONCLUSION

The focus of my testimony today has been primarily on the 1986 budget. I hope that this testimony and the additional materials submitted in advance of the hearing have been helpful in enabling the subcommittee to review the Federal Reserve's expenditures and budgetary processes. In closing, I would like to reemphasize that the Board believes the Federal Reserve's budget processes have worked well in controlling expenses. I would welcome any comments you may have on our presentation of budget information and I am prepared to address any questions you may have on either our budget or H.R. 2204. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, U.S. House of Representatives, June 11, 1986.

I appreciate the effort of this subcommittee to undertake a full review of the basic approach toward banking and bank holding company legislation and regulation. This is a large subject, filled with controversy in its particulars and with new questions arising about the philosophical underpinnings. Besides the Bank Holding Company Act itself, the issues are relevant to the Savings and Loan Holding Company Act and to the Glass–Steagall Act. This statement, supplemented with detailed appendixes, is an attempt to place the issues in a broad perspective, with full treatment of the underlying public policy issues.[1] I hope you find it useful.

I have repeatedly expressed my conviction that the Congress should move with a sense of urgency to reform the existing statutes governing banking organizations. The public is entitled to the assurance that the powerful forces of change at work today in the financial services marketplace are channeled in a manner consistent with the broad public interest—the need to maintain a safe and sound financial system, to assure equitable and competitive access to financial services and credit by consumers and businesses large as well as small, to maintain an efficient and safe domestic and international payments system, and to preserve an effective mechanism for transmitting the influence of monetary, credit, and other policies to the economy.

The simple fact is that such assurance is lacking today. The Congress has been debating the issues for several years, but every attempt to address them has been stymied because, at least in part, of the efforts to block legislative change by those who perceive a strong particular interest in one part or another of the status quo or in exploiting an existing loophole. However, our concern has to be about the coherence and wisdom of the whole. And changes in the financial system will not wait on legislation. The system is changing—haphazardly and without direction—in response to a variety of economic and other forces. What is clearly lacking is congressional guidance to assure that the important public policy concerns are dealt with in a constructive manner.

Before turning to a review of the fundamental financial industry policy issues, I want to stress that there is, in my view, an opportunity for congressional action this year in important areas. Comprehensive banking legislation, including provisions to close unintended and unwise loopholes in banking and thrift holding company statutes and to provide certain new products and

1. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

services for bank holding companies, has been thoroughly debated, reviewed, and analyzed over a number of years and is long overdue. The recently introduced emergency acquisition legislation for institutions in danger of failing is urgently needed and currently being debated. It should be ready for action shortly, as is the case with legislation to strengthen the Federal Savings and Loan Insurance Corporation (FSLIC).

I sense a theme in these hearings of frustration at the lack of congressional action, which I clearly share. There is danger that this frustration would drive the legislative process to accept a direction of change that would not be constructive, but would instead further undermine some basic principles that have stood the test of time.

For instance, one reaction to the legislative gridlock is to suggest that it is appropriate and even desirable that the evident anomalies of the nonbank bank loophole should be resolved by allowing any kind of business to own banks, rationalized as a service to consumers and a source of funds to capital-starved institutions. We find that some commercial banks are willing to tolerate and even encourage use of the nonbank bank loophole for their own purposes, particularly to achieve interstate entry. At the same time, those banks, quite unrealistically and dangerously from my perspective, may feel that the Congress, overwhelmed by loophole exploitation, will, in the end, and for that reason alone, lower the legal barriers on entry of bank holding companies into nonbanking activity. But instead, that course would be a process of legislation by loophole exploitation, with a strong possibility that the issue of new products and services for existing bank holding companies will be bypassed indefinitely, with the result of weakening the banking system.

That would be a most unfortunate result, abandoning useful principles that have worked well to strike out on a course that has clearly foreseeable pitfalls. We should not be beguiled by claims of what has been termed by some as a "Brave New World" for banking without examining just what we would be getting into. That was precisely the warning delivered by Aldous Huxley's famous fable about the future.

As regulators and legislators, our task is to respond to real needs in the marketplace, while assuring that the system remains sensitive to abiding and valid concerns of the public interest. There is still time, but not much time. But I cannot emphasize too strongly that left unattended the process of change now under way is not adequately addressing these concerns.

Basic principles of public policy are being bypassed or ignored as market pressures and competitive instincts play against a legal and regulatory structure that has been undermined by officially sanctioned conduct designed to evade its basic tenets. The longer we postpone difficult decisions about the direction in which change should be encouraged or discouraged by public policy, the more difficult those decisions will ultimately become, and the greater the risk that continuing policy concerns—including the safety and soundness of the banking system—will be eroded.

In reviewing these matters with you today, I would like to focus on underlying strengths as well as weaknesses of the present system, the problems for the future, and the fundamental policy considerations that should be our beacons as we navigate through uncharted, and possibly stormy seas. I will stress the reasons why I feel it continues to make good sense to maintain a basic separation between banking and commerce, even though the line of separation is inevitably fuzzy at the edges. Finally, I would like to broadly describe the changes that we would like to see made to maintain a stable and efficient banking industry, able to compete effectively and respond to the needs of a rapidly changing economy. It is important, as we look at the future of banking, that we approach the problems with care, *both* preserving what is essential, while making changes where change is necessary.

The Role of Banks and the Importance of the Banking Structure

At the outset, I referred to some general criteria that should guide the process of change. I would like to be more specific about certain basic points against which proposals for changes in the depository institution holding company acts should be tested: (1) the unique role of banks in the economy; (2) the related needs for federal surveillance and federal support, given the key role of banks; and (3) the linking of the parts of a bank holding company organization into an integral whole.

Commercial banks, and increasingly thrift institutions as they have gained banking powers, are operators of the payments system, custodians for the bulk of the liquid savings in the economy, still by far the most important suppliers of credit, and the link between monetary policy and the economy. All of these functions are imbued with a public interest, and, in combination, account for the explicit public concern over the years with the strength and stability of depository institutions.

The nation's payments systems—the clearing of checks, wire transfers, automated payment arrangements, and securities clearances—collectively process more than a trillion dollars in transactions *each day*. The orderly, quick, and assured operation of that system is essential to the efficient operation of markets and the economy as a whole.

Because these systems have operated without really significant disruption for almost as long as we can now remember, we have come to take their effectiveness for granted. Certainly, a high degree of automation has made the system more efficient. But it is also true that there are inherent risks in operating the system, and the speed and volume of payments increase those risks. That is why as supervisor, regulator, and participant in the system, the federal government has to be concerned about who operates this system, the terms of access to it, and the kinds of risks being undertaken. The consequences of breakdown and collective miscalculation are serious.

These concerns derive in substantial part directly from the fact that the individual components of the banking and payments system are closely linked and, to a large extent, mutually dependent. A sudden failure of one institution, particularly of substantial size, can interrupt a long chain of payments and dramatically and unexpectedly affect other unrelated institutions, some of whom may not even have a business relationship with the institution in difficulty and have themselves been well managed and sound. While secondary and tertiary effects are, of course, present in some degree in the failure of any business firm, the effects are never so potentially contagious or so disruptive as when the stability of the banking system or the payments mechanism is suddenly called into question. Then, serious implications for overall output, employment, and prices—indeed, for the entire fabric of the economy—are apparent.

Because of their critical role in the economy, the deposit liabilities of banks and the stability of depository institutions generally have long been protected to a degree by official supervision and regulation and by a governmental "safety net." Of course, the first and most important line of defense for a safe and sound banking system must be the interest of banking institutions themselves in maintaining the confidence of their customers. But long ago, in establishing national banks, the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), and the FSLIC, the government determined that normal market incentives and protections needed to be supplemented by official supervision and, later, by a support apparatus. Because of the interdependence of the system, the necessity for confidence, and the nature of banking liabilities, experience repeatedly showed that the market *alone* could not be relied upon to assure banking stability and the stability of the economy as a whole. Indeed, if market discipline were to become fully effective, the government would have to be prepared to see a banking crisis spread widely through the system. It has been a long time since that has been the case.

The support apparatus provided the banking system—importantly reflected in access to the discount window at the Federal Reserve and to deposit insurance—provides advantages in the competition for the public's funds. But there are offsetting costs as well in, for instance, reserve requirements, insurance premiums, and compliance with regulatory standards. Achieving a balance between those costs and benefits is one of the continuing challenges of public policy.

More broadly, the protection provided by deposit insurance and the discount window lessens the discipline of the marketplace, potentially changing attitudes and behavior over time with respect to risk-taking. Consequently, the logical extension of the public concern with the stability of the banking system is a continuing interest in limiting certain risks and in increasing the level of supervision. There are a number of restrictions on how banks (or thrift institutions) and their holding companies can do business. The operations and assets of banking institutions are also examined periodically as part of a continuing supervisory process. Concern about the activities of a bank holding company as a whole flows from the earlier points.

In the nature of things, parts of an organization under common management and in public perception related to each other, will, to a considerable degree, be affected by the fortunes of other important parts of the same organization. Consequently, concern about the activities undertaken within a bank holding company is a natural and legitimate extension of interest in the safety and soundness of the bank itself. The nonbanking activities need not be frozen in a fixed historical pattern. They may not require the same intensity or degree of supervision as a bank, and they may be regulated differently. But experience and logic alike strongly point to the need for surveillance and limitations on the range of activities of the entire organization.

Implications for Depository Institutions Holding Company Acts

The concerns outlined above about the role of banks in the economy are widely acknowledged. Some have, however, come to challenge the proposition that the presence of a supervised, regulated, and protected *bank* within a larger business structure requires a degree of surveillance of the larger organization and concerns about the range and nature of its activities. The argument is made that perhaps the relationship between the bank and its affiliates can be so closely regulated that the safety and soundness of the bank can be insulated and other abuses effectively forestalled. To properly evaluate this argument, I believe we need to review again the objectives that the Congress was trying to achieve through the Bank Holding Company Act and to see whether these same objectives, if still valid, can, in fact, be accomplished by relying entirely on insulating a bank from its parent and affiliates.

The United States has had a long tradition of legislative separation of banking and commerce. The Congresses that enacted holding company legislation, beginning in 1933, continuing in 1956, and again in 1970, built on this tradition. They were essentially concerned about potential threats to the critical role that banks play in the economy and to safety and soundness. In the face of a new thrust toward linking banking with commercial activities made possible by the bank holding company, they foresaw the possibility that credit would be abused for the benefit of the owners and they were concerned about possible discrimination in the allocation of credit to the benefit of other parts of the holding company.

In transmitting one bank holding company legislation to the Congress in 1969, the administration articulated a related trend of continuing concern as follows:

> Legislation in this area is important because there has been a disturbing trend in the past year toward erosion of the traditional separation of powers between the suppliers of money—the banks—and the users of money—commerce and industry.
>
> Left unchecked, the trend toward the combining of banking and business could lead to the formation of a relatively small number of power centers dominating the American economy. This must not be permitted to happen; it would be bad for banking, bad for business, and bad for borrowers and consumers.
>
> The strength of our economic system is rooted in diversity and free competition; the strength of our banking system depends largely on its independence. Banking must not dominate commerce or be dominated by it.

In making the judgment that the health of the banking system and the economy required the regulation of companies that own banks and the limiting of the range of their nonbanking activities, the Congress also rejected the alternative of allowing the diffuse ownership relationships to exist, but regulating them to prevent abuses. The Congress has, in fact, provided rather explicit direction as to how relationships between a bank and its affiliates should be monitored and controlled. But it also limited bank holding companies in 1970 to banking and managing and controlling banks and to activities that are "so closely related to banking as to be a proper incident thereto." These words, as interpreted from the start, conveyed a limited grant of authority but also a somewhat unusual requirement that these activities meet a public benefits test—that any adverse effects be outweighed by public benefits.

In effect, the compromise that was struck was to permit bank holding companies to engage in a range of financial activities, but, even within that framework, with strong limitations on underwriting and insurance activities. The Congress also provided the Federal Reserve authority to supervise the nonbanking activities to assure managerial adequacy and financial soundness.

The Board has administered its mandate by authorizing a variety of activities "closely related to banking" and meeting the public benefits requirements that the Congress laid down as a prerequisite.

Our practical experience in supervising bank holding companies confirms the congressional concerns. We have found that the practical realities of the marketplace and the internal dynamics of a business organization under central direction drives bank holding companies to act in greater or lesser degree as one business entity, with the component parts drawing on each other for marketing and financial strength. Certainly the market conceives of a bank holding company and its components in that way. And if market participants tend to consider the bank holding company as an integrated entity, problems in one part of the system will inevitably be transmitted to other parts.

The evidence of leading bankers themselves on the point seems to me rather conclusive. Walter Wriston, former chairman of Citicorp, said ". . . it is inconceivable that any major bank would walk away from any subsidiary of its holding company. If your name is on the door, all of your capital funds are going to be behind it in the real world. Lawyers can say you have separation, but the marketplace is persuasive, and it would not see it that way." More recently, in a thoughtful lecture dealing with new directions in banking, Sir Jeremy Morse, the Chairman of Lloyds Bank and distinguished ex-Deputy Governor of the Bank of England, strongly stressed the *obligation* of banks entering into rapidly evolving and highly competitive new markets to stand behind their affiliates.

Business theory and empirical evidence indicate that holding company managers, to attain real or perceived efficiencies in production, operations, marketing, and funding will want to coordinate all of these activities. For instance, bank holding companies acquiring commercial finance companies have typically leveraged those subsidiaries much more than independent finance companies, suggesting implicit or explicit reliance on the strengths of the related bank and holding company, even if there are no other business relationships among them.

Indeed, if such linkages did not exist, it is not entirely clear what benefits bank holding company managers would perceive from expansion into new activities (or from commercial firms entering into banking) other than perhaps satisfying a pure size of growth objective. In any event, effective coordination of the various operations of bank holding companies and their bank subsidiaries will necessarily link the financial fortunes of the banks to the rest of the organization. I know that when we, as regulator, question the capital adequacy of a particular subsidiary of a bank holding company, its managers inevitably point to the capital of the consolidated enterprise as evidence of the necessary financial strength. Nevertheless, to gain the maximum benefits from distancing the bank as much as possible from the nonbank activities of its holding company, the Board has sought, in considering applications for approval of new activities, to require that the holding company have the managerial capacity to undertake the activity and the financial resources to capitalize it in accordance with standards prevailing in that industry generally, with the aim of assuring, to the extent feasible, that the new activity can support itself on a stand-alone basis.

Experience clearly indicates, however, that when a subsidiary or even a related business enterprise, such as a real estate investment trust, of a bank holding company experiences financial problems, strength will be drawn from other parts of the organization, including banking subsidiaries, to protect the reputation of the entire organization. Appendix C concludes, after examining the evidence, that the financial problems of a parent or its nonbank affiliates will typically affect the financial position of affiliated banks even though certain provisions of law provide a degree of insulation.

Perhaps most pointedly, those of us who live in this area are familiar with the problems encountered in the Maryland and Ohio thrift institutions. Those institutions were *not* federally regulated, but their problems strongly emphasize the temptations to exploit depository institutions for the benefit of parent companies and their affiliates. Maryland and Ohio had few limitations on the activities of the owners of financial institutions, a situation that itself made supervision of the depositories more difficult. In the event, a number of those depositories were used as a financing tool and to provide credibility and support to poorly conceived, poorly executed, and even fraudulent commercial and financial schemes of their owners and their affiliates. It is suggested that the blatant abuses found in Ohio and Maryland reflected an absence of sufficient legal and regulatory insulation between the depository institution and its affiliates. I would agree. But regulators and supervisors cannot be everywhere, and the relevant question is how many temptations and how much pressure events will put on management and the system as a whole.

There is the sad story of the Amoco Cadiz, a large oil tanker that spilled its cargo on the beaches of France after breaking up in a storm. Its owners had been careful to incorporate the ship's operation and separate its corporate structure. In the ensuing litigation over liability, I was intrigued to find that, as the drama unfolded, crisis management took over, corporate forms were ignored, and the top leadership of the parent directed all of the activities of the ship-owning subsidiary. The court found the parent fully liable for its subsidiary's environmental disaster.

Is it reasonable to expect different approaches when a financial disaster faces a bank holding company? I think not.

The Congress can, of course, legislate barriers between a bank and its affiliates, and has, in fact, done so by limiting interaffiliate loans under section 23A of the Federal Reserve Act. But, under pressures to maintain the viability of their organization, management can, and does, find ways to support an affiliate that do not involve intercorporate lending. Simply strengthening section 23A in the expectation that this would enforce true corporate separateness is naive, particularly when the parent and its affiliates are unregulated and unexamined so that enforcement is much more difficult.

Only if the Congress required such limitations as completely different names for holding companies and affiliates, no management interlocks, explicit disclaimers on affiliate obligations, no tandem operations, and other such efforts to enforce true corporate separateness, would market participants—including management itself—really begin to think of bank subsidiaries as separate and not put at risk by the activities of their affiliates. Such limitations, however, would turn the nonbank affiliates of regulated bank holding companies into portfolio investments. Without the perception or reality of synergy between the bank and its affiliates, interest in such affiliates would surely decline sharply. Conversely, the strong interest by some commercial or financial firms in banks, or by bank holding companies in a more fully diversified financial services structure, reflects the perception of "synergy" and interrelationships.

Evaluation of the Arguments for Linking Banking and Commerce

Much criticism of the present regulatory approach toward banking emphasizes the narrowness—and arbitrariness—of the definitions of activities that are "closely related to banking." It is argued that the basic structure and the protections built into law can be maintained while expanding the permissible range of activities of the owners of banks to areas of related activity and expertise, thus allowing the owners of banks and other financial businesses to be more competitive with firms that offer a broad array of financial services to the public. Essentially, this position recognizes, on the one hand, the need to maintain the protections of present arrangements and, on the other hand, the feasibility and desirability of expanding the scope of bank holding company activities. As I stressed at the outset, and will explain at the conclusion of my testimony, we strongly support legislation to adapt by that means the present system to a changing environment.

There are others who would go much further—they seem to question the basic premises of any limitations on the activities of owners of banks and would permit any enterprise to own a bank or bank-like thrift institution. They essentially question whether the safeguards built into the present system to protect depositors' funds and banks from abuse need to be implemented through limitations on ownership. I would like to analyze the following major arguments that have been advanced in that connection: (1) that banking, as we know it now, is no longer competitive as evidenced by the trends in bank profitability and market share and, accordingly, banking must be combined with other businesses to make it successful; (2) that technology has made it impossible to segregate banking from other businesses; (3) that the synergies created by combining banking with other products are competitively too strong to resist; (4) that the present system has been irretrievably undermined by market developments such as nonbank banks, and the present situation is irreversible; and (5) that it is essential to bring down the barriers between the linking of banking and commerce to obtain an infusion of commercial capital into the capital-strained thrift and banking industries.

1. *Banking Industry Performance in Perspective.* With increasing frequency, some serious analysts of banking have expressed concern about the future viability of banks as effective competitors. They point to increased competition from other financial and "nonfinancial" institutions facilitated by improvements in computers and communications, to inroads into banking through loopholes and exploitation of other anomalies in the system, to statutory and regulatory restraints on banking, and to data on a decline in profitability and market share for banks.

Clearly banking is facing problems. One obvious symptom is the fact that bank failures have been running at record rates in the past few years and overall, profitability has been declining, at least until 1985. These are serious problems that require careful attention, but it is, of course, necessary to examine the data carefully to diagnose accurately the problems and to develop effective remedies.

During the first half of the 1980s, commercial bank profitability slid rather persistently from the recovery peaks reached in 1979. During that period, overall bank profitability remained well below its 1979 level, and there were particularly acute problems for some very small and very large banking institutions.

To some extent, these developments may be cyclical, but both the deregulation of interest rates and the adjustments in the 1980s to disinflation clearly played a role. Certainly banks have been adversely affected by a substantially changed economic climate; an unusually large number of borrowers, especially energy, agricultural, real estate, and international borrowers, sustained dramatic reverses. To deal with this problem, provisions for loan losses were raised sharply. By last year these provisions were being added at more than five times the 1970 pace. In fact, the ratio of loan-loss provisions to average assets has reached a new peak for all sizes of banks.

The result has been pressure on earnings, even though interest margins and fee income have been relatively well maintained. What no statistical analysis of that sort can demonstrate is the extent to which banks, induced by years of relatively fair lending weather and inflationary expectations, engaged in unduly risky lending practices at home and abroad. To that extent, an ultimate penalty on profits is a natural market discipline.

It is also important to note that for a major portion of the banking system—all banks with more than $100 million in assets—profitability over the past 10 years, as measured by the return on assets, has varied in a relatively narrow range. The lowest rate of return on assets for this group was 0.60 percent in 1984, a year that was distorted by the net loss of $1 billion by a single company—the largest loss in banking history. This bad year for this group was immediately followed, however, by a year which, even after substantial interest rate deregulation and additional very large but isolated losses, provided the highest rate of return on assets during this decade. The only pronounced downward trend has been in the return on equity for the largest money center banks, declining each year for the past five years. Even here the trend is reversed when the data exclude certain banks experiencing exceptional losses.

Considering the underlying economic difficulties and imbalances, the ability of the banking industry to build reserves and capital and to maintain profitability does not suggest an irreversible loss of competitive strength. There are other indicators of underlying resiliency: for example, apart from one data series heavily weighted with some large troubled banks, most indexes of bank stocks have performed as well as, or better than, broader stock market indicators thus far this decade. Net returns on assets of the largest banks have remained within historical ranges despite record loan-loss provisions. It is also significant that large regional banks, as a group, recovered so well last year that measures of their profitability now equal or exceed recent peaks. In sum, the data do not support an assumption of irreversibly declining bank profits. However, one must be careful in judging the level of profitability solely based upon the raw statistical measures of return on equity and return on assets as they may not fully gauge the relative change in the level of risk in bank portfolios. Certainly, the extent of any increase in portfolio risk must be taken into account in evaluating the profitability data.

Those risks must also be taken into account in reviewing the data on banks' share of the credit markets. In general, those data suggest an ability of banks "to hold their own" in a number of markets despite increasingly tough competition. In the last four years, the bank share of credit extended to domestic nonfinancial businesses has, on average, exceeded that of the preceding two decades. In the credit market for households, both consumer installment and residential mortgage credit shares have declined modestly since the late 1970s, but remain higher than throughout most of the 1960s. The loss in consumer installment lending share has been mostly at the expense of thrift institutions given new consumer lending powers by the Garn–St Germain Act.

The bank share has declined sharply in the markets for credit extended to the Treasury and state and local governments. These are not areas that those who want to enter banking have indicated that they find particularly attractive. Nonetheless, the apparent choice of banks not to acquire such assets—or their ability to do so profitably—does have implications for their overall liquidity posture.

Moreover, in one area, the record does demonstrate a strong adverse trend. The bank share of *short- and intermediate-term* business credit markets has declined. Larger prime borrowers—traditionally the strongest customers of money market and other large banks—have shifted to the cheaper commercial paper and Euromarkets and to foreign banks in the United States.

The impact on the biggest "money center" banks is particularly notable; from 1975 to 1985, the commercial and industrial loans of the nine largest banks dropped from 25 to 15 percent—a relative decline of 40 percent—of one broad measure of short-term credit extended to nonfinancial businesses. It is this area that has been the source of much concern; apart from loss of profitable business, the erosion of one traditional lending area may have the effect of driving lending into other areas of substantially greater risk than in the past.

The contrast between declining shares of short- and intermediate-term business credit and maintained shares of total business credit appears to reflect lower sales of long-term debt by corporations in recent years. Moreover, the effects on the largest banks of "securitization" of corporate lending have been accompanied by a strong effort to participate in "off-balance-sheet" financial guarantees to support short-term market borrowings.

Many bankers have begun to question, however, whether the returns on their off-balance-sheet guarantees, and perhaps on commercial mortgages as well, fully compensate for the risks involved. Moreover, direct credit extensions by banks may be concentrated more largely among borrowers with lower credit ratings than formerly.

The domestic bank loss of short-term credit market share is explained by an increase in the shares of *both* commercial paper and foreign banks. The commercial paper market has grown rapidly in recent years, and increased as a percentage of short- and intermediate-term credit to nonfinancial businesses from just under 6 percent in 1975 to nearly 15 percent last year. U.S. agencies and branches of foreign banks also have made significant inroads into this market, doubling their market share to 8 percent in the period from 1972 to 1985. Viewed in a broader perspective, including the 25 percent or more owned U.S. subsidiaries of foreign banks, as well as their U.S. branches and agencies, the share of total nonfinancial business credit of these banks substantially exceeded that of commercial paper.

The appropriate public policy response to marked changes in the relative shares of domestic and foreign banks may be quite different with respect to the commercial paper market. For instance, foreign bank competition might point to the need for intensified international cooperation on capital adequacy standards. Account should also be taken of the U.S. bank penetration in foreign markets.

More fundamentally, it is essential to ask why U.S. banks may be more expensive suppliers of credit than others to large corporations. Banks bear certain costs—reserve requirements, deposit insurance premiums, and a regulatory compliance burden—that are not applicable to other lenders. On the other hand, banks are the beneficiaries of the federal safety net that is undoubtedly a factor in reducing their borrowing costs. Whatever the reasons, a significant cost differential appears to exist today.

If banks are at a long-term basic competitive disadvantage in supplying short-term funds to borrowers, there would of course be major implications for the structure and size of banking, for the safety of the financial system as a whole, and for monetary policy. So far, the data do not unambiguously indicate that this is the case, but developments do need to be carefully studied and the implications appreciated. Such implications would *not* seem to include a need to change the longstanding policy of separating commerce and banking, a development that could well aggravate the trend.

Certain approaches responding to the increased "securitization" of the short-term credit market—not just for business credit—do seem relevant to the legislative process. The Board has long supported an approach that, within the scope of appropriate rules to limit potential conflicts of interest and to assure safe and sound operation of securities affiliates, would permit subsidiaries of bank holding companies to engage in underwriting and distributing commercial paper. The Board has similarly supported authorization for underwriting mortgage-backed securities, revenue bonds, and mutual funds. We have held this view for some time. The area of corporate underwriting, in which U.S. banks do participate abroad, is much more difficult; I must point out that the integration of international capital markets and the growth of U.S. bank participation in the Euromarkets make the present difference of treatment between domestic and foreign markets stand out.

In closing this section of my testimony, I would like to note the rapid movement of the states toward expanded interstate banking. The expansion of the regional arrangements has proceeded faster than anticipated. Twenty-six states have adopted some kind of regional authorization.

I am also encouraged by the movement in many states toward phasing out the regional arrangements and opening their borders to nationwide banking—fourteen states (including seven with initial regional pacts) have now removed most restrictions on interstate acquisitions or will soon do so. The task is now for the states to complete the effort and avoid the possible balkanization of the banking industry that initially seemed to be the consequence of limited regional compacts. A transition to interstate banking should help assure that banks are able to compete with other firms, operating nationwide, that can bring the most advanced technology to bear in serving customer needs.

2. *The Role of Technology.* Another concern that needs careful analysis is that advances in technology somehow place the banking industry at a major competitive disadvantage. It is said that burgeoning developments in building computers with extraordinary power, and high-speed communications systems permitting instantaneous transmission of voice, data, and documents, make it much easier to manage and process a broad range of financial transactions, thereby permitting nonbanking companies to compete in areas previously within the exclusive domain of banks.

In considering the kinds of changes in public policy that are necessary to respond to these developments, it seems to me that we should bear in mind that banking institutions are already primary beneficiaries of computer and communications technology. They have creatively applied these technologies to global markets and have made possible almost instantaneous payments of hundreds of billions of dollars every day. They have permitted banks to respond to the marketplace with new services to meet the demands of corporate cash managers and for a broad array of new consumer products—including 24-hour banking through automated teller machines (ATMs), home banking, telephone bill payment, and credit and debit cards. Some banks may have been a little slower to adapt to the very latest technology because, as premier financial data processors, they had invested so heavily in the technology of an earlier time and because of branching and interstate restrictions. But they are bringing their systems to the "state of the art," and developments suggest that banks can be as adept at harnessing new technology as any other business.

Moreover, the long experience and direct presence of banks in local markets, for all its imbedded costs, carries advantages as well. I was interested to see that one company that publicly reported that it intended "to develop and market innovative financial services on a nationwide basis" relying principally "on direct marketing, mail and telephone rather than on branches and salesmen" later decided to sell its nonbank bank because it was unable to "get a piece of the market." One mistake doesn't make a case, but certainly the relative competitive advantages and disadvantages remain an open question.

3. *Synergy*. Technology may also make possible a melding of products and cross selling to establish synergies unavailable to those who are limited by law to banking or certain financial services alone. That thought has apparently spawned acquisitions of nonbank banks, nonthrift thrift institutions, or other financial service firms by retailers, insurance underwriters, securities brokers and underwriters, and now industrial firms.

We need to be cautious about whether these claims justify abandoning the broad separation of banking and commerce. I am bemused when nonbanking firms, including retailers, seek in banking the growing markets and profitability that they apparently question in their own industries, when at the same time, banks raise red flags about prospects in the banking industry.

Synergism is hard to measure and demonstrate. Some skepticism seems to be justified by the mixed results that conglomeration appears to have achieved in nonfinancial areas, where, over the past several years, we are seeing the spin-off and sale of a great many companies that had been brought under a single management. Newly combined financial enterprises have complained about the difficulties of coordinating the joined activities, and do not appear to have demonstrated consistent higher levels of profitability.

4. *Anomalies and Irreversibility*. There is also the argument that things have already gone too far to reverse, that too many nondepository institutions are already in the banking business, and that these companies with their superior range of product offerings will simply outcompete the remaining banks. But despite all the publicized acquisitions and product introductions, the facts on market share, profitability, and technological innovation do not seem to support this thesis.

Certainly there are large anomalies in the present system. The acquisition of nonbank banks by insurance, securities, and commercial firms, while bank holding companies cannot do the opposite, is surely competitively unfair. Nonthrift thrift institutions and state grants of powers to their own institutions for interstate competitive reasons, even when those powers are questionable from the point of view of safety and soundness and ruled out for bank holding companies, are other examples. At this point, these developments are still minor in their overall impact. They are an indication of the need for action, but they do not point to the inevitability of accepting and enlarging what has happened. In fact, the announced intention of the banking committees of the Senate and the House to have a retroactive grandfather date provides fair warning to those who have exploited the nonbank bank loophole.

At some point, the process could be practically difficult to reverse or end. Again, that is an argument for decision and action, not in itself an argument for reversing basic principles that have guided the system.

5. *Fulfilling Capital Needs*. The final argument for allowing any company to own a bank or thrift institution seems to me a counsel of despair; only commercial businesses can and will provide necessary capital to troubled thrift institutions and banks.

In fact, any expectations that nondepository institutions are eager and prepared to invest large amounts in resuscitating large troubled institutions is questionable. In many cases, the objective seems to me to obtain access to federally insured deposits, payments system services, and the ability to export a uniform credit card interest rate throughout the country without taking on large fixed costs. The emphasis often seems to be on acquisition of a new or small institution with relatively minimum initial capital requirements, particularly as compared with the size of its parent commercial firm. Moreover, if companies are generally permitted to own nonbank banks, or if access to bank ownership is to be more open to commercial firms more generally, existing interest in taking on the heavy capital and management burden of acquiring large troubled thrift institutions would presumably drop away, sharply limiting any contribution to easing the burden faced by the FSLIC.

More basically, it would be anomalous to recommend a solution for the difficulties of problem institutions by potentially creating a situation fraught with adverse consequences for the system as a whole. To take just one example, many of the most serious problems among thrift institutions do not arise today because of their traditional business but because those businesses have been combined with risky real estate development. Increasing the ties between depository and commercial firms more broadly could well aggravate matters.

The Consumer Bank Question

The argument is made that so-called consumer nonbank banks are needed to make available to consumers products and services that are not otherwise available to them. As typically proposed, these banks could engage in all the functions of banks except making direct commercial loans (they could make loans through the purchase of commercial paper and money market instruments). They would be different from ordinary banks inasmuch as they could be owned by commercial firms and engage in cross selling of affiliates' products and services.

It is, of course, an essential objective of any banking system to provide efficient, competitive, and innovative services and products to the consuming public. Any banking structure must be designed to assure the achievement of this goal. But it is difficult, indeed, to argue that the U.S. banking system, without commercial ownership, cannot, or will not, meet that need.

Federal and state policies have encouraged a multiplicity of small depository institutions that serve a public that is almost completely composed of small businesses and families. A country that has more than 35,000 depository institutions—banks, thrift institutions, and credit unions—can hardly be said to ignore the needs of consumers. In fact, the overwhelming number, more than 95 percent, of these institutions are none other than family banks serving the needs of small business, families, and individuals. Almost one-quarter of commercial banks have 5 percent or less of their assets in commercial and industrial loans and more than three-quarters have less than 20 percent of assets in these loans.

However beguilingly labeled, so-called consumer banks are essentially a device for breaching the wall that now separates banking and commerce. Those who would breach it in the presumed interest of competition and the consumer should, it seems to me, be asked to carry a heavy burden of proof. Do we really want, for example, a retail business to be able to gather deposits under the protection of federal insurance and to use those deposits to fund a credit card they sponsor more cheaply than retailing competitors? Is it wise policy to encourage banking arrangements in which a retailer has an incentive to prefer its customers in the provision of loans? Is the converse—favoring retail customers of a particular bank—any better? Are there risks in reducing credit standards in an effort to induce nonbanking business, with the financial risks passed on, in part, to the federal safety net? Do we want to encourage joint marketing efforts and "tie-ins," implicit or explicit?

Obviously, we can try to write complicated laws to deal with these possibilities. But it strains credulity about human behavior to suggest that they would be entirely effective, any more than restrictions on intracorporate affiliates. That is particularly true if the parent holding company and its nonbanking affiliates are unsupervised and unexamined.

I believe that, should the Congress authorize the so-called consumer bank or make it clear that it did not intend to close the nonbank bank loophole, some rather dramatic changes in our banking structure would occur in relatively short order. Some banks, in reassessing the circumstances, could be induced to take the radical step of formally dividing their existing banking institution into two pieces, placing demand deposits and consumer banking in one subsidiary and commercial lending in another. Neither subsidiary would be a "bank" according to the definition of the Bank Holding Company Act, and the holding company would then be free to engage in any business activity.

New entrants into a market are ordinarily associated with more competition, at least for a time. But there is essentially free entry into banking today, and any firm can provide credit cards and consumer loans. The question is whether there are significant added gains by marrying banking and commerce. Certainly policy judgments cannot reasonably be made based upon the activities of the few, and perhaps unrepresentative, commercial companies participating in banking today.

IMPLICATIONS FOR THE PAYMENTS SYSTEM

I emphasized earlier the importance of dealing with risks to the nation's payments system. Advocates of broader access to that system argue that risks arising from increased direct access by nonbanking firms can be adequately controlled through restrictions such as section 23A of the Federal Reserve Act, which limits extensions of credit to, and other transactions by, insured banks with their regulated, supervised, and examined affiliates, or through overdraft limits under the Federal Reserve Board's Policy Statement Regarding Risks on Large-Dollar Wire Transfer Systems.

These arguments fail to take into account a number of crucial aspects of the payments system: the immediacy and finality of wire and book-entry transfers, the importance of independent credit judgments in protecting the integrity of the system, the difficulty of monitoring compliance with rules to prevent abuse by affiliates without substantially and unacceptably delaying all payments and without examination authority, and the potential for opening access to the discount window to commercial firms generally.

Fedwire transfers are made in very large dollar volumes. They involve more than 181,000 large dollar payments every day with a total daily value of more than $400 billion. Similarly, there are more than $200 billion in book-entry securities transfers every day. Most of these transfers are processed through on-line linkages to the Federal Reserve or by terminals or computers on banks' premises, immediately and finally.

These systems can generate large overdrafts—in the multibillions of dollars—in a very short period of time. The main protection against the rippling effects of a default is both the standing of the bank itself and its capacity and willingness, in its own interest, to make an independent credit judgment about its customers. Such an independent judgment is hardly feasible when a bank is ordered to make payment by a parent or an affiliate. And, in the last analysis, if the bank or its parent is unable to cover the payment, the public, through the Federal Reserve and the FDIC, bears a large part of the risk.

The risks inherent in parent–affiliate relationships would be exacerbated by the financial formula likely to be followed by a commercial parent seeking access to the payments system through ownership of a nonbank bank: token capitalization of the bank relative to both the size of the parent and affiliates and to the very high dollar volume of transactions functioned through the bank. Such an arrangement seems to be implied by a number of actual or proposed nonbank banks.

The combination of banking and commerce in the provision of payment services would also raise important questions about the availability of Federal Reserve credit, now essentially reserved for supervised and regulated depository institutions under carefully circumscribed conditions. In a situation in which commercial firms had direct access to the payments mechanism through captive nonbank banks, the Federal Reserve would be put in the dilemma of either funding large overdrafts generated by a nonbank bank parent or rejecting funding requests at the risk of impairing payments to innocent third parties and the functioning of the overall system. Any competitive advantage of access to Federal Reserve credit would certainly push more firms toward bank ownership; yet, I do not believe that the Congress intended that the safety net should inure to the advantage of nonbanking companies.

It has been suggested that the exceptional provision of payments system facilities to the Chrysler Corporation during the period when the government guaranteed loans to that company demonstrates that this technique can be safely used. But that rescue to me is the exception that proves the rule. Payments facilities were provided to the Chrysler Corporation in 1981 when it was already in a real sense under government protection. That access was provided in recognition of the fact that banks exercising independent credit judgments would not accept Chrysler payment orders in the normal course. Direct access to the payments system through a specially chartered bank was provided only because the Congress had established a policy of supporting the survival of the corporation, and because its debt had been guaranteed by the United States by an act of the Congress. That does not seem to me any precedent for firms without official support.

Appendix E discusses payments system risks in some detail as well as why regulatory approaches to deal with these risks, particularly as they are presented by nonbank banks, are not satisfactory. This is a technical, detailed matter. But it is nonetheless a matter that lies at the heart of maintaining an efficient, safe financial system.

Foreign Experience

As a matter of law and tradition, combinations of banks and other businesses are present in some countries. Those very few countries that have banking systems in which such arrangements are prevalent are generally characterized by the dominance of a relatively few large banks. Such a situation presents a very different regulatory and supervisory framework, among other things making it possible for bank supervisors to maintain a direct review of, and close contact with, those who are operating the banking system.

But there also appear to be major costs in this kind of a system in terms of tendencies toward cartelization, slower innovation, and narrower financial markets. These are not patterns that we would wish to emulate.

Policy for the Future

The burden of my testimony is that the basic banking system is sound, embodying important principles—important for safety and soundness, for competitive open markets, and for innovation. This system has withstood enormous strains and demonstrated resilient strength in recent years. Certainly, the technological and market forces pressing upon the structure are significant and important. But I believe that they can be channeled in a manner consistent with longstanding purposes of public policy toward banking and consistent with a more competitive, responsive, and stable financial system.

The Congress has the capacity to choose the kind of system that we are to have. The time to exercise that choice is now.

You can refrain from action, but that will not stop change. Then we will see a proliferation of nonbank banks and nonthrift thrift institutions; increasing combinations of banking and commerce with only limited safeguards to prevent excessive risk, conflicts of interest, and concentration of resources; and more anomalies and uneven competitive conditions. In sum, a failure to lead, a failure to establish an orderly environment for the conduct of financial business, will have consequences that are both serious and real.

Alternatively, the Congress could decide to legalize combinations of banking and commerce, regulating that relationship in such a way as to limit the scope for risk, conflicts of interest, and concentration of resources. Much of my testimony is that I do not believe that that arrangement will work effectively. If the restraints on intracorporate relationships are so strong as to deal with the risks, the competitive benefits from, and incentives to create, such relationships will be exceedingly small. Alternatively, a closely regulated bank as part of an unregulated bank holding company would dwindle in importance. It would be used only to provide such services as could only be provided in the form of a bank—insured deposits, and access to the payments system. Other services, financial or otherwise, would gravitate outside the supervised framework. I cannot see how that can be good for banking, for business, or for stability.

You have a third choice—to preserve the basic elements of the present system while adapting it to meet the requirements of changed circumstances. There is nothing static about the bank holding company concept; the Congress intended to allow it to be adapted over time. We and others came to the conclusion some years earlier that this could best be done by broadening somewhat the scope of permissible nonbanking activities of bank holding companies to include a greater variety of financial and brokerage services, all within a framework that assures that the public interest in safe and sound banking is maintained. We have urged that bank holding companies, through their affiliates, be able to engage in a variety of activities such as underwriting commercial paper and other instruments I mentioned earlier, real estate and insurance brokerage, and travel services.

We believe that the holding company and its affiliates should be subject to official surveillance, with the right of inspection. Indeed, most of the proposed activities are, one way or another, already subject to official supervision, and that should be rationalized.

Such an arrangement would be perfectly neutral and reciprocal, favoring neither bank holding companies nor the financial industry competitors. If it is permissible under the law for bank holding companies to own an insurance, brokerage, or securities firm, it would be equally permissible for these firms to own banks.

It has thus far not been possible, for a variety of reasons, for the Congress to adopt this approach. Within the congressional forum, it is difficult to resolve specific competitive issues. That was true in 1970 when the Congress could not decide to adopt either a positive list of specific bank holding company activities, or a list of those that were specifically prohibited. Instead, the Gordian knot was cut by the Congress giving the Federal Reserve Board the administrative discretion to determine specific activities under a general, but limited, standard that required the careful weighing and balancing of the public interest.

Perhaps one way to break today's gridlock would be, 16 years later, to adopt the same approach. Instead of the Congress trying to resolve specific industry issues, the Board might be given a somewhat expanded, but still circumscribed, mandate to allow broader ownership of financial businesses by bank holding companies and for these same kinds of financial businesses to own banks. To protect the reasonable interest of all parties, including both applicants and protestants, any such new authority should be limited by the same public interest standard as required by present law, with the same procedural protections provided by the right to an administrative hearing as well as judicial review of Board decisions. In addition, I believe a new safeguard would be desirable: the effective date of any new activity approved by the Board should be delayed for six months so that the proposed action could be reviewed by the Congress before it went into effect.

However, that would be a second choice. We look to the Congress to provide more specific legislative direction, including review of the present restrictions of the Glass–Steagall Act.

In any event, I hope the Congress will act, and act soon. The financial system is too important, too interwoven into the fabric of the economy as a whole, to be allowed to evolve in a haphazard manner. □

Statement by Manuel H. Johnson, Jr., Member, Board of Governors of the Federal Reserve System, before the Subcommittee on International Finance and Monetary Policy of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, June 17, 1986.

Thank you for the opportunity to present the views of the Federal Reserve Board on S. 1934, the bill to amend the Export Trading Company Act of 1982. We at the Board support efforts to lower this country's trade deficit and wish to work with the Congress in attempting to arrive at solutions to the problem. It is not the view of the Board, however, that amending the Bank Export Services Act (BESA) is necessary at this time. Given the unfavorable economic conditions that have existed since enactment of the BESA, we feel that the existing statute has not been given a fair test, and that its effectiveness should be evaluated in the future. As to the specific provisions of S. 1934, the Board opposes three of the revisions to the BESA proposed in the bill on grounds of safety and soundness, but has fewer reservations concerning two other proposed revisions.

In my testimony, I will review briefly the Board's implementation to date of the BESA (Title II of the Export Trading Company Act of 1982), discuss some of the experiences of bank-affiliated export trading companies (ETCs) and other trading companies, and analyze and give in greater detail the Board's views on the provisions of S. 1934.

The BESA and the Board's Regulations

The Export Trading Company Act of 1982 (ETC Act) was designed to help promote exports by facilitating the formation and operation of ETCs. The BESA provides a limited exception to the nonbanking prohibitions of the Bank Holding Company Act by permitting bank holding companies and certain other types of banking organizations to make equity investments in ETCs. The purposes of the BESA were the following: (1) to provide for the establishment of U.S. ETCs that could be competitive with foreign-owned ETCs; (2) to provide U.S. commerce, industry, and agriculture, especially small and medium-sized firms with a means of exporting their goods and services; (3) to foster the participation by regional and smaller banks in the development of ETCs; and (4) to facilitate the formation of joint venture ETCs between bank holding companies and nonbank firms.

Thus, the BESA represents a dramatic departure from traditional banking legislation because it permits participation by banking organizations in commercial ventures. In recognition of this expanded latitude, however, the Congress included a number of prudential safeguards to limit potential adverse financial effects on banks affiliated with ETCs. The statute provides that a bank holding company may not invest more than 5 percent of its consolidated capital and surplus in an ETC nor lend more than 10 percent of its consolidated capital and surplus to an ETC. It also provides that a bank holding company may invest in an ETC only after allowing for review by the Federal Reserve. The Federal Reserve is required to review the notice to determine whether the proposal may result in unsafe or unsound banking practices, undue concentration of resources, decreased or unfair competition, or conflicts of interest, or whether the investment would have a materially adverse effect on the safety and soundness of a subsidiary bank of the bank holding company.

The Board issued final regulations implementing the BESA in June 1983. These regulations were later modified to simplify the notification process and to provide for delegated authority to the individual Federal Reserve Banks to review certain ETC notifications. Virtually all of the notifications of intent to establish ETCs have been acted upon within the 60-day time period set forth in the statute, and no notification by a bank to invest in an ETC has been disapproved. Fifteen of the 24 ETC notifications filed after the adoption of the delegation procedures were processed by the Reserve Banks with no Board review.

Response to the Act

As you are well aware, the economic climate since the ETC act was passed has not been favorable to exports. The act was signed during the fourth quarter of 1982, when the U.S. economy was in the depths of a recession and the volume of exports had fallen more than 20 percent from its peak in 1980. Since that time, U.S. output and employment have expanded rapidly. By contrast, U.S. exports have rebounded only moderately and still remain below their 1980 peak. The U.S. trade deficit increased from $25 billion in 1980 to approximately $125 billion in 1985.

The weakness of U.S. exports can be attributed to a number of macroeconomic developments that took place in the early to mid-1980s and that have continued until fairly recently. The factors include the rise of the dollar against foreign currencies; the relatively sluggish growth of foreign economies; and the drop in imports by countries experiencing problems meeting their external debt obligations.

Moreover, as was discussed during early hearings on the BESA, U.S. manufacturers have not traditionally made widespread use of trading companies as a medium for exporting their goods. By one estimate, in 1982, there were about 2,000 American-owned trading companies active in the United States. However, these companies were involved in only about 10 percent of all U.S. exports. Larger U.S. multinational companies with substantial sales abroad had their own in-house marketing capability or a few had trading company subsidiaries. Thus, at the time the act was passed, the trading company generally was not a prominent vehicle for selling U.S. exports, and it was unlikely that the patterns of U.S. businesses with exporting capabilities could be changed in only a few years.

Notwithstanding this business environment, 40 bank holding companies have notified the Federal Reserve System of their intent to invest in ETCs. (Tables attached as an appendix to this testimony show the status of each ETC notification acted upon by the System.[1]) Several of these ETCs appear to be operating profitably and expanding their overseas operations.

In contrast, the performance of many of these bank-affiliated ETCs has been disappointing. In fact, 11 ETCS are no longer operational. Besides poor economic conditions in their first years of existence resulting in diminished profit potential, these ETCs have also encountered start-up difficulties resulting from unfamiliarity with the trading business. Other problems encountered are peculiar to the activities of trading companies, regardless of how long they have been operating. For example, one ETC experienced substantial difficulties because a major customer broke the terms of its trade agreement; another lost its capital because of its inability to deliver on a major contract; and a third was closed after suffering significant losses resulting from the lack of adequate controls over its trading activities. At least four bank holding companies have discontinued the operations of their ETCs either temporarily or permanently because the operating losses were found to be unacceptable.

There is no evidence, however, that ETCs affiliated with banks have been any less successful than trading companies that have no connection with banking organizations. While there is no means of tracking all these trading companies, the General Accounting Office has conducted a survey of 23 trading organizations that have obtained certificates of review from the Department of Commerce. Many of these firms reported that business has been disappointing, citing economic factors, particularly the high value of the dollar as the reason. It is also interesting that the membership of the National Association of Export Companies, an organization composed primarily of nonbank export trading companies, dropped by half in the last four years and is only beginning to increase again. This drop in membership is reportedly a result of the fact that many of the member companies have gone out of business.

1. The attachments to this statement are available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

S. 1934

There is an understandable concern about the mediocre performance of ETCs since the passage of the act resulting in attempts to deal with the situation by amending sections of the BESA. The amendments would modify certain of the Board's regulations. Broad trends, however, such as unfavorable economic conditions—not the Board's regulations—have impeded the results of the legislation. Moreover, three of the bill's provisions present serious issues related to the safety and soundness of banking organizations investing in ETCs. From a supervisory standpoint, we are less concerned about the other two provisions. However, I would note that the provision dealing with the calculation of export revenues does raise policy questions about congressional intent in establishing ETCs to foster U.S. exports.

1. *Transactions with Affiliates.* The BESA provides that extensions of credit from a bank to its affiliated ETC are covered by section 23A of the Federal Reserve Act. Section 23A is a cornerstone of the regulatory structure for protecting banks from credit judgments made for noncommercial reasons. It generally limits the amount of credit that banks may extend to a nonbank affiliate and subjects such credit extensions to certain collateral requirements.

S. 1934 would exempt from section 23A of the Federal Reserve Act a bank's transactions with its affiliated ETC. The purpose of this exemption, according to the statement introducing the bill, is to remove a competitive "disadvantage" from ETCs, permitting them to borrow from their affiliated bank without meeting the collateral requirements of section 23A.

Experience over the years has demonstrated that limitations on self-dealing between a bank and its affiliates are essential to help curb abuses, to maintain bank safety and soundness, and to prevent excessive risk to the federal safety net. The Congress also has recognized the importance of the protections found in 23A—every deregulatory proposal in the last four years has used section 23A as the central mechanism for preserving the safety and soundness of banking organizations with expanded powers to enter nonbanking areas.

The experience to date reinforces the desirability of maintaining the protections afforded by section 23A. In one case, a bank lent to its affiliated ETC amounts in violation of section 23A without required collateral. The ETC was unable to repay the advances and thus the condition of the bank was affected. Had section 23A been complied with, the bank would not have exposed itself to these losses. Therefore, an exemption from section 23A for transactions with an ETC does not appear to be in the best interests of preserving safety and soundness as it creates the opportunity for a bank's resources to be misused in support of the affiliate's trading activities. In the area of extensions of credit, it is most important to strike the proper balance between encouraging the growth of ETCs and preventing imprudent banking practices. Moreover, the application of section 23A does not impose a competitive disadvantage on ETCs affiliated with banks. They, like other trading companies, are free to borrow from unaffiliated lenders on terms determined by the market.

The Board, as a matter of policy, has generally not granted exemptions from section 23A. With respect to ETCs, however, the Board has included in its regulations a waiver from the strict collateralization standards of section 23A for those transactions in which the ETC takes title to goods against a firm order and the lending bank maintains a security interest in those goods. The Board has determined that in these circumstances a waiver would permit ETCs to obtain financing for transactions in goods without creating undue risk to the affiliated bank. In addition, the Board has stated that it would consider granting ETCs additional waivers from these collateral requirements based on specific requests.

The bill also would relieve extensions of credit by a bank to its affiliated ETC from the quantitative limits of section 23A. These limitations provide that a bank may lend no more than 10 percent of *its* capital and surplus to an affiliate. The BESA itself limits extensions of credit by a bank holding company or its subsidiaries to an affiliated ETC to 10 percent of the *holding company's* capital and surplus. Thus, the bill's proposed exemption could have the effect of significantly increasing the exposure of a bank to its affiliates. The Board strongly recommends that the quantitative limits on these extensions of credit be retained.

2. *Capital adequacy.* In reviewing notices by banking organizations to invest in ETCs, the Board considers the assets-to-equity ratio of each proposed ETC on a case-by-case basis, taking into account, among other factors, the riskiness of the ETC's proposed activities. S. 1934 would prohibit the Board from disapproving a bank's investment in an ETC solely on the basis of the proposed ratio of assets to equity unless that ratio were greater than 25 to 1.

The Board, by reason of its responsibilities as a bank regulator, has historically recognized the need for the maintenance of adequate capital in individual state member banks and bank holding companies and in the banking system in general. Capital provides a buffer for banking organizations in times of poor performance, helps to maintain public confidence in particular banking organizations and in the banking system, and supports the reasonable growth of banking organizations. An evaluation of capital adequacy is one of the major purposes of a bank or bank holding company examination.

The Congress has recognized the necessity for banking organizations to maintain adequate capital. In the International Lending Supervision Act of 1983, the Congress required the bank regulatory agencies to "cause banking institutions to achieve and maintain adequate capital by establishing minimum levels of capital for such banking institutions." For this purpose, capital requirements are assessed on a consolidated basis, although the capital adequacy of subsidiary organizations is also taken into account. The latter is necessary because the condition of affiliated organizations can have an important effect on their related banks.

In the case of ETCs the Board strongly recommends against the proposed legislative standard for the leveraging of ETCs. In carrying out its duty to preserve the safe and sound operation of bank holding companies, the Board must be able to examine carefully the capital structure and proposed leveraging ratios of bank-affiliated ETCs. Capital adequacy is a critical determinant of the financial strength of the ETC and of its ability to withstand unexpected adverse developments so as not to affect the financial resources of the parent holding company or the safety and soundness of affiliated banks. There is no justification for a statutory rule allowing a minimum capital level for bank-affiliated ETCs substantially less than that required for banks, when the ETCs' activities are likely to be outside the normal range of banking operations and therefore present greater, not fewer, risks. Thus, we do not adhere to the presumption of S. 1934 that a leveraging ratio of 25:1 would be consistent with the sound financial operation of an ETC. Many factors must be taken into account, such as the nature of the ETC's business, the size of its inventory, and the size of the bank holding company's investment in the ETC. Only a case-by-case analysis permits all these factors to be taken adequately into account.

In this regard, the Board recently acted on a request from a bank holding company to adopt a leveraging ratio for its ETC that was higher than the 10:1 ratio it had proposed in an earlier notification to a Federal Reserve Bank. After determining that the nature and riskiness of the activities proposed for the ETC were similar to those of secured lending transactions, the Board approved a leveraging ratio of 17:1. This action is illustrative of the flexible approach followed by the Board with respect to the capitalization of ETCs.

In light of the critical importance of the capital adequacy of each subsidiary company in a bank holding company organization, the Board needs to retain its discretion in this area.

3. *Exporting Services.* The BESA, read together with the Board's regulations, defines an ETC in which a banking organization is permitted to invest as a company that is exclusively engaged in international trade, and that principally exports, or provides services to facilitate the export of, goods and services *produced by others.* S. 1934 would modify the definition of an ETC to include companies that principally export goods or services produced by themselves or any of their affiliates. This revision would permit a bank to invest in any company that provides its own services to foreign customers regardless of whether the services relate to trade.

The common thread throughout consideration of the original legislation was that the experience and expertise of banks in financing foreign investment were thought to be needed by export trading companies—companies that serve as intermediaries for producers and suppliers of goods and services in the foreign marketing and sale of their products by providing a range of export trade services. It was not intended that banking organizations would serve as a source of capital investment in various service industries generally and assume the risks associated with those industries. The Board's regulations do not limit the ability of bank-affiliated ETCs to offer a broad range of trade-related services both in the United States and abroad. For example, the BESA and the regulations permit ETCs to provide consulting, market research, marketing, insurance product research and design, legal assistance, transportation including freight forwarding, warehousing, foreign exchange, financing, and taking title to goods, when provided to facilitate the trade in goods and services produced by others. According to the notifications to the Federal Reserve, a number of ETCs are providing many of the trade services included in this list. Moreover, the Board has recognized that this list of services is not exhaustive. For example, upon demonstrating that the activities were related to international trade, one ETC has acquired a company in England that engages in customs bonding services and in certain types of inventory control services related to cross-border trade. In addition, the Board has responded favorably to several export trading company notifications that specifically contemplated the establishment of overseas offices and divisions.

The practical effect of S. 1934 would be to change the congressionally intended emphasis in the BESA from promoting U.S. exports and employment to providing a vehicle by which commercial banking organizations, through the medium of an ETC, could acquire organizations serving overseas customers without any benefit to the U.S. trade or balance of payments position. The proposal would thus have the effect of changing the incentive in the ETC Act to promote U.S. exports, while potentially undermining the public policy objectives embodied in the separation of banking and commerce. Such important public policy issues should be addressed directly and not indirectly through technical changes in the BESA.

While the last two provisions of S. 1934, which I will now discuss, appear to raise few supervisory concerns on our part, the calculation of the export revenues provision, as I have mentioned, does raise questions of policy.

1. *Calculation of Export Revenues.* The BESA defines an ETC as a company "organized and operated principally for purposes of exporting or facilitating the export of goods and services produced in the United States . . . ." This definition reflects the goal of the Congress of improving U.S. export performance. In accordance with this purpose, the Board's current regulations require that more than half of an export trading company's revenues over a two-year period be derived from U.S. exports.

Under S. 1934 a company would qualify as an export trading company if its revenues from exports exceed its revenues from imports. Revenues derived from third-party trade or associated with countertrade would be excluded from the calculations. This would mean that an "export trading company" could be a company substantially engaged in third-party trade or countertrade involving two foreign countries, with minimal involvement in exporting goods or services from the United States. In fact, the proposal could hurt U.S. exports, since the goods being traded outside the United States can be substituted for goods exported from the United States. Such a result would amount to a substantial alteration of congressional intent as to the purposes of ETCs to promote the export of U.S. goods and services and would be contrary to the original premise for allowing bank holding companies to engage in this activity: that the increased risks undertaken by a bank holding company through an ETC would be counterbalanced by an increase in U.S. exports. Ultimately, however, it is up to the Congress to determine whether ETCs should continue to have as their primary purpose the export of U.S. goods and services.

2. *Inventory.* The Board's regulations provide that a notice to invest in an ETC may be delegated to the appropriate Federal Reserve Bank, rather than reviewed by the Board, if the proposed export trading company will take title to goods only against firm orders, or if its inventory is worth less than $2 million. Taking title to goods involves sufficient risk that the Board felt it should have the opportunity on a case-by-case basis to review carefully proposals involving this activity. The Board wanted to reserve the right to disapprove those proposals that could involve unsafe and unsound practices, as, for example, when a bank-affiliated ETC has an inadequate system of management controls or when the ETC has insufficient safeguards to protect against a violation of the statutory prohibition against speculation in commodities. The Board has in fact reviewed and did not object to several notices in which projected inventory is substantially greater than $2 million.

S. 1934 prohibits the Board from imposing a dollar limit on an ETC's inventory unless the Board finds that the limit is necessary to prevent material adverse effects on a bank affiliate of the ETC. This provision would merely codify the Board's current practice and would provide the Board with sufficient authority to exercise its supervisory powers in this area when necessary.

CONCLUSION

In conclusion, I would like to emphasize again the Board's support for a strengthened and expanding export sector of the U.S. economy. In this context, we would urge the Congress to allow for a fair testing of the existing law and to refrain at this time from adopting the proposed amendments. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Foreign Affairs, U.S. House of Representatives, June 18, 1986.

I appreciate the opportunity to review with you the debt situation of developing countries. Over the past four years, I think we can point to some substantial progress. But despite that progress, serious problems remain. The sharp decline in oil prices has brought some of them to an acute stage once again.

We have much of the essential framework in place to support growth with necessary economic adjustments among the borrowing countries. But the hard fact is that much remains to be done, in the industrialized world and in the heavily indebted countries of Latin American or elsewhere, to implement the measures necessary to that goal. That is the continuing challenge, and I, for one, believe that it will be attainable in practice with continued, and in some cases, intensified cooperation.

The fundamental causes of the international debt problem that burst forth on the front pages of newspapers four years ago are complex. They included economic policies in the borrowing countries that were premised in part upon the assumption that funds would continue to be available indefinitely from abroad at low or negative real interest rates; in some countries, the foreign borrowing increasingly financed capital outflows. In essence, the domestic policies of the borrowers did not command the confidence of their own citizens, who placed much of their domestic savings in other countries. The commercial banks and other lenders that so freely provided the funds from abroad could not, or would not, assure the productive use of that money. As the crisis broke, access to new loans was abruptly curtailed. At the same time, profound changes in the world economic and financial situation provided a more difficult environment for the borrowers as real interest rates rose, inflation subsided, and commodity prices declined.

There is no point at this stage in pointing fingers at one culprit or another—although there are many lessons for the future. More important, once the crisis was upon us, it was evident that the problem threatened not only the economic fortunes of the particular borrowing countries, but also the performance of the world economy and of the world financial system as a whole. Leading banks, both in the United States and abroad, were heavily exposed at a time when many of them also faced the pressure of recession and financial strains at home. Exports to the borrowing countries dropped abruptly, and possibilities of political strain were aggravated.

A high degree of international cooperation involving borrowing countries, commercial banks, and creditor countries has been necessary to deal with the situation, taking account, on a case-by-case basis, of differences among the borrowers. During the initial crisis stage, it was natural that the International Monetary Fund played a central, coordinating role; it could advise the borrowing countries and, in effect, certify both their economic programs and the size of their external financing needs. It could also work with both lending banks and creditor countries. That role was performed with skill, if not without controversy.

With its traditional emphasis on long-term investment planning and on project lending, the World Bank was not in a position to react as quickly as the Fund to the immediate adjustment needs of the major borrowing countries. Nor were borrowing countries—faced with priority short-term needs to cut back on internal budget deficits, to bring monetary expansion under control, and to achieve and maintain more competitive exchange rates—able to give the same attention to introducing necessary structural changes in their economies to enhance efficiency and competition. Indeed, sharp cutbacks in overall investment as well as consumption expenditures by the indebted countries became unavoidable.

As time passed, the Fund and the Bank have found more and more opportunities for mutually supportive approaches, and both of them have flexibly adapted earlier approaches as justified by the needs and circumstances of particular countries. By the end of 1985, for instance, Colombia, Ecuador, Chile, and Uruguay had put in place rather comprehensive programs looking toward more open and efficient economies as well as more immediate fiscal and external adjustments, working constructively, in different ways, with both the Bank and the Fund.

Drawing on this kind of experience, Secretary

Baker, as you know, outlined the concept of a Program for Sustained Growth in Seoul last October. He envisaged an increase in such cooperative efforts, including an enhanced role for the World Bank and the other multilateral development lending institutions. His basic premise—that a solution must be found in a context of growth—is of course widely shared. And I believe there is increased agreement with the proposition that success will be dependent on ongoing structural changes as well as on adjustments in fiscal, monetary, and exchange rate policies.

A great deal remains to be done before the international debt problem is resolved. But the very considerable accomplishments already achieved strongly suggest the problem should be manageable in ways that serve the interests of both borrowers and lenders.

Over the past three or four years, some substantial—even dramatic—adjustments have been made on the external side. That is most clearly evident in the fact that the 15 major borrowing countries that have been somewhat arbitrarily identified with the Baker Initiative together achieved a current account position of essentially zero during both 1984 and 1985. In contrast, their collective deficits were about $50 billion in 1981 and 1982. The shift was not simply a consequence of import compression: the volume of their exports rose about 15 percent during 1983–84 before leveling off last year.

While progress is uneven, the burden of servicing the external debt of the major borrowers has also been reduced. Reschedulings of their debt to banks and official creditors have sharply limited amortization requirements. Lower world interest rates have been reflected in declines in interest payment obligations. In some cases, interest payments as a percentage of exports of goods and services this year will be as much as one-third below their peaks.

The pace of bank lending has slowed substantially as the borrowing countries have acted to bring their external debts into better alignment with their productive capacities. Meanwhile, bank capital positions have been strengthened. As a result, U.S. banks' exposure to non-OPEC developing countries in relation to their capital dropped about one-third between mid-1982 and the end of last year; those ratios have declined even further over the first half of 1986. No doubt there have been comparable declines in relative exposure by foreign banks.

Indeed, one can question whether, in the past year or so, net bank lending has not been below levels that will be necessary to complement effective economic programs of some borrowers, particularly in the light of the sharp decline in oil prices. In any event, the relative reduction in overall exposure should continue even as the banks are called upon, consistent with the Baker Initiative, to provide the moderate amounts of net new private lending over the next several years needed to support borrowers' plans for structural adjustment and growth. And, as those relative exposures decline, one of the preconditions for returning to more normal, fully voluntary, debtor–creditor relationships can be achieved. In relatively benign circumstances for the world economy, steps in that direction by one or more countries well advanced in the adjustment process could possibly appear this year or next.

Economic growth has rebounded smartly in a few countries even as they have reduced or eliminated their external deficits. The biggest economy and largest borrower among the middle-income developing countries—Brazil—is a leading case in point. The economies of Argentina, Chile, and Colombia are expanding as well.

But the pattern has been uneven and disappointing in some cases. Looked at as a group, the value of exports by the major borrowers, upon which so much depends, declined during 1985. That was, in large part, a reflection of lower commodity prices and the slower expansion of the industrial countries that must provide their principal markets.

Since last fall, the sharp decline in world oil prices has added a new and disconcerting dimension to the problems of Mexico, Nigeria, Venezuela, and Ecuador. Each of those countries has lost both real income and budgetary revenues in amounts that are critically large in relation to their resources. Adjustment to that loss of resources is inevitable. What is at issue is the speed and effectiveness of that adjustment.

One clear implication is that most of them will need to cover larger external needs than anticipated earlier, although not nearly as much as the decline in oil prices taken alone might imply. Lower world interest rates and their own efforts will balance part of the losses, and potentially more rapid growth in the industrial countries will increase export opportunities.

After four years, a sense of fatigue among borrowing countries coping with continuing economic and debt problems is hardly surprising. For some, the reduction in oil prices has added a sharper edge of concern, if not despair. At the same time, commercial banks are naturally impatient, and seemingly more reluctant, to step forward with new money pending concrete evidence countries are successfully undertaking extraordinary stabilization efforts. Negotiation and implementation of new financing packages or restructurings linger on, sometimes entangled in particular grievances over particular past loans. In the process, there is some danger of losing sight of the larger issues that are surrounding the fundamentals of economic policies on which the soundness of the loans ultimately depends.

But far too much is at stake—and far too much has been accomplished—to make it sensible to give way to any sense of frustration. The mutuality of interest of borrowers and lenders in constructive approaches is as strong as ever.

It is difficult—I think impossible—to deny the simple proposition that the debt problem, as so many others, must be resolved in a framework of growth. The corollary is that sustainable growth requires both financial discipline and structural changes. And none of that is likely to proceed for long unless developing countries are able to defend and maintain their creditworthiness and access to the markets of world finance as well as goods.

The question is whether we can find the will and the means to act upon those propositions with the necessary sense of conviction and urgency. That is why we stand at a kind of watershed. Business as usual clearly will not be good enough. And the whole structure of economic and financial relationships between the United States and other industrialized countries and Latin American will be affected, for better or worse.

Crisis serves a constructive purpose when it galvanizes constructive responses. I believe the so-called Baker Initiative can, and does, provide a kind of rallying point for that effort, not because it is a precise plan "made in the USA" but because it captures the essence of much of the thinking emerging in many parts of the world—developed and developing—over recent years.

The approach recognizes that success can only lie in a mutual, cooperative effort to achieve growth. The borrowing countries must indeed "adjust"—adjust not just in the sense of effective fiscal, monetary, and exchange rate policies, but "adjust" in the sense of encouraging more competitive, investment-oriented, and open economies. Their industry must be capable of attracting domestic and foreign savings, penetrating export markets, and meeting the needs of growing populations at home. All of that depends on productivity growth.

The returns available in growing, productive economies can, in turn, justify raising abroad some margin of the credit and capital needed to support growth. Reasonable needs can be met through a combination of official and private resources, drawing on the World Bank and other development institutions and the commercial banks around the world with so much at stake. Moreover, in reasonably favorable world economic circumstances, those additional credits can be consistent with falling debt service ratios and declines in bank exposure relative to capital, just as in the past four years.

None of that provides a fixed formula or a standard cookbook for dealing with the specific problems of individual borrowing countries, each with its unique history and economic situation. But it does provide a broad framework within which individual cases can be discussed, detailed approaches developed, financing negotiated, and the plans implemented.

The approach won't work unless it is convincing to the leaders of the borrowing countries themselves, consistent with the way they come to assess their own priorities, and capable of commanding the support of their people. Those countries must be willing to work toward more efficient, competitive, and open economies. They can improve the climate for investment, whether by their own citizens or from abroad. Pricing policies of state enterprises can be made more economic, and those enterprises can be sold, reduced in scope, or shut down when the job can be better done in the private sector. Barriers to trade, including imports, can be reduced and rationalized, in part to support the competitiveness of exports. And inefficiencies in financial systems can be attacked.

The needed measures sometimes go against the grain of much of postwar history in certain countries, and against the grain of established political systems. Suspicions abound—fear of invasion of domestic markets by international companies, concern about foreign or private domination of key national industries, a breaking down of bureaucratic control. Long-cherished concepts about the proper role of the state are challenged.

But the basic ideas and motivations are, of course, quite different—to promote the efficiency, the capital formation, and the use of technology upon which competitiveness and growth rest. What is encouraging is how widely these ideas are recognized among leaders in Latin America and elsewhere. Inevitably, the pace of change is conditioned by their own experience and realities. Vested interests are tempted to respond with nationalistic rhetoric. But one simple truth has been increasingly widely recognized: in today's world, no single country is likely to prosper and grow without being an effective part of the larger world community, with good credit standing, access to world capital markets, the capacity and incentive to export, and financial stability.

Success will remain dependent on a cooperative approach, with necessary external financing available to support growth and adjustment. The Bank and the Fund will remain focal points in that process.

For its part, the World Bank has moved quickly since last fall to play an expanded role. A number of important negotiations are in various stages with Mexico, Argentina, Ecuador, Colombia, the Ivory Coast, and others—more than I might have thought likely six months earlier. The Bank's ability to respond effectively reflects both already established criteria for supporting the structural adjustment process and its considerable experience in such areas as trade, energy, financial institutions, and rural development. The negotiations for structural reform in these and other areas have also had the benefit of consultation with the Fund, helping ensure that Bank-supported sectoral programs are consistent with the country's overall macroeconomic requirements and priorities. Moreover, some of the World Bank programs and loans should provide opportunities for parallel or cofinancing by others, including commercial banks.

Amidst all the difficulties, there is some danger of losing sight of how much the approach of individual countries, their stated policies, and public attitudes, has changed. Mexico is only one example of a country undertaking some important reforms of trade policies—a process reflected in its long-debated decision to join General Agreement on Tariffs and Trade (GATT). We have seen sales or closings of some state enterprises. Rationalization of price and regulatory systems in the agricultural and financial sectors is proceeding.

More immediately, most of the major borrowers have encouraged the development of more realistic exchange rates, providing a competitive base for future export-led growth. Notably, Argentina, Bolivia, and Brazil have embarked since mid-1985 upon bold domestic programs to disinflate and de-index their economies.

Commercial banks have made clear their broad support for the broad concepts of the Baker Initiative. But their willingness and ability to mobilize additional financing quickly once a borrower has developed a policy program and received general international endorsement has not been tested. Within the general framework of market criteria and covering costs, there may also be room for exploring innovative techniques in new borrowing arrangements to take more account of the uncertainties of oil prices or interest rates.

All of these considerations and propositions are, and will be, tested in the case of Mexico. Its problems are unique and severe; the decline in oil prices and production has reduced its national income significantly, reduced government revenues by as much as 4 percent of its GNP, and cut exports by about a third of last year's total. Obviously, strong and effective internal measures to deal with those losses are required, but in the best of circumstances the necessary adjustments will take time.

Some delay in response was perhaps inevitable, given the abruptness and the nature of the changed circumstances. But I remain hopeful that efforts both in Mexico and elsewhere to develop a coherent, effective response, with adequate external financing, will soon bear fruit.

A lot is at stake, not just because Mexico is a large country immediately on our border, with very large debts. Success in providing a base for new hope among the Mexican people, in laying the groundwork for renewed growth next year, and in maintaining creditworthiness and access to world financial markets will encourage other countries in their efforts. If, in contrast, we collectively falter in that effort, the progress of others will be undermined.

In Mexico, as elsewhere, success in making effective use of its own savings and capital will be crucial. The massive capital flight from a number of Latin American countries during the late 1970s and the early 1980s greatly added to their needs for external borrowing.

While the data have to be interpreted with great caution, the evidence suggests that capital flight has receded somewhat in more recent years. Indeed, in several countries, indirect evidence suggests rather dramatic improvement. Even in Mexico, where credit policies have been very restrictive, there are signs of some reversal this year.

I do not refer to this evidence with any sense of complacency. Extremely tight money is not a long-term answer, and we are a considerable way from a point where we can say, with confidence, that a constructive, self-sustaining process of growth and development is under way among most or all of the borrowers, that their access to external credit is restored, or that fully effective use is being made of domestic savings.

Behind all those particulars about where we stand with respect to the international debt problem, a still larger question remains: Will the global environment be conducive to favorable conditions, to strong markets, and to sustained growth for the developing world?

One critical variable has been going right: The level of world interest rates has receded markedly, taking at least part of the sting out of the collapse in oil prices. The London interbank offered rate (LIBOR) rate to which most loan agreements are keyed is more than 5½ percent below its mid-1984 level, and 1¼ percent below the level as recently as December. Most loans are denominated in dollars, so the decline in the dollar exchange rate is also helpful to most borrowers.

The major countries meeting in Tokyo last month stated the importance that they attach to a capital increase for the World Bank when appropriate. To facilitate private capital movements toward the major borrowing countries, the new Multilateral Investment Guarantee Agency should, in time, facilitate increased flows of direct investment. It is regrettable that congressional support for that concept has lagged.

More particular actions can also help. For example, export credit agencies of the Organization for Economic Cooperation and Development (OECD) countries, especially the U.S. Export–Import Bank, have been an important source of support for the financing of trade flows to the developing countries during this period of financial uncertainty. The interruption to debt service by the borrowers has, in some cases, caused official agencies to go "off cover" and cease new lending to the country in question. While in some cases such action may be justified, it will also have perverse incentive effects in the context of efforts to achieve constructive debt restructuring. I hope that there is now more general recognition of that fact.

Another obligation that we in the United States, as well as other countries, must accept is to restrain the forces of protectionism that hamper exports from developing countries to our markets. With developing countries eager to import what their resources can support, rising exports to the industrialized countries also mean more buying *from* us. Building the competitive ability of borrowers to export, while reducing unfair subsidies, is not a matter of stealing jobs from our workers. It is a matter of participating in, and sharing in the fruits of, growing two-way trade.

But none of those areas is so fundamentally important to developing countries over the next several years as are the prospects for the sustained growth of world markets. And that unavoidably raises a question of adjustment not just by the borrowers but by the industrialized world.

The United States is in an expansion period that has already been sustained longer than most during the postwar era. The evidence is clear that during most of this period it is our economy that has been the principal motor for world expansion. But in that process, serious international imbalances have developed. And, partly as a consequence, our own growth has slowed.

In effect, over the past four years, the United States, directly and indirectly, has provided a disproportionate share of the incremental demand to the world economy. We have made room for most of the external adjustments of the debtor countries as well. In fact, Japan and Western Europe essentially have had no increase in imports from Latin America since 1982, while the United States has shared disproportionately in reduced exports of manufactured goods to that area.

The resultant strains are showing. I, for one, do not believe that relying upon exchange rate changes alone promises a simple and easy solution to the imbalances, however important it is that we have now achieved a more competitive exchange rate structure. Among other things, we had better not forget that we are today the world's largest debtor, dependent on a continuing large inflow of capital to finance our own budget deficit, and that capital will not flow freely without continuing confidence in our own stability.

The implication is not, of course, that we should stop growing, but that other strong countries, with little or no inflation, with excess capacity and historically high unemployment, and with very strong external positions, should assume more of the leadership in providing the impetus for world growth. Such adjustments do not come easily—our long struggle with our budget deficit is the most obvious case in point. But that is the kind of mutually complementary action that is required. And difficult as they may be, we might keep in mind the adjustments involved for us in the industrialized world do not approach in relative magnitude those we expect by the debtor countries.

We can ill afford to be cynical or defeatist about all these efforts, difficult as they may be. Too much hinges on our success, and I know of no other approach that promises so much in terms not just of economic success but harmonious political relationships with Latin America and the developing world. □

Statement by William Taylor, Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, before the Subcommittee on International Finance and Monetary Policy of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, June 25, 1986.

I appreciate the opportunity to testify before this subcommittee today to discuss the impact that the International Lending and Supervision Act of 1983 has had on international lending practices. The subcommittee has requested our views on whether the act has been an effective mechanism in strengthening regulatory and banking practices regarding international lending. This topic is an important one in light of the obvious lessons of the past as well as of the continuing problems that some countries are having in servicing their external debt and the need to put in place constructive and cooperative solutions to those problems. The initiatives that are now being undertaken to assist developing countries to establish an economic framework that enhances investment opportunities, encourages savings, and ultimately strengthens the countries' capability to attract capital and maintain servicing of debt are particularly important to the achievement of a longer-term solution to the international debt problem.

My testimony will focus on the three broad areas that the subcommittee has identified as of most concern: (1) the effect of the act on international lending practices and the international debt situation, (2) any recommended changes to the act, and (3) additional problems that need to be resolved.

Effect of the International Lending and Supervision Act on Lending Practices

The International Lending and Supervision Act set out to achieve the goal of assuring that the financial health and stability of the U.S. banking system would not be adversely affected or threatened by imprudent lending practices or inadequate bank supervision. This goal was to be accomplished by strengthening bank capital, by improving the bank regulatory framework, and by encouraging better coordination among international bank regulatory authorities. Although we continue our efforts in all three areas, it is my view that significant progress has been made. Primary bank capital, including loan-loss reserves, has increased beyond the minimum guidelines set by the bank regulatory agencies. Discipline in international lending has been reinforced not only by implementing the mandated regulations concerning reserves, accounting for fee income, and reviewing bank-originated loan evaluations but also by enhancing regulatory oversight over transfer risk, instituting more frequent examinations of large banks, and conducting periodic meetings with boards of directors to reinforce examination and supervisory assessments.

Perhaps the most dramatic progress made since the passage of the act has been in the area of capital adequacy. The act required the federal bank regulatory agencies to ensure that banks achieve and maintain adequate capital. Since year-end 1983, the capital of the nation's 10 largest banking organizations has increased almost 20 percent. Since year-end 1981, primary capital for this group increased more than 50 percent. In dollar terms the figures are equally impressive, with a total of more than $25 billion having been issued by this group since 1981. Although not as dramatic, substantial increases in primary capital have been achieved by the regional banks, and the average primary capital ratio of the 50 largest banking organizations in this country is well above the minimum required by the regulators. Capital augmentation in the banking system continues, and almost all banks with high loan exposures to developing countries have raised primary capital significantly relative to those exposures. The attached chart displays graphically the progress made in reducing loan exposure to non-OPEC developing countries relative to capital for the 9 money center banks and 15 other large banks.[1] At the beginning of the debt crisis in June 1982, exposure of the 9 money center banks to non-OPEC developing countries represented 227 percent of combined capital. As of December 1985 this exposure relative to capital had declined to 148 percent. The progress made by 15 other large banks is even more dramatic, with exposure of combined capital falling from 162 percent in June 1982 to 91 percent by December 1985. This decline in exposure relative to capital has occurred even though modest amounts of new loans have been made to some developing countries.

The act also required the Board of Governors to work toward encouraging governments, central banks, and foreign bank regulatory agencies to maintain and, when appropriate, strengthen the capital base of all banking institutions involved in international lending. This requirement is more difficult to achieve than raising capital standards in the United States, with the most complex problem being agreement upon a common worldwide definition of capital. Nevertheless, advances have been made in focusing supervisory attention worldwide on the issue of raising capital adequacy standards. The Basle Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements has recognized the need to continue to encourage incremental capital increases, to promote the use of a risk-based system when measuring capital adequacy, and to ensure full consolidation of all significant entities in assessing capital adequacy.

Large U.S. banks have increased capital, in part, in recognition of the increased risk in international lending. Banks in other countries have raised their loan reserves, which are oftentimes not disclosed, as the preferred method to recognize the increased risk. We believe, however, that most countries have reacted properly by encouraging banks to increase either published capital or to increase loan-loss reserves.

Besides the capital provisions, the act required the federal bank regulatory agencies to strengthen the supervision of international lending by instituting a series of regulations designed to require banks to establish and maintain special reserves on problem international assets, to force banks to account better for fee income, and to enhance the reporting and disclosure of international lending.

The first main step taken by the bank regula-

1. The attachment to this statement is available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

tory authorities to implement these regulations was to initiate a procedure to recognize the reduction in the carrying value of loans to international borrowers in countries that are seriously delinquent and have not taken adequate measures to restore repayment prospects through economic adjustment. Banks whose borrowers are in countries that fall in this category have their loans written down in value through a prescribed formula by use of an "Allocated Transfer Risk Reserve" (ATRR). This process permits an orderly adjustment in carrying value for transfer risk on those countries in which economic adjustment has not been followed or has not been successful.

At the same time, the procedures for evaluation and classification of transfer risk within the banking system were also reviewed and, in my view, strengthened. The three regulatory agencies issued a joint statement on examination treatment of international loans shortly after the International Lending Supervision Act was passed. The enhancement announced by the regulatory authorities at that time included new definitions for transfer risk classifications and the identification of a category of international loans called "Other Transfer Risk Problems." These loans represent exposures to countries that have had difficulty meeting fully their external debt service obligations but are taking positive steps to restore debt service through economic adjustment measures. While not considered in the same magnitude of risk as a classified credit, examiners, nevertheless, consider the total exposure to these countries categorized as "Other Transfer Risk Problems" in assessing asset quality and the adequacy of reserves and capital.

The final regulations concerning accounting for fee income under restructured loans were also issued. These regulations had the desired effect of reducing the opportunity for banks to enhance up-front fee income to the disadvantage of developed countries needing to restructure. These guidelines for recognizing loan fee income were eventually adopted by the accounting profession with only modest changes. In 1983, the fees associated with a restructuring where new money was involved averaged 1¼ percent. The same fees now range in the neighborhood of ½ percent.

In summary, the International Lending Supervision Act has served as a catalyst in increasing banks' capital and has had the effect of tightening supervisory standards over international lending practices.

Does the Act Need to Be Amended?

The act itself contains sufficient latitude to issue and amend regulations at the federal banking agencies' discretion. Therefore, the Board would not recommend amendments to the International Lending Supervision Act at this time.

Additional Problems That Need Be Resolved

There has been progress in the debt situation over the past four years. The banking system's relative exposure to developing countries has moderated. Capital and loan-loss reserves have been bolstered, and the countries themselves have instituted needed changes that are designed to encourage growth and strengthen capital accumulation.

The regulatory agencies will need to continue to work with all interested parties in an effort to arrive at constructive solutions to remaining problems. The regulatory agencies need to continue to encourage thoughtful approaches developed by the banking system, governments, and international agencies, and must work with these ideas to fit them in the context of prudential standards of safety and soundness.

Despite the achievements attained to date, however, problems obviously remain. The slide in oil prices has taken its toll, not only on Mexico, but also on other oil-exporting countries as well. On the other hand, lower oil prices will provide relief for most other developing countries. The extent and magnitude of capital flight continues to puzzle observers, with wide disparities between figures quoted. After four years, the world's banking system has still not yet returned to voluntary lending to developing countries.

The conundrums posed would seem to argue for continuing the patient approach of the past. The Baker Initiative provides the framework to sustain the orderly flow of capital to developing countries undertaking progress in adjusting their economies. The regulatory authorities continue to encourage capital augmentation in the U.S. banking system and continue to raise the issue of harmonizing capital standards among other countries. The U.S. and other banking systems are reserving for countries that are not making adequate economic adjustments. Progress, while perhaps slow in the minds of some, is being made. □

Announcements

Nominations Sought for Appointments to Consumer Advisory Council

The Federal Reserve Board announced that it is seeking nominations of qualified individuals for seven new appointments to its Consumer Advisory Council to serve three-year terms beginning in January 1987.

The Council, established by Congress in 1976, advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters on which the Board seeks its advice. The Council meets three times a year.

Nominations should be submitted in writing to Dolores S. Smith, Assistant Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Nominations must be received no later than August 22, 1986.

Nominations should include the name, address, and telephone number of the nominee. In addition, information about past and present positions held, special knowledge, interests or experience related to consumer credit or other consumer financial services should be included.

Amendments to Regulation J

The Federal Reserve Board has adopted amendments to Regulation J (Check Collection and Transfers of Funds) concerning the reduction and reallocation of check float and the collection of foreign checks as well as some technical changes. In addition, the Board modified its automated clearinghouse (ACH) procedures and adopted a standard holiday schedule for Reserve Banks.

One amendment to Regulation J, effective January 1, 1987, requires paying banks that voluntarily close on nonstandard holidays to pay for checks made available to them on those days, or the paying banks may elect to pay the Reserve Bank for the value of the float that occurs.

Other changes to the regulation would permit Reserve Banks to collect checks drawn on banks located in foreign countries. This service will be provided on a limited basis. The technical changes relate primarily to a Reserve Bank's liabilities regarding check collection and wire transfers of funds.

To reduce and reallocate ACH float generated from nonstandard holidays, the Board adopted modifications to Reserve Bank automated clearinghouse procedures, effective April 1, 1987. In addition, the Board approved a standard holiday schedule for the Reserve Banks to follow. Effective January 1, 1987, all Reserve Banks will be closed on the 10 national holidays.

Proposed Action

The Federal Reserve Board has published for public comment a proposal to provide third-party payment information over Fedwire in a standard format. Comment is requested by August 11, 1986.

Revisions to Money Stock Data

Measures of the money stock were revised in March of this year to include annual benchmark and seasonal factor changes. Data in tables 1.10 and 1.21 in the statistical appendix to the Bulletin reflected these changes beginning with the issue for April 1986.

Deposits were benchmarked to recent call reports, and repurchase agreements (RPs) were benchmarked to new quarterly and annual surveys. Revisions to seasonal factors were based on the X-11-ARIMA procedure used in recent years. As in the past the nontransaction (or non-M1) part of M2 and the non-M2 part of M3 were

1. Seasonal factors used to construct M1, M2 and M3, monthly, 1985–86

Year and month	Currency	Nonbank travelers checks	Transaction deposits[1]	Demand deposits[1]	Nontransaction components: M2	Nontransaction components: M3 only
1985—January	.9919	.9331	1.0181	1.0232	1.0010	.9984
February	.9868	.9417	.9797	.9738	1.0022	.9986
March	.9906	.9481	.9868	.9782	1.0047	.9981
April	.9955	.9529	1.0173	1.0111	1.0014	.9958
May	.9998	.9748	.9860	.9826	.9990	1.0032
June	1.0043	1.0482	1.0019	1.0016	1.0000	.9972
July	1.0089	1.1269	1.0027	1.0054	1.0008	.9880
August	1.0050	1.1220	.9900	.9899	.9991	1.0006
September	.9989	1.0655	.9942	.9950	.9968	1.0032
October	.9984	1.0050	.9958	.9985	.9986	1.0026
November	1.0056	.9531	1.0020	1.0046	.9983	1.0081
December	1.0146	.9311	1.0249	1.0358	.9973	1.0072
1986—January	.9917	.9317	1.0181	1.0233	1.0013	.9984
February	.9868	.9404	.9797	.9735	1.0026	.9980
March	.9906	.9469	.9870	.9779	1.0051	.9974
April	.9954	.9529	1.0168	1.0109	1.0015	.9953
May	.9997	.9748	.9860	.9825	.9989	1.0034
June	1.0043	1.0476	1.0028	1.0025	.9999	.9977
July	1.0090	1.1287	1.0027	1.0059	1.0008	.9885
August	1.0051	1.1240	.9906	.9903	.9990	.9998
September	.9990	1.0656	.9948	.9954	.9966	1.0030
October	.9985	1.0042	.9950	.9977	.9984	1.0029
November	1.0056	.9527	1.0015	1.0039	.9982	1.0084
December	1.0145	.9308	1.0248	1.0360	.9974	1.0074
1987—January	.9916	.9310	1.0182	1.0233	1.0014	.9984
February	.9867	.9398	.9797	.9735	1.0028	.9978
March	.9905	.9465	.9871	.9777	1.0053	.9973

1. Factors for transaction deposits are used to seasonally adjust the sum of demand deposits and other checkable deposits. Seasonally adjusted other checkable deposits are derived as the difference between seasonally adjusted transaction deposits and seasonally adjusted demand deposits.

2. Seasonal factors for selected components of the monetary aggregates, monthly, 1985–86

Year and month	Commercial bank deposits: Savings	Commercial bank deposits: Small-denomination time	Commercial bank deposits: Large-denomination time	Thrift institution deposits: Savings	Thrift institution deposits: Small-denomination time	Thrift institution deposits: Large-denomination time	Experimental (model-based) factors for M1: Currency	Experimental (model-based) factors for M1: Nonbank travelers checks	Experimental (model-based) factors for M1: Transaction deposits
1985—January	.9942	1.0000	.9968	.9978	1.0058	1.0058	.9942	.9331	1.0192
February	.9907	.9978	.9973	.9963	1.0031	1.0073	.9880	.9417	.9776
March	.9964	.9960	1.0025	1.0032	.9980	.9994	.9907	.9481	.9817
April	1.0056	.9914	.9886	1.0058	.9951	.9941	.9961	.9529	1.0134
May	1.0050	.9936	.9970	1.0044	.9929	.9961	.9998	.9748	.9835
June	1.0094	.9970	.9935	1.0038	.9945	.9963	1.0029	1.0482	.9990
July	1.0118	.9995	.9961	1.0045	.9986	.9925	1.0085	1.1269	1.0000
August	1.0025	1.0051	1.0019	.9941	.9991	.9989	1.0051	1.1220	.9907
September	.9977	1.0064	1.0074	.9947	.9995	1.0000	.9980	1.0655	.9980
October	1.0011	1.0073	1.0088	1.0024	1.0057	1.0025	.9999	1.0050	1.0011
November	.9964	1.0052	1.0056	1.0000	1.0054	1.0051	1.0067	.9531	1.0077
December	.9927	1.0019	1.0064	.9954	1.0030	1.0028	1.0174	.9311	1.0286
1986—January	.9933	.9999	.9961	.9973	1.0064	1.0052	.9940	.9317	1.0198
February	.9892	.9973	.9962	.9953	1.0035	1.0058	.9879	.9404	.9769
March	.9942	.9954	1.0019	1.0018	.9978	.9988	.9906	.9469	.9806
April	1.0047	.9910	.9879	1.0052	.9945	.9941	.9966	.9529	1.0154
May	1.0043	.9934	.9975	1.0043	.9923	.9970	.9994	.9748	.9829
June	1.0095	.9971	.9940	1.0035	.9942	.9971	1.0027	1.0476	.9977
July	1.0127	.9996	.9962	1.0048	.9981	.9936	1.0089	1.1287	1.0019
August	1.0035	1.0051	1.0012	.9944	.9987	.9994	1.0050	1.1240	.9900
September	.9984	1.0068	1.0075	.9951	.9996	.9997	.9984	1.0656	.9980
October	1.0020	1.0073	1.0097	1.0033	1.0058	1.0022	.9995	1.0042	1.0017
November	.9970	1.0053	1.0062	1.0006	1.0058	1.0046	1.0068	.9527	1.0071
December	.9928	1.0023	1.0064	.9954	1.0035	1.0025	1.0175	.9308	1.0286
1987—January	.9928	.9999	.9957	.9969	1.0067	1.0049	.9937	.9310	1.0203
February	.9883	.9970	.9957	.9948	1.0035	1.0054	.9879	.9398	.9765
March	.9929	.9951	1.0019	1.0010	.9977	.9987	.9910	.9465	.9807

3. Seasonal factors for selected components of the monetary aggregates, weekly, December 1985–March 1987

Week ending		Currency	Transaction deposits[1]	Demand deposits[1]	Commercial bank deposits		
					Savings	Small-denomination time	Large-denomination time
1985—December	2	1.0072	1.0071	1.0148	.9941	1.0039	1.0069
	9	1.0164	1.0252	1.0248	.9962	1.0036	1.0084
	16	1.0126	1.0212	1.0291	.9934	1.0020	1.0080
	23	1.0216	1.0189	1.0305	.9898	1.0006	1.0053
	30	1.0130	1.0279	1.0488	.9897	1.0008	1.0048
1986—January	6	1.0068	1.0708	1.0909	.9985	1.0009	1.0072
	13	.9978	1.0403	1.0466	.9960	1.0006	.9978
	20	.9903	1.0143	1.0161	.9927	1.0005	.9930
	27	.9804	.9777	.9769	.9893	.9989	.9911
February	3	.9827	.9879	.9848	.9885	.9980	.9904
	10	.9920	.9877	.9794	.9909	.9980	.9941
	17	.9900	.9794	.9767	.9897	.9971	.9959
	24	.9808	.9664	.9594	.9875	.9966	.9984
March	3	.9854	.9833	.9742	.9888	.9974	1.0006
	10	.9955	.9953	.9849	.9917	.9967	1.0022
	17	.9921	.9885	.9806	.9922	.9958	1.0003
	24	.9874	.9737	.9619	.9941	.9946	1.0033
	31	.9858	.9843	.9782	1.0011	.9936	1.0026
April	7	1.0033	1.0243	1.0171	1.0110	.9908	.9941
	14	1.0018	1.0344	1.0268	1.0066	.9898	.9883
	21	.9949	1.0292	1.0216	1.0019	.9918	.9829
	28	.9868	.9904	.9872	.9994	.9912	.9863
May	5	.9975	1.0000	.9966	1.0036	.9920	.9884
	12	1.0030	.9930	.9896	1.0050	.9925	.9934
	19	.9990	.9882	.9879	1.0047	.9930	.9975
	26	.9978	.9640	.9573	1.0025	.9942	1.0046
June	2	.9959	.9919	.9911	1.0063	.9951	1.0023
	9	1.0105	1.0155	1.0102	1.0112	.9972	.9968
	16	1.0055	1.0110	1.0099	1.0106	.9972	.9920
	23	1.0011	.9884	.9854	1.0079	.9969	.9891
	30	1.0003	.9921	.9992	1.0092	.9978	.9955
July	7	1.0210	1.0259	1.0299	1.0164	.9972	.9933
	14	1.0145	1.0187	1.0233	1.0165	.9981	.9932
	21	1.0082	.9972	1.0005	1.0125	.9998	.9966
	28	1.0002	.9770	.9779	1.0075	1.0018	1.0005
August	4	1.0069	1.0052	1.0057	1.0078	1.0030	.9990
	11	1.0117	1.0021	1.0011	1.0072	1.0042	.9990
	18	1.0051	.9953	.9989	1.0040	1.0052	.9994
	25	.9971	.9734	.9707	1.0015	1.0059	1.0024
September	1	.9986	.9793	.9779	.9983	1.0067	1.0057
	8	1.0089	1.0112	1.0104	1.0010	1.0069	1.0054
	15	1.0036	1.0112	1.0137	.9992	1.0066	1.0042
	22	.9963	.9813	.9801	.9961	1.0071	1.0075
	29	.9890	.9715	.9740	.9965	1.0066	1.0124
October	6	1.0022	1.0034	1.0036	1.0044	1.0071	1.0139
	13	1.0055	1.0056	1.0071	1.0051	1.0084	1.0131
	20	.9982	1.0009	1.0077	1.0026	1.0074	1.0101
	27	.9908	.9744	.9760	.9980	1.0066	1.0065
November	3	.9969	1.0015	1.0057	.9991	1.0068	1.0025
	10	1.0090	1.0038	1.0014	.9989	1.0069	1.0045
	17	1.0055	1.0082	1.0131	.9977	1.0051	1.0048
	24	1.0011	.9886	.9902	.9956	1.0044	1.0091
December	1	1.0069	1.0050	1.0121	.9945	1.0041	1.0084
	8	1.0166	1.0234	1.0238	.9973	1.0041	1.0074
	15	1.0138	1.0213	1.0287	.9941	1.0030	1.0079
	22	1.0196	1.0205	1.0329	.9890	1.0022	1.0052
	29	1.0144	1.0234	1.0438	.9893	1.0001	1.0042

1. Factors for transaction deposits are used to seasonally adjust the sum of demand deposits and other checkable deposits. Seasonally adjusted other checkable deposits are derived as the difference between seasonally adjusted transaction deposits and seasonally adjusted demand deposits.

3. Continued

Week ending		Currency	Transaction deposits[1]	Demand deposits[1]	Commercial bank deposits		
					Savings	Small-denomination time	Large-denomination time
1987—January	5	1.0049	1.0686	1.0897	.9973	1.0007	1.0082
	12	.9996	1.0426	1.0505	.9969	1.0006	.9967
	19	.9910	1.0174	1.0207	.9929	1.0007	.9932
	26	.9818	.9824	.9815	.9893	.9993	.9912
February	2	.9808	.9863	.9859	.9872	.9979	.9920
	9	.9915	.9881	.9819	.9897	.9977	.9940
	16	.9903	.9807	.9768	.9889	.9967	.9950
	23	.9822	.9680	.9592	.9875	.9962	.9967
March	2	.9838	.9806	.9723	.9873	.9970	.9992
	9	.9956	.9959	.9849	.9909	.9964	1.0015
	16	.9932	.9915	.9840	.9920	.9959	1.0004
	23	.9890	.9774	.9654	.9930	.9947	1.0029
	30	.9854	.9758	.9666	.9957	.9936	1.0045
April	6	1.0012	1.0140	1.0029	1.0036	.9909	.9966

For note, see preceding page.

seasonally adjusted as aggregates, rather than being built up from seasonally adjusted components.

More detail on the revisions is available on the H.6 release, "Money Stock, Liquid Assets and Debt Measures" for February 13, 1986. Historical data are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

CHANGES IN BOARD STAFF

The Board of Governors announced the following changes in its official staff in the Office of Staff Director for Monetary and Financial Policy:

Stephen H. Axilrod, Staff Director, retired, effective June 30, 1986.

Stanley J. Sigel, Assistant to the Board, retired, effective June 30, 1986.

SYSTEM MEMBERSHIP: ADMISSION OF STATE BANKS

The following banks were admitted to membership in the Federal Reserve System during the period June 1 through June 30, 1986:

Maryland
Bel Air .... Commercial Bank
Oklahoma
Oklahoma City .... Bankers Bank
Pennsylvania
Philadelphia .... Constitution Bank
West Chester .... Freedom Valley Bank

Legal Developments

AMENDMENTS TO REGULATION J

The Board of Governors is amending its Regulation J, Collection of Checks and Other Items and Wire Transfers of Funds, to:
(1) permit the owner of a check or other item who is allegedly injured by a Reserve Bank's alleged failure to exercise ordinary care or act in good faith in collecting an item to bring an action against the Reserve Bank, regardless of whether that person is a "sender" as defined in Regulation J;
(2) establish, beginning on January 1, 1990, a two-year limitation period for actions against a Reserve Bank for alleged mishandling of items under subpart A or wire transfer items or requests under subpart B, and, beginning August 1, 1986, a two-year limitation period for actions against paying banks for failure to comply with the notification of nonpayment requirements of subpart A;
(3) permit Reserve Banks to require any prior indorser to defend a breach of indorsement warranty suit even if the Reserve Bank has not been sued directly;
(4) authorize Reserve Banks to collect instruments drawn on payors located in foreign countries;
(5) clarify that Reserve Banks are not liable for consequential damages in handling wire transfers of funds;
(6) add the Commonwealth of the Northern Mariana Islands to the Twelfth District for collection purposes;
(7) adopt the definitions of the Uniform Commercial Code for terms that are used but not defined in Regulation J;
(8) effective January 1, 1987, require paying banks that close voluntarily on days that are banking days for their Reserve Banks to pay on such days for cash items that Reserve Banks make available to them on such days;
(9) make permanent in slightly modified form the temporary amendment adopted on October 3, 1985, creating a standard holiday schedule to be applied to Regulation J's notification of nonpayment provision.

Effective June 6, 1986, the Board amends 12 C.F.R. Part 210 as follows:

Part 210—Collection of Checks and Other Items and Wire Transfers of Funds

1. The authority citation of 12 C.F.R. Part 210 continues to read as follows:

Authority: 12 U.S.C. § 342; 12 U.S.C. § 248(i); 12 U.S.C. §§ 284(o) and 360; 12 U.S.C. § 464.

2. Section 210.2 is amended by adding a new undesignated paragraph to the end of section 210.2 and by revising footnote 1, as follows:

Section 210.2—Definitions

* * * * *

Unless the context otherwise requires, the terms not defined herein have the meanings set forth in the Uniform Commercial Code.

* * * * *

1. For purpose of this subpart, the Virgin Islands and Puerto Rico are deemed to be in the Second District, and Guam, American Samoa, and the Northern Mariana Islands in the Twelfth District.

3. Section 210.3 is amended by adding a new paragraph (e) to read as follows:

Section 210.3—General Provisions

* * * * *

(e) *Foreign items.* A Reserve Bank also may receive and handle certain items payable outside a Federal Reserve District, as provided in its operating circulars. The handling of such items in a state is governed by this subpart, and the handling of such items outside a state is governed by the local law.

4. Section 210.5(a)(2), (b), and (c) are revised as follows:

Section 210.5—Sender's Agreement; Recovery by Reserve Bank

(a) * * *
(2) warrants to each Reserve Bank handling the item that:
(i) the sender has good title to the item or is authorized to obtain payment on behalf of one who has good title (whether or not this warranty is evidenced by the sender's express guaranty of prior indorsements on the item); and
(ii) to the extent prescribed by state law applicable to a Reserve Bank or subsequent collecting

bank handling the item, the item has not been materially altered; but this subparagraph (a)(2) does not limit any warranty by a sender or other prior party arising under state law; and

* * * * *

(b) *Recovery by Reserve Bank.* If an action or proceeding is brought against (or if defense is tendered to) a Reserve Bank that has handled an item, based on:

(1) the alleged failure of the sender to have the authority to make the warranty and agreement in subparagraph (a)(1) of this section;

(2) any action by the Reserve Bank within the scope of its authority in handling the item; or

(3) any warranty made by the Reserve Bank under section 210.6(b) of this subpart, the Reserve Bank may, upon entry of a final judgment or decree, recover from the sender the amount of attorneys' fees and other expenses of litigation incurred, as well as any amount the Reserve Bank is required to pay because of the judgment or decree or the tender of defense, together with interest thereon.

(c) *Methods of recovery.* The Reserve Bank may recover the amount stated in paragraph (b) of this section by charging any account on its books that is maintained or used by the sender (or if the sender is another Reserve Bank, by entering a charge against the other Reserve Bank through the Interdistrict Settlement Fund), if:

(1) the Reserve Bank made seasonable written demand on the sender to assume defense of the action or proceeding; and

(2) the sender has not made any other arrangement for payment that is acceptable to the Reserve Bank.

The Reserve Bank is not responsible for defending the action or proceeding before using this method of recovery. A Reserve Bank that has been charged through the Interdistrict Settlement Fund may recover from its sender in the manner and under the circumstances set forth in this paragraph. A Reserve Bank's failure to avail itself of the remedy provided in this paragraph does not prejudice its enforcement in any other manner of the indemnity agreement referred to in subparagraph (a)(3) of this section.

5. Section 210.6(a)(1) is revised, and, effective January 1, 1990, new paragraph (c) is added as set forth below:

Section 210.6—Status, Warranties, and Liability of Reserve Bank

(a)(1) *Status and liability.* A Reserve Bank shall act only as agent or subagent of the owner in respect of an item. This agency terminates not later than the time the Reserve Bank receives payment for the item in actually and finally collected funds and makes the proceeds available for use by the sender. A Reserve Bank shall not have or assume any liability in respect of an item or its proceeds except for the Reserve Bank's own lack of good faith or failure to exercise ordinary care and except as provided in paragraph (b) of this section.

* * * * *

(c) *Time for commencing action against Reserve Bank.* A claim against a Reserve Bank for lack of good faith or failure to exercise ordinary care shall be barred unless the action on the claim is commenced within two years after the claim accrues. A claim accrues on the date when a Reserve Bank's alleged failure to exercise ordinary care or to act in good faith first results in damages to the claimant.

6. Effective January 1, 1987, the last sentence of section 210.9(a)(2) is revised to read as follows:

Section 210.9—Payment

* * * * *

(a) * * *

(2) * * * A paying bank that closes voluntarily on a day that is a banking day for the Reserve Bank shall either pay on that day by the close of the Reserve Bank's banking day for cash items that the Reserve Bank makes available to the paying bank on that day, or compensate the Reserve Bank for the value of the float associated with the items in accordance with procedures provided in its Reserve Bank's operating circular; in such circumstances, the paying bank is not considered to receive the item until its next banking day.

7. Section 210.12(c)(10) is revised and new subparagraph (c)(11) is added as set forth below:

Section 210.12—Return of Cash Items

* * * * *

(c) * * *

(10) The following days shall not be considered banking days for purposes of the deadline for notice of nonpayment: Saturdays and Sundays, January 1, the third Monday in January, the third Monday in February, the last Monday in May, July 4, the first Monday in September, the second Monday in October, November 11, the fourth Thursday in November, and December 25. If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday shall not be considered a banking day for purposes of this subsection.

(11) A claim for failure to comply with the requirements of this paragraph (c) is barred unless the action on the claim is commenced within two years after the date upon which the notice was required to be received by the depositary bank.

8. Section 210.38(b) is revised as follows:

Section 210.38—Reserve Bank Liability

* * * * *

(b) *Damages.* A Reserve Bank is liable to its immediate transferor for a failure to credit the amount of a transfer item or request to the transferee's account caused by a Reserve Bank's failure to exercise ordinary care or act in good faith. A Reserve Bank's liability for such a failure to credit is limited to damages that are attributable directly and immediately to the failure to credit, but does not include damages that are attributable to the consequences of the failure to credit, even if such consequences were foreseeable at the time of such failure.

9. Effective January 1, 1990, paragraph 210.38(b) is redesignated subparagraph (b)(1), and new subparagraph (b)(2) is added as follows:

Section 210.38—Reserve Bank Liability

* * * * *

(b) * * *

(2) A claim against a Reserve Bank for failure to exercise ordinary care or to act in good faith shall be barred unless the action on the claim is commenced within two years after the claim accrues. A claim accrues on the date a Reserve Bank's alleged failure to exercise ordinary care or to act in good faith first results in damages to the claimant.

* * * * *

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT, BANK MERGER, ACT BANK SERVICE CORPORATION ACT, AND FEDERAL RESERVE ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

Central-State Bancorp
Frankfort, Michigan

Order Approving Formation of a Bank Holding Company

Central-State Bancorp, Inc., Frankfort, Michigan, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)), to become a bank holding company by acquiring State Savings Bank, Frankfort, Michigan ("SS Bank") and Central State Bank, Beulah, Michigan ("CS Bank").

Notice of the application, affording opportunity for interested persons to submit comments, has been given in accordance with section 3(b) of the BHC Act (51 *Federal Register* 10,671 (March 28, 1986)). 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(c) of the BHC Act (12 U.S.C. § 1842(c)).

Applicant is a nonoperating corporation with no subsidiaries, formed for the purpose of acquiring the banks. SS Bank, with total deposits of $19.6 million, and CS Bank, with total deposits of $16.7 million, together represent less than 1 percent of the total deposits in commercial banks in the state.[1] Accordingly, consummation of this proposal would not result in any significant increase in the concentration of banking resources in Michigan.

CS Bank and SS Bank have been under common control since 1979, when Mr. Harry C. Calcutt, who would own the majority of Applicant's shares, acquired control over CS Bank. Thus, this proposal represents merely a restructuring of Mr. Calcutt's ownership of the two banks and, as discussed below, would not have any significant adverse effect on competition in the relevant market. In analyzing the competitive effects of a proposal such as this one, involving banking organizations located in the same market and under common control, the Board generally considers the competitive effects of the transaction whereby common control of the formerly competing institutions was established.[2] In this case, however, the United States District Court for the Western District of Michigan, in a lawsuit brought against Mr. Calcutt by the Antitrust Division of the Department of Justice, examined the competitive aspects of Mr. Calcutt's acquisition of CS Bank in 1979, and concluded that the acquisition did not have any significant anticompetitive effects.

The Department of Justice alleged that Mr. Calcutt's acquisition of CS Bank resulted in a restraint of trade that violated section 1 of the Sherman Act, 15 U.S.C. § 1. The Department argued that the relevant product market for analyzing the effect of the affiliation should consist of transaction accounts and small business loans and that the geographic market for these products was Benzie County, Michigan.

1. Banking data as of December 31, 1984.
2. *See, Mid-Nebraska Bancshares, Inc. v. Board of Governors*, 627 F.2d 26 (D.C. Cir. 1980).

The district court determined that the relevant geographic market was Benzie County and Grand Traverse County, Michigan, and that the product market included "the cluster of services and products that comprise the full range of services offered by commercial banks."[3] Using these definitions, the court concluded that Mr. Calcutt's acquisition of CS Bank did not result in a restraint of trade because the affiliation of the two banks increased the Herfindahl-Hirschman Index by only 21 points to 2161 and the combined market share of the two banks was 6.4 percent.[4] In addition, the court found no additional evidence to support a finding that the acquisition was in violation of the Sherman Act. The Justice Department has appealed this decision to the United States Court of Appeals for the Sixth Circuit, on the grounds that the district court erred in its market definition. In the event that the litigation results in a finding that the original acquisition was significantly anticompetitive, Applicant has committed to divest one of the two banks.

The financial and managerial resources of Applicant and Banks are satisfactory, especially in light of Applicant's commitment to inject additional capital into CS Bank. Considerations relating to the convenience and needs of the community are also consistent with approval. Based on the foregoing and other facts of record, the Board has determined that the proposed acquisition is in the public interest and that the application should be approved. On the basis of the record, the application is approved for the reasons summarized above.

The transaction shall not be consummated before the thirtieth 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 Chicago, pursuant to delegated authority.

By order of the Board of Governors, effective June 24, 1986.

Voting for this action: Chairman Volcker and Governors Wallich, Rice, Angell, and Johnson. Abstaining from this action: Governor Seger.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

3. *United States v. Central State Bank*, 621 F. Supp. 1276, 1291 (W.D. Mich. 1985), *appeal docketed*, No. 85-1832 (6th Cir. October 11, 1985).

4. Since 1979, the banks' market share has not increased significantly.

Citizens Fidelity Corporation
Louisville, Kentucky

Order Approving Acquisition of a Bank Holding Company and the Merger of Banks

Citizens Fidelity Corporation, Louisville, Kentucky, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 *et seq.* ("Act")), has applied for the Board's approval under section 3 of the Act (12 U.S.C. § 1842) to acquire Indiana Southern Financial Corporation, Sellersburg, Indiana ("ISFC"), and thereby to acquire Indiana Southern Bank, Sellersburg, Indiana ("Sellersburg Bank").[1] Sellersburg Bank also has applied for the Board's approval under the Bank Merger Act, 12 U.S.C. § 1828(c), to merge with United Bank of Indiana, N.A., Clarksville, Indiana ("Clarksville Bank"), under the charter and name of Sellersburg Bank.

Notice of the applications, affording interested persons an opportunity to submit comments, has been given in accordance with section 3(b) of the Act (51 *Federal Register* 12,566 (April 11, 1986)) and the Bank Merger Act. As required by the Bank Merger Act, reports on the competitive effects of the merger were requested from the United States Attorney General, the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act and the Bank Merger Act.

Section 3 of the Act, 12 U.S.C. § 1842(d), the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire a bank located outside the holding company's home state,[2] unless such acquisition is "specifically authorized by the statute laws of the state in which [the bank to be acquired] is located by language to that effect and not merely by implication." Applicant's home state is Kentucky. The statute laws of Indiana authorize a Kentucky bank holding company to acquire an Indiana bank holding company if Kentucky law "permits Indiana bank holding companies to acquire banks and bank holding companies in that state" and would also

1. In connection with this application, CF Acquisition Corporation, Evansville, Indiana, a subsidiary of Applicant, will merge with ISFC and will liquidate upon consummation of the proposal.

2. A bank holding company's home state for purposes of the Douglas Amendment is that state in which the total deposits of its banking subsidiaries were largest on July 1, 1966, or on the date it became a bank holding company, whichever date is later. 12 U.S.C. § 1842(d).

permit the acquiror Kentucky bank holding company "to be acquired by the Indiana bank holding company . . . sought to be acquired." Ind. Code § 28-2-15-18(e) (effective January 1, 1986). The Board has previously found that Kentucky has by statute expressly authorized an Indiana bank holding company to acquire a Kentucky bank or bank holding company.[3] In its determination, the Board concluded that the Indiana and Kentucky statutes are reciprocal and authorize banking acquisitions between the two states. Accordingly, approval of Applicant's proposal to acquire the banks in Indiana is not barred by the Douglas Amendment.

Applicant, the second largest commercial banking organization in Kentucky, controls seven subsidiary banks with total deposits of $2.4 billion, representing 10.6 percent of the total deposits in commercial banks in the state.[4] Sellersburg Bank and Clarksville Bank are among the smaller commercial banks in Indiana and control deposits of $74.1 million and $43.5 million, respectively, representing 0.2 and 0.1 percent of the total deposits in commercial banks in Indiana. Upon consummation of the proposed transactions, Applicant would control the 63rd largest commercial bank in Indiana, with total deposits of $117.6 million, representing 0.3 percent of the total deposits in commercial banks in the state. Consummation of the proposal would have no significant effect on the concentration of banking resources in Indiana.

Applicant, Sellersburg Bank and Clarksville Bank compete directly in the Louisville, Kentucky, banking market.[5] Applicant is the second largest commercial banking organization in the market, with total deposits of $2.1 billion, representing 28.7 percent of the total deposits in commercial banks in the market. Sellersburg Bank and Clarksville Bank are the ninth and twelfth largest commercial banking organizations in the market, together holding 1.6 percent of the total deposits in commercial banks in the market. After consummation of the proposals, Applicant's share of the deposits in commercial banks in the market would be 30.3 percent. The share of deposits held by the four largest commercial banking organizations in the market would increase from 83.7 percent to 85.3 percent and the Herfindahl-Hirschman Index ("HHI") would increase by 95 points to 2259.[6]

Although consummation of the proposals would eliminate existing competition between Applicant and Clarksville Bank and Sellersburg Bank in the Louisville market, numerous other commercial banking organizations would remain as competitors after consummation of the proposal. In addition, the Board has considered the presence and competition afforded by thrift institutions in its analysis of this proposal.[7] Eight thrift institutions compete with commercial banks in the Louisville banking market and account for 24.9 percent of the total deposits in the market. Thrift institutions already exert a considerable competitive influence in the market as providers of NOW accounts and consumer loans. In addition, most of these institutions provide commercial and industrial loans in addition to traditional thrift services. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely substantially to lessen competition in the Louisville banking market.[8]

The financial and managerial resources of Applicant, its subsidiaries and the Banks are consistent with approval. Considerations relating to the convenience and needs of the community to be served are also consistent with approval. Based on the foregoing and other facts of record, the Board has determined that the proposed acquisition and merger are in the public interest and that the applications should be, and hereby are, approved.

On the basis of the record, the applications are approved for the reasons summarized above. The transactions shall not be consummated before the thirtieth 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

3. *CNB Bancshares, Inc.*, 72 FEDERAL RESERVE BULLETIN 486 (Order dated May 27, 1986).

4. Deposit data refer to total domestic deposits as of June 30, 1985, and reflect bank holding company acquisitions approved by March 31, 1986.

5. The Louisville banking market is approximated by the Louisville, Kentucky RMA plus Clark County, Indiana.

6. Under the revised Department of Justice Merger Guidelines (49 *Federal Register* 26,823 (June 29, 1984)) ("*Guidelines*"), a market in which the post-merger HHI is over 1800 is considered highly concentrated. In such markets, the Department is likely to challenge a merger that produces an increase in the HHI of more than 50 points. 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 at least 200 points.

7. The Board has previously indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *National City Corporation*, 70 FEDERAL RESERVE BULLETIN 743 (1984); *NCNB Corporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984); *General Bancshares Corporation*, 69 FEDERAL RESERVE BULLETIN 802 (1983); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

8. If 50 percent of deposits held by thrift institutions in the Louisville banking market are included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 69.8 percent. Applicant's market share would increase by 1.4 percentage points to 26.1 percent and the HHI would increase by 70 points to 1712 upon consummation of the proposal.

for good cause by the Board or the Federal Reserve Bank of St. Louis pursuant to delegated authority.

By order of the Board of Governors, effective June 26, 1986.

Voting for this action: Chairman Volcker and Governors Wallich, Rice, Seger, Angell, and Johnson.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

Crown National Bancorp
San Jose, California

Order Denying Formation of a Bank Holding Company

Crown National Bancorp, San Jose, California, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring Crown National Bank, San Jose, California ("Bank").

Notice of the application, affording opportunity for interested persons to submit comments, has been given in accordance with section 3(b) of the Act. 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(c) of the Act (12 U.S.C. § 1842(c)).

Applicant is a nonoperating corporation with no subsidiaries formed for the purpose of acquiring Bank, a *de novo* bank. Principals of Applicant are also principals of Bank. Consummation of the transaction would not result in an increase in the concentration of banking resources in California.

Bank will operate in the San Francisco banking market.[1] Principals of Applicant are not affiliated with any other depository organization in this market. Consummation of this proposal would not result in any adverse effects upon competition or increase in the concentration of banking resources in any relevant area. Accordingly, the Board concludes that competitive considerations under the Act are consistent with approval.

The Board has indicated on previous occasions that a bank holding company should serve as a source of financial and managerial strength to its subsidiary bank(s), and that the Board would closely examine the condition of an applicant in each case with this consideration in mind.[2] Because Bank is in organization, there is no record of management's performance at Bank. Accordingly, it is necessary to look to the record of the proposed management of Applicant and Bank at other depository institutions in order to assess managerial factors in connection with this application. The proposed management of Applicant and Bank includes only two individuals with any prior banking experience. Based upon the management record[3] of the two experienced individuals in a similar situation at another depository institution, and the lack of prior banking experience of the remainder of the proposed management of Applicant and Bank, the Board does not believe that the managerial resources of Applicant and Bank are consistent with approval of this application.[4]

The financial resources of Applicant and Bank and considerations relating to the convenience and needs of the community to be served are consistent with, but lend no weight toward, approval of this proposal.

On the basis of all of the facts of record, the Board concludes that the banking considerations involved in this proposal present adverse factors bearing upon the managerial resources and future prospects of Applicant and Bank. Such adverse factors are not outweighed by any relevant competitive or convenience and needs considerations. Accordingly, it is the Board's judgment that approval of the application would not be in the public interest and that the application should be, and hereby is, denied for the reasons summarized above.

By order of the Board of Governors, effective June 10, 1986.

Voting for this action: Chairman Volcker and Governors Rice, Seger, and Johnson. Absent and not voting: Governors Wallich and Angell.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

1. The San Francisco banking market is approximated by the San Francisco Ranally Metropolitan Area ("RMA").

2. The Bank Holding Company Act requires that before an organization is permitted to become a bank holding company and thus obtain the benefits associated with the holding company structure, it must secure the Board's approval. Section 3(c) of the Act provides that the Board must, in every case, consider, among other things, the financial and managerial resources of both the applicant company and the bank to be acquired. The Board's action in this case is based on a consideration of such factors.

3. This record includes reports of examination and information obtained from staff and senior officials of State and Federal supervisory agencies.

4. The Board has previously stated that it is reasonable to expect an applicant to demonstrate a record of satisfactory managerial performance. *See, e.g., Northwest Wisconsin Banco, Inc.*, 70 FEDERAL RESERVE BULLETIN 105 (1985); *Central Minnesota Bancshares, Inc.*, 70 FEDERAL RESERVE BULLETIN 877 (1984); and *American National Sidney Corp.*, 66 FEDERAL RESERVE BULLETIN 159 (1980).

Heartland Bancorp, Inc.
El Paso, Illinois

Order Approving Acquisition of a Bank

Heartland Bancorp, Inc., El Paso, Illinois ("Heartland"), a bank holding company within the meaning of the Bank Holding Company Act ("Act"), 12 U.S.C. § 1841 *et seq.*, has applied for Board approval under section 3(a)(3) of the Act, 12 U.S.C. § 1842 (a)(3), to acquire 70 percent or more of the voting shares of the First National Bank, Washington, Illinois ("Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been given in accordance with section 3(b) of the Act. 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(c) of the Act, 12 U.S.C. § 1842(c).

Applicant is the 165th largest banking organization in Illinois, with four subsidiary banks,[1] controlling $97.1 million in total deposits, which represents 0.1 percent of the deposits of commercial banks in the state.[2] The Bank holds $39.3 million in total deposits, representing less than one percent of the total deposits in the state. Upon consummation of the proposal, Applicant would become the state's 113th largest banking organization, controlling $136.4 million in total deposits, representing 0.1 percent of the state's commercial bank deposits. Accordingly, consummation of this proposal would not have any significant effect on the concentration of banking resources in Illinois.

One of Applicant's subsidiary banks, Eureka, and Bank compete in the Peoria, Illinois banking market.[3] Eureka, with total deposits of $34.8 million, is the 14th largest of 38 commercial banking organizations in the market, controlling 1.9 percent of the total deposits of commercial banks in that market. Bank is the 12th largest commercial banking organization in the Peoria market, and controls 2.2 percent of the total deposits of commercial banks in the market. Upon consummation, Applicant would become the 5th largest banking organization in the market, and would control 4.1 percent of the total deposits of commercial banks in the market.

1. Applicant's four subsidiary banks are: (1) Woodford County Bank, El Paso, Illinois ("Woodford"); (2) Bank of Carlock, Carlock, Illinois ("Carlock"); (3) State Bank of Cornland, Cornland, Illinois ("Cornland"); and (4) First Bank of Eureka, Eureka, Illinois ("Eureka").

2. All banking data are as of June 30, 1985.

3. The Peoria, Illinois, banking market is approximated by Peoria and Tazewell counties, plus Partridge, Cazenovia, Metamora, Worth, Spring Bay, Cruger, Olio and Montgomery townships in Woodford County, Illinois.

The Peoria banking market is unconcentrated and would remain so after consummation. The present Herfindahl-Hirschman Index ("HHI") is 926 and would only increase by 8 points to 934 as a result of this proposal.[4] Thirty-six other commercial banking organizations would remain in the market after consummation of the proposal. Accordingly, consummation of the proposed acquisition is not likely to have a significant adverse effect on competition in the Peoria banking market.

The Board has also considered the effect of this proposal upon probable future competition in the Peoria market. Based upon the number of potential entrants into this market, the Board concludes that consummation of the proposal would not have any significant adverse effect upon probable future competition in this market.

The financial and managerial resources and future prospects of Applicant, its subsidiary banks and Bank are generally satisfactory. Applicant will have a consolidated primary capital to assets ratio of 7.0 percent on the date of consummation of the proposal, and has further committed to operate at this capital level in the future. Although Applicant's consolidated primary capital ratio will decline upon consummation of this proposal, that ratio will remain above the minimum level required by the Board's Capital Adequacy Guidelines.[5] Considerations relating to the convenience and needs of the community are consistent with approval of the application.[6]

4. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), any market in which the post-merger HHI is below 1000 is considered unconcentrated. Except in extraordinary circumstances, the Justice Department is unlikely to challenge mergers in an unconcentrated market. Any market in which the post-merger HHI is between 1000 and 1800 is considered moderately concentrated. In such a market, the Justice Department is unlikely to challenge a merger that produces an increase in the HHI of fewer than 100 points. Any market in which the post merger HHI is above 1800 is considered highly concentrated. The 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 at least 200 points.

5. Capital Adequacy Guidelines, 50 *Federal Register* 16,057 (April 24, 1985); 71 FEDERAL RESERVE BULLETIN 445 (1985).

6. Effective July 1, 1986, the statute laws of Illinois make it unlawful for any bank holding company with a total capital ratio of more than 7 percent to acquire an Illinois bank, "where the acquisition would result in a reduction of the holding company's capital adequacy ratio to less than 7 percent, where such ratios are measured pursuant to regulations published and made effective by the Board of Governors . . . ." 17 Ill. Stat. 2501, § 3.02(a)(6) (1986). The Board's Capital Adequacy Guidelines establish minimum capital ratios to provide a framework for assessing the adequacy of the capital of bank holding companies, and provide that the two measures of capital to be used are the primary capital ratio and the total capital ratio. Since, upon consummation, Heartland's consolidated primary capital ratio will be at least 7 percent, the Board concludes that the proposed acquisition will be in accordance with the terms of the Illinois statute.

Based on the foregoing and other facts of record, the Board has determined that consummation of the proposed acquisition would be in the public interest and that the application should be approved. Accordingly, the application is approved for the reasons summarized above. The transaction shall not be consummated before the thirtieth 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 by the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, effective June 23, 1986.

Voting for this action: Chairman Volcker and Governors Wallich, Rice, Seger, Angell, and Johnson.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

Magna Group, Inc.
Belleville, Illinois

Order Approving Acquisition of a Bank Holding Company

Magna Group, Inc., Belleville, Illinois, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 *et seq.* ("Act")), has applied for the Board's approval under section 3 of the Act (12 U.S.C. § 1842), to acquire the successor by merger to Northtown Bancshares Corporation, Decatur, Illinois, and thereby indirectly acquire Northtown Bank and Trust, Decatur, Illinois ("Bank"). In connection with this application, Millikin Bancshares, Inc., Millikin, Illinois, a subsidiary of Applicant, has applied to merge with Northtown Bancshares Corporation.

Notice of the applications, affording an opportunity for interested persons to submit comments, has been given in accordance with section 3(b) of the Act (51 *Federal Register* 12,566 (1985)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant, the eleventh largest commercial banking organization in Illinois, controls nine subsidiary banks with total deposits of $921.9 million, representing approximately 0.95 percent of the total deposits in commercial banks in the state.[1] Bank is the 199th largest commercial banking organization in the state, with total deposits of $76 million, representing 0.1 percent of the total deposits in commercial banks in the state. Upon consummation of the proposed transaction, Applicant would become the ninth largest banking organization in Illinois, with total deposits of $997.9 million, representing 1 percent of the total deposits in commercial banks in the state. Accordingly, consummation of this proposal would have no significant effect on the concentration of banking resources in Illinois.

Both Applicant and Bank compete directly in the Decatur banking market.[2] Applicant is the largest of 16 commercial banking organizations operating in the market, with total deposits of $203.3 million, representing 23.2 percent of the total deposits in commercial banks in the market. Bank is the fourth largest commercial banking organization in the market, with total deposits of $76 million, representing 8.7 percent of the total deposits in commercial banks in the market. Upon consummation of the proposal, Applicant's share of the deposits in commercial banks in the market would increase to 31.9 percent. The Decatur banking market is considered to be moderately concentrated with the four largest commercial banks controlling 72 percent of the deposits in commercial banks in the market. The Herfindahl–Hirschman Index ("HHI") for the market is 1523 and would increase by 403 points to 1926 upon consummation of the proposal.[3]

Although consummation of the proposal would eliminate some existing competition between Applicant and Bank in the Decatur banking market, numerous other commercial banking organizations would remain as competitors in the market upon consummation. In addition, the presence of seven thrift institutions that control approximately 34.3 percent of the market's total deposits mitigates the anticompetitive effects of the transaction.[4] Thrift institutions already exert a considerable competitive influence in the market as providers of NOW accounts and consumer loans. In

1. Deposit data are as of June 30, 1985, and reflect acquisitions consummated through March 31, 1986.

2. The Decatur banking market is approximated by Macon County, Illinois, plus Moweaqua township in Shelby County, Illinois.

3. 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 above 1800 is considered highly concentrated. In such markets, the Department is likely to challenge a merger that increases the HHI by more than 50 points. The 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 at least 200 points.

4. The Board has previously indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *National City Corporation*, 70 FEDERAL RESERVE BULLETIN 743 (1984); *NCNB Bancorporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984); *General Bancshares Corporation*, 69 FEDERAL RESERVE BULLETIN 802 (1983); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

addition, six of the thrift institutions are engaged in the business of making commercial loans and are providing an alternative for such services in the Decatur market. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely to substantially lessen competition in the Decatur banking market.[5]

The financial and managerial resources of Applicant, its subsidiary banks, and Bank are consistent with approval. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval. Based on the foregoing and other facts of record, the Board has determined that consummation of the proposed transaction would be in the public interest and that the applications should be approved.

On the basis of the record, the applications are approved for the reasons summarized above. The transaction shall not be consummated before the thirtieth 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 by the Federal Reserve Bank of St. Louis pursuant to delegated authority.

By order of the Board of Governors, effective June 24, 1986.

Voting for this action: Chairman Volcker and Governors Wallich, Rice, Seger, Angell, and Johnson.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

Orders Issued Under Section 4 of the Bank Holding Company Act

Bank South Corporation
Atlanta, Georgia

Order Approving Application to Engage in Data Processing and Management Consulting Activities

Bank South Corporation, Atlanta, Georgia, a bank holding company within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1841 *et seq.* ("BHC Act"), has applied pursuant to section 4(c)(8) of the BHC Act and section 225.23 of the Board's Regulation Y (12 C.F.R. § 225.23), to engage *de novo* in the purchase, ownership, installation, and operation of electronic fund transfer ("EFT") terminals and automatic teller machines ("ATMs") in retail institutions in the state of Georgia through its newly formed, wholly owned subsidiary, Bank South Services Corporation ("BSSC"), Atlanta, Georgia. These activities have been determined by the Board to be closely related to banking and permissible for bank holding companies, 12 C.F.R. § 225.25(b)(7).

Applicant also proposes to provide certain data processing and transmission services and to provide management consulting advice to depository institutions throughout the state of Georgia. The scope of Applicant's proposed provision of data processing and transmission services and management consulting advice would be limited to those activities permitted under the Board's Regulation Y, 12 C.F.R. § 225.25(b)(7), (11).

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published, 51 *Federal Register* 8017 (1986). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

Applicant is the fourth largest commercial banking organization in Georgia, controlling consolidated assets of approximately $2.3 billion. Applicant's lead bank subsidiary, Bank South, N.A., controls total domestic deposits of $1.6 billion, representing 5.0 percent of the total deposits of commercial banks in Georgia.[1]

Applicant's subsidiary bank, Bank South, N.A., currently owns and operates 15 ATMs in supermarkets in Georgia. Customers using such ATMs may make cash withdrawals from their checking and savings accounts and make balance inquiries, but may not make deposits. The ATMs are connected to the AVAIL network, a joint-venture EFT interchange system that any federally insured depository institution in Georgia may join. The AVAIL network currently has 139 member depository institutions, of which 79 are commercial banks. Bank South's ATMs are operated pursuant to a contractual arrangement between Bank South and the company that owns the supermarkets (the "company"). The contractual arrangement between Bank South and the company is structured to take advantage of the complementary resources and experience of Bank South and the company. Bank South's role in this arrangement is based on its experience in the installation, operation, management and repair of ATMs. Bank South also trains retail store employees to answer customer in-

5. If 50 percent of deposits held by thrift institutions in the Decatur banking market were included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 57.9 percent. Applicant would control 18.4 percent of the market's deposits and Bank would control 6.9 percent of the market's deposits. The HHI would increase by 253 points to 1315.

1. Banking data are as of September 30, 1985.

quiries and to explain ATM operation procedures to its customers. The company provides the locations for installation of the ATMs, supplies the cash necessary for the operations of the ATMs, and provides some initial maintenance of the ATMs.

By this application, Applicant proposes to transfer ownership of its existing ATMs to BSSC and to increase the number of locations at which it would operate ATMs. The contractual arrangements between Bank South and the company would remain in force between BSSC and the company, and identical contracts would be created between BSSC and additional supermarket companies where Applicant proposes to locate ATMs. The capabilities of BSSC's ATMs would not be expanded beyond those of Bank South's ATMs. The Georgia Department of Banking and Finance has not objected to the current arrangement between Bank South and the supermarkets or to the proposed transaction.[2]

The Board has analyzed this proposal with respect to its effects on existing competition between current and potential competitors in the market for the provision of ATM services. Applicant is establishing ATM locations through a *de novo* subsidiary. The Board notes that all depository institutions that are members of the AVAIL network, and the customers of these depository institutions, would have access to the ATMs installed by BSSC in supermarkets. Any federally insured depository institution in the state of Georgia may join the AVAIL network. Thus, BSSC's establishment of additional ATMs would expand the number of ATMs available as part of a shared neutral ATM network. In light of these and other facts of record, the Board concludes that consummation of this proposal would not have a significant adverse effect on existing competition in the provision of ATM services in any relevant market.

The Board also has considered the effects of consummation of this proposal on probable future competition in the provision of ATMs. As noted above, Applicant is establishing ATM locations through a *de novo* subsidiary. In addition, numerous other potential entrants into the ATM market exist. In this connection, the Board notes that the market for the data processing, management consulting, and related services provided in connection with the provision of ATMs is unconcentrated, with many competitors and few barriers to entry. Numerous national ATM networks currently operate in the Atlanta metropolitan area, and additional networks could potentially enter the area. Accordingly, the Board concludes that consummation of this proposal would not have a significant adverse effect on probable future competition.

The Board has reviewed this proposal to ensure that no unfair competitive practices or other substantially adverse effects would result from consummation of the proposal. In this regard, the Board notes that the structure of the contractual arrangement in place between Bank South and the company, and to be continued by BSSC and the company, allows depository institutions in addition to Applicant non-discriminatory access to the ATMs to be established by Applicant, through membership in the AVAIL network. After review of the application and other facts of record, the Board concludes that consummation of this proposal would not result in adverse effects, such as unsound banking practices, unfair competition, conflicts of interest, or an undue concentration of resources.

Approval of this application can reasonably be expected to produce benefits to the public. Consummation of the proposal would give customers of financial institutions in Georgia access to a greater number of ATM terminals, and would allow additional competition between ATMs provided by bank holding companies and those provided by unaffiliated nonbanking companies.

Based upon the foregoing and all the facts of record, the Board has determined that the balance of public interest factors it is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved. This determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), 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 assure compliance with, and prevent evasions of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

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 Atlanta, pursuant to delegated authority.

By order of the Board of Governors, effective June 5, 1986.

Voting for this action: Chairman Volcker and Governors Rice, Seger, Angell, and Johnson. Abstaining from this action: Governor Wallich.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

2. Applicant has stated that the operations of BSSC's ATMs will be conducted at all times in compliance with all federal and state branching laws, to the extent applicable.

Citicorp
New York, New York

Order Approving Application to Engage in Data Processing Activities

Citicorp, New York, New York, a bank holding company within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1841 *et seq.* ("Act"), has applied pursuant to section 4(c)(8) of the Act and section 225.23 of the Board's Regulation Y (12 C.F.R. § 225.23), to acquire through its subsidiary, CitiExchange, Inc., certain assets and to assume certain liabilities of Northeast Exchange Ltd. 1984-1 ("Northeast Exchange"), a Texas limited partnership. Since February 1984, Northeast Exchange has engaged in the business of installing automated teller machines ("ATMs") in retail stores and operating such ATMs as a neutral shared network in the Northeastern United States. These activities have been determined by the Board to be closely related to banking and permissible for bank holding companies (12 C.F.R. § 225.25(b)(7)).

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published. 50 *Federal Register* 51,604 (1985). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the Act.

Citicorp, with total consolidated assets of $181.9 billion, is the largest banking organization in the nation.[1] It presently operates eight banking subsidiaries. Its lead bank, Citibank, N.A., New York, New York, accounts for approximately 79 percent of its consolidated assets and is a full-service commercial bank. Citicorp's other banking subsidiaries are located in South Dakota, Maryland, Nevada, Delaware, Maine, Utah, and New York State. Citicorp also engages, directly and through subsidiaries, in a variety of nonbanking activities, including data processing and data transmission services.

Currently, Northeast Exchange engages in the installation of, and provision of support services to, ATMs in Pathmark supermarkets located in New York and New Jersey, and anticipates installing and servicing ATMs in Pathmark stores located in other states, as well as at other locations. Northeast Exchange's activities also include the ownership, construction, and management of an electronic funds transfer ("EFT") switch that transmits transactions performed on the ATMs to ATM networks and financial institutions. Customers of depository institutions that participate or propose to participate (including Citibank, N.A.) in networks utilizing the ATMs operated by Northeast Exchange may use the ATMs for cash withdrawals, balance inquiries and account transfers, but may not make deposits. The New York Banking Superintendent and the New Jersey Commissioner of Banking, the state banking authorities for those locations where Northeast Exchange currently operates, have been notified of the proposal and they have expressed no objection to its terms.[2]

The Board has analyzed the proposal with respect to its effect on existing and potential competition in the market for ATM networks. Although Applicant, through its lead bank subsidiary and a savings and loan subsidiary, operates (and will continue to operate) two proprietary ATM networks, Applicant is not otherwise engaged in the operation of a shared ATM network. Because Applicant does not operate a shared ATM network, the proposed acquisition of Northeast Exchange would not eliminate existing competition in the provision of ATM services in any relevant market.

The Board also has considered the effects of consummation of this proposal on probable future competition in the operation of a shared ATM network and the provision of EFT switching services. Applicant is capable of entering the markets for ATM networks and the provision of EFT switching services *de novo*. However, numerous other potential entrants into these markets exist. In this connection, the Board notes that the market for the data processing and related services is unconcentrated, with many competitors and few barriers to entry. Moreover, numerous national ATM networks operate in the areas currently served by Northeast Exchange, and additional networks could potentially enter these areas. Accordingly, the Board concludes that consummation of this proposal would not have a significant adverse effect on existing and potential competition in the provision of ATM and EFT switch services in any relevant market.

The Board has reviewed this proposal to ensure that no unfair competitive practices or other substantially adverse effects would result from consummation of the proposal. In this regard, the Board notes that depository institutions currently do have[3] and would continue to have nondiscriminatory access to membership in the ATM network operated by Northeast Exchange. After review of the application and other facts of record, and particularly in light of certain commitments by Applicant regarding the relations between

1. Banking data are as of March 31, 1986.

2. Applicant has stated that the operations of Northeast Exchange will be conducted at all times in compliance with all federal and state branching laws and regulatory provisions, to the extent applicable.

3. Thirty-two depository institutions currently participate in the ATM network established by Northeast Exchange and Applicant proposes to increase the number of depository institutions that will use the network.

Northeast Exchange and its affiliated banks,[4] the Board concludes that consummation of this proposal would not result in adverse effects such as unsound banking practices, unfair competition, conflicts of interest or an undue concentration of resources.

Approval of this application can reasonably be expected to produce benefits to the public. Consummation of the proposal will continue to give customers of financial institutions participating in the network in the areas served (and proposed to be served) by Northeast Exchange access to a large number of ATM terminals in convenient locations.

Based upon the foregoing and all the facts of record, the Board has determined that the balance of public interest factors it is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved. This determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of the holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

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, pursuant to delegated authority.

By order of the Board of Governors, effective June 12, 1986.

Voting for this action: Chairman Volcker and Governors Rice, Seger, Angell, and Johnson. Absent and not voting: Governor Wallich.

JAMES MCAFEE
[SEAL] *Associate Secretary of the Board*

4. Included among the commitments is the fact that the network will not use the Citi prefix or logo.

National Westminster Bank PLC
London, England

NatWest Holdings, Inc.
New York, New York

Order Approving Application to Engage in Combined Investment Advisory and Securities Execution Services

National Westminster Bank PLC, London, England, and NatWest Holdings, Inc., New York, New York (collectively, "Applicant" or "NatWest"), both bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have applied for 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)(3) of the Board's Regulation Y (12 C.F.R. § 225.23(a)(3)), to form a *de novo* subsidiary, County Securities Corporation, New York, New York ("CSC"), and thereby engage in the following activities:

(1) providing portfolio investment advice to "Institutional Customers";[1]

(2) providing securities execution (brokerage) services, related securities credit activities pursuant to the Board's Regulation T, and incidental activities such as offering custodial services and cash management services, in each case for institutional customers, and in each case under circumstances where the securities brokerage services are restricted to buying and selling securities solely as agent for the account of such customers;

(3) furnishing general economic information and advice, general economic statistical forecasting services and industry studies to institutional customers; and

(4) serving as an investment advisor (as defined in section 2(a)(20) of the Investment Company Act of 1940) to investment companies registered under that act.[2]

CSC will not act as principal or take a position (*i.e.*, bear the financial risk) in any securities it brokers or recommends. CSC will execute a transaction only at the direction of a customer and will not exercise discretion with respect to any customer account. CSC intends to offer investment advice, as well as to provide securities execution services, to institutional

1. An Institutional Customer is defined by Applicant to be a person that is:

(1) a bank (acting in an individual or fiduciary capacity); an insurance company; a registered investment company under the Investment Company Act of 1940; or a corporation, partnership, proprietorship, organization or institutional entity that regularly invests in the types of securities as to which investment advice is given, or that regularly engages in transactions in securities;

(2) an employee benefit plan with assets exceeding $5,000,000, or whose investment decisions are made by a bank, insurance company or investment advisor registered under the Investment Advisors Act of 1940;

(3) a natural person whose individual net worth (or joint net worth with his or her spouse) at the time of receipt of the investment advice or brokerage services exceeds $5,000,000;

(4) a broker-dealer or option trader registered under the Securities Exchange Act of 1934, or other securities professional; or

(5) an entity all of the equity owners of which are institutional customers.

2. NatWest further expects that CSC will provide investment advice and securities execution services directly to NatWest affiliates. Such services are permissible servicing activities under section 225.22(a) of Regulation Y, 12 C.F.R. § 225.22(a).

customers on an integrated basis, *i.e.*, CSC will not charge an explicit fee for the investment advice and will receive fees only for transactions executed for customers. If its customers desire, CSC will provide investment advice or execution services separately and for individual fees. CSC's activities will be conducted throughout the United States from offices of CSC initially located in New York City.

Notice of the application, affording interested persons an opportunity to submit comments on the proposal, has been duly published (50 *Federal Register* 43,790 (1985)). In response to its request for comments on this application, the Board received three written comments opposing the proposal, and 23 in favor of the proposal. Among the comments opposing the application were those of the Securities Industry Association (the "SIA"), a national trade association of the securities industry.[3]

National Westminster Bank PLC ("NatWest Bank PLC"), with approximately $104.7 billion in total consolidated assets as of December 31, 1985, is the fourteenth largest banking organization in the world and provides a full range of retail and wholesale banking services worldwide. In the United States, NatWest Bank PLC operates four representative offices, three nonbanking subsidiaries (engaged in factoring, commercial finance and raising funds), branches in New York and Chicago, and an agency in San Francisco. NatWest Bank PLC also controls Applicant NatWest Holdings, Inc., and its subsidiary National Westminster Bank USA, N.A. ("Bank"), New York, New York, which holds total deposits of approximately $7 billion as of year-end 1985.

This application raises two principal questions: first, whether CSC's proposed activities are so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act; and second, whether the conduct of such activities by a member bank affiliate (such as CSC) would violate section 20 or 32 of the Glass–Steagall Act ("Act"), which generally require a separation between member banks and companies principally or primarily engaged in the underwriting or public sale of securities. Upon consideration of the entire record of the application and for the reasons set forth below, the Board concludes that the proposed activities are closely related to banking and a proper incident thereto under section 4(c)(8) of the BHC Act, and that consummation of the proposal would not result in a violation of the Glass–Steagall Act. Accordingly, the Board has determined to approve the application.

I. *Whether the Proposed Activity is Closely Related to Banking*

In its evaluation of the application, the Board must initially determine whether the proposed activity is so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act. Section 4(c)(8) imposes a two-step test for determining the permissibility of nonbanking activities for bank holding companies:

(1) whether the activity is closely related to banking; and

(2) whether the activity is a "proper incident" to banking—that is, whether the proposed activity can reasonably be expected to produce benefits to the public that outweigh possible adverse effects.[4]

Based on guidelines established in the *National Courier* case, a particular activity may be found to meet the "closely related to banking" test if it is demonstrated that banks generally have in fact provided the proposed activity; that banks generally provide services that are operationally or functionally so similar to the proposed activity so as to equip them particularly well to provide the proposed activity; or that banks generally provide services that are so integrally related to the proposed activity as to require their provision in a specialized form.[5] However, the *National Courier* guidelines are not the exclusive basis for finding a close relationship between a proposed activity and banking.[6]

A. Current Provisions of Regulation Y

The Board has determined that the activities of providing portfolio investment advice, furnishing general economic information and advice, and serving as an

3. The Investment Company Institute stated that it objected to the proposal on the grounds set forth in the SIA's protest. The third protestant, Option Advisory Service, Inc. ("OAS"), alleges that NatWest intends by the application to help raise funds for "greenmailing" schemes to be conducted by certain individuals to takeover various corporations, in violation of the securities laws, and has requested a hearing on this assertion. The Board has carefully reviewed the submissions of OAS and has determined that these allegations do not raise a genuine issue of material fact that would warrant a hearing. CSC would not engage in making loans to finance corporate takeover attempts or in arranging financing for such purposes. In addition, the Board finds no basis for OAS's assertion that Bank's financing of previous takeover attempts constitutes aiding and abetting alleged violations of the securities laws connected with such attempts. Accordingly, OAS's request for a hearing is denied.

4. *See Board of Governors v. Investment Company Institute*, 450 U.S. 46 (1984) ("*ICI II*"); *National Courier Ass'n v. Board of Governors*, 516 F.2d 1229 (D.C. Cir. 1975) ("*National Courier*").

5. *National Courier*, 516 F.2d at 1237.

6. The Board has stated that in acting on a request to engage in a new nonbanking activity, it will consider any other factor that an applicant may advance to demonstrate a reasonable or close connection or relationship of the activity to banking. 49 *Federal Register* 794, 806 (1984); *Securities Industry Ass'n v. Board of Governors*, 104 S. Ct. 3003, 3006 n.5 (1984) ("*Schwab*").

investment advisor to a registered investment company, are permissible for bank holding companies. 12 C.F.R. § 225.25(b)(4)(iii), (iv), and (ii). In rejecting a challenge to the Board's determination, the Supreme Court stated that the "services of an investment advisor are not significantly different from the traditional fiduciary functions of banks," and that "banks have engaged in that sort of activity [to manage the investment portfolios of its advisees] for decades." *ICI II*, 450 U.S. at 55.

The Board has also determined that securities brokerage services, related securities credit activities, and related incidental services are permissible for bank holding companies if the securities brokerage services are conducted solely as agent for the account of customers and do not include securities underwriting, dealing, or investment advisory or research services. 12 C.F.R. § 225.25(b)(15). In its decision affirming the Board's approval of the acquisition by BankAmerica Corporation of the discount broker, Charles Schwab & Co., the Supreme Court found that:

> Banks long have arranged the purchase and sale of securities as an accommodation to their customers . . . [and] in substance the brokerage services that Schwab performs for its customers are not significantly different from those that banks have been performing for customers for years.

Schwab, 104 S.Ct. at 3008–3009.

The SIA argues that NatWest has failed to demonstrate that the offering of combined securities brokerage and investment advice is closely related to banking under any permissible standard. The Board has, however, determined, upon a review of general banking practices and the record developed in the course of its consideration of the application, including the comments of the SIA, that the combination of investment advice and securities brokerage services as proposed by CSC is closely related to banking.

As the Board noted in approving the Schwab proposal, Schwab was a "discount" broker. Unlike full-service brokers, Schwab did not offer investment advice and its commissions were significantly lower than those typically charged by full-service brokers, which usually do provide investment advice.[7] In providing that the discount brokerage services permissible under Regulation Y do not include investment advice or research services, the Board stated that such a restriction was appropriate because the regulation was intended to incorporate into Regulation Y the Board's decision on the Schwab proposal. The Board noted that, during consideration of that proposal, no record was developed on which to assess the implications of providing securities brokerage and investment advisory services together.[8] The restriction on discount brokerage thus was not based on a view that the combination of the two services was necessarily inconsistent with section 4(c)(8) or with the Glass–Steagall Act—instead, the restriction reflects the limited nature of the activity proposed by the particular applicant in the Schwab case.

As the Board noted when it adopted the discount broker regulation, bank holding companies providing investment advisory services pursuant to Regulation Y, in contrast to full-service brokers, typically charge an explicit fee for such services and thus usually deal with sophisticated customers with substantial amounts of funds to invest. Although CSC proposes to charge for both investment advice and securities execution services on a transaction-related basis, CSC would offer its services only to financially sophisticated institutional customers.[9] Thus, this proposal represents the combination of two activities, previously determined to be closely related to banking, in such a way that the functional nature and scope of the combined activities conducted would not be altered. The fact that CSC would not generally charge an explicit fee for each of the component services is a pricing consideration that does not in the Board's view sufficiently alter the operational characteristics of the combined services so that they lose their close functional connection to banking activities. On this basis, the Board concludes that CSC's proposed activities are closely related to banking.

B. Functional Similarity to Services Banks Already Provide

Even if the joint offering of securities and investment advice is viewed as a distinct new activity, the Board concludes that the record supports a finding that the combined activity is closely related to banking. Under the second *National Courier* test, a proposed activity is closely related to banking if banks generally provide services that are so functionally similar to the proposed activity as to equip bank holding companies particularly well to provide the proposed activity. Currently, banks provide a variety of services that equip them with the expertise to offer a combined investment advisory/securities execution service.

7. *BankAmerica Corporation/Charles Schwab & Co., Inc.*, 69 FEDERAL RESERVE BULLETIN 105, 106 (1983) ("Schwab Order").

8. 48 *Federal Register* 37,003, 37,005 (1983). The Board noted that the investment advice provided by full-service brokers tends to reach a wider segment of the public than the advisory services of companies that offer only investment advice, and that full-service brokers usually look to commissions for executing transactions as compensation for the investment advice provided. These factors are considered in the Board's discussion of the public benefits test below.

9. As noted above, Applicant has committed that separate fees will be charged for customers desiring to utilize separately investment advisory and securities execution services.

Banks currently provide both investment advice and securities execution services in separate departments or subsidiaries and for separate fees.[10] In addition, banks currently do combine, at least to some extent, their separate investment advisory and securities execution services. Bank trust departments, which provide a variety of investment advisory services, may in certain circumstances use an affiliated discount broker to purchase or sell securities on behalf of the bank's trust customers. Under guidelines issued by the Office of the Comptroller of the Currency ("OCC"),[11] banks may effect securities transactions for trust accounts through an affiliated discount broker, if the transactions are performed on a non-profit basis. Under these guidelines, and similar Board staff guidelines,[12] a bank trust department may use an affiliated broker to receive extra fees for brokerage services where specific authority is given to effect transactions through the affiliate within the appropriate governing instrument, or by local law, or where all beneficiaries authorize. In many respects, this linkage between the bank's trust department and discount brokerage operations closely resembles the full-service brokerage services proposed here.[13]

Finally, the record reflects that banks offer brokerage-like services for specific types of financial instruments, and at the same time provide general or specific advice with respect to such instruments. For example, as part of their permissible government securities underwriting and money market operations, banks buy and sell as agent for customers, and offer specific investment advice with respect to, obligations of the United States, certain obligations of various States and municipalities, and certain money market instruments.[14] Banks also combine investment advice and execution services with respect to futures contracts on a transaction-related fee basis.[15]

In sum, by linking separate advisory and execution functions in these specific situations, banks now provide services that are very close in function to those proposed by CSC: making recommendations concerning the purchase or sale of securities or other financial instruments and then executing the customer's directions based on these recommendations. Accordingly, the Board believes that these existing activities of banks would equip bank holding companies particularly well to provide the securities execution and advisory services proposed by CSC as a combined service, and support a determination that the proposed activities are closely related to banking.[16]

II. The Proposed Activity as a Proper Incident to Banking

With regard to the "proper incident" requirement, section 4(c)(8) of the BHC Act requires the Board to consider whether the performance of the activity by an affiliate of a holding company "can reasonably be

10. National banks may lawfully provide securities brokerage services, *Securities Industry Ass'n v. Comptroller of the Currency*, 577 F. Supp. 252 (D.D.C. 1983), *aff'd*, 758 F.2d 739 (D.C. Cir. 1985), *cert. denied*, 106 S. Ct. 790 (1986) ("*Security Pacific*"). The FDIC has indicated that state nonmember banks may provide these services. *See* 48 *Federal Register* 22,989 (1983). The Securities and Exchange Commission has recently stated its belief that over 1,000 banks are publicly soliciting securities brokerage business, often in separate departments or subsidiaries. *See* 50 *Federal Register* 28,385, 28,386 (1985). As noted above, banks have traditionally provided investment advisory services, generally through their trust departments.

11. OCC, Trust Banking Circular No. 23 (Oct. 4, 1983).

12. FRRS § 3-447.11 (Sept. 19, 1983).

13. The OCC has also approved the more explicit linkage of separate investment advisory and securities brokerage operations subsidiaries of a national bank, allowing a national bank's investment advisory subsidiary to refer its customers to the bank's brokerage subsidiary. *Decision of the Comptroller of the Currency Concerning an Application by American National Bank of Austin, Texas, to Establish an Operating Subsidiary to Provide Investment Advice* (Sept. 2, 1983), *reprinted in* [1983–1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶99,732 ("*American National*"). The advisory activities approved in the *American National* decision included the provision of individualized investment advice to various bank clients, the exercise of discretionary trading authority, and the distribution of investment recommendations and analyses of economic trends in a newsletter. The two subsidiaries would not share employees, office space or telephones, but would share a common name and address. In addition, the two would refer customers to each other, and the advisor's newsletter would be marketed to brokerage customers. The subsidiaries would not share fees or receive fees for referring customers to the other. The legality of this ruling has been challenged in *Securities Industry Ass'n v. Conover*, No. 83-3581 (D.D.C. filed Nov. 30, 1983). This lawsuit has been stayed pending the outcome of a lawsuit which is currently before the Supreme Court on the issue of whether discount brokerage offices are bank branches.

14. Member banks are specifically authorized to conduct the underwriting and dealing activities pursuant to sections 16 and 5 of the Glass–Steagall Act. 12 U.S.C. §§ 24 Seventh and 335. The 36 banks that are primary dealers in government securities routinely provide investment advice to their customers concerning those securities. The investment advice in these instances is offered on a non-fee basis. *Manufacturers Hanover Corporation*, 70 FEDERAL RESERVE BULLETIN 661, 662 (1984).

15. National banks have been permitted to execute and clear futures contracts, for the account of customers, through their operations subsidiaries that serve as futures commission merchants. *J.P. Morgan & Co. Incorporated*, 71 FEDERAL RESERVE BULLETIN 251 (1985). The provision of futures advisory services by national banks is also lawful. *Manufacturers Hanover Corporation*, 70 FEDERAL RESERVE BULLETIN 369, 370 (1984). Commercial banks also engage in providing foreign exchange advice and transaction services to their customers. *See Hong Kong and Shanghai Banking Corporation, et al.*, 69 FEDERAL RESERVE BULLETIN 221 (1983).

16. The SIA argues that the combined activity is not closely related to banking because services provided by bank trust departments differ significantly from those proposed here. The SIA asserts in particular that bank trust departments may not utilize affiliated brokers to buy and sell securities for customers. However, as noted earlier, neither the OCC nor the Board completely precludes a bank trust department from the use of affiliated brokers. Moreover, even if banks may not engage in a particular activity, the activity may nevertheless be closely related to banking. Under the framework set forth in the BHC Act, nonbank affiliates of banks are allowed greater latitude in the conduct of nonbanking activities than are banks themselves. In *ICI II*, the Supreme Court expressly stated that under the BHC Act (as well as the Glass–Steagall Act) a bank affiliate may engage in activities that would be impermissible for the bank itself. 450 U.S. at 63–64.

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." As discussed below, the Board finds that on balance consummation of this proposal can reasonably be expected to result in public benefits outweighing possible adverse effects.

A. Public Benefits

In the Board's view, the proposal will result in some public benefits. CSC will enter the brokerage market as a *de novo* competitor. Although the full-service brokerage industry is competitive and there are no significant barriers to entry into the market, the entry of a new competitor into the field should provide some increased competition.[17] In addition, the ability to obtain both investment advice and the execution of securities transactions at the same location will result in increased efficiencies for CSC through the sharing of facilities, equipment and personnel.

B. Adverse Effects

The SIA argues that this proposal would lead to such significant adverse effects that denial of the application is required. Applicant argues that the limitation of the proposed services to institutional customers, its series of commitments regarding the conduct of the proposed activities, as well as existing statutes and regulations regulating these activities, all guard against adverse effects such as possible conflicts of interest. The Board, having considered the facts of record and the allegations of all of the parties, finds that the proposal is not likely to result in any significant adverse effects.

1. Unsound Banking Practices

Damage to Bank Reputation. The SIA contends that depositors might lose confidence in Bank if investments made on the recommendation of its affiliate CSC do poorly. Based on the record, the Board finds no substantial basis for this contention.

The Board has long held the view that, as a practical matter, a bank cannot be completely insulated from the fortunes of a nonbank subsidiary of its holding company, since the securities markets, the general public, and the holding company itself typically look upon the bank and its affiliate as part of a consolidated organization. The Board has also recognized, however, that conducting nonbanking activities in a separate affiliate can to some extent prevent problems associated with the nonbanking activity from affecting the bank. The Board regards as a significant factor in its approval of this proposal Applicant's commitment that it will maintain a functional and corporate separation between CSC and other NatWest affiliates.

In particular, Applicant has stated that CSC will be maintained, and will hold itself out to the public, as a separate and distinct corporate entity with its own name, properties, assets, liabilities, books and records. Except for the provision of investment advice and execution services directly to other NatWest affiliates (as a permissible servicing activity under section 225.22(a) of Regulation Y), NatWest also has stated that CSC will conduct its business separate from the other NatWest affiliates, and its agreements with customers will indicate that CSC is solely responsible for its contractual obligations and commitments. All of CSC's notices, tickets, advice, confirmations, correspondence and similar documentation will be clearly imprinted so as to avoid confusion on the part of institutional customers or others between CSC's business and that of any other entity. In addition, CSC's offices will either be separate from those of other NatWest affiliates or, in the case of offices established in a building in which another NatWest affiliate also has offices, in areas separate from areas utilized by such affiliate.

Applicant also has committed that no officer of CSC will serve as an officer either of its overseas parent NatWest Bank PLC, Bank, or of any subsidiary of Bank.[18] Moreover, no director of CSC will also be a director of NatWest Bank PLC, Bank, or any of Bank's subsidiaries.[19]

In addition, CSC's corporate name would be different from that of Bank and its parent bank holding companies. CSC's name does, however, reflect its affiliation with an overseas merchant bank, County Bank, U.K. Since CSC expects to deal largely with U.S. customers, this current similarity in name does not appear significant for purposes of an association in the public's mind between CSC and its U.S. bank affiliate.

17. *See Independent Ins. Agents of America v. Board of Governors*, 736 F.2d 468, 474 (8th Cir. 1984) ("[T]he mere fact of new entr[y] into the field is indicative of some degree of increased competition"). *See also United City Corporation*, 71 FEDERAL RESERVE BULLETIN 662, 663 (1985); 12 C.F.R. § 225.24 ("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").

18. In addition, no officer of CSC engaged in providing investment advisory or brokerage services will also provide such services on behalf of any other NatWest affiliate.

19. It is anticipated, however, that certain directors of CSC may also be directors of other subsidiaries of NatWest Bank PLC.

Although it is possible that a particular customer of CSC may withdraw funds from Bank on the basis that the investment advice provided by CSC was not to the customer's liking, this possibility does not, in the Board's judgment, constitute a significant adverse effect. First, existing bank investment advisory affiliates (and banks themselves in investing trust assets or acting in another traditional advisory capacity) are already subject to this potential loss of depositor confidence. No evidence has been presented indicating that public confidence in banks has been seriously impaired because of the provision of investment advice either directly by the bank or through an affiliate. In addition, the institutional customers to be served by CSC would be financially sophisticated and thus would be less likely to place undue reliance on the advice received. Furthermore, neither CSC nor Bank would purchase specific investments with their own funds, so that should investments recommended by CSC prove unsuccessful, the public and depositors should understand that the banking organization itself would not suffer serious financial losses.

In addition, Applicant's commitment not to permit the exchange of confidential information (including customer and depositor lists and information regarding extensions of credit by any NatWest affiliate) between CSC and its affiliates further limits the potential that depositors of NatWest's affiliated bank might be solicited by CSC for their business, and would further mitigate the potential for loss of depositor confidence.

In any event, both the Board and the Supreme Court have recognized that the public association between bank and nonbank subsidiaries of the same parent bank holding company cannot be completely eliminated, but as well that this factor does not represent grounds for denial of a proposal. Here, both Applicant and the Board have adopted certain restrictions on the conduct of the proposed activity in order to mitigate such a public association. The Supreme Court, in its *ICI II* decision, specifically relied on the Board's imposition of similar restrictions on the relations between a bank holding company investment advisor and its affiliates in approving a Board regulation permitting bank holding companies to act as investment advisors to closed-end investment companies. The Court stated that:

> These restrictions would prevent *to a large extent* the association in the public mind between the bank and the investment company, as well as the resulting connection between public confidence in the bank and the fortunes of the investment company.

450 U.S. at 67 n.39 (emphasis added). In view of the provisions for corporate separateness proposed by Applicant, the fact that brokerage transactions by CSC would be conducted only as agent, the lack of any evidence that depositor confidence would be impaired, as well as the other factors of record, the Board believes that the public association between NatWest's bank subsidiaries and its securities affiliate will be "prevent[ed] to a large extent" and will not pose an undue risk to the NatWest holding company system, its banking and nonbanking subsidiaries, or to the soundness of the banking system generally.

Lack of Impartial Credit. The SIA also alleges that NatWest's banks might be tempted to make imprudent loans to corporations in which CSC's customers had invested at its recommendation, presumably in order to boost the market value of the stock and thereby increase CSC's brokerage commissions, attract new customers, or preserve corporate good name and reputation. However, it would not be rational for a bank to risk making unsound loans solely to obtain a comparatively insignificant increment in revenues for a brokerage affiliate from new brokerage and investment advisory customers. In addition, the likelihood of damage to corporate good name as a result of imprudent lending dwarfs any gain in income, or the benefit of maintaining existing customers, arising from such imprudent practices.

In addition, NatWest has committed that CSC will not transmit its advisory research or recommendations to the commercial lending department of any NatWest affiliate, so that those responsible for making credit decisions on commercial loans would not routinely be aware of which particular securities CSC has recommended. The Board also notes that, as is the case with many of the potential abuses cited by the SIA, any banking organization that provides investment advice is subject to the same possible risk of impairment of impartial lending practices. However, no showing has been made that unsound lending practices have been attributable to the provision of investment advisory services.[20]

Shore Up Failing Securities Affiliate. Another potential unsound banking practice that is cited as arising from the affiliation of a banking organization with a securities firm is the prospect of unwarranted extensions of credit by a bank to shore up its securities affiliate if the affiliate encountered financial difficulties.[21]

20. Nor is it realistic to expect that Bank would make unsound loans to enable CSC's customers to purchase securities recommended by CSC. CSC will not refer its customers who seek to purchase securities on credit to any affiliated bank. Nor will any bank affiliated with CSC have any established program for extending credit for the purchase of securities by customers of CSC. Instead, CSC itself would extend margin credit, as provided for in Regulation Y.

21. *See Investment Company Institute v. Camp*, 401 U.S. 617, 631 (1971) ("*ICI I*").

However, CSC will not be acting as a principal to any extent or engaging in speculative ventures. Since its own funds will not be at risk in any transaction, significant losses by CSC as a result of its securities transactions are not likely. In addition, loans from NatWest's affiliated bank to CSC would be restricted by the lending limitations of section 23A of the Federal Reserve Act.[22]

2. Conflicts of Interest

Provision of Biased Investment Advice. The SIA alleges that adding an advisory service to a brokerage operation could give CSC opportunities to recommend to its customers the purchase or sale of securities of issuers to which its bank affiliates had extended credit, especially where the proceeds of the securities would be used to repay loans to the bank affiliates. However, to a large extent, CSC's investment advice is likely to relate to securities traded in the secondary market, *i.e.*, securities that have already been issued and are now held by the public. Even if CSC were to recommend newly issued securities, the federal securities laws would require public disclosure of the expected use of the proceeds of the issue.[23]

In addition, NatWest has committed to create a "Chinese Wall" between its bank and its securities affiliate—similar to those walls created by banks with regard to the provision of trust services.[24] Thus, CSC personnel will not be given customer lists and other confidential information obtained by CSC's affiliates in connection with their commercial banking operations. This limitation would minimize the possibility that CSC employees would be aware of potential benefit to affiliated banks as a result of CSC's recommendations. Moreover, since CSC's customers will be financially sophisticated institutions or individuals, they should be better able to detect investment advice that is motivated by self-interest.

The Board notes that in reviewing an application under section 4(c)(8) of the BHC Act, the Board is entitled to rely on an applicant's commitments, the imposition of conditions, or on statutory and regulatory provisions in concluding that adverse effects will not occur.[25] The Board has ample authority to enforce compliance with these commitments, conditions, and regulatory provisions.[26]

Moreover, the Board believes that the possibility of biased investment advice represents a potential abuse that conceivably could occur any time a bank holding company provides investment advice alone, regardless of whether brokerage services would also be provided. None of the commenters has identified any evidence that bank holding companies providing investment advice under the existing regulatory provisions have improperly made investment recommendations in order to benefit the commercial lending operations of affiliated banks. On balance, the Board finds that the addition of brokerage to a holding company's investment advisory services does not appear to increase the likelihood of this kind of abuse.

Churning and Unsuitability. As noted above, full-service brokers do not usually charge an explicit fee for investment advice. Thus, these brokers look to commissions from buying and selling securities for customers as compensation for advisory services.[27] It has been recognized that in the case of nonbank full-service brokers, the joint pricing of investment advisory and securities execution services might provide an incentive for the broker to give biased advice designed to generate increased trades and thus increase its commissions, *i.e.*, "churning", or for the broker to make recommendations unsuitable for particular customers.[28] CSC, however, like a full-service broker not affiliated with a bank, would be a registered broker-dealer under the Securities Exchange Act, would also be registered under the Investment Advisors Act, and would be a member of the National Association of Securities Dealers. CSC, therefore, would be subject to the antifraud provisions of the Securities Exchange Act of 1934, as well as the general antifraud provisions in applicable regulations, which have been interpreted as prohibiting the churning of customer accounts and the recommending of securities that are not suitable for particular customers.[29]

In addition, the Board believes that other factors associated with this particular application further assure that this kind of tainted advice would not result

22. 12 U.S.C. § 371c.

23. *See, e.g.*, 15 U.S.C. § 77aa(13).

24. *See, e.g.*, FRRS § 3-1550 (March 17, 1978).

25. *Independent Ins. Agents of America v. Board of Governors*, 646 F.2d 868, 869–870 (4th Cir. 1981); *Alabama Ass'n of Ins. Agents v. Board of Governors*, 533 F.2d 224, 250 n.25 (5th Cir. 1976), *modified on other grounds*, 558 F.2d 729 (5th Cir. 1977), *cert. denied*, 435 U.S. 904 (1978). The Board notes that NatWest engages in extensive merchant banking activities outside of the United States, including acting as a dealer in securities. However, NatWest has committed that the securities operations of its overseas affiliates will be limited to transactions that do not constitute dealing in securities in the United States. Moreover, in any transaction by CSC in which a NatWest affiliate is a counter-party (*e.g.*, where CSC would purchase securities desired by a customer from its affiliate's inventory), NatWest has committed that CSC will disclose this fact to its customer and obtain the customer's specific consent for the transaction.

26. 12 U.S.C. § 1818(b)-(1), 1847(b).

27. *See* 47 *Federal Register* 37,005 (1983).

28. Brokerage fees are usually charged for each transaction executed—the higher the volume of transactions, the greater the amount of brokerage income.

29. *See* 15 U.S.C. § 78k and 17 C.F.R. § 240.15cl-2(a), respectively. Section 206 of the Investment Advisors Act (15 U.S.C. § 80b-6), its antifraud provision, also would prohibit such practices. Since CSC at times would provide investment advice for a separate fee, CSC would not be eligible for the exemption from the Advisors Act for registered broker-dealers. *See id.*, § 80b-2(a)(11).

from this proposal, although the Board does not rely solely on such factors. Applicant's commitment to limit its services only to institutional customers makes it less likely that CSC would be able to churn accounts or make unsuitable recommendations, since these financially sophisticated customers are likely to be aware of many alternative sources of advisory and brokerage services and to have the resources to compare performance and prices. In addition, CSC will not have investment discretion over any customer accounts. In every case, CSC's customers will decide whether a particular purchase or sale transaction will be undertaken.

Moreover, CSC will not require its customers to use both its investment advisory and securities brokerage services, and will charge a separate fee for those customers desiring only investment advice or agency executions. In this regard, the Board has indicated in an analogous context that, "charging a separate fee for advice reduces the possibility for churning because it reduces the incentive to recommend additional trades to generate fees."[30]

Finally, in designating portfolio investment advice as closely related to banking, section 225.25(b)(4) of Regulation Y states that in furnishing such services, bank holding companies and their subsidiaries "shall observe the standards of care and conduct applicable to fiduciaries." Such fiduciary standards would also prohibit the churning of accounts and other self-interested practices. CSC must abide by the fiduciary responsibilities imposed on investment advisors by that section in conducting its proposed services.[31]

3. Undue Concentration of Resources/Unfair Competition

In the Board's view, the entry of NatWest into the full-service securities brokerage market to serve institutional customers would not result in an undue concentration of resources or unfair competition. Since CSC would be a *de novo* entrant into a highly competitive field, this proposal is not likely to produce undue concentration of resources. In addition, the Board finds no evidence in the record indicating that this proposal would result in any unfair or decreased competition.

In sum, based upon a consideration of all the relevant facts, the Board concludes that this proposal may reasonably be expected to result in public benefits that outweigh possible adverse effects. The Board therefore finds that the proposal satisfies the proper incident test under section 4(c)(8) of the BHC Act.

III. Glass–Steagall Act Considerations

In its evaluation of the application, the Board has also considered whether CSC's acquisition by Applicant would result in a violation of the Glass–Steagall Act, the popular term for provisions of the Banking Act of 1933, which is designed to insulate commercial banking from certain aspects of the securities business. The Glass–Steagall Act provisions at issue in this proposal are: section 20 (12 U.S.C. § 377), which prohibits the affiliation of any bank that is a member of the Federal Reserve System with any corporation or similar organization that is "engaged principally in the issue, flotation, underwriting, public sale, or distribution" of securities; and section 32 (12 U.S.C. § 78), which prohibits an officer, director or employee interlock between a member bank and a company "primarily engaged" in such activities.

As a result of this proposal, CSC would become affiliated for purposes of section 20 with Bank, a member bank,[32] and would by any measure be engaged principally in the full-service brokerage business. Thus, if CSC's proposed brokerage activities constitute "the issue, flotation, underwriting, public sale, or distribution" of securities, the proposal would result in a violation of section 20.

The SIA argues that the combination of investment advice with buying and selling securities on behalf of customers constitutes the "public sale" of securities. SIA also contends that the combination gives rise to the "subtle hazards" the Glass–Steagall Act was meant to eliminate, such as damage to the bank's reputation and its position as an impartial provider of credit.[33]

For the reasons noted herein, and on the basis of the facts appearing in the record, the Board concludes that the combination of investment advice and execution services as proposed here does not constitute a "public sale" of securities for purposes of section 20 or 32 of the Glass–Steagall Act and that the proposal is consistent with the intent of that Act.

30. *Manufacturers Hanover Corporation*, 70 FEDERAL RESERVE BULLETIN 369 (1984) (futures commission merchant activities).

31. To the extent that CSC's full-service brokerage functions are viewed as a new nonbanking activity that is not technically subject to the fiduciary obligations imposed by the terms of section 225.25(b)(4), the Board conditions its approval of the proposal on CSC's observance of the standards of care and conduct applicable to fiduciaries.

32. CSC and Bank would also have some common employees for purposes of section 32. The Board's analysis of whether brokerage activities are covered by section 20 of the Act is equally applicable to section 32 because, as the Supreme Court indicated in its *Schwab* decision, "sections 20 and 32 contain identical language, were enacted for similar purposes, and are part of the same statute." 104 S. Ct. at 3010.

33. It is undisputed that NatWest's proposed activity does not constitute the "issue, flotation, underwriting . . . or distribution" of securities for purposes of sections 20 and 32.

A. The Public Sale of Securities Under Sections 20 and 32

In its decision affirming the Board's approval of the acquisition by BankAmerica Corporation of Charles Schwab & Co., the Supreme Court characterized the term "public sale" in section 20 as not applying to a discount broker—a firm that buys and sells securities solely for the account of and at the direction of customers, but that does not provide investment advice. The Court stated that "public sale" should be interpreted by reference to the activities described by the terms surrounding it in section 20 — the "issue, flotation, underwriting, and distribution" of securities.[34] The Court further stated that the terms used in conjunction with public sale refer to activities in which a bank affiliate acts for its own account or where new issues of securities are distributed to the public on behalf of an issuer.[35] On this basis, the Court concluded that the retail brokerage business at issue in that case did not involve these activities.[36]

Since the broker in that case did not provide investment advice, the *Schwab* decision did not reach the issue of whether a broker, like CSC, that would also provide investment advice would be engaged in the "public sale" of securities. However, in the Board's view, the addition of investment advice to securities execution services as proposed by CSC would not render the combined activity the "public sale" of securities. In providing investment advice in connection with the execution of securities transactions, CSC would act solely as agent for its customers and would not act as a principal (*i.e.*, with its own funds) in buying and selling securities. CSC would not, like many securities firms, make a market in securities with its own funds. Nor would CSC offer securities to the public as agent for the issuer of securities.[37] Thus, CSC's full-service brokerage services would not involve any of the factors used by the Supreme Court in describing the term public sale in section 20.

Indeed, the Supreme Court has concluded that the provision of investment advice to an investment company does not violate the Glass-Steagall Act, even if performed by a bank, provided that the bank does not underwrite any issue of securities or purchase any securities of the investment company. *ICI II*, 450 U.S. at 62–63. The combination of similar investment advisory activities, as proposed here, with securities execution services clearly not proscribed by section 20 or 32, does not convert the components into the kind of principal or distribution activity covered under section 20 or 32.[38]

The Board's conclusion that CSC's proposed activities do not constitute the "public sale" of securities for purposes of sections 20 and 32 is consistent with the legislative history of the Act, which reveals that the focus of Congressional concern was the underwriting, dealing and stock speculation activities that were then conducted by banks and their securities affiliates.[39] There is no indication in the legislative history that Congress intended to prohibit the kind of brokerage activities proposed for CSC, where no position is taken in the securities traded or where there is no distribution of securities to the public on behalf of an issuer.[40]

The SIA contends that the proposed activities are contrary to the purposes of the Glass-Steagall Act which, it argues, was meant to take every remedial step within Congress' constitutional power to divorce the banking industry from the securities business. However, it is clear from the terms of the Act itself that Congress did not intend to erect a complete barrier between banking organizations and the conduct of all securities activities. Under section 20, for

34. *Schwab*, 104 S. Ct. at 3010.

35. *Id.*, at 3010 & n. 17. The Court noted that the process by which large blocks of securities are offered to the public by an investment banker acting solely as the agent of the issuer is not technically underwriting, but left open the question of whether this "best efforts" underwriting is covered by the Act, since the brokerage business at issue in *Schwab* did not involve this kind of distribution plan. *Id.*

36. *Id.* While both the Supreme Court and the Board described the activities involved in *Schwab* as executing transactions on the "unsolicited" order of customers, nothing in the analysis of the Court or the Board suggests that lack of solicitation is a decisive factor in determining whether a particular activity is covered by the language of section 20.

37. NatWest has stated that CSC will have no association with a particular issuer and no financial interest in the placement of a particular offering.

38. The SIA argues that CSC would be involved in the "public sale" of securities within the ordinary meaning of the term, because in brokering securities that it recommends CSC "touts" or "promotes" specific securities. Such a construction is fundamentally inconsistent with the Supreme Court's interpretation of the term "public sale" in the *Schwab* decision as explained above. Moreover, if the SIA's construction were the correct meaning of the term public sale, then any time a banking organization provided investment advice it would be engaged in the proscribed securities business, since in making investment recommendations an advisor can be viewed as "promoting" specific securities in a general sense.

39. As the Supreme Court stated in *ICI II*:

> The legislative history reveals that securities firms affiliated with banks had engaged in perilous underwriting operations, stock speculation, and maintaining a market for the bank's own stock, often with bank resources. Congress sought to separate national banks, as completely as possible, from affiliates engaged in such activities.

450 U.S. at 61–62.

40. During congressional consideration of the Glass-Steagall legislation, the scope of permissible bank brokerage activity was not discussed in detail. The relevant legislative history merely states that national banks would be permitted to buy and sell securities for their customers to the same extent as heretofore. S. Rep. No. 77, 73rd Cong. 1st Sess. 16 (1933).

example, certain types of securities activities, such as underwriting, are proscribed to bank affiliates only if the affiliate is "engaged principally" in that activity; in section 32, an interlock between a bank and a firm engaged in the same activities is proscribed only where the affiliate is "primarily engaged" in these activities. Similarly, the underwriting of a wide range of government securities is expressly authorized to member banks under section 16 of the Glass–Steagall Act.[41]

B. Banking Practices and Securities Brokerage After Glass–Steagall

The conclusion that CSC's activities do not involve the "public sale" of securities is consistent with the Board's longstanding position that full-service brokerage activities do not fall within the scope of "public sale" as used in section 32 of the Glass–Steagall Act. In 1934, the Board interpreted the interlock prohibitions of section 32 as not covering agency brokerage activities,[42] and in 1936 incorporated this position into its regulation implementing the provisions of section 32, Regulation R.[43] In particular, Regulation R provided that a "broker who is engaged solely in executing orders for the purchase and sale of securities on behalf of others in the open market is not engaged in the business referred to in section 32." This provision has never been altered. In *Schwab*, the Supreme Court expressly relied on this administrative interpretation, finding that the interpretation should apply as well to the terms of section 20, and that the interpretation is consistent with both the plain language and legislative intent of the statute.[44]

Under this interpretation, a broker that combines investment advice with buying and selling securities on behalf of customers similarly is not engaged in the public sale of securities. On the basis of this interpretation, the Board has allowed numerous interlocks between member banks and full-service brokerage firms,[45] such as Bache and Co. and Harris, Upham & Co., the latter as late as 1962.[46] Indeed, in the Board's administrative action under section 32 of the Glass–Steagall Act at issue in *Board of Governors v. Agnew*,[47] the Board excluded brokerage activities in determining whether the securities firm involved in that case was primarily engaged in underwriting or the public sale of securities. The Supreme Court's decision upholding the Board's conclusion that the firm was primarily engaged under section 32 left undisturbed the Board's exclusion of brokerage from the securities activities described in section 32.[48]

The Board also notes that immediately after the enactment of Glass–Steagall prominent private banks, which were a chief target of the Act,[49] apparently believed that full-service brokerage did not constitute "issuing, underwriting, selling, or distributing" under section 21 of that Act (12 U.S.C. § 378), and on this basis continued to provide full-service brokerage.[50] Given that section 21 is part of the same statute as section 20, was enacted for the same purpose, and that the two sections have similar language, the apparent industry understanding that full-service brokerage is not the impermissible "selling" of securities for purposes of section 21 further supports the conclusion

41. The SIA's reliance on passing references in the legislative history to "brokerage houses" and "commissions" for securities activities is misplaced. These references do not show any intent to prohibit brokerage activities *per se*, but clearly were meant to describe securities firms generally. In the 1930s brokerage houses, in addition to providing brokerage services, also typically acted as principals in dealing in and underwriting securities. These operations are among the activities proscribed by section 20. *See Board of Governors v. Agnew*, 329 U.S. 441, 445–46 (1947). In addition, the references in the legislative history pointed out by the SIA, where concern is expressed that the perceived integrity of a bank securities affiliate may have induced the public to purchase particular securities, described circumstances in which the affiliate was functioning as an underwriter, not as a broker.

42. 20 FEDERAL RESERVE BULLETIN 393 (1934).

43. 12 C.F.R.§ 218.1, n.1.

44. *Schwab*, 104 S. Ct. at 3010–11.

45. *See* Letter from Merritt Sherman, Secretary of the Board, to Howard D. Crosse, Vice President, Federal Reserve Bank of New York (May 7, 1962) (Harris, Upham determination); Letter from S. R. Carpenter, Secretary of the Board, to R. B. Wiltsee, Vice President, Federal Reserve Bank of New York (June 13, 1954) (Bache and Co. determination).

46. It is clear that these organizations conducted "full-service" brokerage activities, because discount brokerage did not emerge until after May 1, 1975, when fixed brokerage rates were eliminated, and securities firms in response "unbundled" their services to provide investment advice and securities execution services separately. In addition, a 1936 study by the Securities and Exchange Commission regarding broker-dealers indicated that many commission brokers at that time discussed market conditions and furnished specific investment advice to their customers. Securities and Exchange Commission, *Report on the Feasibility and Advisability of the Complete Segregation of the Functions of Dealer and Broker* at 3 (June 20, 1936).

47. 329 U.S. 441 (1947).

48. On judicial review, the member bank directors affected argued that the securities firm was primarily engaged in the brokerage business, because that business generated its largest source of revenue, and that the company, *a fortiori*, could not be primarily engaged in any activity described in section 32. If the Court or the Board had believed that brokerage fell within the ambit of section 32, the combined underwriting and brokerage income would have been so great (constituting well over 50 percent of the firm's business) that there would have been no "primarily engaged" issue to decide.

49. *See e.g., Stock Exchange Practices: Hearings Before the Senate Committee on Banking and Currency on S. Res. 64 and S. Res. 56*, 73rd Cong., 2d Sess. 3975–3981 (1933) (Testimony of Winthrop W. Aldrich, President, Chase National Bank).

50. 138 *Commercial and Financial Chronicle* 3869, at col. 1 (June 9, 1934) (Brown Brothers Harriman and Co.); N.Y. Times, June 9, 1934, at 21, col. 3 (*J.P. Morgan and Co.*).

that full-service brokerage does not constitute the public sale of securities for purposes of section 20.[51]

The Board recognizes that, to a great extent, these interlocks between banks and brokerage firms and the offering of brokerage services by private banks have been discontinued. However, the Board believes the fact that banks (and bank holding companies) are not currently providing full-service brokerage activities does not reflect any common understanding that such activities are prohibited by the Act. As explained above, some private banks did continue full-service brokerage after the effective date of the Glass–Steagall Act. In any event, the abandonment of these services may have been caused by a variety of factors.[52] Accordingly, the failure of banks and bank holding companies to engage in brokerage activities until recently is not determinative of the lawfulness of these activities under the Act. For example, the courts have recently upheld the offering of discount brokerage services by bank affiliates and by banks directly, even though banking organizations had not provided such services before.[53]

C. The Subtle Hazards Implicated by Glass–Steagall

The SIA also argues that regardless of whether such brokerage or investment advisory activities are permissible separately, the combination of securities execution services and investment advice raises the potential for the creation of those subtle hazards[54] that Congress identified with the combination of commercial banking and the securities business, and that Congress sought to avoid through enacting the Glass–Steagall Act.[55]

At the outset, the Board notes that in its decisions under the Glass–Steagall Act, the Supreme Court has not relied on the possibility of "subtle hazards" as determinative of the legality of a particular activity, where the activity is permissible under the literal terms of the statute. The Court has examined the potential for subtle hazards in order to confirm that the literal interpretation of the statute is correct or to shed light on possibly ambiguous statutory language.[56] Here, as demonstrated by a contemporaneous and unchanged administrative interpretation that has been confirmed by the Supreme Court in the *Schwab* opinion, full-service brokerage does not fall within the literal terms of "public sale" or the other securities functions described in sections 20 and 32 of the Act.

Moreover, after reviewing CSC's proposed activities in light of the hazards the Glass–Steagall Act was enacted to eliminate, the Board finds that the potential that such hazards will occur as a result of the proposal does not cast doubt on the correctness of the longstanding interpretation that full-service brokerage is not covered by the terms of sections 20 and 32. Like the broker involved in *Schwab*, CSC will act solely as agent and its assets would not be "subject to the vagaries of the securities markets."[57] The Board also notes that virtually all of the potential hazards cited by the SIA as resulting from the proposal (such as possible damage to the reputation of the affiliated bank due to poor performance of recommended investments, possible touting of securities issued by borrowers to

51. The SIA also contends that full-service brokerage is commonly understood to be unlawful for banks under the Glass–Steagall Act, citing section 16 of the Act and an interpretation of section 21 by the FDIC's General Counsel. Section 16 (12 U.S.C. § 24 Seventh) provides that a national bank's business of dealing in securities shall be limited to purchasing and selling securities "without recourse, solely upon the order and for the account of customers" and not for the bank's own account. It is not clear that section 16 prohibits for member banks the types of activities at issue here, since under CSC's proposal the customer must direct each trade executed by the broker, even when CSC recommends the transaction.

Moreover, even if the SIA is correct that banks may not provide full-service brokerage directly, this conclusion does not mean that an affiliate would be so prohibited under section 20. The Glass–Steagall Act prescribes different limitations on member banks than it does on their affiliates, allowing, as the Supreme Court has stated, a broader spectrum of activity for affiliates. *ICI II*, 450 U.S. at 63–64.

52. The Comptroller of the Currency effectively limited the conduct of such activities by national banks when, for over 20 years, he gave section 16 of the Act (which applies to direct securities activities of banks) a restrictive reading, confining such activities solely to an (originally no-cost) "accommodation service" for customers. These limitations have now been rejected as inconsistent with the statute. *See Security Pacific, supra.* Further, it was only in the late 1960s that large banks formed bank holding companies to engage in nonbanking activities. In addition, commenters have noted that banks traditionally had not considered the brokerage market very profitable, and banks could have declined to enter the market on that basis. *See* Note, *National Banks and the Brokerage Business: The Comptroller's New Reading of Glass–Steagall Act*, 69 Va. L. Rev. 1303 (1983).

53. *Schwab, supra; Security Pacific, supra.*

54. *ICI I*, 401 U.S. at 638, *ICI II*, 450 U.S. at 63. The Supreme Court in *ICI II* summarized these subtle hazards as follows:

Because the bank and its affiliate would be closely associated in the public mind, public confidence in the bank might be impaired if the affiliate performed poorly. Further, depositors of the bank might lose money on investments purchased in reliance on the relationship between the bank and its affiliate. The pressure on banks to prevent this loss of public confidence could induce the bank to make unsound loans to the affiliate or to companies in whose stock the affiliate has invested. Moreover, the association between the commercial and investment bank could result in the commercial bank's reputation for prudence and restraint being attributed, without justification, to an enterprise selling stocks and securities. Futhermore, promotional considerations might induce banks to make loans to customers to be used for the purchase of stocks and might impair the ability of the commercial banker to render disinterested advice.

450 U.S. at 66 n. 38.

55. The SIA specifically cites:

(1) the loss of confidence in banks if investments made on the recommendation of their affiliates went bad;

(2) NatWest's " 'pecuniary incentive' in promoting the sale of a particular security" for a transaction-related fee will provide the potential for biased investment advice;

(3) the touting of securities issued by corporate borrowers in order to pay off pre-existing loans to its bank affiliates; and

(4) unwarranted extensions of credit to corporations whose securities have been recommended.

56. *See ICI I*, 401 U.S. at 629–38; *ICI II*, 450 U.S. at 66–67; *Securities Industry Ass'n v. Board of Governors*, 104 S. Ct. 2979, 2989–91 (1984) ("*Bankers Trust*"); *Schwab*, 104 S. Ct. at 3011.

57. *See* 104 S. Ct. at 3011.

pay off loans from an affiliated bank, and possible unsound loans to issuers whose securities have been recommended), are equally as likely to occur when a banking organization provides investment advice alone. The fact that provision of investment advice is not unlawful under the Act indicates that the hazards cited by the SIA were not considered to be of such significant concern as to require a legal prohibition. In addition, as noted above, no evidence has been cited that those investment advisory services, conducted under the framework established by the Board, have produced any conflicts of interests or other hazards.

In any event, each of the potential hazards advanced by the SIA has been thoroughly considered in connection with the Board's analysis of this proposal under section 4(c)(8) of the BHC Act. As explained in the Board's section 4(c)(8) analysis, CSC's affiliation with a member bank, as structured by Applicant, will not produce such significant potential hazards so as to undermine the longstanding administrative interpretation that investment advice and brokerage are not covered by sections 20 and 32 and are consistent with the congressional intent reflected in the Act. For example, there is no significant potential for loss of confidence in an affiliate bank as a result of this proposal, given the strict operational separation proposed between CSC and other NatWest affiliates, the fact that the public and bank depositors should understand that CSC would not commit its own funds to any specific investments, and that depositor lists would not be transmitted from any affiliated bank to CSC. With respect to the potential for biased investment advice resulting from the proposed transaction-related fee arrangement, the Board has noted that the federal securities laws prohibit self-interested advisory practices such as churning and unsuitable recommendations. CSC would serve only institutional customers that would be sensitive to less than impartial investment advice, and CSC would provide investment advice and execution services for separate fees if customers wished.

In addition, as explained above, the Board also finds that there is no significant potential that CSC would recommend securities the proceeds of which would be used to pay existing loans made by an affiliated bank, because the securities laws require disclosure of the intended use of the proceeds, and because information relating to loans made by NatWest affiliate banks would not be made available to CSC. Finally, with respect to the potential for unwarranted loans to companies whose securities CSC has recommended, the Board has noted that the expected benefit of such conduct would likely be outweighed by the potential losses resulting from the bad loans, and that information relating to the particular recommendations made by CSC would not be provided to NatWest affiliates.

In making its judgment about the lack of significant hazards associated with this proposal, the Board has relied on various commitments entered into by NatWest limiting the scope of the proposed operations, and has imposed certain conditions on the conduct of the proposed activity. The Board believes that its reliance on the commitments and conditions does not constitute the kind of regulatory approach the Supreme Court has disfavored in constructions of the Glass–Steagall Act.[58] The Supreme Court has explicitly recognized that where a particular activity is permissible under the terms of the Act, the Board may impose restrictions designed to assure that the activity is insulated from the subtle hazards associated with investment banking.[59] *ICI II*, 450 U.S. at 62, 66–67 n.39. The commitments of Applicant and the reasons for them are discussed above in connection with the consideration of the section 4(c)(8) factors.[60]

IV. Conclusion

Based upon the foregoing and other considerations reflected in the record, the Board has determined that the public benefits associated with consummation of this proposal can reasonably be expected to outweigh possible adverse effects, and that the balance of the public interest factors that the Board is required to consider under section 4(c)(8) of the BHC Act is favorable. Accordingly, the application is hereby approved, subject to the commitments made by Applicant and the conditions set forth in this Order. This determination is further subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of the holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

58. *Bankers Trust*, 104 S. Ct. at 2988.

59. *In Bankers Trust*, the Supreme Court made clear that an agency may not rely on regulatory guidelines to overcome the explicit language of the Glass–Steagall Act, if that language expressly applies to the activity in question. Here, as explained above, the explicit language of the Act does not apply to CSC's activities. The Board also has the independent authority under section 4(c)(8) of the BHC Act to impose conditions to assure compliance with that provision.

60. In any event, the fact that an applicant has imposed limitations on a proposed activity designed to assure that potential hazards do not occur, does not necessarily support the conclusion that without each of the limitations, the activity would implicate the subtle hazards that motivated the Glass–Steagall Act. Indeed, in the Board's experience, an applicant may agree to limitations that are more stringent than what is required by law, simply to eliminate the need to address specific legal issues. Thus the limitations proposed by NatWest should not necessarily be viewed as being mandated by the statute in every case.

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, pursuant to delegated authority.

By order of the Board of Governors, effective June 13, 1986.

Voting for this action: Vice Chairman Martin and Governors Rice, Seger, Angell, and Johnson. Chairman Volcker abstained from this action. Absent and not voting: Governor Wallich.

WILLIAM W. WILES
Secretary of the Board

[SEAL]

ORDERS APPROVED UNDER BANK HOLDING COMPANY ACT

By the Board of Governors

Recent applications have been approved by the Board of Governors as listed below. Copies are available upon request to Publications Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 3

Applicant	Bank(s)	Board action (effective date)
Greater Texas Bancshares, Inc., Georgetown, Texas	Greater Texas Bank Leander, Leander, Texas Greater Texas Bank North, N.A., Austin, Texas Lockhart State Bank, Lockhart, Texas	June 26, 1986
Manhattan Banking Corporation, Manhattan, Kansas	Kansas State Bank, Manhattan, Kansas	June 23, 1986

By Federal Reserve Banks

Recent applications have been approved by the Federal Reserve Banks as listed below. Copies of the orders are available upon request to the Reserve Banks.

Section 3

Applicant	Bank(s)	Reserve Bank	Effective Date
American Commerce Banshares, Inc., Omaha, Nebraska	Financial Group Humboldt, Inc., Humboldt, Nebraska, Financial Group Elk Creek, Inc., Humboldt, Nebraska Financial Group Dawson, Inc., Dawson, Nebraska American National Corporation, Omaha, Nebraska	Kansas City	June 10, 1986
AmeriTrust Corporation, Cleveland, Ohio First Indiana Bancorp, Elkhart, Indiana	State Bank of Lima, Howe, Indiana	Cleveland	May 20, 1986

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective Date
Banc One Corporation, Columbus, Ohio	Marion Bancorp, Marion, Indiana	Cleveland	June 4, 1986
Bank Corporation of Georgia, Fort Valley, Georgia	The Citizens Bank of Ashburn, Ashburn, Georgia	Atlanta	June 13, 1986
Banterra Corp., Eldorado, Illinois	Norris City State Bank, Norris City, Illinois	St. Louis	June 20, 1986
Bellwood Bancorporation, Inc., Bellwood, Illinois	Peterson Bank, Chicago, Illinois	Chicago	May 21, 1986
Caldwell Capital Corporation, Caldwell, Texas	First State Bank in Caldwell, Caldwell, Texas	Dallas	June 6, 1986
Citizens Fidelity Corporation, Louisville, Kentucky	Madison National Bank of Richmond, Richmond, Kentucky	St. Louis	May 29, 1986
Coastal Commerce Bancshares, Inc., Kaplan, Louisiana	Kaplan State Bank, Kaplan, Louisiana	Atlanta	May 21, 1986
Community Bancshares, Inc., Blountsville, Alabama	Community Bank of Marshall County, Arab, Alabama	Atlanta	June 6, 1986
COMMUNITY FINANCIAL CORP., Avilla, Indiana	Community State Bank, Avilla, Indiana	Chicago	May 27, 1986
The Conifer Group Inc., Worcester, Massachusetts	Hampshire National Bank of South Hadley, South Hadley, Massachusetts	Boston	June 10, 1986
The Conifer Group Inc., Worcester, Massachusetts	Patriot Bancorporation, Boston, Massachusetts	Boston	June 10, 1986
Cumberland Bancshares, Inc., Hartsville, Tennessee	Citizens Bank, Hartsville, Tennessee	Atlanta	June 13, 1986
DG Bancorp, Inc., Downers Grove, Illinois	Downers Grove National Bank, Downers Grove, Illinois	Chicago	May 22, 1986
ExTraCo Bankshares, Inc., Temple, Texas	Texana Bank, N.A., Waco, Texas	Dallas	June 19, 1986
First Banc Securities, Inc., Morgantown, West Virginia	The Peoples National Bank of Martinsburg, Martinsburg, West Virginia	Richmond	May 20, 1986
First Coastal Banks, Inc., Portsmouth, New Hampshire	Merchants National Bank, Dover, New Hampshire	Boston	May 20, 1986
First FSB Bancshares, Inc., Italy, Texas	FSB Bancshares, Inc., Waco, Texas	Dallas	June 6, 1986
First Illinois Corporation, Evanston, Illinois	First Burlington Corporation, La Grange, Illinois	Chicago	May 30, 1986
First National Bancshares of Wetumpka, Inc., Wetumpka, Alabama	The First National Bank of Wetumpka, Wetumpka, Alabama	Atlanta	June 18, 1986
First State Bancshares of Blakely, Inc., Blakely, Georgia	First State Bank of Blakely, Blakely, Georgia	Atlanta	June 11, 1986
First Vernon Bancshares, Inc., Vernon, Alabama	The Bank of Vernon, Vernon, Alabama	Atlanta	June 23, 1986

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective Date
First West Virginia Bancorp, Inc., Wheeling, West Virginia	First West Virginia Bank, N.A.—Buckhannon, Buckhannon, West Virginia	Cleveland	May 28, 1986
First Wilmington Corp., Wilmington, Illinois	The First National Bank of Wilmington, Wilmington, Illinois	Chicago	June 4, 1986
Fredonia Bancshares, Inc., Nacogdoches, Texas	Fredonia State Bank, Nacogdoches, Texas	Dallas	June 25, 1986
Garden Plain Bancshares, Inc., Garden Plain, Kansas	Garden Plain State Bank, Garden Plain, Kansas	Kansas City	May 29, 1986
Genala Banc, Inc., Geneva, Alabama	The Citizens Bank, Geneva, Alabama	Atlanta	June 17, 1986
General Bancshares, Inc., South Pittsburg, Tennessee	Citizens State Bank, South Pittsburg, Tennessee	Atlanta	May 28, 1986
Graham Shares of Waverly, Inc., Waverly, Minnesota	Citizens State Bank of Waverly, Waverly, Minnesota	Minneapolis	June 9, 1986
Guaranty Bancshares Corporation, Shamokin, Pennsylvania	Nanticoke Financial Services, Inc., Nanticoke, Pennsylvania The First National Bank of Nicholson, Nicholson, Pennsylvania	Philadelphia	June 11, 1986
Hamel Bancorp, Inc., Hamel, Illinois	Hamel State Bank, Hamel, Illinois	St. Louis	May 29, 1986
Harry A. Lowe Agency, Inc., Ouray, Colorado	The Montrose County Bank, Naturita, Colorado	Kansas City	May 30, 1986
IBT Bancshares, Inc., Gretna, Louisiana	Investors Bank and Trust Company, Gretna, Louisiana	Atlanta	June 11, 1986
Independent Community Banc Corp., Norwalk, Ohio	The Citizens National Bank of Norwalk, Norwalk, Ohio	Cleveland	June 4, 1986
Lakes Capital Corp., Water Valley, Mississippi	Bank of Water Valley, Water Valley, Mississippi	St. Louis	June 17, 1986
Marble Financial Corporation, Rutland, Vermont	Marble Bank, Rutland, Vermont	Boston	June 16, 1986
Marquette County Financial Corporation, Negaunee, Michigan	The First National Bank of Negaunee, Negaunee, Michigan	Minneapolis	June 11, 1986
Nichols Hills Bancorporation, Inc., Oklahoma City, Oklahoma	Nichols Hills Bank and Trust Company, Oklahoma City, Oklahoma	Kansas City	June 13, 1986
National Bankshares, Inc., Blacksburg, Virginia	The National Bank of Blacksburg, Blacksburg, Virginia	Richmond	June 13, 1986

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective Date
New Braunfels Bancshares, Inc., New Braunfels, Texas	Citizens National Bank, New Braunfels, Texas	Dallas	May 21, 1986
Ogle County Bancshares, Inc., Rochelle, Illinois	Leland National Bancorp. Inc., Leland, Illinois	Chicago	June 24, 1986
Omni Bancorp, Inc., Effingham, Illinois	Crossroads Bank, Effingham, Illinois	St. Louis	June 9, 1986
Penn Rock Financial Services Corporation, Blue Ball, Pennsylvania	Blue Ball National Bank, Blue Ball, Pennsylvania	Philadelphia	June 17, 1986
Pinnacle Financial Services, Inc., St. Joseph, Michigan	The Peoples State Bank of St. Joseph, St. Joseph, Michigan	Chicago	May 21, 1986
Polk County Bancorporation, Inc., Polk City, Iowa	The Polk City Savings Bank, Polk City, Iowa	Chicago	May 28, 1986
Putnam Bancshares, Inc., Hurricane, West Virginia	Putnam County Bank, Hurricane, West Virginia	Richmond	June 5, 1986
St. Joseph Bancorporation, Inc., South Bend, Indiana	First Union Bank and Trust Company, Winamac, Indiana	Chicago	June 19, 1986
Salin Bancshares of North Central Indiana, Inc., Fort Wayne, Indiana	CAMDEN FINANCIAL CORPORATION, Camden, Indiana	Chicago	May 30, 1986
Sidney Bancorporation, Inc., Sidney, Illinois	Sidney Community Bank, Sidney, Illinois	Chicago	May 28, 1986
Sierra Tahoe Bancorp, Truckee, California	Truckee River Bank, Truckee, California	San Francisco	June 9, 1986
Southwest Bankers, Inc., San Antonio, Texas	Bank of San Antonio/Medical Center, San Antonio, Texas	Dallas	June 24, 1986
Spring Valley Bancorp, Inc., Spring Valley, Illinois	Spring Valley City Bank, Spring Valley, Illinois	Chicago	May 27, 1986
Spurgeon Financial Corporation, Spurgeon, Indiana	Pike Bancshares, Inc., Petersburg, Indiana	St. Louis	June 6, 1986
Summcorp, Fort Waye, Indiana	Kendallville Bank & Trust Co., Kendallville, Indiana	Chicago	June 13, 1986
The Summit Bancorporation, Summit, New Jersey	The Trust Company of Princeton, Princeton, New Jersey	New York	June 6, 1986
Susquehanna Bancshares Inc., Lititz, Pennsylvania	Williamsport National Bank, Williamsport, Pennsylvania	Philadelphia	May 30, 1986
Tyronza Bancshares, Inc., Tyronza, Arkansas	Tyronza Bank, Tyronza, Arkansas	St. Louis	June 3, 1986
Valley-Hi Investment Company, San Antonio, Texas	Valley-Hi National Bank of San Antonio, San Antonio, Texas	Dallas	May 19, 1986

Section 4

Applicant	Bank(s)/Nonbanking Company	Reserve Bank	Effective date
AmeriTrust Corporation, Cleveland, Ohio	Associates Corporation of North America, Cleveland, Ohio	Cleveland	June 13, 1986
Bank of Virginia Company, Richmond, Virginia	Dacor Finance, Inc., Jackson, Mississippi	Richmond	June 18, 1986
Escrow Corporation of America, Inc., Pennock, Minnesota	Lyle Thomas Agency, Willmar, Minnesota	Minneapolis	May 28, 1986
Norwest Corporation, Minneapolis, Minnesota	McKinney Wudel Insurance Service, Rapid City, South Dakota	Minneapolis	May 21, 1986
U.S. Trust Corporation, New York, New York	Advanced Information Management, Inc., Boston, Massachusetts	New York	June 18, 1986
Zions Utah Bancorporation, Salt Lake City, Utah	Century Mortgage Company, Salt Lake City, Utah	San Francisco	June 13, 1986

By the Board of Governors

Sections 3 and 4

Applicant	Bank(s)/Nonbanking Company	Effective date
MCorp, Dallas, Texas	MBank, Arboretum, Austin, Texas National Computer Analysts, Inc., Princeton, New Jersey ECOM Systems, Inc., Memphis, Tennessee	June 12, 1986

By Federal Reserve Banks

Applicant	Bank(s)/Nonbanking Company	Reserve Bank	Effective date
NBD Western Corporation, Detroit, Michigan	Union Bancorp, Inc., Grand Rapids, Michigan Bankers Leasing Service, Inc., Southfield, Michigan	Chicago	May 22, 1986

ORDERS APPROVED UNDER BANK MERGER ACT

By Federal Reserve Banks

Applicant	Bank(s)	Reserve Bank	Effective date
The Central Trust Company, Newark, Ohio	The Clear Creek Valley Banking Company, Amanda, Ohio	Cleveland	May 22, 1986
Putnam County Bank, Hurricane, West Virginia	PCB Bank Company, Inc., Hurricane, West Virginia	Richmond	June 5, 1986
Security Bank and Trust Company, Southgate, Michigan	Security Bank Oakland County, Novi, Michigan	Chicago	June 19, 1986
State Bank of Carthage, Carthage, Indiana	The First National Bank of Mays, Mays, Indiana	Chicago	June 23, 1986

BANK SERVICE CORPORATION ACT

By Federal Reserve Banks

Applicant	Bank(s)	Reserve Bank	Effective date
Trust Company Bank, Atlanta, Georgia	SunTrust Service Corporation, Orlando, Florida	Atlanta	June 18, 1986

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.

CBC, Inc. v. Board of Governors, No. 86–1001 (10th Cir., filed Jan. 2, 1986).

Howe v. United States, et al., No. 85–4504-C (D. Mass., filed Dec. 6, 1985).

Myers, et al. v. Federal Reserve Board, No. 85–1427 (D. Idaho, filed Nov. 18, 1985).

Souser, et al. v. Volcker, et al., No. 85-C-2370, *et al.* (D. Colo., filed Nov. 1, 1985).

Podolak v. Volcker, No. C85–0456, *et al.* (D. Wyo., filed Oct. 28, 1985).

Kolb v. Wilkinson, et al., No. C85–4184 (N.D. Iowa, filed Oct. 22, 1985).

Farmer v. Wilkinson, et al., No. 4–85-CIVIL-1448 (D. Minn., filed Oct. 21, 1985).

Kurkowski v. Wilkinson, et al., No. CV-85–0-916 (D. Neb., filed Oct. 16, 1985).

Jensen v. Wilkinson, et al., No. 85–4436-S, *et al.* (D. Kan., filed Oct. 10, 1985).

Alfson v. Wilkinson, et al., No. A1–85–267 (D. N.D., filed Oct. 8, 1985).

First National Bank of Blue Island Employee Stock Ownership Plan v. Board of Governors, No. 85–2615 (7th Cir., filed Sept. 23, 1985).

First National Bancshares II v. Board of Governors, No. 85–3702 (6th Cir., filed Sept. 4, 1985).

McHuin v. Volcker, et al., No. 85–2170 WARB (W.D. Okl., filed Aug. 29, 1985).

Independent Community Bankers Associaton of South Dakota v. Board of Governors, No. 84–1496 (D.C. Cir., filed Aug. 7, 1985).

Florida Bankers Association, et al. v. Board of Governors, No. 85–193 (U.S., filed Aug. 5, 1985).

Urwyler, et al. v. Internal Revenue Service, et al., No. CV-F-85–402 REC (E.D. Cal., filed July 18, 1985).

Johnson v. Federal Reserve System, et al., No. S85–0958(R) and S85–1269(N) (S.D. Miss., filed July 16, 1985).

Wight, et al. v. Internal Revenue Service, et al., No. CIV S-85–0012 MLS (E.D. Cal., filed July 12, 1985).

Cook v. Spillman, et al., No. CIV S-85–0953 EJG (E.D. Cal., filed July 10, 1985).

Florida Bankers Association v. Board of Governors, No. 84-3883 and No. 84-3884 (11th Cir., filed Feb. 15, 1985).

Florida Department of Banking v. Board of Governors, No. 84-3831 (11th Cir., filed Feb. 15, 1985), and No. 84-3832 (11th Cir., filed Feb. 15, 1985).

Lewis v. Volcker, et al., No. C-1-85-0099 (S.D. Ohio, filed Jan. 14, 1985).

Brown v. United States Congress, et al., No. 84-2887-6(IG) (S.D. Cal., filed Dec. 7, 1984).

Melcher v. Federal Open Market Committee, No. 84-1335 (D.D.C., filed Apr. 30, 1984).

Securities Industry Association v. Board of Governors, No. 80-2614 (D.C. Cir., filed Oct. 24., 1980), and No. 80-2730 (D.C. Cir., filed Oct. 24, 1980).

Financial and Business Statistics

CONTENTS

Domestic Financial Statistics

MONEY STOCK AND BANK CREDIT

POLICY INSTRUMENTS

FEDERAL RESERVE BANKS

MONETARY AND CREDIT AGGREGATES

COMMERCIAL BANKING INSTITUTIONS

WEEKLY REPORTING COMMERCIAL BANKS

FINANCIAL MARKETS

FEDERAL FINANCE

SECURITIES MARKETS AND CORPORATE FINANCE

REAL ESTATE

CONSUMER INSTALLMENT CREDIT

FLOW OF FUNDS

Domestic Nonfinancial Statistics

SELECTED MEASURES

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

SPECIAL TABLE

1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Item	Monetary and credit aggregates (annual rates of change, seasonally adjusted in percent)[1]								
	1985			1986	1986				
	Q2	Q3	Q4	Q1	Jan.r	Feb.r	Mar.	Apr.	May
Reserves of depository institutions[2]									
1 Total	17.0	15.7	12.5	13.1	7.1	12.8	12.8	10.5	32.9
2 Required	17.3	16.4	11.5	12.3	5.8	13.4	18.4	13.2	32.6
3 Nonborrowed	19.1	17.5	10.4	19.1	22.1	10.0	16.3	7.3r	33.9
4 Monetary base[3]	8.2	9.6	8.2	8.6	9.3	7.6	8.0	5.9r	13.7
Concepts of money, liquid assets, and debt[4]									
5 M1	10.5	14.5	10.7	7.7	1.1	7.3	14.1r	14.5	23.2
6 M2	6.3	9.5	6.0	4.3	1.5	3.5	6.8	13.8r	11.9
7 M3	5.5	7.7	6.4	−7.3r	8.5	6.1	7.3r	10.8r	6.7
8 L	6.2	7.9	9.3	8.1	6.8	6.1	4.0r	n.a.	n.a.
9 Debt	12.0r	12.9	14.6r	16.1	18.4	8.8	8.3r	9.7	n.a.
Nontransaction components									
10 In M2[5]	5.0	8.0	4.6	3.2	1.6	2.3	4.4	13.5	8.3
11 *In M3 only*[6]	2.6	.1r	8.0	19.5r	36.9	16.3	9.4r	−1.1r	−13.8
Time and savings deposits									
Commercial banks									
12 Savings[7]	−1.0	7.6	3.2r	1.9r	2.9	2.9	6.7	8.6	22.7
13 Small-denomination time[8]	2.1	−3.3	−1.6	5.3	7.8	4.7	2.8	−3.4	−9.6
14 Large-denomination time[9,10]	6.9	−3.6	14.1	18.5	45.6	7.5	−18.5	.0r	−23.4
Thrift institutions									
15 Savings[7]	3.8	12.9	7.5	3.1r	1.3	4.0	8.7	24.5	30.5
16 Small-denomination time	1.0	−2.8	−2.9	6.6	7.7	8.4	6.7	6.2r	−5.0
17 Large-denomination time[9]	5.5	−1.0	5.2	10.0	6.9	11.4	27.8	11.7	−2.2
Debt components[4]									
18 Federal	12.5r	14.6	15.2r	17.5r	16.4	9.8	5.3r	7.8	n.a.
19 Nonfederal	11.9r	12.4	14.4r	15.7r	19.0	8.5	9.2r	10.3	n.a.
20 Total loans and securities at commercial banks[11]	9.4r	9.6	9.4r	12.7	18.7	3.4	5.6r	2.0r	5.9

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding in preceding month or quarter.

2. Figures incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements. To adjust for discontinuities due to changes in reserve requirements on reservable nondeposit liabilities, the sum of such required reserves is subtracted from the actual series. Similarly, in adjusting for discontinuities in the monetary base, required clearing balances and adjustments to compensate for float also are subtracted from the actual series.

3. The monetary base not adjusted for discontinuities consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks plus the currency component of the money stock less the amount of vault cash holdings of thrift institutions that is included in the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. After the introduction of contemporaneous reserve requirements (CRR), currency and vault cash figures are measured over the weekly computation period ending Monday.

Before CRR, all components of the monetary base other than excess reserves are seasonally adjusted as a whole, rather than by component, and excess reserves are added on a not seasonally adjusted basis. After CRR, the seasonally adjusted series consists of seasonally adjusted total reserves, which include excess reserves on a not seasonally adjusted basis, plus the seasonally adjusted currency component of the money stock plus the remaining items seasonally adjusted as a whole.

4. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, 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 (OCD) 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. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, Money Market Deposit Accounts (MMDAs), savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker/dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker/dealer), foreign governments and commercial banks, and the U.S. government. Also subtracted is a consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

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 mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages. Growth rates for debt reflect adjustments for discontinuities over time in the levels of debt presented in other tables.

5. Sum of overnight RPs and Eurodollars, money market fund balances (general purpose and broker/dealer), MMDAs, and savings and small time deposits less the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposit liabilities.

6. Sum of large time deposits, term RPs, and Eurodollars of U.S. residents, money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

7. Excludes MMDAs.

8. Small-denomination time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRA and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

9. Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

10. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

11. Changes calculated from figures shown in table 1.23.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1986			1986						
	Mar.	Apr.	May	Apr. 16	Apr. 23	Apr. 30	May 7	May 14	May 21	May 28
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit**	**199,955**	**203,014**	**205,800**	**202,326**	**204,287**	**204,676**	**209,053**	**205,101**	**204,581**	**204,387**
2 U.S. government securities[1]	174,710	177,563	180,195	177,365	178,753	178,351	182,146	178,663	179,929	179,449
3 Bought outright	174,492	176,389	179,287	176,281	177,055	176,103	179,189	178,663	178,865	179,449
4 Held under repurchase agreements	218	1,174	908	1,084	1,698	2,248	2,957	0	1,064	0
5 Federal agency obligations	8,246	8,384	8,366	8,309	8,410	8,685	8,826	8,166	8,430	8,137
6 Bought outright	8,187	8,187	8,155	8,187	8,187	8,187	8,187	8,166	8,137	8,137
7 Held under repurchase agreements	59	197	211	122	223	498	639	0	293	0
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans	755	919	858	729	992	1,057	905	806	848	890
10 Float	773	432	638	123	316	520	642	813	421	924
11 Other Federal Reserve assets	15,471	15,716	15,743	15,799	15,816	16,063	16,535	16,654	14,954	14,988
12 Gold stock	11,090	11,090	11,086	11,090	11,090	11,090	11,088	11,085	11,085	11,085
13 Special drawing rights certificate account	4,718	4,718	4,776	4,718	4,718	4,718	4,718	4,732	4,818	4,818
14 Treasury currency outstanding	17,183[r]	17,229	17,273	17,226	17,235	17,244	17,254	17,265	17,276	17,287
ABSORBING RESERVE FUNDS										
15 Currency in circulation	192,441[r]	194,372	196,431	194,850	194,400	194,058	195,151	196,350	196,414	197,175
16 Treasury cash holdings	609	607	637	629	577	582	637	639	638	636
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	3,399	3,870	4,679	3,393	2,221	6,769	7,246	4,591	3,972	3,580
18 Foreign	260	247	212	211	284	246	195	206	221	218
19 Service-related balances and adjustments	1,863	1,818	1,841	1,868	1,947	1,736	1,745	1,747	1,815	1,891
20 Other	487	448	482	467	415	414	573	455	531	395
21 Other Federal Reserve liabilities and capital	6,391	6,254	6,384	6,252	6,345	6,388	6,758	6,262	6,332	6,269
22 Reserve balances with Federal Reserve Banks[2]	27,497	28,435	28,269	27,690	31,140	27,534	29,809	27,933	27,838	27,413

Factors	End-of-month figures			Wednesday figures						
	1986			1986						
	Mar.	Apr.	May	Apr. 16	Apr. 23	Apr. 30	May 7	May 14	May 21	May 28
SUPPLYING RESERVE FUNDS										
23 **Reserve Bank credit**	**201,820**	**210,494**	**206,437**	**205,160**	**212,037**	**210,494**	**208,032**	**205,636**	**209,592**	**209,431**
24 U.S. government securities[1]	176,620	181,834	181,992	179,593	183,601	181,834	181,360	178,869	183,054	181,499
25 Bought outright	176,620	174,312	181,992	176,238	176,660	174,312	181,360	178,869	178,296	181,499
26 Held under repurchase agreements	0	7,522	0	3,355	6,941	7,522	0	0	4,758	0
27 Federal agency obligations	8,187	9,620	8,137	8,487	9,180	9,620	8,187	8,137	9,506	8,137
28 Bought outright	8,187	8,187	8,137	8,187	8,187	8,187	8,187	8,137	8,137	8,137
29 Held under repurchase agreements	0	1,433	0	300	993	1,433	0	0	1,369	0
30 Acceptances	0	0	0	0	0	0	0	0	0	0
31 Loans	818	954	850	699	1,233	954	899	812	1,233	812
32 Float	560	851	132	489	1,354	851	1,012	1,046	276	3,744
33 Other Federal Reserve assets	15,635	17,235	15,326	15,892	16,669	17,235	16,574	16,772	15,523	15,239
34 Gold stock	11,090	11,089	11,085	11,090	11,090	11,089	11,085	11,085	11,085	11,085
35 Special drawing rights certificate account	4,718	4,718	4,818	4,718	4,718	4,718	4,718	4,818	4,818	4,818
36 Treasury currency outstanding	17,207[r]	17,252	17,296	17,234	17,243	17,252	17,263[r]	17,274	17,285	17,296
ABSORBING RESERVE FUNDS										
37 Currency in circulation	193,209[r]	194,503	197,807	194,871	194,163	194,503	195,913[r]	196,557	196,680	198,020
38 Treasury cash holdings	617	638	636	578	573	638	639	638	636	636
Deposits, other than reserve balances with Federal Reserve Banks										
39 Treasury	3,280	11,550	3,083	3,484	0	11,550	4,003	2,604	4,186	4,098
40 Foreign	274	326	254	235	317	326	194	237	205	279
41 Service-related balances and adjustments	1,542	1,590	1,596	1,542	1,541	1,590	1,592	1,609	1,609	1,580
42 Other	511	441	417	472	369	441	453	561	401	497
43 Other Federal Reserve liabilities and capital	6,162	6,680	6,110	6,043	6,234	6,680	6,134	6,057	6,235	6,134
44 Reserve balances with Federal Reserve Banks[2]	29,240	27,826	29,733	30,977	41,891	27,826	32,170	30,550	32,828	31,386

1. *Includes* securities loaned—fully guaranteed by U.S government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Excludes required clearing balances and adjustments to compensate for float.

NOTE. For amounts of currency and coin held as reserves, see table 1.12.

1.12 RESERVES AND BORROWINGS Depository Institutions

Millions of dollars

Reserve classification	Monthly averages[8]									
	1983	1984	1985	1985			1986			
	Dec.	Dec.	Dec.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
1 Reserve balances with Reserve Banks[1]	21,138	21,738	27,620	25,431	26,385	27,620	26,373	24,700	27,114	28,892
2 Total vault cash[2]	20,755	22,316	22,956	22,724	22,457	22,956	24,245	24,962	22,688	22,231
3 Vault cash used to satisfy reserve requirements[3]	17,908	18,958	20,522	20,038	19,997	20,522	21,687	21,952	20,160	19,990
4 Surplus vault cash[4]	2,847	3,358	2,434	2,686	2,460	2,434	2,559	3,010	2,528	2,241
5 Total reserves[5]	38,894	40,696	48,142	45,469r	46,382	48,142	48,060	46,652	47,274	48,882
6 Required reserves	38,333	39,843	47,085	44,716	45,454	47,085	46,949	45,555	46,378	48,081
7 Excess reserve balances at Reserve Banks[6]	561	853	1,058	753	928	1,058	1,111	1,097	896	801
8 Total borrowings at Reserve Banks	774	3,186	1,318	1,187	1,741	1,318	770	884	761	893
9 Seasonal borrowings at Reserve Banks	96	113	56	172	107	56	36	56	68	73
10 Extended credit at Reserve Banks[7]	2	2,604	499	629	530	499	497	492	518	634
	Biweekly averages of daily figures for weeks ending									
	1986									
	Jan. 29	Feb. 12	Feb. 26	Mar. 12	Mar. 26	Apr. 9	Apr. 23r	May 7r	May 21	June 4
11 Reserve balances with Reserve Banks[1]	24,702r	23,924	25,021r	27,102	26,704	28,292	29,385	28,676	27,875	28,556
12 Total vault cash[2]	24,684	26,078	24,348	22,577	22,986	22,121	22,369	22,100	22,700	22,422
13 Vault cash used to satisfy reserve requirements[3]	21,961	22,891	21,424	20,016	20,409	19,809	20,190	19,824	20,366	20,035
14 Surplus vault cash[4]	2,723	3,187	2,924	2,561	2,577	2,312	2,179	2,276	2,334	2,387
15 Total reserves[5]	46,663r	46,815	46,445r	47,118	47,113	48,101	49,575	48,500	48,241	48,591
16 Required reserves	45,743r	45,629	45,408r	46,142	46,187	47,479	48,703	47,612	47,554	47,593
17 Excess reserve balances at Reserve Banks[6]	921r	1,187	1,038r	976	926	622	873	888	688	999
18 Total borrowings at Reserve Banks	903	662	1,100	704	769	874	861	981	827	871
19 Seasonal borrowings at Reserve Banks	42	44	66	65	69	76	64	89	92	101
20 Extended credit at Reserve Banks[7]	529	480	506	475	535	576	671	637	571	566

1. Excludes required clearing balances and adjustments to compensate for float.

2. Dates refer to the maintenance periods in which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end 30 days after the lagged computation periods in which the balances are held.

3. Equal to all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

4. Total vault cash at institutions having no required reserve balances less the amount of vault cash equal to their required reserves during the maintenance period.

5. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash used to satisfy reserve requirements. Such vault cash consists of all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

6. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements less required reserves.

7. 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 there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

8. Before February 1984, data are prorated monthly averages of weekly averages; beginning February 1984, data are prorated monthly averages of biweekly averages.

NOTE. These data also appear in the Board's H.3 (502) release. For address, see inside front cover.

1.13 FEDERAL FUNDS AND REPURCHASE AGREEMENTS Large Member Banks[1]

Averages of daily figures, in millions of dollars

By maturity and source	1986 week ending Monday								
	Apr. 21	Apr. 28	May 5	May 12	May 19	May 26	June 2	June 9	June 16
One day and continuing contract									
1 Commercial banks in United States	73,882r	67,770r	68,557	69,020	69,536	67,481	68,030	75,063	72,882
2 Other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies	37,981	36,133	36,603	38,851	36,494r	37,095	37,650	38,033	38,329
3 Nonbank securities dealers	10,633	10,161	9,921	9,684	9,938	11,296	13,301	8,136	8,424
4 All other	25,239	25,852	25,433	25,321	26,337	25,333	25,969	24,724	24,906
All other maturities									
5 Commercial banks in United States	9,472	9,598	10,167	9,464	9,394	9,361	9,242	9,259	9,690
6 Other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies	7,702	7,359	7,915	6,853	6,632	7,706	7,198	6,800	6,714
7 Nonbank securities dealers	10,199	11,550	10,670	10,127	10,180	10,079	9,572	9,207	9,493
8 All other	10,781	11,175	10,824	10,427	10,523	10,531	9,651	9,077	9,644
MEMO: Federal funds and resale agreement loans in maturities of one day or continuing contract									
9 Commercial banks in United States	30,341r	29,112r	28,673	24,906	26,736	24,605	27,310	27,391	27,068
10 Nonbank securities dealers	10,319r	9,934r	9,306r	8,683r	8,946r	10,149	9,322	9,015	8,766

1. Banks with assets of $1 billion or more as of Dec. 31, 1977.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per annum

Current and previous levels

Federal Reserve Bank	Short-term adjustment credit and seasonal credit[1]			Extended credit[2]						
				First 60 days of borrowing		Next 90 days of borrowing		After 150 days		Effective date for current rates
	Rate on 6/25/86	Effective date	Previous rate	Rate on 6/25/86	Previous rate	Rate on 6/25/86	Previous rate	Rate on 6/25/86	Previous rate	
Boston	6½	4/21/86	7	6½	7	7½	8	8½	9	4/21/86
New York		4/21/86								4/21/86
Philadelphia		4/23/86								4/23/86
Cleveland		4/21/86								4/21/86
Richmond		4/21/86								4/21/86
Atlanta		4/22/86								4/22/86
Chicago		4/21/86								4/21/86
St. Louis		4/22/86								4/22/86
Minneapolis		4/21/86								4/21/86
Kansas City		4/21/86								4/21/86
Dallas		4/21/86								4/21/86
San Francisco	6½	4/21/86	7	6½	7	7½	8	8½	9	4/21/86

Range of rates in recent years[3]

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1973	7½	7½
1974— Apr. 25	7½–8	8
30	8	8
Dec. 9	7¾–8	7¾
16	7¾	7¾
1975— Jan. 6	7¼–7¾	7¾
10	7¼–7¾	7¼
24	7¼	7¼
Feb. 5	6¾–7¼	6¾
7	6¾	6¾
Mar. 10	6¼–6¾	6¼
14	6¼	6¼
May 16	6–6¼	6
23	6	6
1976— Jan. 19	5½–6	5½
23	5½	5½
Nov. 22	5¼–5½	5¼
26	5¼	5¼
1977— Aug. 30	5¼–5¾	5¼
31	5¼–5¾	5¾
Sept. 2	5¾	5¾
Oct. 26	6	6
1978— Jan. 9	6–6½	6½
20	6½	6½
May 11	6½–7	7
12	7	7
July 3	7–7¼	7¼
July 10	7¼	7¼

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1978— Aug. 21	7¾	7¾
Sept. 22	8	8
Oct. 16	8–8½	8½
20	8½	8½
Nov. 1	8½–9½	9½
3	9½	9½
1979— July 20	10	10
Aug. 17	10–10½	10½
20	10½	10½
Sept. 19	10½–11	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
Nov. 2	13–14	13
6	13	13

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1981— Dec. 4	12	12
1982— July 20	11½–12	11½
23	11½	11½
Aug. 2	11–11½	11
3	11	11
16	10½	10½
27	10–10½	10
30	10	10
Oct. 12	9½–10	9½
13	9½	9½
Nov. 22	9–9½	9
26	9	9
Dec. 14	8½–9	9
15	8½–9	8½
17	8½	8½
1984— Apr. 9	8½–9	9
13	9	9
Nov. 21	8½–9	8½
26	8½	8½
Dec. 24	8	8
1985— May 20	7½–8	7½
24	7½	7½
1986— Mar. 7	7–7½	7
10	7	7
Apr. 21	6½–7	6½
23	6½	6½
In effect June 25, 1986	6½	6½

1. After May 19, 1986, the highest rate within the structure of discount rates may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

A temporary simplified seasonal program was established on Mar. 8, 1985, and the interest rate was a fixed rate ½ percent above the rate on adjustment credit. The program was re-established on Feb. 18, 1986; the rate may be either the same as that for adjustment credit or a fixed rate ½ percent higher.

2. Applicable to advances when exceptional circumstances or practices involve only a particular depository institution and to advances when an institution is under sustained liquidity pressures. As an alternative, for loans outstanding for more than 150 days, a Federal Reserve Bank may charge a flexible rate that takes into account rates on market sources of funds, but in no case will the rate charged be less than the basic rate plus one percentage point. Where credit provided to a particular depository institution is anticipated to be outstanding for an unusually prolonged period and in relatively large amounts, the time period in which each rate under this structure is applied may be shortened. See section 201.3(b)(2) of Regulation A.

3. Rates for short-term adjustment credit. For description and earlier data see the following publications of the Board of Governors: ***Banking and Monetary Statistics***, *1914–1941*, and *1941–1970; Annual Statistical Digest, 1970–1979, 1980, 1981*, and *1982*.

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 4 weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980. There was no surcharge until Nov. 17, 1980, when a 2 percent surcharge was adopted; 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. As of Oct. 1, the formula for applying the surcharge was changed from a calendar quarter to a moving 13-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

Percent of deposits

Type of deposit, and deposit interval	Member bank requirements before implementation of the Monetary Control Act	
	Percent	Effective date
Net demand[2]		
$0 million–$2 million	7	12/30/76
$2 million–$10 million	9½	12/30/76
$10 million–$100 million	11¾	12/30/76
$100 million–$400 million	12¾	12/30/76
Over $400 million	16¼	12/30/76
Time and savings[2,3]		
Savings	3	3/16/67
Time[4]		
$0 million–$5 million, by maturity		
30–179 days	3	3/16/67
180 days to 4 years	2½	1/8/76
4 years or more	1	10/30/75
Over $5 million, by maturity		
30–179 days	6	12/12/74
180 days to 4 years	2½	1/8/76
4 years or more	1	10/30/75

Type of deposit, and deposit interval[5]	Depository institution requirements after implementation of the Monetary Control Act[6]	
	Percent	Effective date
Net transaction accounts[7,8]		
$0–$31.7 million	3	12/31/85
Over $31.7 million	12	12/31/85
Nonpersonal time deposits[9]		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

1. For changes in reserve requirements beginning 1963, see Board's *Annual Statistical Digest, 1971–1975*, and for prior changes, see Board's *Annual Report* for 1976, table 13. Under provisions of the Monetary Control Act, 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. Requirement schedules are graduated, and each deposit interval applies to that part of the deposits of each bank. Demand deposits subject to reserve requirements were gross demand deposits minus cash items in process of collection and demand balances due from domestic banks.

The Federal Reserve Act as amended through 1978 specified different ranges of requirements for reserve city banks and for other banks. Reserve cities were designated under a criterion adopted effective Nov. 9, 1972, by which a bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank. The presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any banks having net demand deposits of $400 million or less were considered to have the character of business of banks outside of reserve cities and were permitted to maintain reserves at ratios set for banks not in reserve cities.

Effective Aug. 24, 1978, the Regulation M reserve requirements on net balances due from domestic banks to their foreign branches and on deposits that foreign branches lend to U.S. residents were reduced to zero from 4 percent and 1 percent respectively. The Regulation D reserve requirement of borrowings from unrelated banks abroad was also reduced to zero from 4 percent.

Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

3. Negotiable order of withdrawal (NOW) accounts and time deposits such as Christmas and vacation club accounts were subject to the same requirements as savings deposits.

The average reserve requirement on savings and other time deposits before implementation of the Monetary Control Act had to be at least 3 percent, the minimum specified by law.

4. Effective Nov. 2, 1978, a supplementary reserve requirement of 2 percent was imposed on large time deposits of $100,000 or more, obligations of affiliates, and ineligible acceptances. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was eliminated beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two reserve computation periods ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13–26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased by 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14–21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

5. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) provides that $2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the next 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 to be made in the event of a decrease. Effective Dec. 9, 1982, the amount of the exemption was established at $2.1 million. Effective with the reserve maintenance period beginning Jan. 1, 1985, the amount of the exemption is $2.4 million. Effective with the reserve computation period beginning Dec. 31, 1985, the amount of the exemption is $2.6 million. In determining the reserve requirements of a depository institution, the exemption shall apply in the following order: (1) nonpersonal money market deposit accounts (MMDAs) authorized under 12 CFR section 1204.122; (2) net NOW accounts (NOW accounts less allowable deductions); (3) net other transaction accounts; and (4) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

6. For nonmember banks and thrift institutions that were not members of the Federal Reserve System on or after July 1, 1979, a phase-in period ends Sept. 3, 1987. For banks that were members on or after July 1, 1979, but withdrew on or before Mar. 31, 1980, the phase-in period established by Public Law 97–320 ends on Oct. 24, 1985. For existing member banks the phase-in period of about three years was completed on Feb. 2, 1984. All new institutions will have a two-year phase-in beginning with the date that they open for business, except for those institutions that have total reservable liabilities of $50 million or more.

7. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, MMDAs and similar accounts offered by institutions not subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month of which no more than three can be checks—are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements.)

8. 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 increase in transaction accounts held by all depository institutions determined as of June 30 each year. Effective Dec. 31, 1981, the amount was increased accordingly from $25 million to $26 million; effective Dec. 30, 1982, to $26.3 million; effective Dec. 29, 1983, to $28.9 million; effective Jan. 1, 1985, to $29.8 million; and effective Dec. 31, 1985, to $31.7 million.

9. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons, and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

NOTE. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmembers may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions.

1.16 MAXIMUM INTEREST RATES PAYABLE on Time and Savings Deposits at Federally Insured Institutions[1]

Percent per annum

Type of deposit	Commercial banks		Savings and loan associations and mutual savings banks (thrift institutions)[1]	
	In effect June 30, 1986		In effect June 30, 1986	
	Percent	Effective date	Percent	Effective date
1 Savings	(2)	4/1/86	(2)	4/1/86
2 Negotiable order of withdrawal accounts	(3)	1/1/86	(3)	1/1/86
3 Money market deposit account	(4)	12/14/82	(4)	12/14/82
Time accounts				
4 7–31 days	(5)	1/1/86	(5)	9/1/86
5 More than 31 days	....	10/1/83	....	10/1/83

1. Effective Oct. 1, 1983, restrictions on the maximum rates of interest payable by commercial banks and thrift institutions on various categories of deposits were removed. For information regarding previous interest rate ceilings on all categories of accounts see earlier issues of the FEDERAL RESERVE BULLETIN, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation*.

2. Effective Apr. 1, 1986, the interest rate ceiling on savings deposits was removed. Before Apr. 1, 1986, savings deposits were subject to an interest rate ceiling of 5½ percent.

3. Before Jan. 1, 1986, NOW accounts with minimum denomination requirements of less than $1,000 were subject to an interest rate ceiling of 5¼ percent. NOW accounts with minimum required denominations of $1,000 or more and IRA/Keough (HR10) Plan accounts were not subject to interest rate ceilings. Effective Jan. 1, 1986, the minimum denomination requirement was removed.

4. Effective Dec. 14, 1982, depository institutions are authorized to offer a new account with a required initial balance of $2,500 and an average maintenance balance of $2,500 not subject to interest rate restrictions. Effective Jan. 1, 1985, the minimum denomination and average balance maintenance requirements was lowered to $1,000. Effective Jan. 1, 1986, the minimum denomination and average balance maintenance requirements were removed. No minimum maturity period is required for this account, but depository institutions must reserve the right to require seven days, notice before withdrawals.

5. Before Jan. 1, 1986, deposits of less than $1,000 were subject to an interest rate ceiling of 5½ percent. Deposits of less than $1,000 issued to governmental units were subject to an interest rate ceiling of 8 percent. Effective Jan. 1, 1986, the minimum denomination requirement was removed.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS

Millions of dollars

Type of transaction	1983	1984	1985	1985			1986			
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
U.S. GOVERNMENT SECURITIES										
Outright transactions (excluding matched transactions)										
Treasury bills										
1 Gross purchases	18,888	20,036	22,214	0	1,180	4,515	286	0	396	2,988
2 Gross sales	3,420	8,557	4,118	265	0	0	225	2,277	0	0
3 Exchange	0	0	0	0	-350	0	0	0	0	0
4 Redemptions	2,400	7,700	3,500	0	0	0	0	1,000	0	0
Others within 1 year										
5 Gross purchases	484	1,126	1,349	0	0	143	0	0	0	0
6 Gross sales	0	0	0	0	0	0	0	0	0	0
7 Maturity shift	18,887	16,354	19,763	529	2,363	943	725	4,776	1,152	447
8 Exchange	-16,553	-20,840	-17,717	-942	-615	-1,529	-596	-2,148	-1,458	-1,129
9 Redemptions	87	0	0	0	0	0	0	0	0	0
1 to 5 years										
10 Gross purchases	1,896	1,638	2,185	0	0	868	0	0	0	0
11 Gross sales	0	0	0	0	0	0	0	0	0	0
12 Maturity shift	-15,533	-13,709	-17,459	-520	-1,731	-943	-703	-4,776	-1,152	-447
13 Exchange	11,641	16,039	13,853	942	650	1,529	596	1,548	1,458	1,134
5 to 10 years										
14 Gross purchases	890	536	458	0	0	345	0	0	0	0
15 Gross sales	0	300	100	0	0	0	0	0	0	0
16 Maturity shift	-2,450	-2,371	-1,857	-10	-600	0	-22	0	0	-5
17 Exchange	2,950	2,750	2,184	0	184	0	0	350	0	0
Over 10 years										
18 Gross purchases	383	441	293	0	0	197	0	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	-904	-275	-447	0	-32	0	0	0	0	0
21 Exchange	1,962	2,052	1,679	0	131	0	0	250	0	0
All maturities										
22 Gross purchases	22,540	23,776	26,499	0	1,180	6,068	286	0	396	2,988
23 Gross sales	3,420	8,857	4,218	265	0	0	225	2,277	0	0
24 Redemptions	2,487	7,700	3,500	0	0	0	0	1,000	0	0
Matched transactions										
25 Gross sales	578,591	808,986	866,175	100,929	85,486	76,399	63,109	90,459	88,917	109,253
26 Gross purchases	576,908	810,432	865,968	100,197	84,769	78,962	61,156	94,368	88,604	103,957
Repurchase agreements										
27 Gross purchases	105,971	127,933	134,253	0	3,684	23,338	24,257	0	6,748	21,156
28 Gross sales	108,291	127,690	132,351	0	3,684	19,809	24,699	3,087	6,748	13,634
29 Net change in U.S. government securities	12,631	8,908	20.477	-997	463	12,159	-2,335	-2,456	83	5,214
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	292	256	162	0	0	0	0	-40	0	0
Repurchase agreements										
33 Gross purchases	8,833	11,509	22,183	0	1,454	7,640	5,384	0	1,821	3,369
34 Gross sales	9,213	11,328	20,877	0	1,454	5,947	6,454	623	1,821	1,955
35 Net change in federal agency obligations	-672	-76	1,144	0	0	1,693	-1,070	-663	0	1,432
BANKERS ACCEPTANCES										
36 Repurchase agreements, net	-1,062	-418	0	0	0	0	0	0	0	0
37 **Total net change in System Open Market Account**	**10,897**	**8,414**	**21,621**	**-997**	**463**	**13,853**	**-3,405**	**-3,119**	**83**	**6,647**

NOTE. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements

Millions of dollars

Account	Wednesday					End of month		
	1986					1986		
	Apr. 30	May 7	May 14	May 21	May 28	Mar.	Apr.	May
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,089	11,085	11,085	11,085	11,085	11,090	11,089	11,085
2 Special drawing rights certificate account	4,718	4,718	4,818	4,818	4,818	4,718	4,718	4,818
3 Coin	530	527	523	513	491	570	530	487
Loans								
4 To depository institutions	954	899	812	1,233	812	818	954	850
5 Other	0	0	0	0	0	0	0	0
Acceptances—Bought outright								
6 Held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations								
7 Bought outright	8,187	8,187	8,137	8,137	8,137	8,187	8,187	8,137
8 Held under repurchase agreements	1,433	0	0	1,369	0	0	1,433	0
U.S. government securities								
Bought outright								
9 Bills	81,939	88,987	86,496	85,923	89,126	84,247	81,939	89,619
10 Notes	67,397	67,397	67,397	67,097	67,097	67,397	67,397	67,097
11 Bonds	24,976	24,976	24,976	25,276	25,276	24,976	24,976	25,276
12 Total bought outright[1]	174,312	181,360	178,869	178,296	181,499	176,620	174,312	181,992
13 Held under repurchase agreements	7,522	0	0	4,758	0	0	7,522	0
14 Total U.S. government securities	181,834	181,360	178,869	183,054	181,499	176,620	181,834	181,992
15 **Total loans and securities**	**192,408**	**190,446**	**187,818**	**193,793**	**190,448**	**185,625**	**192,408**	**190,979**
16 Items in process of collection	7,798	7,710	7,133	6,453	11,852	5,495	7,798	5,836
17 Bank premises	623	624	625	629	629	618	623	629
Other assets								
18 Denominated in foreign currencies[2]	8,260	8,265	8,271	8,285	8,290	7,673	8,260	8,002
19 All other[3]	8,352	7,685	7,876	6,609	6,320	7,344	8,352	6,695
20 **Total assets**	**233,778**	**231,060**	**228,149**	**232,185**	**233,933**	**223,133**	**233,778**	**228,531**
LIABILITIES								
21 Federal Reserve notes	178,418	179,816	180,444	180,544	181,851	177,189	178,418	181,634
Deposits								
22 To depository institutions	29,416	33,762	32,159	34,437	32,966	30,782	29,416	31,329
23 U.S. Treasury—General account	11,550	4,003	2,604	4,186	4,098	3,280	11,550	3,083
24 Foreign—Official accounts	326	194	237	205	279	274	326	254
25 Other	441	453	561	401	497	511	441	417
26 **Total deposits**	**41,733**	**38,412**	**35,561**	**39,229**	**37,840**	**34,847**	**41,733**	**35,083**
27 Deferred credit items	6,947	6,698	6,087	6,177	8,108	4,935	6,947	5,704
28 Other liabilities and accrued dividends[4]	2,217	2,116	2,087	2,262	2,160	2,184	2,217	2,249
29 **Total liabilities**	**229,315**	**227,042**	**224,179**	**228,212**	**229,959**	**219,155**	**229,315**	**224,670**
CAPITAL ACCOUNTS								
30 Capital paid in	1,828	1,829	1,831	1,833	1,834	1,821	1,828	1,839
31 Surplus	1,781	1,781	1,781	1,781	1,781	1,781	1,781	1,778
32 Other capital accounts	854	408	358	359	359	376	854	244
33 **Total liabilities and capital accounts**	**233,778**	**231,060**	**228,149**	**232,185**	**233,933**	**223,133**	**233,778**	**228,531**
34 MEMO: Marketable U.S. government securities held in custody for foreign and international account	146,001	145,787	145,598	148,311	147,068	136,262	146,001	147,103
	Federal Reserve note statement							
35 Federal Reserve notes outstanding	211,992	212,372	212,848	213,680	213,981	211,323	211,992	213,923
36 LESS: Held by bank	33,574	32,556	32,404	33,136	32,130	34,134	33,574	32,289
37 Federal Reserve notes, net	178,418	179,816	180,444	180,544	181,851	177,189	178,418	181,634
Collateral held against notes net:								
38 Gold certificate account	11,089	11,085	11,085	11,085	11,085	11,090	11,089	11,085
39 Special drawing rights certificate account	4,718	4,718	4,818	4,818	4,818	4,718	4,718	4,818
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. government and agency securities	162,611	164,013	164,541	164,641	165,948	161,381	162,611	165,731
42 **Total collateral**	**178,418**	**179,816**	**180,444**	**180,544**	**181,851**	**177,189**	**178,418**	**181,634**

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.
2. Assets shown in this line are revalued monthly at market exchange rates.
3. Includes special investment account at Chicago of Treasury bills maturing within 90 days.
4. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

NOTE: Some of these data also appear in the Board's H.4.1 (503) release. For address, see inside front cover.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holdings

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1986					1986		
	Apr. 30	May 7	May 14	May 21	May 28	Mar. 31	Apr. 30	May 30
1 Loans—Total	954	899	812	1,233	812	818	954	850
2 Within 15 days	936	874	790	1,232	805	806	936	823
3 16 days to 90 days	18	25	22	1	7	12	18	27
4 91 days to 1 year	0	0	0	0	0	0	0	0
5 Acceptances—Total	0	0	0	0	0	0	0	0
6 Within 15 days	0	0	0	0	0	0	0	0
7 16 days to 90 days	0	0	0	0	0	0	0	0
8 91 days to 1 year	0	0	0	0	0	0	0	0
9 U.S. government securities—Total	181,834	181,360	178,869	183,054	181,499	176,620	181,834	181,992
10 Within 15 days[1]	13,456	13,261	11,094	12,296	12,275	4,190	13,456	6,711
11 16 days to 90 days	39,760	40,458	41,799	44,962	43,197	45,337	39,760	47,713
12 91 days to 1 year	58,193	57,216	55,551	54,808	55,039	57,350	58,193	56,580
13 Over 1 year to 5 years	33,308	33,308	33,308	33,385	33,385	32,621	33,308	33,385
14 Over 5 years to 10 years	15,108	15,108	15,108	15,294	15,294	15,113	15,108	15,294
15 Over 10 years	22,009	22,009	22,009	22,309	22,309	22,009	22,009	22,309
16 Federal agency obligations—Total	9,620	8,187	8,137	9,506	8,137	8,187	9,620	8,137
17 Within 15 days[1]	1,591	50	66	1,616	221	246	1,591	221
18 16 days to 90 days	617	701	725	544	504	617	617	504
19 91 days to 1 year	1,795	1,819	1,729	1,729	1,800	1,844	1,795	1,800
20 Over 1 year to 5 years	3,902	3,902	3,902	3,902	3,871	3,793	3,902	3,871
21 Over 5 years to 10 years	1,291	1,291	1,291	1,291	1,317	1,263	1,291	1,317
22 Over 10 years	424	424	424	424	424	424	424	424

1. Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE

Billions of dollars, averages of daily figures

Item	1982 Dec.	1983 Dec.	1984 Dec.	1985 Dec.	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[1]	Seasonally adjusted											
1 **Total reserves**[2]	34.28	36.14	39.08	45.61	44.24	44.85	45.61	45.88	46.37	46.86	47.28r	48.57
2 Nonborrowed reserves	33.65	35.36	35.90	44.29	43.06	43.11	44.29	45.11	45.49	46.10	46.38	47.69
3 Nonborrowed reserves plus extended credit[3]	33.83	35.37	38.50	44.79	43.69	43.64	44.79	45.61	45.98	46.62	47.02r	48.28
4 Required reserves	33.78	35.58	38.23	44.55	43.49	43.92	44.55	44.77	45.27	45.97	46.47	47.74
5 Monetary base[4]	170.04	185.39	198.80	216.72	213.57	215.25	216.72	218.40	219.79	221.26	222.36	224.89
	Not seasonally adjusted											
6 **Total reserves**[2]	35.01	36.86	40.13	46.84	44.21	45.08	46.84	47.11	45.68	46.34	47.94r	47.70
7 Nonborrowed reserves	34.37	36.09	36.94	45.52	43.02	43.34	45.52	46.34	44.80	45.58	47.04	46.83
8 Nonborrowed reserves plus extended credit[3]	34.56	36.09	39.55	46.02	43.65	43.87	46.02	46.84	45.29	46.10	47.68r	47.41
9 Required reserves	34.51	36.30	39.28	45.78	43.45	44.14	45.78	46.00	44.59	45.44	47.14r	46.87
10 Monetary base[4]	173.07	188.66	201.94	220.36	213.36	216.04	220.36	218.74	216.78	218.98	222.13r	223.60
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[5]												
11 **Total reserves**[2]	41.85	38.89	40.70	48.14	45.47	46.38	48.14	48.06	46.65	47.27	48.88	48.41
12 Nonborrowed reserves	41.22	38.12	37.51	46.82	44.28	44.64	46.82	47.29	45.77	46.51	47.99	47.54
13 Nonborrowed reserves plus extended credit[3]	41.41	38.12	40.09	47.41	44.90	45.07	47.41	47.79	46.22	47.17	48.22r	48.24
14 Required reserves	41.35	38.33	39.84	47.08	44.72	45.45	47.08	46.95	45.55	46.38	48.08	47.58
15 Monetary base[4]	180.42	192.26	202.51	223.53	216.19	218.96	223.53	221.59	219.57	221.70	224.88	226.11

1. Figures incorporate adjustments for discontinuities associated with the implementation of the Monetary Control Act and other regulatory changes to reserve requirements. To adjust for discontinuities due to changes in reserve requirements on reservable nondeposit liabilities, the sum of such required reserves is subtracted from the actual series. Similarly, in adjusting for discontinuities in the monetary base, required clearing balances and adjustments to compensate for float also are subtracted from the actual series.

2. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash used to satisfy reserve requirements. Such vault cash consists of all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.

3. 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 there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

4. The monetary base not adjusted for discontinuities consists of total reserves plus required clearing balances and adjustments to compensate for float at Federal Reserve Banks and the currency component of the money stock less the amount of vault cash holdings of thrift institutions that is included in the currency component of the money stock plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. After the introduction of contemporaneous reserve requirements (CRR), currency and vault cash figures are measured over the weekly computation period ending Monday.

Before CRR, all components of the monetary base other than excess reserves are seasonally adjusted as a whole, rather than by component, and excess reserves are added on a not seasonally adjusted basis. After CRR, the seasonally adjusted series consists of seasonally adjusted total reserves, which include excess reserves on a not seasonally adjusted basis, plus the seasonally adjusted currency component of the money stock and the remaining items seasonally adjusted as a whole.

5. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with implementation of the Monetary Control Act or other regulatory changes to reserve requirements.

NOTE. Latest monthly and biweekly figures are available from the Board's H.3(502) statistical release. Historical data and estimates of the impact on required reserves of changes in reserve requirements are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Billions of dollars, averages of daily figures

Item[1]	1982 Dec.	1983 Dec.	1984 Dec.	1985 Dec.	1986 Feb.r	1986 Mar.	1986 Apr.r	1986 May
	Seasonally adjusted							
1 M1	479.9	527.1	558.5	626.6	631.0r	638.4	646.1	658.6
2 M2	1,952.6	2,186.0	2,373.8	2,565.8r	2,576.6r	2,591.2r	2,620.9	2,647.0
3 M3	2,443.5	2,697.3	2,986.5	3,200.1r	3,239.3r	3,259.1r	3,288.3	3,306.6
4 L	2,850.1	3,163.5	3,532.3	3,836.8r	3,878.3r	3,891.1r	n.a.	n.a.
5 Debt	4,661.3r	5,192.0r	5,952.0r	6,809.8r	6,964.5r	7,012.6r	7,069.5	n.a.
M1 components								
6 Currency[2]	134.3	148.3	158.5	170.6	172.9	173.9	174.4	175.8
7 Travelers checks[3]	4.3	4.9	5.2	5.9	5.9	6.1	6.1	6.1
8 Demand deposits[4]	237.9	242.7	248.4	271.5	269.2	273.2	275.7	281.6
9 Other checkable deposits[5]	103.4	131.3	146.3	178.6	183.1	185.2	189.9	195.1
Nontransactions components								
10 In M2[6]	1,472.7	1,658.9	1,815.4	1,939.2r	1,945.6r	1,952.8r	1,974.8	1,988.4
11 In M3 only[7]	490.9	511.3	612.7	634.3r	662.7r	667.9r	667.3	659.6
Savings deposits[9]								
12 Commercial Banks	163.7	133.4	122.3	124.5	125.0	125.7	126.6	129.0
13 Thrift institutions	194.2	173.2	167.3	179.1	179.9r	181.2r	184.9	189.6
Small denomination time deposits[9]								
14 Commercial Banks	380.4	351.1	387.2	384.1	388.1	389.0	387.9	384.8
15 Thrift institutions	472.4	434.1	500.3	496.2	502.9	505.7	508.3	506.2
Money market mutual funds								
16 General purpose and broker/dealer	185.2	138.2	167.5	176.5	181.0	186.2	191.4	193.4
17 Institution-only	51.1	43.2	62.7	64.6	67.7	70.2	74.1	76.1
Large denomination time deposits[10]								
18 Commercial Banks[11]	262.1	228.7	263.7	279.1	291.5	287.0	287.0	281.4
19 Thrift institutions	65.8	101.1	150.2	157.3	159.7	163.4	165.0	164.7
Debt components								
20 Federal debt	979.2	1,173.0	1,367.3	1,586.3r	1,621.1r	1,628.2r	1,638.8r	n.a.
21 Non-federal debt	3,682.1r	4,019.0	4,584.7r	5,223.5r	5,343.5r	5,384.4r	5,430.6r	n.a.
	Not seasonally adjusted							
22 M1	490.9	538.8	570.5	639.9	619.2	630.5	652.8	651.7
23 M2	1,958.6	2,192.8	2,380.8	2,573.9	2,569.9r	2,593.2r	2,630.6	2,638.0
24 M3	2,453.3	2,707.9	2,997.9	3,212.8r	3,231.3r	3,259.4r	3,294.8	3,299.8
25 L	2,856.4	3,170.1	3,537.5	3,843.1r	3,870.7r	3,895.3r	n.a.	n.a.
26 Debt	4,655.7	5,186.5	5,946.2r	6,803.9r	6,945.2r	6,985.6r	7,040.9	n.a.
M1 components								
27 Currency[2]	136.5	150.5	160.9	173.1	170.6	172.3	173.6	175.8
28 Travelers checks[3]	4.1	4.6	4.9	5.5	5.6	5.8	5.8	5.9
29 Demand deposits[4]	246.2	251.3	257.3	281.3	262.0	267.1	278.6	276.7
30 Other checkable deposits[5]	104.1	132.4	147.5	180.1	181.0	185.3	194.7	193.4
Nontransactions components								
31 M2[6]	1,467.7	1,654.0	1,810.3	1,934.0r	1,951.7r	1,962.7r	1,977.5	1,986.2
32 M3 only[7]	494.7	515.1	617.0	638.9r	661.4r	666.2r	663.7	661.8
Money market deposit accounts								
33 Commercial banks	26.3	230.5	267.2	332.4	337.0	340.3	344.7	348.5
34 Thrift institutions	16.9	148.7	149.7	179.6	179.4	180.2	180.4	182.1
Savings deposits[8]								
35 Commercial Banks	162.1	132.2	121.4	123.5	123.6	124.9	127.2	129.5
36 Thrift institutions	193.1	172.3	166.5	178.3	179.1	181.6	185.8	190.4
Small denomination time deposits[9]								
37 Commercial Banks	380.1	351.1	387.6	384.8	387.1r	387.2	384.4	382.3
38 Thrift institutions	471.7	434.2	501.2	497.6	504.6r	504.6	505.4	502.3
Money market mutual funds								
39 General purpose and broker/dealer	185.2	138.2	167.5	176.5	181.0	186.2	191.4	193.4
40 Institution-only	51.1	43.2	62.7	64.6	67.7	70.2	74.1	76.1
Large denomination time deposits[10]								
41 Commercial Banks[11]	265.2	230.8	265.5	280.9	290.4r	287.6	283.5	280.7
42 Thrift institutions	65.8	101.4	150.6	157.8	160.7	163.2	164.0	164.2
Debt components								
43 Federal debt	976.4	1,170.2	1,364.7	1,583.7	1,621.0	1,633.3r	1,644.6	n.a.
44 Non-federal debt	3,679.3	4,016.3	4,581.6r	5,220.2r	5,324.2r	5,352.3r	5,396.2	n.a.

For notes see following page.

NOTES TO TABLE 1.21

1. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, 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 (OCD) 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. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks worldwide, MMDAs, savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker/dealer money market mutual funds. Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds. Also excludes all balances held by U.S. commercial banks, money market funds (general purpose and broker/dealer), foreign governments and commercial banks, and the U.S. government. Also subtracted is a consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits.

M3: M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also subtracted is a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

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 mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages.

2. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of commercial banks. Excludes the estimated amount of vault cash held by thrift institutions to service their OCD liabilities.

3. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

4. Demand deposits at commercial banks and foreign-related institutions other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float. Excludes the estimated amount of demand deposits held at commercial banks by thrift institutions to service their OCD liabilities.

5. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions. Other checkable deposits seasonally adjusted equals the difference between the seasonally adjusted sum of demand deposits plus OCD and seasonally adjusted demand deposits. Included are all ceiling free "Super NOWs," authorized by the Depository Institutions Deregulation committee to be offered beginning Jan. 5, 1983.

6. Sum of overnight RPs and overnight Eurodollars, money market fund balances (general purpose and broker/dealer), MMDAs, and savings and small time deposits, less the consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits liabilities.

7. Sum of large time deposits, term RPs and term Eurodollars of U.S. residents, money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds.

8. Savings deposits exclude MMDAs.

9. Small-denomination time deposits—including retail RPs— are those issued in amounts of less than $100,000. All individual retirement accounts (IRA) and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits.

10. Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

11. Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions.

NOTE: Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.22 BANK DEBITS AND DEPOSIT TURNOVER

Debits are shown in billions of dollars, turnover as ratio of debits to deposits. Monthly data are at annual rates.

Bank group, or type of customer	1983[1]	1984[1]	1985[1]	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.
	Seasonally adjusted								
DEBITS TO									
Demand deposits[2]									
1 All insured banks	109,642.3	128,440.8	154,556.0	163,038.1	189,203.0	169,894.2	179,139.6	182,841.8	192,847.2
2 Major New York City banks	47,769.4	57,392.7	70,445.1	77,069.6	89,415.1	79,324.3	85,298.6	89,350.3	95,699.5
3 Other banks	61,873.1	71,048.1	84,110.9	85,968.5	99,787.9	90,569.9	93,841.0	93,491.5	97,147.7
4 ATS–NOW accounts[3]	1,405.5	1,588.7	1,920.8	2,227.8	2,452.5	2,027.5	2,193.5	2,266.0	2,088.7
5 Savings deposits[4]	741.4	633.1	539.0	533.4	418.6	362.4	364.6	356.7	385.2
DEPOSIT TURNOVER									
Demand deposits[2]									
6 All insured banks	379.7	434.4	496.5	508.1	581.9	531.8	560.8	566.0	593.6
7 Major New York City banks	1,528.0	1,843.0	2,168.9	2,368.5	2,567.0	2,306.3	2,473.8	2,517.7	2,635.1
8 Other banks	240.9	268.6	301.8	298.1	343.7	317.7	329.3	325.1	336.6
9 ATS–NOW accounts[3]	15.6	15.8	16.7	18.2	19.8	16.1	17.2	17.7	16.0
10 Savings deposits[4]	5.4	5.0	4.5	4.3	3.4	2.9	3.0	2.9	3.1
	Not seasonally adjusted								
DEBITS TO									
Demand deposits[2]									
11 All insured banks	109,517.6	128,059.1	154,108.4	157,070.9	192,060.0	180,495.6	161,655.6	179,715.2	195,373.5
12 Major New York City banks	47,707.4	57,282.4	70,400.9	73,982.4	92,551.5	84,880.9	77,376.9	87,757.0	95,408.5
13 Other banks	64,310.2	70,776.9	83,707.8	83,088.6	99,508.5	95,614.7	84,278.6	91,958.3	99,965.0
14 ATS–NOW accounts[3]	1,397.0	1,579.5	1,903.4	2,007.8	2,354.4	2,406.1	2,065.3	2,349.0	2,393.2
15 MMDA[5]	567.4	848.8	1,179.0	1,221.5	1,493.2	1,543.8	1,334.9	1,600.4	1,638.8
16 Savings deposits[4]	742.0	632.9	538.7	496.3	405.3	392.4	331.1	362.3	418.7
DEPOSIT TURNOVER									
Demand deposits[2]									
17 All insured banks	379.9	433.5	497.4	489.3	574.9	554.2	520.0	569.5	600.1
18 Major New York City banks	1,510.0	1,838.6	2,191.1	2,332.4	2,594.1	2,393.7	2,314.0	2,494.1	2,661.7
19 Other banks	240.5	267.9	301.6	287.2	333.4	329.4	303.8	328.0	345.0
20 ATS–NOW accounts[3]	15.5	15.7	16.6	16.4	18.8	18.9	16.4	18.3	17.9
21 MMDA[5]	2.8	3.5	3.8	3.7	4.5	4.6	4.0	4.7	4.8
22 Savings deposits[4]	5.4	5.0	4.5	4.0	3.3	3.2	2.7	3.0	3.4

1. Annual averages of monthly figures.
2. Represents accounts of individuals, partnerships, and corporations and of states and political subdivisions.
3. Accounts authorized for negotiable orders of withdrawal (NOW) and accounts authorized for automatic transfer to demand deposits (ATS). ATS data availability starts with December 1978.
4. Excludes ATS and NOW accounts, MMDA and special club accounts, such as Christmas and vacation clubs.
5. Money market deposit accounts.

NOTE. Historical data for demand deposits are available back to 1970 estimated in part from the debits series for 233 SMSAs that were available through June 1977. Historical data for ATS–NOW and savings deposits are available back to July 1977. Back data are available on request from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These data also appear on the Board's G.6 (406) release. For address, see inside front cover.

1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars; averages of Wednesday figures

Category	1985[r]							1986[r]				
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
	Seasonally adjusted											
1 **Total loans and securities**[2]	1,808.6	1,822.2	1,833.9	1,847.2	1,855.5	1,876.0	1,900.4	1,930.0	1,935.5	1,944.6	1,947.9	1,955.9
2 U.S. government securities	273.1	275.4	275.1	275.5	274.2	276.0	273.1	268.2	273.6	269.5	270.0	274.0
3 Other securities	147.2	148.5	150.7	153.6	157.3	163.3	177.6	192.5	188.1	183.3	182.1	181.9
4 Total loans and leases[2]	1,388.2	1,398.2	1,408.0	1,418.0	1,424.0	1,436.8	1,449.7	1,469.3	1,473.7	1,491.8	1,495.8	1,500.0
5 Commercial and industrial	487.6	488.5	489.7	492.1	492.7	495.7	499.5	502.1	502.4	506.1	507.8	506.5
6 Bankers acceptances held[3]	5.1	5.2	5.1	4.9	4.9	4.9	4.9	4.9	4.8	4.9	5.2	5.6
7 Other commercial and industrial	482.5	483.4	484.6	487.1	487.8	490.7	494.7	497.2	497.6	501.2	502.6	500.8
8 U.S. addressees[4]	473.3	474.4	475.6	478.3	479.4	482.4	486.0	488.0	488.4	491.3	492.7	490.4
9 Non-U.S. addressees[4]	9.2	9.0	9.0	8.8	8.4	8.3	8.7	9.3	9.2	9.9	9.8	10.5
10 Real estate	397.9	402.2	405.9	409.5	414.0	418.0	422.4	427.1	431.4	436.1	440.7	446.2
11 Individual	276.6	280.0	282.9	285.4	287.5	289.7	291.5	294.6	297.4	299.5	301.1	302.7
12 Security	40.4	40.9	39.0	39.7	39.2	39.8	40.1	44.1	43.4	50.3	47.9	46.3
13 Nonbank financial institutions	30.6	30.8	31.4	31.5	31.3	32.0	32.6	32.6	31.9	32.3	32.4	33.3
14 Agricultural	39.0	38.9	38.6	38.3	37.9	37.1	36.3	36.1	35.8	35.5	35.2	34.7
15 State and political subdivisions	47.5	47.9	48.8	48.8	49.3	50.0	52.8	60.5	60.3	60.2	59.8	59.5
16 Foreign banks	10.0	9.9	9.7	9.6	9.3	9.0	9.1	9.1	9.2	9.2	9.2	9.4
17 Foreign official institutions	6.6	6.5	6.2	6.5	6.6	6.7	6.9	7.0	7.0	6.8	5.3	5.1
18 Lease financing receivables	17.5	17.8	18.0	18.1	18.3	18.4	18.8	19.4	19.6	19.8	19.9	19.8
19 All other loans	34.4	34.8	37.7	38.5	38.0	40.3	39.6	36.6	35.3	35.9	36.7	36.6
	Not seasonally adjusted											
20 **Total loans and securities**[2]	1,810.1	1,819.0	1,826.9	1,845.4	1,851.8	1,875.7	1,912.6	1,934.8	1,932.4	1,944.1	1,950.5	1,955.1
21 U.S. government securities	274.5	275.2	273.4	274.1	270.3	273.7	271.0	267.7	275.0	273.2	274.0	275.3
22 Other securities	146.4	146.7	150.5	153.6	156.8	163.3	178.7	193.8	188.9	183.9	181.8	182.3
23 Total loans and leases[2]	1,389.2	1,397.0	1,402.9	1,417.7	1,424.7	1,438.7	1,462.9	1,473.3	1,468.5	1,487.1	1,494.7	1,497.5
24 Commercial and industrial	488.2	488.6	487.9	491.4	492.0	494.8	501.5	501.4	500.1	506.9	510.0	508.3
25 Bankers acceptances held[3]	5.1	5.2	5.0	4.8	4.8	5.0	5.2	4.9	4.7	5.0	5.2	5.5
26 Other commercial and industrial	483.2	483.3	482.8	486.6	487.2	489.7	496.4	496.5	495.4	501.9	504.9	502.8
27 U.S. addressees[4]	474.0	474.1	473.6	477.5	478.4	481.0	487.3	487.3	486.3	492.7	495.4	493.0
28 Non-U.S. addressees[4]	9.1	9.2	9.3	9.1	8.8	8.8	9.0	9.2	9.1	9.2	9.5	9.7
29 Real estate	397.6	402.1	406.1	410.5	415.2	419.2	423.3	427.3	430.6	434.9	439.5	445.1
30 Individual	275.3	279.2	283.2	286.7	289.0	291.0	294.8	297.0	296.3	296.8	298.6	300.8
31 Security	40.6	39.2	36.6	37.5	38.6	41.0	45.4	46.8	42.6	49.4	48.4	45.6
32 Nonbank financial institutions	30.6	30.9	31.6	31.7	31.1	32.1	33.4	32.9	31.3	31.7	32.2	33.1
33 Agricultural	39.5	39.7	39.5	39.2	38.5	37.2	36.0	35.4	34.9	34.6	34.5	34.6
34 State and political subdivisions	47.5	47.9	48.8	48.8	49.3	50.0	52.8	60.5	60.3	60.2	59.8	59.5
35 Foreign banks	9.7	9.9	9.4	9.7	9.5	9.3	9.5	9.3	9.3	9.1	9.0	9.1
36 Foreign official institutions	6.6	6.5	6.2	6.5	6.6	6.7	6.9	7.0	7.0	6.8	5.3	5.1
37 Lease financing receivables	17.6	17.8	17.9	18.1	18.2	18.3	18.8	19.6	19.8	19.8	19.9	19.8
38 All other loans	36.0	35.2	35.7	37.8	36.7	39.1	40.4	36.1	36.1	36.8	37.5	36.6

1. Data are prorated averages of Wednesday estimates for domestically chartered insured banks, based on weekly sample reports and quarterly universe reports. For foreign-related institutions, data are averages of month-end estimates based on weekly reports from large U.S. agencies and branches and quarterly reports from all U.S. agencies and branches, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

2. Excludes loans to commercial banks in the United States.

3. Includes nonfinancial commercial paper held.

4. United States includes the 50 states and the District of Columbia.

NOTE. These data also appear in the Board's G.7 (407) release. Data have been revised because of new seasonal factors and benchmark adjustments. Back data are available from the Banking Section, Division of Research and Statistics, Mail Stop 66, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Monthly averages, billions of dollars

Source	1985 June	1985 July	1985 Aug.	1985 Sept.	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.r	1986 May
Total nondeposit funds												
1 Seasonally adjusted[2]	110.9	106.3	109.8	111.6	115.2	118.4	123.8	127.1	127.5	136.7r	128.8	130.2
2 Not seasonally adjusted	112.2	105.4	111.4	112.4	116.2	121.9	125.9	129.6r	132.5	141.6r	132.1	134.7
Federal funds, RPs, and other borrowings from nonbanks[3]												
3 Seasonally adjusted	143.5	143.4	139.8	140.5	141.0	145.9	150.4	147.7r	148.6r	156.3r	155.3	152.4
4 Not seasonally adjusted	144.8	142.4	141.5	141.4	142.0	149.4	152.4	150.1	153.6r	161.2r	158.6	156.9
5 Net balances due to foreign-related institutions, not seasonally adjusted	-32.6	-37.1	-30.0	-29.0	-25.8	-27.6	-26.6	-20.5	-21.0	-19.5	-26.4	-22.2
MEMO												
6 Domestically chartered banks' net positions with own foreign branches, not seasonally adjusted[4]	-32.5	-38.3	-32.8	-30.7	-28.7	-30.3	-31.6	-28.0	-25.8	-26.5	-30.2	-29.3
7 Gross due from balances	76.4	79.2	75.8	74.7	74.2	74.1	76.1	74.4	69.5	71.7	75.3	73.1
8 Gross due to balances	44.0	40.8	43.0	44.0	45.4	43.8	44.5	46.5	43.7	45.2	45.1	43.8
9 *Foreign-related institutions' net positions with directly related institutions, not seasonally adjusted*[5]	-.2	1.3	2.8	1.7	2.9	2.7	5.1	7.4	4.7r	7.0	3.7	7.1
10 Gross due from balances	53.0	54.6	55.1	56.0	55.4	56.1	56.8	57.7	60.0	60.7	62.6	60.0
11 Gross due to balances	52.8	55.9	57.9	57.8	58.3	58.8	61.9	65.1	64.8	67.7	66.3	67.1
Security RP borrowings												
12 Seasonally adjusted[6]	83.5	83.7	83.3	85.3	84.7	84.8	88.0	86.1	87.8r	87.8r	87.2	86.0
13 Not seasonally adjusted	82.3	80.4	82.6	83.7	83.4	85.9	87.7	86.1	90.4r	90.2r	88.1	88.1
U.S. Treasury demand balances[7]												
14 Seasonally adjusted	16.9	20.5	16.1	14.9	4.7	13.5	17.5	19.0	21.1	15.7	17.4	21.4
15 Not seasonally adjusted	14.9	23.1	13.4	16.8	5.4	7.9	14.6	24.0	24.2	15.7	17.8	21.8
Time deposits, $100,000 or more[8]												
16 Seasonally adjusted	328.9	324.2	327.2	330.8	333.9	335.9	337.6	349.4	351.8	347.7	346.9	340.3
17 Not seasonally adjusted	327.2	323.2	327.7	332.7	336.3	337.5	339.4	348.3	350.7	348.3r	343.4	339.6

1. Commercial banks are those in the 50 states and the District of Columbia with national or state charters plus agencies and branches of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

Data for lines 1-4 and 12-17 have been revised in light of benchmarking and revised seasonal adjustment.

2. Includes seasonally adjusted federal funds, RPs, and other borrowings from nonbanks and not seasonally adjusted net Eurodollars. Includes averages of Wednesday data for domestically chartered banks and averages of current and previous month-end data for foreign-related institutions.

3. Other borrowings are borrowings on any instrument, such as a promissory note or due bill, given for the purpose of borrowing money for the banking business. This includes borrowings from Federal Reserve Banks and from foreign banks, term federal funds, overdrawn due from bank balances, loan RPs, and participations in pooled loans.

4. Averages of daily figures for member and nonmember banks.

5. Averages of daily data.

6. Based on daily average data reported by 122 large banks.

7. Includes U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.

8. Averages of Wednesday figures.

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS[1] Last-Wednesday-of-Month Series

Billions of dollars

Account	1985[r]						1986[r]				
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
ALL COMMERCIAL BANKING INSTITUTIONS[2]											
1 Loans and securities	1,954.3	1,958.2	1,976.4	1,985.8	2,035.6	2,068.7	2,065.2	2,078.8	2,091.4	2,113.4	2,101.3
2 Investment securities	399.1	400.3	403.8	402.4	410.5	420.4	432.5	432.8	427.2	429.5	430.9
3 U.S. government securities	260.2	257.8	258.1	252.9	254.9	253.9	251.9	255.1	253.7	255.8	257.7
4 Other	138.9	142.5	145.7	149.6	155.6	166.5	180.6	177.7	173.5	173.6	173.2
5 Trading account assets	22.3	24.2	26.4	25.0	32.0	31.1	30.1	34.0	30.1	27.8	27.0
6 Total loans	1,532.9	1,533.6	1,546.2	1,558.4	1,593.1	1,617.2	1,602.6	1,612.0	1,634.2	1,656.1	1,643.4
7 Interbank loans	133.0	129.4	128.6	132.4	149.0	150.6	140.4	143.5	146.0	155.7	146.3
8 Loans excluding interbank	1,399.9	1,404.3	1,417.6	1,425.9	1,444.2	1,466.7	1,462.2	1,468.5	1,488.1	1,500.4	1,497.2
9 Commercial and industrial	489.1	487.8	492.3	491.7	495.8	500.2	496.7	501.8	508.5	510.5	506.1
10 Real estate	403.7	407.4	411.5	416.7	420.2	423.7	428.7	431.5	435.9	441.7	446.4
11 Individual	281.0	284.9	287.4	290.3	292.0	296.0	297.4	296.4	296.9	300.4	301.2
12 All other	226.2	224.2	226.3	227.2	236.2	246.7	239.4	238.7	246.9	247.8	243.4
13 Total cash assets	199.8	190.2	189.6	191.5	209.0	213.3	187.3	193.7	198.1	209.9	221.0
14 Reserves with Federal Reserve Banks	21.0	24.6	24.8	19.5	20.4	27.6	21.9	26.2	29.1	25.5	30.2
15 Cash in vault	22.0	22.7	22.1	22.6	21.4	22.2	23.0	22.7	21.8	22.3	23.9
16 Cash items in process of collection	70.7	62.6	61.6	68.1	82.1	79.5	64.2	66.9	68.8	80.7	84.6
17 Demand balances at U.S. depository institutions	33.6	30.7	30.6	31.5	35.8	36.0	31.3	31.8	31.1	34.7	36.8
18 Other cash assets	52.5	49.6	50.6	49.8	49.4	48.0	47.0	46.1	47.4	46.7	45.5
19 Other assets	204.5	190.7	196.2	189.2	197.1	201.9	187.0	186.5	195.3	207.0	196.0
20 Total assets/total liabilities and capital	**2,358.7**	**2,339.1**	**2,362.2**	**2,366.5**	**2,441.8**	**2,483.8**	**2,439.6**	**2,458.9**	**2,484.8**	**2,530.3**	**2,518.2**
21 Deposits	1,692.6	1,684.3	1,690.5	1,713.6	1,751.7	1,772.5	1,739.5	1,746.4	1,762.8	1,798.4	1,808.0
22 Transaction deposits	493.2	476.3	475.2	491.7	522.2	536.9	488.8	492.1	502.5	540.7	542.7
23 Savings deposits	436.1	438.3	440.1	445.8	450.4	452.0	454.2	457.2	462.0	467.8	476.9
24 Time deposits	763.3	769.7	775.3	776.2	779.1	783.6	796.5	797.1	798.3	789.9	788.4
25 Borrowings	326.3	313.7	328.3	313.6	356.1	367.8	364.4	374.7	373.1	390.7	367.4
26 Other liabilities	176.1	177.3	179.0	173.7	167.9	175.8	167.6	169.1	179.3	170.4	173.1
27 Residual (assets less liabilities)	163.6	163.8	164.4	165.5	166.0	167.7	168.2	168.8	169.7	170.8	169.7
MEMO											
28 U.S. government securities (including trading account)	274.0	271.9	275.2	268.6	274.8	269.7	269.8	278.4	273.7	274.0	275.1
29 *Other securities (including trading account)*	147.3	152.6	155.1	158.8	167.7	181.8	192.8	188.4	183.6	183.3	182.8
DOMESTICALLY CHARTERED COMMERCIAL BANKS[3]											
30 Loans and securities	1,854.0	1,856.8	1,869.9	1,879.5	1,926.0	1,954.3	1,954.3	1,964.0	1,972.4	1,993.3	1,985.3
31 Investment securities	389.1	390.2	392.9	391.1	399.5	409.9	421.1	420.8	416.0	416.1	417.1
32 U.S. government securities	255.5	253.1	253.1	247.4	250.1	249.0	247.0	249.6	248.5	248.8	250.2
33 Other	133.7	137.1	139.7	143.8	149.4	160.9	174.1	171.2	167.5	167.2	166.9
34 Trading account assets	22.3	24.2	26.4	25.0	32.0	31.1	30.1	34.0	30.1	27.8	27.0
35 Total loans	1,442.6	1,442.4	1,450.6	1,463.4	1,494.5	1,513.4	1,503.1	1,509.2	1,526.3	1,549.4	1,541.2
36 Interbank loans	111.0	106.0	104.2	108.7	124.1	123.8	115.8	115.8	120.2	129.3	123.3
37 Loans excluding interbank	1,331.6	1,336.4	1,346.4	1,354.6	1,370.4	1,389.5	1,387.3	1,393.5	1,406.1	1,420.1	1,417.9
38 Commercial and industrial	439.8	438.0	440.2	439.3	441.8	445.3	442.5	446.2	448.2	452.3	449.7
39 Real estate	398.3	402.1	406.1	411.5	415.0	418.4	423.6	426.4	430.7	436.3	440.7
40 Individual	280.7	284.6	287.1	290.0	291.7	295.7	297.1	296.2	296.6	300.1	300.9
41 All other	212.8	211.7	213.1	213.8	222.0	230.1	224.1	224.7	230.7	231.4	226.6
42 Total cash assets	183.0	174.1	173.5	175.7	193.4	197.2	171.1	179.1	182.7	194.3	205.8
43 Reserves with Federal Reserve Banks	20.3	23.6	24.2	18.3	19.2	25.8	21.0	25.5	28.4	24.4	28.7
44 Cash in vault	22.0	22.7	22.0	22.6	21.4	22.2	23.0	22.6	21.7	22.2	23.8
45 Cash items in process of collection	70.5	62.3	61.3	67.9	81.8	79.3	63.8	66.5	68.4	80.3	84.2
46 Demand balances at U.S. depository institutions	32.3	29.0	29.1	30.1	33.9	34.3	29.4	30.1	29.4	33.0	35.1
47 Other cash assets	38.0	36.4	36.8	36.8	37.1	35.7	34.0	34.3	34.7	34.3	34.0
48 Other assets	153.9	141.9	142.8	141.1	146.2	150.0	137.8	134.6	144.0	150.3	142.8
49 Total assets/total liabilities and capital	**2,190.8**	**2,172.8**	**2,186.1**	**2,196.3**	**2,265.6**	**2,301.6**	**2,263.1**	**2,277.8**	**2,299.1**	**2,337.9**	**2,333.9**
50 Deposits	1,648.7	1,638.4	1,643.1	1,666.4	1,704.6	1,724.4	1,689.6	1,698.2	1,713.1	1,749.1	1,759.3
51 Transaction deposits	486.6	469.5	468.3	485.0	515.3	529.5	481.6	484.8	495.0	533.1	535.4
52 Savings deposits	434.5	436.7	438.5	444.1	448.6	450.3	452.4	455.3	460.1	465.8	474.9
53 Time deposits	727.6	732.2	736.3	737.3	740.7	744.7	755.7	758.1	758.1	750.1	749.0
54 Borrowings	262.8	254.2	263.8	252.2	285.0	295.7	298.0	304.9	304.8	309.1	294.2
55 Other liabilities	118.8	119.5	117.9	115.4	113.0	116.9	110.5	109.0	114.6	112.0	113.9
56 Residual (assets less liabilities)	160.5	160.7	161.3	162.4	162.9	164.6	165.0	165.6	166.5	167.7	166.6

1. Data have been revised back to January 1984. Revised end-of-month data from January 1984 through June 1985 are available on request from the Banking Section, Division of Research and Statistics, Mail Stop 66, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

3. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

NOTE. Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Loan and securities data for domestically chartered commercial banks are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition report data. Data for other banking institutions are estimates made for the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition reports.

1.26 ALL LARGE WEEKLY REPORTING COMMERCIAL BANKS with Domestic Assets of $1.4 Billion or More on December 31, 1982, Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1986								
	Apr. 2[r]	Apr. 9[r]	Apr. 16[r]	Apr. 23[r]	Apr. 30[r]	May 7	May 14	May 21	May 28
1 Cash and balances due from depository institutions	102,206	90,946	104,826	109,112	101,565	94,697	97,036	96,704	111,756
2 Total loans, leases and securities, net	***928,066***	***931,016***	***935,790***	***938,180***	***943,321***	***933,271***	***926,110***	***934,016***	***930,236***
3 U.S. Treasury and government agency	91,288	95,401	94,796	91,625	92,541	93,773	93,671	93,603	92,761
4 Trading account	21,576	23,792	22,559	19,661	21,505	21,909	22,805	22,004	20,730
5 Investment account, by maturity	69,712	71,608	72,237	71,964	71,036	71,864	70,866	71,599	72,031
6 One year or less	19,718	20,057	19,712	19,269	19,227	19,252	19,107	18,755	19,070
7 Over one through five years	33,321	33,816	34,262	33,852	33,186	35,232	33,972	34,777	35,032
8 Over five years	16,673	17,735	18,264	18,843	18,622	17,380	17,787	18,067	17,929
9 Other securities	67,685	67,278	68,568	68,644	69,254	68,300	67,586	67,470	68,002
10 Trading account	4,534	4,252	5,414	5,238	5,192	4,738	4,001	3,934	4,534
11 Investment account	63,151	63,026	63,155	63,405	64,062	63,562	63,585	63,536	63,468
12 States and political subdivisions, by maturity	56,519	56,295	56,203	56,404	56,912	56,466	56,548	56,508	56,396
13 One year or less	9,835	9,743	9,677	9,634	9,648	9,376	9,345	9,199	9,040
14 Over one year	46,684	46,552	46,526	46,770	47,264	47,090	47,202	47,310	47,357
15 Other bonds, corporate stocks, and securities	6,632	6,731	6,952	7,001	7,149	7,096	7,037	7,028	7,071
16 Other trading account assets	5,260	4,886	4,903	4,509	4,830	5,051	4,870	4,851	5,417
17 *Federal funds sold*[1]	62,248	66,626	63,832	71,481	70,081	62,694	56,024	61,542	60,020
18 To commercial banks	37,999	43,303	39,137	43,705	43,878	37,729	32,271	35,034	35,801
19 To nonbank brokers and dealers in securities	17,340	15,284	16,655	18,824	17,391	16,636	15,819	17,718	15,993
20 To others	6,908	8,039	8,040	8,952	8,812	8,329	7,934	8,790	8,225
21 Other loans and leases, gross[2]	720,872	716,240	723,378	721,647	726,525	723,405	723,937	726,544	724,046
22 Other loans, gross[2]	704,976	700,356	707,483	705,745	710,631	707,496	708,036	710,637	708,139
23 Commercial and industrial[2]	261,187	258,571	261,491	258,778	260,976	261,411	260,914	258,845	258,072
24 Bankers acceptances and commercial paper	2,296	2,235	2,259	2,166	2,156	2,295	2,514	2,427	2,395
25 All other	258,890	256,336	259,232	256,612	258,821	259,116	258,400	256,417	255,677
26 U.S. addressees	254,411	251,945	254,526	252,106	254,277	254,575	253,897	251,951	251,276
27 Non-U.S. addressees	4,479	4,390	4,706	4,506	4,543	4,541	4,502	4,466	4,401
28 Real estate loans[2]	185,745	185,948	186,781	187,041	187,521	188,035	189,181	190,106	189,826
29 To individuals for personal expenditures	132,655	132,745	133,478	133,866	134,298	134,219	134,516	134,556	134,843
30 To depository and financial institutions	42,406	42,225	43,054	44,100	43,639	44,062	43,692	45,324	44,814
31 Commercial banks in the United States	12,748	12,762	12,950	14,795	13,892	14,556	13,901	14,705	14,384
32 Banks in foreign countries	5,106	4,838	4,915	5,541	5,420	5,218	4,860	5,550	5,618
33 Nonbank depository and other *financial institutions*	24,552	24,625	25,189	23,764	24,326	24,288	24,932	25,069	24,812
34 For purchasing and carrying securities	20,036	20,253	21,152	20,435	21,958	18,170	18,257	20,540	18,625
35 To finance agricultural production	6,202	6,186	6,207	6,217	6,226	6,251	6,290	6,308	6,276
36 To states and political subdivisions	36,426	36,374	36,480	36,580	36,418	36,318	36,260	36,309	36,216
37 To foreign governments and official institutions	3,246	3,138	3,095	3,295	3,307	3,405	3,354	3,322	3,439
38 All other	17,073	14,914	15,744	15,433	16,288	15,624	15,572	15,327	16,028
39 Lease financing receivables	15,896	15,884	15,895	15,902	15,894	15,908	15,900	15,907	15,906
40 LESS: Unearned income	4,918	4,898	4,926	4,924	4,960	4,934	4,939	4,935	4,940
41 *Loan and lease reserve*[2]	14,368	14,517	14,760	14,802	14,949	15,018	15,039	15,060	15,069
42 Other loans and leases, net[2]	701,586	696,825	703,692	701,922	706,616	703,452	703,959	706,550	704,036
43 All other assets	130,332	132,817	133,081	130,442	131,872	131,118	129,324	127,990	124,611
44 Total assets	**1,160,605**	**1,154,780**	**1,173,697**	**1,177,734**	**1,176,759**	**1,159,086**	**1,152,470**	**1,158,710**	**1,166,603**
45 Demand deposits	217,876	206,384	222,204	213,151	222,092	207,070	208,595	203,878	223,183
46 Individuals, partnerships, and corporations	168,226	158,836	168,009	158,419	166,947	158,384	161,770	155,869	166,909
47 States and political subdivisions	5,099	4,618	5,988	5,051	6,036	5,151	4,640	5,056	5,051
48 U.S. government	1,666	1,674	4,029	3,742	4,767	2,925	2,437	1,132	1,861
49 Depository institutions in United States	24,856	22,705	25,329	22,885	24,632	23,777	23,168	23,842	27,045
50 Banks in foreign countries	6,158	5,557	6,225	6,832	6,451	5,990	6,319	6,209	6,613
51 Foreign governments and official institutions	939	891	930	985	878	809	800	796	952
52 Certified and officers' checks	10,932	12,104	11,694	15,238	12,381	10,033	9,460	10,974	14,753
53 Transaction balances other than demand deposits	45,918	46,476	48,153	45,792	44,322	45,125	44,471	44,526	44,433
54 Nontransaction balances	493,902	493,916	490,881	490,598	490,134	490,864	491,108	492,425	492,205
55 Individuals, partnerships and corporations	455,629	455,648	453,053	452,300	451,872	452,343	452,557	453,659	453,483
56 States and political subdivisions	25,429	25,614	25,308	25,825	25,753	25,795	26,052	26,315	26,326
57 U.S. government	692	700	691	689	683	671	674	762	761
58 Depository institutions in the United States	10,483	10,323	10,221	10,182	10,258	10,488	10,305	10,190	10,223
59 Foreign governments, official institutions and banks	1,669	1,630	1,607	1,601	1,567	1,566	1,520	1,498	1,412
60 Liabilities for borrowed money	236,206	242,290	246,846	258,563	252,508	250,943	242,378	246,116	238,496
61 Borrowings from Federal Reserve Banks	110	2,019	245	547	305	397	339	677	269
62 Treasury tax-and-loan notes	2,308	6,366	11,134	15,731	17,532	17,739	15,580	11,164	7,912
63 All other liabilities for borrowed money[3]	233,788	233,905	235,466	242,285	234,671	232,807	226,458	234,275	230,315
64 Other liabilities and subordinated note and debentures	85,547	84,339	84,724	88,625	85,833	83,128	83,826	89,811	86,339
65 Total liabilities	**1,079,449**	**1,073,405**	**1,092,807**	**1,096,730**	**1,094,890**	**1,077,130**	**1,070,378**	**1,076,756**	**1,084,656**
66 Residual (total assets minus total liabilities)[4]	81,155	81,375	80,890	81,005	81,868	81,956	82,092	81,954	81,947
MEMO									
67 Total loans and leases (gross) and investments adjusted[5]	896,605	894,366	903,391	899,406	905,460	900,938	899,916	904,272	900,060
68 Total loans and leases (gross) adjusted[2,5]	732,372	726,801	735,124	734,628	738,836	733,813	733,789	738,348	733,880
69 Time deposits in amounts of $100,000 or more	159,428	159,116	156,948	156,843	155,904	155,980	155,918	155,757	155,432
70 Loans sold outright to affiliates—total[6]	1,647	1,743	1,803	1,626	1,702	1,686	1,686	1,534	1,506
71 Commercial and industrial	942	1,044	1,102	962	1,038	1,049	1,057	958	950
72 Other	705	699	700	664	664	637	629	576	556
73 Nontransaction savings deposits (including MMDAs)	200,782	201,518	200,257	200,142	200,597	201,523	202,219	204,059	204,081

1. Includes securities purchased under agreements to resell.
2. Levels of major loan items were affected by the Sept. 26, 1984, transaction between Continental Illinois National Bank and the Federal Deposit Insurance Corporation. For details see the H.4.2 statistical release dated Oct. 5, 1984.
3. Includes federal funds purchased and securities sold under agreements to repurchase; for information on these liabilities at banks with assets of $1 billion or more on Dec. 31, 1977, see table 1.13.
4. This is not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
5. Exclusive of loans and federal funds transactions with domestic commercial banks.
6. Loans sold are those sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

1.28 LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY Assets and Liabilities

Millions of dollars, Wednesday figures except as noted

Account	1986								
	Apr. 2	Apr. 9	Apr. 16	Apr. 23	Apr. 30	May 7	May 14	May 21	May 28
1 Cash and balances due from depository institutions	25,650	22,834	25,555	31,870	26,606	23,896	23,601	25,982	31,236
2 **Total loans, leases and securities, net**[1]	**197,961**	**198,032**	**200,446**	**203,880**	**204,206**	**197,328**	**194,687**	**200,641**	**198,991**
Securities									
3 U.S. Treasury and government agency[2]	......	.....	......	......	......	......	......	.....	......
4 Trading account[2]	......	.....	......	......	......	......	......	.....	......
5 Investment account, by maturity	10,288	10,587	11,192	11,145	10,673	10,674	10,096	9,983	9,601
6 One year or less	1,597	1,574	1,442	1,522	1,375	1,394	1,382	1,306	1,114
7 Over one through five years	5,608	5,732	6,322	6,017	6,087	6,470	5,383	5,215	5,214
8 Over five years	3,083	3,280	3,428	3,606	3,210	2,810	3,332	3,462	3,272
9 Other securities[2]	......	.....	......	......	......	......	......	.....	......
10 Trading account[2]	......	.....	......	......	......	......	......	.....	......
11 Investment account	15,228	15,183	15,276	15,319	15,462	15,439	15,447	15,324	15,310
12 States and political subdivisions, by maturity	13,141	13,110	13,106	13,144	13,262	13,254	13,299	13,234	13,232
13 One year or less	1,684	1,666	1,656	1,655	1,706	1,715	1,712	1,694	1,685
14 Over one year	11,456	11,443	11,449	11,489	11,557	11,539	11,587	11,540	11,546
15 Other bonds, corporate stocks and securities	2,087	2,074	2,170	2,174	2,200	2,184	2,148	2,091	2,078
16 Other trading account assets[2]	......	.....	......	......	......	......	......	.....	......
Loans and leases									
17 Federal funds sold[3]	27,532	29,172	28,173	32,777	31,808	27,241	25,643	29,556	28,608
18 To commercial banks	13,319	15,660	14,180	17,499	16,289	12,260	11,630	13,954	13,989
19 To nonbank brokers and dealers in securities	9,343	7,479	8,433	9,539	8,800	8,447	8,063	8,939	8,207
20 To others	4,869	6,033	5,560	5,740	6,719	6,534	5,949	6,662	6,412
21 Other loans and leases, gross	150,434	148,666	151,388	150,235	151,907	149,651	149,232	151,522	151,218
22 Other loans, gross	147,345	145,633	148,348	147,189	148,870	146,606	146,236	148,517	148,206
23 Commercial and industrial	58,975	58,019	59,041	57,514	57,988	57,977	58,087	56,638	56,696
24 Bankers acceptances and commercial paper	462	516	483	492	488	512	618	666	542
25 All other	58,513	57,503	58,558	57,022	57,500	57,465	57,469	55,972	56,154
26 U.S. addressees	57,986	56,982	57,780	56,261	56,738	56,702	56,707	55,246	55,478
27 Non-U.S. addressees	527	522	779	762	762	763	762	725	675
28 Real estate loans	31,003	30,964	31,288	31,433	31,286	31,355	31,683	31,925	32,005
29 To individuals for personal expenditures	17,737	17,731	17,800	17,855	17,926	17,956	18,094	18,116	18,167
30 To depository and financial institutions	13,489	13,390	14,038	14,575	14,849	14,934	14,119	15,402	15,587
31 Commercial banks in the United States	4,524	4,639	4,981	5,487	5,880	6,194	5,667	6,548	6,459
32 Banks in foreign countries	2,318	2,080	1,955	2,576	2,293	2,200	1,827	2,130	2,397
33 Nonbank depository and other financial institutions	6,647	6,670	7,102	6,512	6,676	6,540	6,626	6,724	6,731
34 For purchasing and carrying securities	10,580	11,180	11,214	10,575	11,664	9,294	9,264	11,578	10,091
35 To finance agricultural production	317	316	312	323	319	311	295	300	301
36 To states and political subdivisions	9,196	9,187	9,279	9,391	9,259	9,248	9,258	9,307	9,211
37 To foreign governments and official institutions	818	764	716	922	856	959	879	857	963
38 All other	5,229	4,082	4,661	4,600	4,722	4,574	4,556	4,396	5,185
39 Lease financing receivables	3,089	3,033	3,040	3,046	3,037	3,045	2,996	3,005	3,012
40 LESS: Unearned income	1,407	1,377	1,384	1,389	1,433	1,435	1,434	1,438	1,440
41 Loan and lease reserve	4,113	4,198	4,200	4,208	4,211	4,242	4,297	4,306	4,306
42 Other loans and leases, net	144,913	143,091	145,804	144,638	146,263	143,974	143,501	145,778	145,472
43 All other assets[4]	72,181	76,800	75,831	72,658	73,456	74,334	73,336	72,672	71,611
44 **Total assets**	**295,792**	**297,667**	**301,832**	**308,408**	**304,268**	**295,559**	**291,624**	**299,295**	**301,838**
Deposits									
45 Demand deposits	56,788	54,879	58,766r	59,757r	58,576r	53,624	52,385	53,883	61,506
46 Individuals, partnerships, and corporations	40,174	36,718	39,983r	37,705r	39,112r	35,967	35,826	35,823	39,514
47 States and political subdivisions	667	564	1,081	581	688	589	594	584	614
48 U.S. government	183	221	656	684	715	556	486	143	332
49 Depository institutions in the United States	5,286	5,229	5,878	5,517	6,167	6,033	5,410	5,832	5,863
50 Banks in foreign countries	4,772	4,347	4,886	5,587	5,127	4,818	5,070	4,989	5,225
51 Foreign governments and official institutions	790	724	766	831	684	646	642	640	784
52 Certified and officers' checks	4,915	7,077	5,516	8,852	6,082	5,014	4,358	5,872	9,175
53 Transaction balances other than demand deposits ATS, NOW, Super NOW, telephone transfers)	4,939r	5,071r	5,330	4,992	4,785	4,903	4,837	4,884	4,909
54 Nontransaction balances	91,876r	91,413r	91,105r	90,452r	91,402r	91,424	91,469	92,083	91,576
55 Individuals, partnerships and corporations	82,936r	82,527r	82,231r	81,439r	82,136r	82,104	82,334	82,664	82,490
56 States and political subdivisions	5,598	5,853	5,782	5,870	5,876	5,939	5,976	6,162	6,095
57 U.S. government	48	49	46	49	48	47	47	125	120
58 Depository institutions in the United States	2,385	2,114	2,187	2,222	2,496	2,488	2,249	2,273	2,097
59 Foreign governments, official institutions and banks	907	870	859	873	846	846	863	859	774
60 Liabilities for borrowed money	81,677	85,539	85,411	90,032	87,809	84,546	82,235	84,163	81,933
61 Borrowings from Federal Reserve Banks	......	1,475	....	.....	......	....	......	.....	......
62 Treasury tax-and-loan notes	287	1,536	3,074	4,414	4,894	4,895	4,167	2,850	2,073
63 All other liabilities for borrowed money[5]	81,390	82,528	82,337	85,618	82,914	79,651	78,068	81,312	79,860
64 Other liabilities and subordinated note and debentures	34,521	34,700	35,286	37,146	35,378	34,597	34,256	37,871	35,556
65 **Total liabilities**	**269,801**	**271,602**	**275,898**	**282,379**	**277,950**	**269,094**	**265,183**	**272,885**	**275,481**
66 Residual (total assets minus total liabilities)[6]	25,991	26,065	25,934	26,028	26,318	26,465	26,441	26,411	26,357
MEMO									
67 Total loans and leases (gross) and investments adjusted[1,7]	185,638	183,309	186,869	186,491	187,681	184,551	183,121	185,883	184,289
68 Total loans and leases (gross) adjusted[7]	160,122	157,539	160,401	160,027	161,546	158,437	157,578	160,576	159,378
69 Time deposits in amounts of $100,000 or more	35,043	34,657	34,834	34,402	34,880	34,684	34,476	34,794	34,288

1. Excludes trading account securities.
2. Not available due to confidentiality.
3. Includes securities purchased under agreements to resell.
4. Includes trading account securities.
5. Includes federal funds purchased and securities sold under agreements to repurchase.
6. Not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
7. Exclusive of loans and federal funds transactions with domestic commercial banks.

NOTE. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.

1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS[1] Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1986								
	Apr. 2	Apr. 9	Apr. 16	Apr. 23	Apr. 30	May 7	May 14	May 21	May 28
1 *Cash and due from depository institutions*	9,417	8,730	9,589	9,389	9,452	8,932	9,194	8,705	9,202
2 Total loans and securities	67,583	66,693	67,529	68,517	69,478	68,368	67,123	67,839	67,036
3 U.S. Treasury and govt. agency securities	3,888	4,245	4,492	4,345	4,946	4,952	4,938	5,089	5,256
4 Other securities	3,999	3,983	4,152	4,322	4,310	4,241	4,278	4,201	4,384
5 Federal funds sold[2]	3,786	3,726	3,116	4,380	4,318	4,752	3,563	5,105	3,628
6 To commercial banks in the United States	3,105	2,985	2,189	3,359	3,314	3,740	2,492	3,928	2,386
7 To others	681	741	927	1,021	1,004	1,011	1,071	1,177	1,242
8 Other loans, gross	55,908	54,740	55,769	55,469	55,904	54,424	54,344	53,444	53,768
9 Commercial and industrial	32,629	32,342	32,617	32,224	32,188	32,074	31,573	31,028	31,089
10 Bankers acceptances and commercial paper	2,348	2,216	2,243	2,219	2,371	2,605	2,626	2,659	2,616
11 All other	30,281	30,126	30,374	30,005	29,816	29,469	28,947	28,368	28,473
12 U.S. addressees	28,146	27,942	28,159	27,764	27,551	27,174	26,645	26,065	26,042
13 Non-U.S. addressees	2,135	2,184	2,215	2,241	2,265	2,295	2,302	2,304	2,431
14 To financial institutions	15,540	15,184	15,845	16,067	15,863	15,862	15,347	15,044	15,025
15 Commercial banks in the United States	12,707	12,525	12,793	13,235	12,929	12,628	12,065	11,548	11,604
16 Banks in foreign countries	973	968	1,055	984	953	988	1,004	980	931
17 Nonbank financial institutions	1,860	1,692	1,996	1,848	1,981	2,247	2,278	2,517	2,490
18 To foreign govts. and official institutions	608	608	622	611	641	555	550	557	559
19 For purchasing and carrying securities	3,611	2,951	3,092	2,889	3,428	2,152	3,040	2,831	3,053
20 All other	3,520	3,654	3,593	3,678	3,784	3,780	3,834	3,983	4,042
21 Other assets (claims on nonrelated parties)	21,812	22,273	21,905	22,107	22,024	22,000	22,088	22,336	21,937
22 Net due from related institutions	11,982	14,735	12,407	13,694	14,744	14,324	12,871	12,342	12,346
23 Total assets	110,794	112,431	111,430	113,708	115,698	113,624	111,276	111,222	110,522
24 Deposits or credit balances due to other than directly related institutions	31,901	32,113	32,338	31,799	32,821	32,386	32,060	32,059	32,047
25 Transaction accounts and credit balances[3]	2,723	2,549	2,730	2,653	2,961	3,245	2,903	3,057	3,085
26 Individuals, partnerships, and corporations	1,555	1,397	1,552	1,550	1,667	1,789	1,901	1,670	1,614
27 Other	1,168	1,152	1,178	1,102	1,294	1,456	1,002	1,387	1,472
28 Nontransaction accounts[4]	29,178	29,564	29,608	29,146	29,860	29,140	29,157	29,002	28,961
29 Individuals, partnerships, and corporations	23,718	24,110	24,109	23,831	24,626	23,855	23,865	23,726	23,886
30 Other	5,460	5,454	5,499	5,315	5,234	5,286	5,292	5,277	5,076
31 Borrowings from other than directly related institutions	43,829	46,596	43,747	45,717	46,888	45,810	42,003	42,690	42,132
32 Federal funds purchased[5]	20,959	24,021	22,243	23,410	25,378	23,930	20,267	20,491	20,416
33 From commercial banks in the United States	16,055	18,892	15,886	16,856	18,439	16,874	13,964	13,977	13,587
34 From others	4,904	5,129	6,356	6,554	6,939	7,056	6,302	6,514	6,829
35 Other liabilities for borrowed money	22,871	22,575	21,505	22,306	21,510	21,880	21,736	22,199	21,715
36 To commercial banks in the United States	21,009	20,991	19,628	20,585	19,648	20,005	19,726	19,684	19,147
37 To others	1,862	1,584	1,876	1,722	1,863	1,875	2,010	2,515	2,568
38 Other liabilities to nonrelated parties	23,481	24,252	23,510	23,464	23,694	23,634	23,824	23,396	23,313
39 Net due to related institutions	11,582	9,468	11,835	12,728	12,294	11,793	13,389	13,076	13,030
40 Total liabilities	110,794	112,431	111,430	113,708	115,698	113,624	111,276	111,222	110,522
MEMO									
41 Total loans (gross) and securities adjusted[6]	51,771	51,183	52,547	51,923	53,235	52,000	52,566	52,363	53,047
42 Total loans (gross) adjusted[6]	43,883	42,956	43,903	43,255	43,979	42,807	43,350	43,072	43,406

1. Effective Jan. 1, 1986, the reporting panel includes 65 U.S. branches and agencies of foreign banks that include those branches and agencies with assets of $750 million or more on June 30, 1980, plus those branches and agencies that had reached the $750 million asset level on Dec. 31, 1984.
2. Includes securities purchased under agreements to resell.
3. Includes credit balances, demand deposits, and other checkable deposits.
4. Includes savings deposits, money market deposit accounts, and time deposits.
5. Includes securities sold under agreements to repurchase.
6. Exclusive of loans to and federal funds sold to commercial banks in the United States.

1.31 GROSS DEMAND DEPOSITS Individuals, Partnerships, and Corporations[1]

Billions of dollars, estimated daily-average balances, not seasonally adjusted

Type of holder	Commercial banks									
	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.	1984		1985			
					Sept.	Dec.	Mar.[3]	June	Sept.	Dec.
1 **All holders—Individuals, partnerships, and corporations**	**315.5**	**288.9**	**291.8**	**293.5**	**288.8**	**302.7**	**286.6**	**298.6**	**299.6**	**321.6**
2 Financial business	29.8	28.0	35.4	32.8	30.4	31.7	28.1	28.9	28.9	32.9
3 Nonfinancial business	162.8	154.8	150.5	161.1	158.9	166.3	158.3	164.7	168.1	178.4
4 Consumer	102.4	86.6	85.9	78.5	79.9	81.5	77.9	81.8	80.7	84.8
5 Foreign	3.3	2.9	3.0	3.3	3.3	3.6	3.5	3.7	3.5	3.5
6 Other	17.2	16.7	17.0	17.8	16.3	19.7	18.8	19.5	18.5	22.1

	Weekly reporting banks									
	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.[2]	1984		1985			
					Sept.	Dec.	Mar.[3]	June	Sept.	Dec.
7 **All holders—Individuals, partnerships, and corporations**	**147.4**	**137.5**	**144.2**	**146.2**	**145.3**	**157.1**	**147.8**	**151.4**	**153.7**	**168.8**
8 Financial business	21.8	21.0	26.7	24.2	23.7	25.3	22.6	22.9	23.3	26.6
9 Nonfinancial business	78.3	75.2	74.3	79.8	79.2	87.1	82.8	84.0	85.9	94.4
10 Consumer	35.6	30.4	31.9	29.7	29.8	30.5	29.1	29.9	30.6	32.4
11 Foreign	3.1	2.8	2.9	3.1	3.2	3.4	3.3	3.5	3.3	3.1
12 Other	8.6	8.0	8.4	9.3	9.3	10.9	10.0	11.0	10.6	12.3

1. Figures include cash items in process of collection. Estimates of gross deposits are based on reports supplied by a sample of commercial banks. Types of depositors in each category are described in the June 1971 BULLETIN, p. 466.

2. In January 1984 the weekly reporting panel was revised; it now includes 168 banks. *Beginning with March 1984, estimates are constructed on the basis of 92 sample banks and are not comparable with earlier data.* Estimates in billions of dollars for December 1983 based on the newly weekly reporting panel are: financial business, 24.4; nonfinancial business, 80.9; consumer, 30.1; foreign, 3.1; other, 9.5.

3. Beginning March 1985, financial business deposits and, by implication, total gross demand deposits have been redefined to exclude demand deposits due to thrift institutions. Historical data have not been revised. The estimated volume of such deposits for December 1984 is $5.0 billion at all insured commercial banks and $3.0 billion at weekly reporting banks.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1981 Dec.	1982 Dec.	1983 Dec.[1]	1984 Dec.	1985 Dec.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**165,829**	**166,436**	**187,658**	**237,586**	**300,899**	**287,981**	**300,899**	**302,160**	**297,862**	**301,110**	**297,108**
Financial companies[3]											
Dealer-placed paper[4]											
2 Total	30,333	34,605	44,455	56,485	78,443	72,145	78,443	79,048	78,136	84,071	83,871
3 Bank-related (not seasonally adjusted)	6,045	2,516	2,441	2,035	1,602	1,969	1,602	1,410	1,475	1,348	1,520
Directly placed paper[5]											
4 Total	81,660	84,393	97,042	110,543	135,504	131,667	135,504	134,584	134,443	135,510	135,801
5 Bank-related (not seasonally adjusted)	26,914	32,034	35,566	42,105	44,778	41,490	44,778	37,418	36,948	37,013	37,835
6 Nonfinancial companies[6]	53,836	47,437	46,161	70,558	86,952	84,169	86,952	88,528	85,283	81,529	77,436
	Bankers dollar acceptances (not seasonally adjusted)[7]										
7 **Total**	**69,226**	**79,543**	**78,309**	**77,121**	**68,115**[r]	**67,890**	**68,115**[r]	**68,314**[r]	**67,188**	**66,882**[r]	**66,235**
Holder											
8 Accepting banks	10,857	10,910	9,355	9,812[r]	11,174[r]	11,027	11,174[r]	11,145[r]	12,331[r]	13,061[r]	12,287
9 Own bills	9,743	9,471	8,125	8,621[r]	9,448[r]	8,903	9,448[r]	9,407[r]	10,105[r]	10,722[r]	10,261
10 Bills bought	1,115	1,439	1,230	1,191	1,726	2,123	1,726	1,738	2,225	2,339[r]	2,026
Federal Reserve Banks											
11 Own account	195	1,480	418	0	0	0	0	0	0	0	0
12 Foreign correspondents	1,442	949	729	671	937	874	937	898	874	877	746
13 Others	56,731	66,204	67,807	66,639[r]	56,004	55,990[r]	56,004	56,271	53,984[r]	52,944	53,202
Basis											
14 Imports into United States	14,765	17,683	15,649	17,560[r]	15,147[r]	15,845	15,147[r]	14,820	14,806	13,595[r]	14,464
15 Exports from United States	15,400	16,328	16,880	15,859	13,204[r]	13,030	13,204[r]	12,951	13,115	13,410[r]	13,473
16 All other	39,060	45,531	45,781	43,702[r]	39,763[r]	39,015	39,763[r]	40,543	39,268	39,878[r]	38,299

1. Effective Dec. 1, 1982, there was a break in the commercial paper series. The key changes in the content of the data involved additions to the reporting panel, the exclusion of broker or dealer placed borrowings under any master note agreements from the reported data, and the reclassification of a large portion of bank-related paper from dealer-placed to directly placed.
2. Correction of a previous misclassification of paper by a reporter has created a break in the series beginning December 1983. The correction adds some paper to nonfinancial and to dealer-placed financial paper.
3. Institutions engaged primarily in activities such as, but not limited to, commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
4. Includes all financial company paper sold by dealers in the open market.
5. As reported by financial companies that place their paper directly with investors.
6. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
7. Beginning October 1984, the number of respondents in the bankers acceptance survey were reduced from 340 to 160 institutions—those with $50 million or more in total acceptances. The new reporting group accounts for over 95 percent of total acceptances activity.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per annum

Effective date	Rate	Effective Date	Rate	Month	Average rate	Month	Average rate
1984—Mar. 19	11.50	1985—Jan. 15	10.50	1984—Jan.	11.00	1985—Apr.	10.50
Apr. 5	12.00	May 20	10.00	Feb.	11.00	May	10.31
May 8	12.50	June 18	9.50	Mar.	11.21	June	9.78
June 25	13.00			Apr.	11.93	July	9.50
Sept. 27	12.75	1986—Mar. 7	9.00	May	12.39	Aug.	9.50
Oct. 17	12.50	Apr. 21	8.50	June	12.60	Sept.	9.50
29	12.00			July	13.00	Oct.	9.50
Nov. 9	11.75			Aug.	13.00	Nov.	9.50
28	11.25			Sept.	12.97	Dec.	9.50
Dec. 20	10.75			Oct.	12.58		
				Nov.	11.77	1986—Jan.	9.50
				Dec.	11.06	Feb.	9.50
						Mar.	9.10
				1985—Jan.	10.61	Apr.	8.83
				Feb.	10.50	May	8.50
				Mar.	10.50		

NOTE. These data also appear in the Board's H.15 (519) release. For address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Averages, percent per annum; weekly and monthly figures are averages of business day data unless otherwise noted.

Instrument	1983	1984	1985	1986				1986, week ending				
				Feb.	Mar.	Apr.	May	May 2	May 9	May 16	May 23	May 30
MONEY MARKET RATES												
1 Federal funds[1,2]	9.09	10.22	8.10	7.86	7.48	6.99	6.85	6.88	6.87	6.82	6.87	6.85
2 Discount window borrowing[1,2,3]	8.50	8.80	7.69	7.50	7.10	6.83	6.50	6.50	6.50	6.50	6.50	6.50
Commercial paper[4,5]												
3 1-month	8.87	10.05	7.94	7.70	7.30	6.75	6.72	6.67	6.66	6.73	6.76	6.75
4 3-month	8.88	10.10	7.95	7.63	7.20	6.60	6.62	6.55	6.53	6.61	6.70	6.69
5 6-month	8.89	10.16	8.01	7.54	7.08	6.47	6.53	6.44	6.42	6.52	6.63	6.61
Finance paper, directly placed[4,5]												
6 1-month	8.80	9.97	7.91	7.68	7.24	6.69	6.73	6.67	6.70	6.77	6.69	6.77
7 3-month	8.70	9.73	7.77	7.47	7.15	6.49	6.46	6.29	6.39	6.43	6.50	6.57
8 6-month	8.69	9.65	7.75	7.40	7.10	6.44	6.33	6.22	6.28	6.27	6.38	6.45
Bankers acceptances[5,6]												
9 3-month	8.90	10.14	7.92	7.54	7.09	6.48	6.54	6.46	6.39	6.57	6.63	6.61
10 6-month	8.91	10.19	7.96	7.41	6.94	6.36	6.45	6.36	6.29	6.48	6.56	6.54
Certificates of deposit, secondary market[7]												
11 1-month	8.96	10.17	7.97	7.69	7.33	6.74	6.68	6.63	6.60	6.70	6.76	6.72
12 3-month	9.07	10.37	8.05	7.69	7.24	6.60	6.65	6.56	6.53	6.64	6.75	6.71
13 6-month	9.27	10.68	8.25	7.70	7.23	6.57	6.64	6.54	6.50	6.65	6.75	6.71
14 Eurodollar deposits, 3-month[8]	9.56	10.73	8.28	7.89	7.42	6.80	6.86	6.78	6.74	6.79	6.98	6.91
U.S. Treasury bills[5]												
Secondary market[9]												
15 3-month	8.61	9.52	7.48	7.06	6.56	6.06	6.15	6.11	6.05	6.14	6.20	6.24
16 6-month	8.73	9.76	7.65	7.11	6.57	6.08	6.19	6.15	6.08	6.15	6.25	6.32
17 1-year	8.80	9.92	7.81	7.11	6.59	6.06	6.25	6.17	6.10	6.24	6.33	6.37
Auction average[10]												
18 3-month	8.52	9.57	7.47	7.03	6.59	6.06	6.12	6.08	6.07	6.07	6.22	6.15
19 6-month	8.76	9.80	7.64	7.08	6.60	6.07	6.16	6.14	6.09	6.10	6.28	6.21
20 1-year	8.86	9.91	7.83	7.19	6.61	5.94	6.17	n.a.	n.a.	6.17	n.a.	n.a.
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds[11]												
Constant maturities[12]												
21 1-year	9.57	10.89	8.43	7.61	7.03	6.44	6.65	6.56	6.49	6.65	6.74	6.79
22 2-year	10.21	11.65	9.27	7.97	7.21	6.70	7.07	6.85	6.82	7.09	7.22	7.26
23 3-year	10.45	11.89	9.64	8.10	7.30	6.86	7.27	7.07	6.98	7.28	7.45	7.47
24 5-year	10.80	12.24	10.13	8.34	7.46	7.05	7.52	7.21	7.19	7.58	7.78	7.70
25 7-year	11.02	12.40	10.51	8.58	7.67	7.16	7.65	7.31	7.34	7.71	7.87	7.86
26 10-year	11.10	12.44	10.62	8.70	7.78	7.30	7.71	7.44	7.44	7.75	7.90	7.88
27 20-year	11.34	12.48	10.97	9.08	8.09	7.50	7.81	7.62	7.66	7.92	7.95	7.75
28 30-year	11.18	12.39	10.79	8.93	7.96	7.39	7.52	7.52	7.45	7.48	7.56	7.57
Composite[13]												
29 Over 10 years (long-term)	10.84	11.99	10.75	9.07	8.13	7.59	8.02	7.77	7.77	8.05	8.21	8.19
State and local notes and bonds												
Moody's series[14]												
30 Aaa	8.80	9.61	8.60	7.26	6.73	6.81	7.22	7.00	7.10	7.20	7.50	7.30
31 Baa	10.17	10.38	9.58	8.30	7.58	7.45	7.84	7.60	7.70	7.90	8.10	7.90
32 *Bond Buyer* series[15]	9.51	10.10	9.11	7.44	7.08	7.20	7.54	7.33	7.36	7.53	7.78	7.70
Corporate bonds												
Seasoned issues[16]												
33 All industries	12.78	13.49	12.05	10.40	9.79	9.51	9.69	9.58	9.57	9.71	9.77	9.75
34 Aaa	12.04	12.71	11.37	9.67	9.00	8.79	9.09	8.97	8.98	9.12	9.17	9.14
35 Aa	12.42	13.31	11.82	10.13	9.49	9.21	9.43	9.31	9.32	9.43	9.51	9.50
36 A	13.10	13.74	12.28	10.67	10.15	9.83	9.94	9.82	9.82	9.97	10.02	9.99
37 Baa	13.55	14.19	12.72	11.11	10.50	10.19	10.29	10.20	10.16	10.29	10.37	10.37
38 A-rated, recently-offered utility bonds[17]	12.73	13.81	12.06	10.20	9.41	9.26	9.50	9.41	9.42	9.53	9.57	9.60
MEMO: Dividend/price ratio[19]												
39 Preferred stocks	11.02	11.59	10.49	9.62	9.13	8.97	9.00	9.00	8.98	9.00	9.09	8.93
40 Common stocks	4.40	4.64	4.25	3.72	3.50	3.43	3.42	3.47	3.46	3.44	3.47	3.32

1. Weekly and monthly figures are averages of all calendar days, where the rate for a weekend or holiday is taken to be the rate prevailing on the preceding business day. The daily rate is the average of the rates on a given day weighted by the volume of transactions at these rates.
2. Weekly figures are averages for statement week ending Wednesday.
3. Rate for the Federal Reserve Bank of New York.
4. Unweighted average of offering rates quoted by at least five dealers (in the case of commercial paper), or finance companies (in the case of finance paper). Before November 1979, maturities for data shown are 30–59 days, 90–119 days, and 120–179 days for commercial paper; and 30–59 days, 90–119 days, and 150–179 days for finance paper.
5. Yields are quoted on a bank-discount basis, rather than an investment yield basis (which would give a higher figure).
6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).
7. Unweighted average of offered rates quoted by at least five dealers early in the day.
8. Calendar week average. For indication purposes only.
9. Unweighted average of closing bid rates quoted by at least five dealers.
10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.
11. Yields are based on closing bid prices quoted by at least five dealers.
12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.
13. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including one very low yielding "flower" bond.
14. General obligations based on Thursday figures; Moody's Investors Service.
15. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.
16. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
17. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.
18. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1983	1984	1985	1985 Sept.	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
	Prices and trading (averages of daily figures)											
Common stock prices												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	92.63	92.46	108.09	106.62	107.57	113.93	119.33	120.16	126.43	133.97	137.25	137.37
2 Industrial	107.45	108.01	123.79	122.35	123.65	130.53	136.77	137.13	144.03	152.75	157.35	158.59
3 Transportation	89.36	85.63	104.11	104.96	103.72	108.61	113.52	115.72	124.18	128.66	125.92	122.21
4 Utility	47.00	46.44	56.75	55.93	55.84	59.07	61.69	62.46	65.18	68.06	69.35	68.65
5 Finance	95.34	89.28	114.21	110.21	112.36	122.83	128.86	132.36	142.13	153.94	154.83	151.28
6 Standard & Poor's Corporation (1941–43 = 10)[1]	160.41	160.50	186.84	184.06	186.18	197.45	207.26	208.19	219.37	232.33	237.97	238.46
7 American Stock Exchange[2] (Aug. 31, 1973 = 50)	216.48	207.96	229.10	226.27	225.00	236.53	243.28	245.27	246.09	264.91	270.59	274.22
Volume of trading (thousands of shares)												
8 New York Stock Exchange	85,418	91,084	109,191	97,910	110,569	122,263	133,446	130,872	152,590	160,755	146,330	127,624
9 American Stock Exchange	8,215	6,107	8,355	7,057	7,648	9,183	11,890	11,105	14,057	15,902	13,503	11,870
	Customer financing (end-of-period balances, in millions of dollars)											
10 **Margin credit at broker–dealers[3]**	**23,000**	**22,470**	**28,390**	**25,330**	**26,350**	**26,400**	**28,390**	**26,810**	**27,450**	**29,090**	**30,760**	**32,370**
Free credit balances at brokers[4]												
11 Margin-account[5]	......	1,755	2,715	1,745	1,715	2,080	2,715	2,645	2,545	2,715	3,065	2,405
12 Cash-account	8,430	10,215	12,840	10,080	9,630	10,340	12,840	11,695	12,355	13,920	14,340	12,970
	Margin-account debt at brokers (percentage distribution, end of period)											
13 **Total**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
By equity class (in percent)[6]												
14 Under 40	22.0	18.0	34.0	40.0	37.0	35.0	34.0	32.0	28.0	29.0	29.0	30.0
15 40–49	22.0	18.0	20.0	22.0	22.0	20.0	20.0	21.0	19.0	19.0	20.0	19.0
16 50–59	16.0	16.0	19.0	16.0	17.0	19.0	19.0	19.0	21.0	22.0	20.0	22.0
17 60–69	9.0	9.0	11.0	9.0	10.0	11.0	11.0	11.0	13.0	13.0	13.0	12.0
18 70–79	6.0	5.0	8.0	6.0	7.0	7.0	8.0	8.0	9.0	8.0	9.0	8.0
19 80 or more	6.0	6.0	8.0	7.0	7.0	8.0	8.0	9.0	10.0	9.0	9.0	9.0
	Special miscellaneous-account balances at brokers (end of period)											
20 **Total balances (millions of dollars)[7]**	**58,329**	**75,840**	**99,310**	**91,400**	**92,250**	**95,240**	**99,310**	**99,290**	**104,228**	**103,450**	**105,790**	**109,620**
Distribution by equity status (percent)												
21 Net credit status	63.0	59.0	58.0	59.0	58.0	57.0	58.0	59.0	60.0	61.0	59.0	58.0
Debt status, equity of												
22 60 percent or more	28.0	29.0	31.0	31.0	31.0	32.0	31.0	33.0	32.0	31.0	33.0	33.0
23 Less than 60 percent	9.0	11.0	11.0	10.0	11.0	11.0	11.0	8.0	8.0	8.0	8.0	9.0

Margin requirements (percent of market value and effective date)[8]

	Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974
24 Margin stocks	70	80	65	55	65	50
25 Convertible bonds	50	60	50	50	50	50
26 Short sales	70	80	65	55	65	50

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.
2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.
3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through 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, and margin credit at broker-dealers became the total that is distributed by equity class and shown on lines 17–22.
4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.
5. New series beginning June 1984.
6. Each customer's equity in his collateral (market value of collateral less net debit balance) is expressed as a percentage of current collateral values.
7. Balances that may be used by customers as the margin deposit required for additional purchases. Balances may arise as transfers based on loan values of other collateral in the customer's margin account or deposits of cash (usually sales proceeds) occur.
8. Regulations G, T, and U of the Federal Reserve Board of Governors, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended. Margin requirements are the difference between the market value (100 percent) and the maximum loan value. The term "margin stocks" is defined in the corresponding regulation.

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1983	1984	1985								1986		
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
	FSLIC insured institutions												
1 **Assets**	**819,168**	**978,514**	**1,012,312**	**1,022,410**	**1,034,979**	**1,042,065**	**1,049,727r**	**1,061,529r**	**1,069,723r**	**1,069,766r**	**1,079,020r**	**1,089,805r**	**1,098,965**
2 Mortgages	521,308	599,021	623,275	627,311	633,107	638,112	644,392r	647,384r	649,989r	651,650r	652,508r	653,534r	656,560
3 Mortgage-backed securities	90,902	108,219	102,892	105,869	108,417	113,333	112,190r	110,831r	111,071r	112,280r	113,993r	115,954r	119,826
4 Cash and investment securities[1]	109,923	135,640	132,109	133,001	135,050	131,582	130,795r	139,628r	143,720r	139,909r	144,830r	150,250r	149,747
5 Other	74,086	91,516	100,595	101,281	101,688	101,467	102,537r	102,956r	102,548r	103,412r	104,181r	105,881r	107,072
6 **Liabilities and net worth**	**819,168**	**978,514**	**1,012,312**	**1,022,410**	**1,034,979**	**1,042,065**	**1,049,727r**	**1,061,529r**	**1,069,723r**	**1,069,766r**	**1,079,020r**	**1,089,805r**	**1,098,965**
7 Savings capital	671,059	784,724	817,551	822,105	826,841	831,274	833,193	837,463	843,953r	847,559r	852,339r	862,134r	862,336
8 Borrowed money	98,511	137,123	130,269	134,019	139,507	144,982	147,839r	152,966r	157,166r	151,032r	152,251r	155,322r	161,290
9 FHLBB	57,253	71,719	75,897	77,756	80,129	81,486	82,569	82,718	84,398	82,633	82,477r	82,434r	85,758
10 Other	41,258	65,404	54,372	56,263	59,378	63,496	65,270r	70,248r	72,768r	68,399r	69,774r	72,888r	75,532
11 Other	16,619	18,746	22,055	23,252	25,199	21,865	24,282r	26,040r	21,981r	24,091r	26,613r	23,630r	25,876
12 Net worth[2]	32,980	37,921	42,436	43,034	43,432	43,945	44,413r	45,061r	46,824r	47,083r	47,818r	48,718r	49,462
13 MEMO: Mortgage loan commitments outstanding[3]	56,785	65,836	69,585	68,805	66,120	65,743	65,049	65,455	62,091	60,788	63,136	64,214	67,243
	Savings banks[4]												
14 **Assets**	**193,535**	**203,898**	**212,163**	**213,824**	**215,298**	**215,560**	**215,893**	**216,793**	**216,776r**	**216,673**	**218,119**	**221,256**	n.a.
Loans													
15 Mortgage	97,356	102,895	105,891	106,441	107,322	108,842	109,171	109,494	110,371	108,973	109,702	110,271	n.a.
16 Other	19,129	24,954	29,211	30,339	30,195	29,672	29,967	31,217	30,876r	31,752	32,501	34,873	n.a.
Securities													
17 U.S. government	15,360	14,643	14,074	13,960	13,868	13,686	13,734	13,434	13,111r	12,568	12,474	12,313	n.a.
18 Mortgage-backed securities	18,205	19,215	19,160	19,779	20,101	20,368	20,012	19,828	19,481r	21,372	21,525	21,593	n.a.
19 State and local government	2,177	2,077	2,093	2,086	2,105	2,107	2,163	2,148	2,323	2,298	2,297	2,306	n.a.
20 Corporate and other[7]	25,375	23,747	24,047	23,738	23,735	23,534	23,039	22,816	21,199r	20,828	20,707	20,403	n.a.
21 Cash	6,263	4,954	4,935	4,544	4,821	4,916	4,893	4,771	6,225r	5,645	5,646	5,845	n.a.
22 Other assets	9,670	11,413	12,770	12,937	13,151	12,345	12,914	13,085	13,113r	13,237	13,267	13,652	n.a.
23 **Liabilities**	**193,535**	**203,898**	**212,163**	**213,824**	**215,298**	**215,560**	**215,893**	**216,793**	**216,776r**	**216,673**	**218,119**	**221,256**	n.a.
24 Deposits	172,665	180,616	186,091	186,824	187,207	187,722	187,239	187,552	185,972r	186,321	186,777	188,960	n.a.
25 Regular[8]	170,135	177,418	182,218	182,881	183,222	183,560	183,296	183,716	181,921	182,399	182,890	184,704	n.a.
26 Ordinary savings	38,554	33,739	33,526	33,495	33,398	33,252	33,303	33,638	33,018r	32,365	32,693	33,021	n.a.
27 Time	95,129	104,732	104,756	104,737	104,448	104,668	104,024	104,116	103,311r	104,436	104,588	105,562	n.a.
28 Other	2,530	3,198	3,873	3,943	3,985	4,162	3,943	3,836	4,051r	3,922	3,887	4,256	n.a.
29 Other liabilities	10,154	12,504	14,348	15,137	15,971	15,546	15,996	16,309	17,414r	17,086	17,793	18,412	n.a.
30 General reserve accounts	10,368	10,510	11,238	11,453	11,704	11,882	12,299	12,567	12,823r	12,925	13,211	13,548	n.a.
	Life insurance companies[8]												
31 **Assets**	**654,948**	**722,979**	**765,891**	**772,452**	**778,293**	**783,828**	**791,483**	**802,024**	**816,203**	**824,850**	**834,492**	n.a.	n.a.
Securities													
32 Government	50,752	63,899	68,636	68,983	69,975	71,095	72,334	73,451	77,230	77,966	78,733	n.a.	n.a.
33 United States[6]	28,636	42,204	46,260	46,514	47,343	48,181	49,300	50,321	53,559	53,979	55,019	n.a.	n.a.
34 State and local	9,986	8,713	9,044	8,980	9,201	9,293	9,475	9,615	10,086	10,373	10,027	n.a.	n.a.
35 Foreign[7]	12,130	12,982	13,332	13,489	13,431	13,621	13,559	13,515	13,585	13,614	13,687	n.a.	n.a.
36 Business	322,854	359,333	388,448	393,386	397,202	399,474	403,832	410,141	414,424	420,835	429,090	n.a.	n.a.
37 Bonds	257,986	295,998	317,029	321,752	325,647	329,133	331,675	335,129	337,205	343,003	347,122	n.a.	n.a.
38 Stocks	64,868	63,335	71,419	71,634	71,555	70,341	72,157	75,012	77,219	77,832	81,968	n.a.	n.a.
39 Mortgages	150,999	156,699	161,485	162,690	163,027	163,929	165,687	167,306	170,460	171,275	171,705	n.a.	n.a.
40 Real estate	22,234	25,767	27,831	28,240	28,450	28,476	28,637	28,844	28,662	28,709	29,069	n.a.	n.a.
41 Policy loans	54,063	54,505	54,320	54,300	54,238	54,225	54,142	54,121	54,200	54,187	54,164	n.a.	n.a.
42 Other assets	54,046	63,776	65,171	64,853	65,401	66,629	57,313	68,161	71,227	56,886r	56,237	n.a.	n.a.
	Credit unions[9]												
43 **Total assets/liabilities and capital**	**81,961**	**93,036**	**106,783**	**107,991**	**111,150**	**113,016**	**114,783**	**117,029**	**118,010**	**118,933**	**122,623**	**126,653**	n.a.
44 Federal	54,482	63,205	72,021	72,932	74,869	75,567	76,415	77,829	77,861	78,619	80,024	82,275	n.a.
45 State	27,479	29,831	34,762	35,059	36,281	37,449	38,368	39,200	40,149	40,314	42,599	44,378	n.a.
46 Loans outstanding	50,083	62,561	66,817	67,662	69,171	70,765	71,811	72,404	73,513	73,513	74,207	75,300	n.a.
47 Federal	32,930	42,337	44,707	44,963	46,036	46,702	47,065	47,538	47,933	48,055	48,059	48,633	n.a.
48 State	17,153	20,224	22,110	22,699	23,135	24,063	24,746	24,866	25,580	25,458	26,148	26,667	n.a.
49 Savings	74,739	84,348	96,702	98,026	99,834	101,318	103,677	105,384	105,963	107,238	110,541	114,579	n.a.
50 Federal (shares)	49,889	57,539	66,243	67,070	68,087	68,592	70,063	71,117	70,926	72,166	73,227	75,698	n.a.
51 State (shares and deposits)	24,850	26,809	30,459	30,956	31,747	32,726	33,614	34,267	35,037	35,072	37,314	38,881	n.a.

NOTES TO TABLE 1.37

1. Holdings of stock of the Federal Home Loan Banks are in "other assets."
2. Includes net undistributed income accrued by most associations.
3. As of July 1985, data include loans in process.
4. The National Council reports data on member mutual savings banks and on savings banks that have converted to stock institutions, and to federal savings banks.
5. Excludes checking, club, and school accounts.
6. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.
7. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.
8. Data for December 1984 through April 1985 have been revised.
9. As of June 1982, data include federally chartered or federally insured, state-chartered credit unions serving natural persons. Before that date, data were estimates of all credit unions.

NOTE. *FSLIC-insured institutions:* Estimates by the FHLBB for all associations in the United States. Data are based on monthly reports of federally insured associations. Even when revised, data for current and preceding year are subject to further revision.

Savings banks: Estimates of National Council of Savings Institutions for all savings banks in the United States.

Life insurance companies: Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

Credit unions: Estimates by the National Credit Union Administration for a group of federal and federally insured state credit unions serving natural persons. Figures are preliminary and revised annually to incorporate recent data.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1983	Fiscal year 1984	Fiscal year 1985	Calendar year 1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May.
U.S. budget[1]									
1 Receipts, total	600,562	666,457	733,996	68,193	76,710	53,370	49,557	91,438	46,246
2 On-budget	n.a.	n.a.	n.a.	52,884	57,465	38,417	32,203	69,130	30,004
3 Off-budget	n.a.	n.a.	n.a.	15,309	19,245	14,953	17,355	22,308	16,242
4 Outlays, total	808,273	851,796	945,927	82,849	83,201	77,950	79,700	81,510	85,642
5 On-budget	n.a.	n.a.	n.a.	71,579	68,146	61,963	63,660	67,276	69,611
6 Off-budget	n.a.	n.a.	n.a.	11,270	15,055	15,987	16,040	14,234	16,031
7 Surplus, or deficit (−), total	−207,711	−185,339	−211,931	−14,656	−6,492	−24,580	−30,142	9,928	−39,396
8 On-budget	n.a.	n.a.	n.a.	−18,695	−10,682	−23,546	−31,457	1,854	−39,607
9 Off-budget	n.a.	n.a.	n.a.	4,039	4,190	−1,034	1,315	8,074	211
Source of financing (total)									
10 Borrowing from the public	212,424	170,817	197,269	33,261	12,660	16,010	8,441	14,213	17,960
11 Cash and monetary assets (decrease, or increase (−))[2]	−9,889	5,636	10,673	−21,020	−9,503	12,969	14,093	−22,542	22,774
12 Other[3]	5,176	8,885	3,989	2,415	3,334	−4,400	7,608	−1,599	−1,338
MEMO									
13 Treasury operating balance (level, end of period)	37,057	22,345	17,060	30,935	40,215	26,326	12,246	34,417	12,808
14 Federal Reserve Banks	16,557	3,791	4,174	9,351	16,228	5,026	3,280	11,550	3,083
15 Tax and loan accounts	20,500	18,553	12,886	21,584	23,987	21,300	8,966	22,867	9,725

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. The Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act has also moved two social security trust funds (Federal old-age survivors insurance and Federal disability insurance trust funds) off-budget.

2. Includes U.S. Treasury operating cash accounts; SDRs; reserve position on the U.S. quota in the IMF; loans to International Monetary Fund; and other cash and monetary assets.

3. Includes accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCE. "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," and the "Daily Treasury Statement."

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS

Millions of dollars

Source or type	Fiscal year 1984	Fiscal year 1985	Calendar year 1984 H1	Calendar year 1984 H2	Calendar year 1985 H1	Calendar year 1985 H2	Calendar year 1986 Mar.	Calendar year 1986 Apr.	Calendar year 1986 May
RECEIPTS									
1 All sources	**666,457**	**733,996**	**341,808**	**341,392**	**380,618**	**364,790**	**49,557**	**91,438**	**46,246**
2 Individual income taxes, net	295,960	330,918	144,691	157,229	166,783	169,987	12,572	45,120	9,820
3 Withheld	279,350	298,941	140,657	145,210	149,288	155,725	25,141	21,905	28,564
4 Presidential Election Campaign Fund	35	35	29	5	29	6	8	10	7
5 Nonwithheld	81,346	97,685	61,463	19,403	76,155	22,295	3,482	42,555	3,796
6 Refunds	64,770	65,743	57,458	7,387	58,684	8,038	16,060	19,350	22,546
Corporation income taxes									
7 Gross receipts	74,179	77,413	40,328	35,190	42,193	36,528	10,714	11,192	2,813
8 Refunds	17,286	16,082	10,045	6,847	8,370	7,751	2,601	2,476	1,365
9 Social insurance taxes and contributions, net	241,902	268,805	131,372	118,690	144,598	128,017	22,785	31,756	28,745
10 Employment taxes and contributions[1]	212,180	238,288	114,102	105,624	126,038	116,276	22,229	28,391	20,844
11 Self-employment taxes and contributions[2]	8,709	10,468	7,667	1,086	9,482	985	643	6,510	643
12 Unemployment insurance	25,138	25,758	14,942	10,706	16,213	9,281	190	2,999	7,461
13 Other net receipts[3]	4,580	4,759	2,329	2,360	2,350	2,458	366	366	440
14 Excise taxes	37,361	35,865	18,304	18,961	17,259	18,470	2,531	2,512	2,669
15 Customs deposits	11,370	12,079	5,576	6,329	5,807	6,354	1,036	1,087	1,040
16 Estate and gift taxes	6,010	6,422	3,102	3,029	3,204	3,323	533	680	686
17 Miscellaneous receipts[4]	16,965	18,576	8,481	8,812	9,144	9,861	1,989	1,568	1,838
OUTLAYS									
18 All types	**851,781**	**946,323**	**420,700**	**446,944[r]**	**463,842**	**488,740[r]**	**79,700**	**81,510**	**85,642**
19 National defense	227,413	252,748	114,639	118,286	124,186	134,675	24,002	22,842	23,765
20 International affairs	15,876	16,176	5,426	8,550	6,675	8,367	1,676	732	1,654
21 General science, space, and technology	8,317	8,627	3,981	4,473	4,230	4,727	549	761	737
22 Energy	7,086	5,685	1,080	1,423	680	3,305	967	358	357
23 Natural resources and environment	12,593	13,357	5,463	7,370	5,892	7,553	838	1,130	1,007
24 Agriculture	13,613	25,565	7,129	8,524	11,705	15,412	1,207	3,489	3,008
25 Commerce and housing credit	6,917	4,229	2,572	2,663	−260	644	−319	604	43
26 Transportation	23,669	25,838	10,616	13,673	11,440	15,360	1,963	2,271	2,201
27 Community and regional development	7,673	7,680	3,154	4,836	3,408	3,901	615	638	599
28 Education, training, employment, social services	27,579	29,342	13,445	13,737	14,149	14,481	2,377	2,440	2,287
29 Health	30,417	33,542	15,551	15,692	16,945	17,237	2,385	3,205	3,021
30 Social security and medicare	235,764	254,446	119,420	119,613	128,351	129,037	22,009	22,234	22,253
31 Income security	112,668	128,200	58,684	61,558	65,246	59,457	10,409	11,113	10,960
32 Veterans benefits and services	25,614	26,352	12,849	13,317	11,956	14,527	1,080	2,340	3,455
33 Administration of justice	5,660	6,277	2,807	2,992	3,016	3,212	511	546	533
34 General government	5,053	5,228	2,462	2,552	2,857	3,634	1,165	−48	576
35 General-purpose fiscal assistance	6,768	6,353	2,943	3,458	2,659	3,391	61	885	−142
36 Net interest[5]	111,058	129,436	54,748	61,293	65,143	67,448	10,668	10,359	11,766
37 Undistributed offsetting receipts[6]	−31,957	−32,759	−16,270	−17,061	−14,436	−17,953	−2,464	−4,387	−2,437

1. Old-age, disability, and hospital insurance, and railroad retirement accounts.
2. Old-age, disability, and hospital insurance.
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. Net interest function includes interest received by trust funds.
6. Consists of rents and royalties on the *outer continental shelf* and U.S. government contributions for employee retirement.

SOURCE. "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," and the *Budget of the U.S. Government, Fiscal Year 1987*.

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1983	1984				1985			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
1 **Federal debt outstanding**	**1,415.3**	**1,468.3**	**1,517.2**	**1,576.7**	**1,667.4**	**1,715.1**	**1,779.0**	**1,827.5**	**1,950.3**
2 Public debt securities	1,410.7	1,463.7	1,512.7	1,572.3	1,663.0	1,710.7	1,774.6	1,823.1	1,945.9
3 Held by public	1,174.4	1,223.9	1,255.1	1,309.2	1,373.4	1,415.2	1,460.5	1,506.6	1,597.1
4 Held by agencies	236.3	239.8	257.6	263.1	289.6	295.5	314.2	316.5	348.9
5 Agency securities	4.6	4.6	4.5	4.5	4.5	4.4	4.4	4.4	4.4
6 Held by public	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.3
7 Held by agencies	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
8 **Debt subject to statutory limit**	**1,411.4**	**1,464.5**	**1,513.4**	**1,573.0**	**1,663.7**	**1,711.4**	**1,775.3**	**1,823.8**	**1,932.4**
9 Public debt securities	1,410.1	1,463.1	1,512.1	1,571.7	1,662.4	1,710.1	1,774.0	1,822.5	1,931.1
10 Other debt[1]	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
11 MEMO: Statutory debt limit	1,490.0	1,490.0	1,520.0	1,573.0	1,823.8	1,823.8	1,823.8	1,823.8	2,078.7

1. Includes guaranteed debt of government agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

NOTE. Data from *Treasury Bulletin* and *Daily Treasury Statement* (U.S. Treasury Department).

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1981	1982	1983	1984	1985			
					Q1	Q2	Q3	Q4
1 **Total gross public debt**	1,028.7	1,197.1	1,410.7	1,663.0	1,710.7	1,774.6	1,823.1	1,945.9
By type								
2 Interest-bearing debt	1,027.3	1,195.5	1,400.9	1,660.6	1,695.2	1,759.8	1,821.0	1,943.4
3 Marketable	720.3	881.5	1,050.9	1,247.4	1,271.7	1,310.7	1,360.2	1,437.7
4 Bills	245.0	311.8	343.8	374.4	379.5	381.9	384.2	399.9
5 Notes	375.3	465.0	573.4	705.1	713.8	740.9	776.4	812.5
6 Bonds	99.9	104.6	133.7	167.9	178.4	187.9	199.5	211.1
7 Nonmarketable[1]	307.0	314.0	350.0	413.2	423.6	449.1	460.8	505.7
8 State and local government series	23.0	25.7	36.7	44.4	47.7	53.9	62.8	87.5
9 Foreign issues[2]	19.0	14.7	10.4	9.1	9.1	8.3	6.6	7.5
10 Government	14.9	13.0	10.4	9.1	9.1	8.3	6.6	7.5
11 Public	4.1	1.7	.0	.0	.0	.0	.0	.0
12 Savings bonds and notes	68.1	68.0	70.7	73.1	74.1	75.4	77.0	78.1
13 Government account series[3]	196.7	205.4	231.9	286.2	292.2	311.0	313.9	332.2
14 Non-interest-bearing debt	1.4	1.6	9.8	2.3	15.5	14.8	2.1	2.5
By holder[4]								
15 U.S. government agencies and trust funds	203.3	209.4	236.3	289.6	295.5	314.2	316.5	348.9
16 Federal Reserve Banks	131.0	139.3	151.9	160.9	161.0	169.1	169.7	181.3
17 Private investors	694.5	848.4	1,022.6	1,212.5	1,254.1	1,292.0	1,338.2	1,431.3
18 Commercial banks	111.4	131.4	188.8	183.4	195.0	196.3	196.9	192.2
19 Money market funds	21.5	42.6	22.8	25.9	26.7	24.8	22.7	25.1
20 Insurance companies	29.0	39.1	56.7	76.4	80.4	85.0	88.6	93.2
21 Other companies	17.9	24.5	39.7	50.1	50.8	50.7	54.9	62.0
22 State and local governments	104.3	127.8	155.1	179.4	189.7	198.9	n.a.	n.a.
Individuals								
23 Savings bonds	68.1	68.3	71.5	74.5	75.4	76.7	78.2	79.8
24 Other securities	42.7	48.2	61.9	69.3	69.7	72.0	73.2	74.9
25 Foreign and international[5]	136.6	149.5	166.3	192.9	186.4	200.7	209.8	214.6
26 Other miscellaneous investors[6]	163.0	217.0	259.8	360.6	380.0	386.9	n.a.	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 dollar-denominated and foreign currency-denominated series held by foreigners.
3. Held almost entirely by U.S. government 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. Consists of investments of foreign and international accounts. Excludes non-interest-bearing notes issued to the International Monetary Fund.
6. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. government deposit accounts, and U.S. government-sponsored agencies.

SOURCES. Data by type of security, U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States;* data by holder, *Treasury Bulletin.*

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Par value; averages of daily figures, in millions of dollars

	Item	1983	1984	1985	1986			1986 week ending Wednesday					
					Mar.r	Apr.	May	Apr. 23r	Apr. 30	May 7	May 14	May 21	May 28
	Immediate delivery[2]												
1	U.S. government securities	42,135	52,778	75,331	103,921	99,952	91,765	95,363	92,007r	83,042	102,782	97,134	75,927
	By maturity												
2	Bills	22,393	26,035	32,900	36,266	36,393	33,505	33,786	29,789r	32,366	37,537	37,591	23,309
3	Other within 1 year	708	1,305	1,811	1,994	1,786	2,046	1,690	2,528	2,455	1,980	1,840	2,063
4	1–5 years	8,758	11,733	18,361	24,222	22,637	23,303	21,567	24,805r	20,707	21,350	26,875	24,557
5	5–10 years	5,279	7,606	12,703	23,596	21,626	17,078	20,972	21,023	14,632	17,185	15,248	15,502
6	Over 10 years	4,997	6,099	9,556	17,844	17,511	15,833	17,348	13,862	12,881	24,730	15,579	10,497
	By type of customer												
7	U.S. government securities dealers	2,257	2,919	3,336	3,013	4,042	3,654	3,335	5,422	3,437	3,938	3,500	2,630
8	U.S. government securities brokers	21,045	25,580	36,222	52,446	52,375	47,937	50,149	47,543	43,694	54,646	51,840	37,860
9	All others[3]	18,833	24,278	35,773	48,463	43,535	40,174	41,880	39,042r	35,911	44,199	41,794	35,437
10	Federal agency securities	5,576	7,846	11,640	17,422	14,973	14,324	14,289	11,515r	12,115	15,200	16,467	12,571
11	Certificates of deposit	4,333	4,947	4,016	4,483	4,870	4,069	4,288	4,320	3,476	4,125	4,706	3,902
12	Bankers acceptances	2,642	3,243	3,242	3,753	3,841	2,989	2,972	2,911	2,833	2,842	3,437	2,813
13	Commercial paper	8,036	10,018	12,717	16,712	16,054	15,258	15,910	16,586	14,739	14,893	16,293	15,114
	Futures transactions[4]												
14	Treasury bills	6,655	6,947	5,561	3,624	4,397	4,308	4,057	5,078	4,174	4,132	6,226	2,174
15	Treasury coupons	2,501	4,503	6,069	9,056	8,376	7,732	8,413	8,257	6,009	7,865	9,833	6,335
16	Federal agency securities	265	262	240	7	6	51	0	9	36	41	19	49
	Forward transactions[5]												
17	U.S. government securities	1,493	1,364	1,283	1,743	1,287	1,526	1,449	1,260	2,117	987	1,788	1,377
18	Federal agency securities	1,646	2,843	3,857	7,172	8,148	6,180	8,090	6,910	5,666	6,630	7,767	5,030

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.

Averages for transactions are based on the number of trading days in the period. The figures exclude allotments of, and exchanges for, new U.S. government securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

2. Data for immediate transactions do not include forward transactions.

3. Includes, among others, all other dealers and brokers in commodities and securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System.

4. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.

5. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for government securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Averages of daily figures, in millions of dollars

Item	1983	1984	1985	1986			1986 week ending Wednesday				
				Mar.	Apr.	May	Apr. 30	May 7	May 14	May 21	May 28
	Positions										
Net immediate[2]											
1 U.S. government securities	14,082	5,429	7,391	10,799	18,320	9,618	14,247	10,448	10,456	7,437	10,720
2 Bills	10,800	5,500	10,075	12,123	17,010	9,490	13,301	12,743	9,136	7,905	9,125
3 Other within 1 year	921	63	1,050	2,961	5,834	6,280	5,814	5,909	6,525	6,121	6,577
4 1–5 years	1,912	2,159	5,154	9,590	9,352	6,242	10,448	8,226	8,668	3,163	5,178
5 5–10 years	−78	−1,119	−6,202	−10,339	−10,195	−9,344	−10,654	−11,874	−10,925	−7,107	−7,825
6 Over 10 years	528	−1,174	−2,686	−3,536	−3,681	−3,049	−4,663	−4,557	−2,949	−2,645	−2,335
7 Federal agency securities	7,313	15,294	22,860	37,208	36,179r	38,124	35,042	37,264	40,462	39,746	36,201
8 Certificates of deposit	5,838	7,369	9,192	10,608r	10,717	10,973	10,472	10,568	11,331	10,994	10,979
9 Bankers acceptances	3,332	3,874	4,586	5,776r	5,537	5,460	4,867	5,757	6,070	5,089	4,915
10 Commercial paper	3,159	3,788	5,570	8,678	8,148	7,379	9,146	8,742	7,854	6,665	6,453
Futures positions											
11 Treasury bills	−4,125	−4,525	−7,322	−27,539r	−26,431	−19,214	−23,431	−21,458	−20,069	−17,744	−18,243
12 Treasury coupons	−1,033	1,794	4,465	5,293r	2,770r	2,656	2,592r	3,438	2,953	2,213	2,122
13 Federal agency securities	171	233	−722	−247	−82	−70	−104	−44	−49	−64	−113
Forward positions											
14 U.S. government securities	−1,936	−1,643	−911	−2,988r	−1,888	−1,985	−1,923	−1,338	−1,478	−3,128	−1,609
15 Federal agency securities	−3,561	−9,205	−9,420	−12,151r	−11,547r	−11,482	−9,720r	−11,059	−12,793	−11,967	−10,809
	Financing[3]										
Reverse repurchase agreements[4]											
16 Overnight and continuing	29,099	44,078	68,035	91,649	90,823	94,145	94,272	91,092	94,027	96,791	93,733
17 Term agreements	52,493	68,357	80,509	104,905	109,742	112,611	115,669	114,415	110,543	115,403	111,452
Repurchase agreements[5]											
18 Overnight and continuing	57,946	75,717	101,410	138,072	141,918	140,171	141,617	138,654	141,377	139,947	138,711
19 Term agreements	44,410	57,047	77,748	94,667	103,705	107,095	111,130	108,099	106,614	111,443	105,526

1. Data for dealer positions and sources of 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.

Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period. Positions are net amounts and are shown on a commitment basis. Data for financing are in terms of actual amounts borrowed or lent and are based on Wednesday figures.

2. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, including any such securities that have been sold under agreements to repurchase (RPs). The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Immediate positions include reverses to maturity, which are securities that were sold after having been obtained under reverse repurchase agreements that mature on the same day as the securities. Data for immediate positions do not include forward positions.

3. Figures cover financing involving U.S. government and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper.

4. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements.

5. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1982	1983	1984	1985		1986			
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
1 **Federal and federally sponsored agencies**	**237,787**	**240,068**	**271,220**	**293,930**	**293,905**	**290,596r**	**292,043r**	**291,525r**	n.a.
2 Federal agencies	33,055	33,940	35,145	36,121	36,390	36,400	36,376	35,927	35,530
3 Defense Department[1]	354	243	142	75	71	66	63	59	55
4 Export-Import Bank[2,3]	14,218	14,853	15,882	15,417	15,678	15,677	15,677	15,257	15,257
5 Federal Housing Administration[4]	288	194	133	115	115	113	109	108	114
6 Government National Mortgage Association participation certificates[5]	2,165	2,165	2,165	2,165	2,165	2,165	2,165	2,165	2,165
7 Postal Service[6]	1,471	1,404	1,337	1,940	1,940	1,940	1,940	1,940	1,940
8 Tennessee Valley Authority	14,365	14,970	15,435	16,335	16,347	16,365	16,348	16,324	15,925
9 United States Railway Association[6]	194	111	51	74	74	74	74	74	74
10 Federally sponsored agencies[7]	204,732	206,128	236,075	257,809	257,515	254,196r	255,667r	255,598	n.a.
11 Federal Home Loan Banks	55,967	48,930	65,085	73,840	74,447	73,201	73,201r	74,778	76,527
12 Federal Home Loan Mortgage Corporation	4,524	6,793	10,270	11,016	11,926	13,044	13,695	12,963	n.a.
13 Federal National Mortgage Association	70,052	74,594	83,720	94,576	93,896	92,658	93,179	92,414	92,401
14 Farm Credit Banks	73,004	72,816	71,193	69,933	68,851	66,600	66,188r	65,930r	65,188
15 Student Loan Marketing Association[8]	2,293	3,402	5,745	8,444	8,395	8,693r	9,404r	9,513	10,198
MEMO									
16 **Federal Financing Bank debt**[9]	**126,424**	**135,791**	**145,217**	**154,226**	**153,373**	**153,709**	**153,418**	**153,455**	**153,508**
Lending to federal and federally sponsored agencies									
17 Export-Import Bank[3]	14,177	14,789	15,852	15,409	15,670	15,670	15,670	15,250	15,250
18 Postal Service[6]	1,221	1,154	1,087	1,690	1,690	1,690	1,690	1,690	1,690
19 Student Loan Marketing Association	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
20 Tennessee Valley Authority	12,640	13,245	13,710	14,610	14,622	14,690	14,673	14,649	14,250
21 United States Railway Association[6]	194	111	51	74	74	74	74	74	74
Other Lending[10]									
22 Farmers Home Administration	53,261	55,266	58,971	64,189	64,234	64,354	63,774	63,464	63,829
23 Rural Electrification Administration	17,157	19,766	20,693	21,826	20,654	20,678	20,739	20,959	21,061
24 Other	22,774	26,460	29,853	31,428	31,429	31,553	31,798	32,369	32,354

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. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.
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 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: Notes, bonds, and debentures. Some data are estimated.
8. Before late 1981, the Association obtained financing through the Federal Financing Bank.
9. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.
10. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small. The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1983	1984	1985	1985				1986			
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
1 **All issues, new and refunding**[1]	**86,421**	**106,641**	**214,189**	**13,345**	**20,780**	**32,144**	**57,430**	**1,572r**	**3,255**	**7,636**	**11,914**
Type of issue											
2 General obligation	21,566	26,485	52,622	3,953	5,852	6,695	8,754	751	1,021	2,895	4,814
3 U.S. government loans[2]	96	16	14	0	0	0	0	0	0	n.a.	n.a.
4 Revenue	64,855	80,156	161,567	9,392	14,928	25,449	48,676	821	2,234	4,741	7,099
5 U.S. government loans[2]	253	17	27	0	6	7	0	0	0	n.a.	n.a.
Type of issuer											
6 State	7,140	9,129	13,004	1,501	1,337	1,648	2,146	296	255	n.a.	n.a.
7 Special district and statutory authority	51,297	63,550	134,363	7,580	12,374	21,563	39,147	579	1,715	n.a.	n.a.
8 Municipalities, counties, townships, school districts	27,984	33,962	66,822	4,264	6,371	21,563	16,137	697	1,285	n.a.	n.a.
9 **Issues for new capital, total**	**72,441**	**94,050**	**156,050**	**9,878**	**13,984**	**21,362**	**46,788**	**1,350**	**1,887**	**2,763**	**6,405**
Use of proceeds											
10 Education	8,099	7,553	16,658	1,317	1,518	1,954	3,901	370	422	↑	↑
11 Transportation	4,387	7,552	12,070	471	1,264	3,734	3,480	246	347		
12 *Utilities and conservation*	13,588	17,844	26,852	1,358	2,924	3,266	7,070	315	212	n.a.	n.a.
13 Social welfare	26,910	29,928	63,181	3,989	4,305	8,672	22,589	6	110		
14 Industrial aid	7,821	15,415	12,892	735	1,507	2,029	3,583	0	190		
15 Other purposes	11,637	15,758	24,398	2,009	2,466	1,707	6,165	413	606	↓	↓

1. Par amounts of long-term issues based on date of sale.
2. Consists of tax-exempt issues guaranteed by the Farmers Home Administration.

SOURCE. Public Securities Association.

1.46 NEW SECURITY ISSUES Corporations

Millions of dollars

Type of issue or issuer, or use	1983	1984	1985	1985				1986			
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr. p
1 **All issues**[1]	**120,299**	**132,531**	**201,501r**	**11,304**	**11,595**	**13,568**	**19,429**	**16,981r**	**23,901r**	**30,378**	**32,563**
2 **Bonds**[2]	**68,718**	**109,903**	**165,986r**	**8,833**	**9,271**	**10,913**	**14,440**	**13,581r**	**19,439r**	**24,857**	**27,169**
Type of offering											
3 Public	47,594	73,579	119,789r	8,833	9,271	10,913	14,440	13,581r	19,439r	24,857	27,169
4 Private placement	21,126	36,326	46,195	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Industry group											
5 Manufacturing	17,001	24,607	52,278	2,079	1,953	4,072	2,704	4,596r	3,950	8,895	7,919
6 Commercial and miscellaneous	7,540	13,726	15,215	186	898	933	735	624	1,216	790	2,640
7 Transportation	3,833	4,694	5,743	177	348	125	187	633	373	340	614
8 Public utility	9,125	10,679	12,957	1,042	863	1,114	1,090	820	2,540	2,133	3,330
9 Communication	3,642	2,997	10,456	367	690	100	2,318	0	1,200	1,907	3,115
10 Real estate and financial	27,577	53,199	69,337r	4,982	4,519	4,569	7,407	6,908r	10,160r	10,793	9,552
11 **Stocks**[3]	**51,579**	**22,628**	**35,515**	**2,471**	**2,324**	**2,655**	**4,989**	**3,400**	**4,462**	**5,521**	**5,394**
Type											
12 Preferred	7,213	4,118	6,505	653	406	782	908	570	975	1,160	551
13 Common	44,366	18,510	29,010	1,818	1,918	1,873	4,081	2,830	3,487	4,361	4,843
Industry group											
14 Manufacturing	14,135	4,054	5,700	820	279	746	1,045	827	1,269	851	1,384
15 Commercial and miscellaneous	13,112	6,277	9,149	507	403	596	1,220	683	434	607	898
16 Transportation	2,729	589	1,544	107	113	21	200	78	302	355	158
17 Public utility	5,001	1,624	1,966	47	408	12	201	176	153	357	165
18 Communication	1,822	419	978	7	41	5	146	231	282	0	27
19 Real estate and financial	14,780	9,665	16,178	983	1,080	1,275	2,177	1,405	2,022	3,351	2,762

1. Figures, which represent gross proceeds of issues maturing in more than one year, sold for cash in the United States, are principal amount or number of units multiplied by offering price. Excludes offerings of less than $100,000, secondary offerings, undefined or exempted issues as defined in the Securities Act of 1933, employee stock plans, investment companies other than closed-end, intracorporate transactions, and sales to foreigners.
2. Monthly data include only public offerings.
3. Beginning in August 1981, gross stock offerings include new equity volume from swaps of debt for equity.

SOURCE. Securities and Exchange Commission and the Board of Governors of the Federal Reserve System.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1984	1985	1985				1986			
			Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.r	Apr.
INVESTMENT COMPANIES[1]										
1 Sales of own shares[2]	107,480	222,671	16,936	22,099	20,585	23,560	32,466	27,489	33,764	37,656
2 Redemptions of own shares[3]	77,032	132,440	9,963	10,653	11,138	18,337	15,836	11,860	15,085	21,699
3 Net sales	30,448	90,321	6,973	11,446	9,447	5,223	16,630	15,629	18,679	15,957
4 Assets[4]	137,126	251,695	203,210	218,720	237,410	251,536	265,487	292,002	315,245	329,700
5 Cash position[5]	12,181	20,607	18,700	21,987	21,894	20,590	22,425	23,716	27,639	29,903
6 Other	124,945	231,088	184,510	196,733	215,516	230,946	243,062	268,286	287,606	299,797

1. Excluding money market funds.
2. Includes reinvestment of investment income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.
3. Excludes share redemption resulting from conversions from one fund to another in the same group.
4. Market value at end of period, less current liabilities.
5. Also includes all U.S. government securities and other short-term debt securities.

NOTE. Investment Company Institute data based on reports of members, which comprise substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Account	1983	1984	1985	1984			1985				1986
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1r
1 Corporate profits with inventory valuation and capital consumption adjustment	213.8	273.3	295.5	277.8	271.2	276.2	281.7	288.1	309.1	303.1	313.7
2 Profits before tax	205.0	237.6	225.3	247.4	227.7	228.0	220.0	218.7	228.6	233.8	216.6
3 Profits tax liability	75.2	93.6	85.0	100.6	87.4	87.4	83.4	82.3	87.4	87.1	79.7
4 Profits after tax	129.8	144.0	140.2	146.7	140.3	140.6	136.6	136.4	141.1	146.7	137.0
5 Dividends	70.8	78.1	83.5	77.5	78.9	80.7	82.0	83.1	83.9	85.0	87.6
6 Undistributed profits	59.0	65.9	56.7	69.2	61.3	60.0	54.6	53.3	57.3	61.7	49.4
7 Inventory valuation	-9.9	-5.4	-.6	-5.6	-1.3	-1.6	.7	2.2	4.7	-10.1	18.0
8 Capital consumption adjustment	18.8	41.0	70.9	36.0	44.8	49.8	61.1	67.2	75.9	79.4	79.0

SOURCE. *Survey of Current Business* (Department of Commerce).

1.49 NONFINANCIAL CORPORATIONS Assets and Liabilities

Billions of dollars, except for ratio

Account	1979	1980	1981	1982	1983	1984	1985[r]			
						Q4	Q1	Q2	Q3	Q4
1 **Current assets**	**1,214.8**	**1,328.3**	**1,419.6**	**1,437.1**	**1,575.9**	**1,703.0**	**1,718.4**	**1,729.8**	**1,756.7**	**1,778.5**
2 Cash	118.0	127.0	135.6	147.8	171.8	173.6	166.7	168.0	174.6	188.0
3 U.S. government securities	16.7	18.7	17.7	23.0	31.0	36.2	35.0	34.8	31.9	32.3
4 Notes and accounts receivable	459.0	507.5	532.5	517.4	583.0	633.1	649.5	652.4	658.6	671.2
5 Inventories	505.1	543.0	584.0	579.0	603.4	656.9	666.1	666.6	674.7	663.9
6 Other	116.0	132.1	149.7	169.8	186.7	203.2	201.0	208.0	217.0	223.2
7 **Current liabilities**	**807.3**	**890.6**	**971.3**	**986.0**	**1,059.6**	**1,163.6**	**1,173.2**	**1,179.4**	**1,209.1**	**1,232.7**
8 Notes and accounts payable	460.8	514.4	547.1	550.7	595.7	647.8	636.4	649.8	668.1	683.1
9 Other	346.5	376.2	424.1	435.3	463.9	515.8	536.8	529.7	541.0	549.7
10 **Net working capital**	**407.5**	**437.8**	**448.3**	**451.1**	**516.3**	**539.5**	**545.2**	**550.3**	**547.6**	**545.7**
11 MEMO: Current ratio[1]	1.505	1.492	1.462	1.458	1.487	1.464	1.465	1.467	1.453	1.443

1. Ratio of total current assets to total current liabilities.
NOTE. For a description of this series, see "Working Capital of Nonfinancial Corporations" in the July 1978 BULLETIN, pp. 533–37.
All data in this table reflect the most current benchmarks. Complete data are available upon request from the Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.
SOURCE. *Federal Trade Commission and Bureau of the Census.*

1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment ▲

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry	1984	1985	1986[1,r]	1984	1985				1986		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2[1]	Q3[1]
1 **Total nonfarm business**	**354.44**	**386.41**	**387.25**	**368.29**	**371.16**	**387.83**	**388.90**	**397.74**	**376.08**	**387.42**	**388.87**
Manufacturing											
2 Durable goods industries	66.24	73.14	72.09	71.43	69.87	73.96	72.85	75.87	67.74	72.20	71.42
3 Nondurable goods industries	72.58	80.01	77.09	75.53	75.78	80.36	81.19	82.70	75.32	75.80	77.04
Nonmanufacturing											
4 Mining	16.86	15.88	12.35	17.00	15.66	16.51	15.94	15.40	12.85	12.61	12.49
Transportation											
5 Railroad	6.79	7.06	6.44	6.44	6.02	7.48	8.13	6.61	5.82	6.95	7.31
6 Air	3.56	4.78	5.74	3.65	4.20	3.66	5.20	6.06	6.54	5.11	5.78
7 Other	6.17	6.13	5.98	6.18	6.01	6.37	5.77	6.39	5.40	5.94	6.12
Public utilities											
8 Electric	37.03	36.12	33.65	35.40	36.65	36.04	35.34	36.45	34.33	34.49	32.59
9 Gas and other	10.44	12.62	12.75	11.52	11.81	12.43	12.80	13.44	12.82	13.10	12.39
10 Commercial and other[2]	134.75	150.67	161.16	141.13	145.16	151.02	151.69	154.81	155.27	161.22	163.73

▲Trade and services are no longer being reported separately. They are included in Commercial and other, line 10.
1. Anticipated by business.
2. "Other" consists of construction; wholesale and retail trade; finance and insurance; personal and business services; and communication.
SOURCE. *Survey of Current Business* (Department of Commerce).

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities

Billions of dollars, end of period

Account	1981	1982	1983	1984		1985				1986
				Q3	Q4	Q1	Q2	Q3	Q4	Q1
ASSETS										
Accounts receivable, gross										
1 Consumer	72.4	78.1	87.4	95.6	96.7	99.1	106.0	116.4	120.8	125.5
2 Business	100.3	101.4	113.4	124.5	135.2	142.1	144.6	141.4	152.8	159.7
3 Real estate	17.9	20.2	22.5	25.2	26.3	27.2	28.4	29.0	30.4	31.5
4 Total	190.5	199.7	223.4	245.3	258.3	268.5	279.0	286.5	304.0	316.7
Less:										
5 Reserves for unearned income	30.0	31.9	33.0	36.0	36.5	36.6	38.6	41.0	40.9	41.3
6 Reserves for losses	3.2	3.5	4.0	4.3	4.4	4.9	4.8	4.9	5.0	5.1
7 Accounts receivable, net	157.3	164.3	186.4	205.0	217.3	227.0	235.6	240.6	258.1	270.3
8 All other	27.1	30.7	34.0	36.4	35.4	35.9	39.5	46.3	46.8	50.6
9 **Total assets**	**184.4**	**195.0**	**220.4**	**241.3**	**252.7**	**262.9**	**275.2**	**286.9**	**304.9**	**321.0**
LIABILITIES										
10 Bank loans	16.1	18.3	18.7	19.7	21.3	19.8	18.5	18.2	21.0	20.4
11 Commercial paper	57.2	51.1	59.7	66.8	72.5	79.1	82.6	93.6	96.9	102.0
Debt										
12 Other short-term	11.3	12.7	13.9	16.1	16.2	16.8	16.6	16.6	17.2	18.5
13 Long-term	56.0	64.4	68.1	73.8	77.2	78.3	85.7	86.4	93.0	100.0
14 All other liabilities	18.5	21.2	30.1	32.6	33.1	35.4	36.9	36.6	39.6	41.4
15 Capital, surplus, and undivided profits	25.3	27.4	29.8	32.3	32.3	33.5	34.8	35.7	37.1	38.8
16 **Total liabilities and capital**	**184.4**	**195.0**	**220.4**	**241.3**	**252.7**	**262.9**	**275.2**	**286.9**	**304.9**	**321.0**

NOTE. *Components may not add to totals due to rounding.*
These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

1.52 DOMESTIC FINANCE COMPANIES Business Credit

Millions of dollars, seasonally adjusted except as noted

Type	Accounts receivable outstanding Apr. 30, 1986[1]	Changes in accounts receivable			Extensions			Repayments		
		1986			1986			1986		
		Feb.	Mar.	Apr.	Feb.	Mar.	Apr.	Feb.	Mar.	Apr.
1 **Total**	**159,827**	**1,303**	**2,668**	**464**	**28,644**	**27,526**	**26,378**	**27,341**	**24,858**	**25,915**
Retail financing of installment sales										
2 Automotive (commercial vehicles)	15,199	360	126	197	1,256	1,044	1,115	896	918	918
3 Business, industrial, and farm equipment	20,083	-237	27	-135	692	805	858	929	778	993
Wholesale financing										
4 Automotive	26,581	1,029	2,097	169	10,732	10,900	9,897	9,703	8,803	9,728
5 Equipment	4,709	-15	63	70	540	526	545	555	463	475
6 All other	7,732	38	168	-73	1,563	1,631	1,657	1,525	1,463	1,730
Leasing										
7 Automotive	16,119	178	46	284	787	814	770	609	768	486
8 Equipment	40,088	46	-194	59	1,573	1,309	1,275	1,527	1,503	1,216
9 Loans on commercial accounts receivable and factored commercial accounts receivable	16,843	-28	322	-385	10,094	9,209	8,784	10,122	8,887	9,168
10 All other business credit	12,473	-68	13	277	1,407	1,288	1,477	1,475	1,275	1,200

1. *Not seasonally adjusted.*

NOTE. These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1983	1984	1985	1985		1986				
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms[1]										
1 Purchase price (thousands of dollars)	92.8	96.8	104.1	107.5	111.5	108.4	115.1	108.2	114.2r	115.0
2 Amount of loan (thousands of dollars)	69.5	73.7	77.4	78.5	80.3	77.6	84.3	79.6	83.9r	83.1
3 Loan/price ratio (percent)	77.1	78.7	77.1	75.5	75.0	74.4	75.6	75.4	75.9r	74.5
4 Maturity (years)	26.7	27.8	26.9	26.4	26.7	25.4	26.8	26.9	25.9r	25.6
5 Fees and charges (percent of loan amount)[2]	2.40	2.64	2.53	2.57	2.59	2.55	2.64	2.60	2.34r	2.19
6 Contract rate (percent per annum)	12.20	11.87	11.12	10.55	10.47	10.40	10.21	10.04	9.87	9.81
Yield (percent per annum)										
7 FHLBB series[3]	12.66	12.37	11.58	11.01	10.94	10.89	10.68	10.50	10.27r	10.19
8 HUD series[4]	13.43	13.80	12.28	11.56	11.03	10.82	10.49	10.06r	9.99	10.33
SECONDARY MARKETS										
Yield (percent per annum)										
9 FHA mortgages (HUD series)[5]	13.11	13.81	12.24	11.28	10.70	10.78	10.59	9.77	9.80	10.07
10 GNMA securities[6]	12.25	13.13	11.61	10.81	10.39	10.25	9.79	9.44	9.17	9.23
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	74,847	83,339	94,574	97,807	98,282	98,671	98,820	98,795	98,746	98,096
12 FHA/VA-insured	37,393	35,148	34,244	33,828	33,684	33,583	33,466	33,368	33,246	32,558
13 Conventional	37,454	48,191	60,331	63,979	64,598	65,088	65,354	65,427	65,500	65,538
Mortgage transactions (during period)										
14 Purchases	17,554	16,721	21,510	1,624	1,663	1,188	1,159	1,410	1,631	1,978
15 Sales	3,528	978	1,301	100	319	0	n.a.	n.a.	n.a.	n.a.
Mortgage commitments[7]										
16 Contracted (during period)	18,607	21,007	20,155	1,199	1,858	1,315	2,578	1,917	3,774	3,538
17 Outstanding (end of period)	5,461	6,384	3,402	3,330	3,402	3,211	4,480	4,851	6,942	8,444
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
18 Total	5,996	9,283	12,399	13,194	14,022	14,412	14,584	13,623	n.a.	n.a.
19 FHA/VA	974	910	841	816	825	800	792	787	n.a.	n.a.
20 Conventional	5,022	8,373	11,558	12,378	13,197	13,612	14,584	12,836	n.a.	n.a.
Mortgage transactions (during period)										
21 Purchases	23,089	21,886	44,012	3,680	6,096	3,709	4,605	5,318	n.a.	n.a.
22 Sales	19,686	18,506	38,905	3,449	5,202	3,107	4,286	5,897	n.a.	n.a.
Mortgage commitments[9]										
23 Contracted (during period)	32,852	32,603	48,989	4,854	5,651	5,305	6,044	7,128	n.a.	n.a.
24 Outstanding (end of period)	16,964	13,318	16,613	n.a.	16,613	n.a.	n.a.	n.a.	n.a.	n.a.

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank 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 rates on loans closed, assuming prepayment at the end of 10 years.
4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.
5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements in average yields may reflect market adjustments to changes in maximum permissable contract rates.
6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are averages of Friday figures from the *Wall Street Journal*.
7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.
8. Includes participation as well as whole loans.
9. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING

Millions of dollars, end of period

Type of holder, and type of property	1983	1984	1985	1985				1986
				Q1	Q2	Q3	Q4	Q1
1 **All holders**	**1,811,540**	**2,024,483**	**2,256,778**	**2,071,279**	**2,128,471**	**2,190,661**	**2,256,778**	**2,303,698r**
2 1- to 4-family	1,189,811	1,319,667	1,471,012	1,347,511	1,384,248	1,427,675	1,471,012	1,497,458r
3 Multifamily	158,718	179,074	204,311	184,886	190,004	195,488	204,311	208,784r
4 Commercial	350,389	414,040	474,755	427,242	443,400	458,735	474,755	491,823
5 Farm	112,622	111,702	106,700	111,640	110,819	108,763	106,700	105,633
6 Selected financial institutions	1,130,781	1,269,500	1,390,328	1,291,540	1,323,474	1,356,114	1,390,328	1,407,881
7 Commercial banks[1]	330,521	376,792	426,103	385,867	398,561	413,059	426,103	436,707
8 1- to 4-family	182,514	197,225	214,817	199,617	204,439	210,203	214,817	218,354
9 Multifamily	18,410	20,387	23,442	20,808	21,748	22,426	23,442	24,018
10 Commercial	120,210	148,936	176,359	155,061	161,678	169,302	176,359	182,500
11 Farm	9,387	10,244	11,485	10,381	10,696	11,128	11,485	11,835
12 Savings banks	131,940	154,441	177,278	161,032	165,705	174,427	177,278	188,177
13 1- to 4-family	93,649	107,302	121,889	111,592	114,375	119,952	121,889	131,043
14 Multifamily	17,247	19,817	23,331	20,668	21,357	22,604	23,331	24,144
15 Commercial	21,016	27,291	31,976	28,741	29,942	31,757	31,976	32,906
16 Farm	28	31	82	31	31	114	82	84
17 Savings and loan associations	494,789	555,277	586,085	559,263	569,291	575,684	586,085	576,998
18 1- to 4-family	387,924	421,489	434,359	421,024	425,021	427,081	434,359	420,096
19 Multifamily	44,333	55,750	66,775	57,660	60,231	62,608	66,775	67,368
20 Commercial	62,403	77,605	84,342	80,070	83,447	85,358	84,342	89,004
21 Farm	129	433	609	509	592	637	609	530
22 Life insurance companies	150,999	156,699	170,460	158,162	161,485	163,929	170,460	174,460
23 1- to 4-family	15,319	14,120	12,279	13,840	13,562	13,382	12,279	12,129
24 Multifamily	19,107	18,938	19,731	18,964	18,983	18,972	19,731	19,931
25 Commercial	103,831	111,175	126,621	113,187	116,812	119,543	126,621	130,671
26 Farm	12,742	12,466	11,829	12,171	12,128	12,032	11,829	11,729
27 Finance companies[2]	22,532	26,291	30,402	27,216	28,432	29,015	30,402	31,539
28 Federal and related agencies	148,328	158,993	166,978	163,531	165,912	166,248	166,978	166,097r
29 Government National Mortgage Association	3,395	2,301	1,473	1,964	1,825	1,640	1,473	1,533r
30 1- to 4-family	630	585	539	576	564	552	539	527
31 Multifamily	2,765	1,716	934	1,388	1,261	1,088	934	1,006r
32 Farmers Home Administration	2,141	1,276	733	1,062	790	577	733	704
33 1- to 4-family	1,159	213	183	156	223	185	183	217
34 Multifamily	173	119	113	82	136	139	113	33
35 Commercial	409	497	159	421	163	72	159	217
36 Farm	400	447	278	403	268	181	278	237
37 Federal Housing and Veterans Administration	4,894	4,816	4,920	4,878	4,888	4,918	4,920	4,957
38 1- to 4-family	1,893	2,048	2,254	2,181	2,199	2,251	2,254	2,301
39 Multifamily	3,001	2,768	2,666	2,697	2,689	2,667	2,666	2,656
40 Federal National Mortgage Association	78,256	87,940	98,282	91,975	94,777	96,769	98,282	98,795
41 1- to 4-family	73,045	82,175	91,966	86,129	88,788	90,590	91,966	92,315
42 Multifamily	5,211	5,765	6,316	5,846	5,989	6,179	6,316	6,480
43 Federal Land Banks	52,010	52,261	47,548	52,104	51,056	49,255	47,548	46,485
44 1- to 4-family	3,081	3,074	2,798	3,064	3,006	2,895	2,798	2,735
45 Farm	48,929	49,187	44,750	49,040	48,050	46,360	44,750	43,750
46 Federal Home Loan Mortgage Corporation	7,632	10,399	14,022	11,548	12,576	13,089	14,022	13,623r
47 1- to 4-family	7,559	9,654	11,881	10,642	11,288	11,457	11,881	12,231r
48 Multifamily	73	745	2,141	906	1,288	1,632	2,141	1,392r
49 Mortgage pools or trusts[3]	285,073	332,057	415,042	347,793	365,748	388,948	415,042	440,701r
50 Government National Mortgage Association	159,850	179,981	212,145	185,954	192,925	201,026	212,145	220,348
51 1- to 4-family	155,950	175,589	207,198	181,419	188,228	196,198	207,198	215,148r
52 Multifamily	3,900	4,392	4,947	4,535	4,697	4,828	4,947	5,200r
53 Federal Home Loan Mortgage Corporation	57,895	70,822	100,387	76,759	83,327	91,915	100,387	110,337r
54 1- to 4-family	57,273	70,253	99,515	75,781	82,369	90,997	99,515	108,020r
55 Multifamily	622	569	872	978	958	918	872	2,317r
56 Federal National Mortgage Association	25,121	36,215	54,987	39,370	42,755	48,769	54,987	62,310
57 1- to 4-family	25,121	35,965	54,036	38,772	41,985	47,857	54,036	61,117
58 Multifamily	n.a.	250	951	598	770	912	951	1,193
59 Farmers Home Administration	42,207	45,039	47,523	45,710	46,741	47,238	47,523	47,706
60 1- to 4-family	20,404	21,813	22,186	21,928	21,962	22,090	22,186	22,082
61 Multifamily	5,090	5,841	6,675	6,041	6,377	6,415	6,675	6,943
62 Commercial	7,351	7,559	8,190	7,681	8,014	8,192	8,190	8,150
63 Farm	9,362	9,826	10,472	10,060	10,388	10,541	10,472	10,531
64 Individuals and others[4]	247,358	263,933	284,430	268,415	273,337	279,351	284,430	289,019
65 1- to 4-family	141,758	151,871	164,710	153,574	157,807	162,970	164,710	167,604
66 Multifamily	38,786	42,017	45,417	43,715	43,520	44,100	45,417	46,103
67 Commercial	35,169	40,977	47,108	42,081	43,344	44,511	47,108	48,375
68 Farm	31,645	29,068	27,195	29,045	28,666	27,770	27,195	26,937

1. Includes loans held by nondeposit trust companies but not bank trust departments.
2. Assumed to be entirely 1- to 4-family loans.
3. Outstanding principal balances of mortgage pools backing securities insured or guaranteed by the agency indicated.
4. 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 other U.S. agencies.

NOTE. Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.

1.55 CONSUMER INSTALLMENT CREDIT[1,4] Total Outstanding, and Net Change, seasonally adjusted

Millions of dollars

Holder, and type of credit	1984	1985	1985 Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	1986 Feb.	Mar.	Apr.
	Amounts outstanding (end of period)										
1 **Total**	**453,580**	**535,098**	**506,090**	**516,420**	**522,978**	**528,621**	**535,098**	**542,753**	**547,852**	**550,939**	**555,094**
By major holder											
2 Commercial banks	209,158	240,796	230,644	233,545	235,364	238,620	240,796	243,256	244,761	245,172	247,735
3 Finance companies[2]	96,126	120,095	109,457	114,927	117,565	118,356	120,095	123,717	126,001	127,422	128,154
4 Credit unions	66,544	75,127	71,938	72,433	73,474	74,117	75,127	75,810	76,431	76,953	77,578
5 Retailers[3]	37,061	39,187	38,751	38,723	38,890	39,039	39,187	39,416	39,497	39,844	39,826
6 Savings institutions	40,330	55,555	51,115	52,656	53,509	54,307	55,555	56,290	57,048	57,573	58,024
7 Gasoline companies	4,361	4,337	4,185	4,136	4,176	4,182	4,337	4,264	4,114	3,975	3,777
By major type of credit											
8 Automobile	173,122	206,482	192,923	198,656	201,994	203,766	206,482	210,661	213,342	214,361	215,028
9 Commercial banks	83,900	92,764	90,234	90,784	91,402	92,127	92,764	93,489	93,828	93,377	92,956
10 Credit unions	28,614	30,577	29,775	29,556	29,904	30,166	30,577	30,855	31,107	31,320	31,574
11 Finance companies	54,663	73,391	64,071	69,201	71,415	71,996	73,391	76,410	78,310	79,416	80,111
12 Savings institutions	5,945	9,750	8,843	9,115	9,273	9,477	9,750	9,907	10,097	10,248	10,386
13 Revolving	98,514	118,296	112,373	113,850	115,218	117,050	118,296	119,682	120,724	122,131	123,445
14 Commercial banks	58,145	73,893	69,079	70,453	71,507	73,076	73,893	74,991	75,953	77,021	78,424
15 Retailers	33,064	34,560	34,330	34,264	34,382	34,486	34,560	34,770	34,843	35,188	35,170
16 Gasoline companies	4,361	4,337	4,185	4,136	4,176	4,182	4,337	4,264	4,114	3,975	3,777
17 Savings institutions	2,944	5,506	4,779	4,997	5,153	5,306	5,506	5,657	5,813	5,947	6,075
18 Mobile home	24,184	25,461	25,173	25,341	25,320	25,315	25,461	25,371	25,573	25,584	25,521
19 Commercial banks	9,623	9,578	9,608	9,662	9,596	9,584	9,578	9,457	9,566	9,348	9,272
20 Finance companies	9,161	9,116	9,114	9,092	9,089	9,057	9,116	9,125	9,161	9,327	9,286
21 Savings institutions	5,400	6,767	6,451	6,587	6,635	6,674	6,767	6,789	6,846	6,909	6,963
22 Other	157,760	184,859	175,621	178,573	180,446	182,490	184,859	187,039	188,212	188,863	191,100
23 Commercial banks	57,490	64,561	61,723	62,646	62,859	63,833	64,561	65,319	65,414	65,427	67,083
24 Finance companies	32,302	37,588	36,272	36,634	37,061	37,303	37,588	38,182	38,530	38,678	38,757
25 Credit unions	37,930	44,550	42,163	42,877	43,570	43,951	44,550	44,955	45,323	45,633	46,004
26 Retailers	3,997	4,627	4,421	4,459	4,508	4,553	4,627	4,646	4,653	4,656	4,656
27 Savings institutions	26,041	33,533	31,042	31,957	32,448	32,850	33,533	33,937	34,291	34,469	34,600
	Net change (during period)										
28 **Total**	**77,341**	**81,518**	**6,051**	**10,330**	**6,558**	**5,643**	**6,477**	**7,655**	**5,099**	**3,087**	**4,155**
By major holder											
29 Commercial banks	39,819	31,638	1,556	2,901	1,819	3,256	2,176	2,460	1,505	411	2,563
30 Finance companies[2]	9,961	23,969	1,959	5,470	2,638	791	1,739	3,622	2,284	1,421	732
31 Credit unions	13,456	8,583	492	495	1,041	643	1,010	683	621	522	625
32 Retailers[3]	2,900	2,126	328	-28	167	149	148	229	81	347	-18
33 Savings institutions	11,038	15,225	1,641	1,541	853	798	1,248	735	758	525	451
34 Gasoline companies	167	-24	75	-49	40	6	155	-73	-150	-139	-198
By major type of credit											
35 Automobile	27,214	33,360	1,722	5,733	3,338	1,772	2,716	4,179	2,681	1,019	667
36 Commercial banks	16,352	8,864	-116	550	618	725	637	725	339	-451	-421
37 Credit unions	3,223	1,963	59	-219	348	262	411	278	252	213	254
38 Finance companies	4,576	18,728	1,485	5,130	2,214	581	1,395	3,019	1,900	1,106	695
39 Savings institutions	3,063	3,805	294	272	158	204	273	157	190	151	138
40 Revolving	20,145	19,782	1,469	1,477	1,368	1,832	1,246	1,386	1,042	1,407	1,314
41 Commercial banks	15,949	15,748	907	1,374	1,054	1,569	817	1,098	962	1,068	1,403
42 Retailers	2,512	1,496	265	-66	118	104	74	210	73	345	-18
43 Gasoline companies	167	-24	75	-49	40	6	155	-73	-150	-139	-198
44 Savings institutions	1,517	2,562	222	218	156	153	200	151	156	134	128
45 Mobile home	1,990	1,277	158	168	-21	-5	146	-90	202	11	-63
46 Commercial banks	-199	-45	32	54	-66	-12	-6	-121	109	-218	-76
47 Finance companies	544	-45	-27	-22	-3	-32	59	9	36	166	-41
48 Savings institutions	1,645	1,367	153	136	48	39	93	22	57	63	54
49 Other	27,992	27,099	2,702	2,952	1,873	2,044	2,369	2,180	1,173	651	2,237
50 Commercial banks	7,717	7,071	733	923	213	974	728	758	95	13	1,656
51 Finance companies	4,841	5,286	501	362	427	242	285	594	348	148	79
52 Credit unions	10,233	6,620	433	714	693	381	599	405	368	310	371
53 Retailers	388	630	63	38	49	45	74	19	7	3	0
54 Savings institutions	4,813	7,492	972	915	491	402	683	404	354	178	131

1. The Board's series cover most short- and intermediate-term credit extended to individuals that is scheduled to be repaid (or has the option of repayment) in two or more installments.

2. More detail for finance companies is available in the G.20 statistical release.

3. Excludes 30-day charge credit held by travel and entertainment companies.

4. All data have been revised.

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT

Percent unless noted otherwise

Item	1983	1984	1985	1985			1986			
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
INTEREST RATES										
Commercial banks[1]										
1 48-month new car[2]	13.92	13.71	n.a.	n.a.	12.39	n.a.	n.a.	12.29	n.a.	n.a.
2 24-month personal	16.50	16.47	n.a.	n.a.	15.61	n.a.	n.a.	15.52	n.a.	n.a.
3 120-month mobile home[2]	16.08	15.58	n.a.	n.a.	14.66	n.a.	n.a.	14.57	n.a.	n.a.
4 Credit card	18.78	18.77	n.a.	n.a.	18.57	n.a.	n.a.	18.48	n.a.	n.a.
Auto finance companies										
5 New car	12.58	14.62	n.a.	9.97	11.71	12.52	9.99	9.70	10.51	10.55
6 Used car	18.74	17.85	n.a.	17.21	17.28	17.22	16.60	16.74	16.63	16.67
OTHER TERMS[3]										
Maturity (months)										
7 New car	45.9	48.3	n.a.	51.5	52.0	52.1	51.2	51.3	51.0	50.6
8 Used car	37.9	39.7	n.a.	41.4	41.5	41.4	42.8	42.5	42.4	42.5
Loan-to-value ratio										
9 New car	86	88	n.a.	93	92	92	92	92	90	89
10 Used car	92	92	n.a.	95	95	95	95	95	95	96
Amount financed (dollars)										
11 New car	8,787	9,333	n.a.	10,498	10,205	9,925	10,064	10,074	10,306	10,402
12 Used car	5,033	5,691	n.a.	6,091	6,167	6,255	6,165	6,194	6,207	6,281

1. Data for midmonth of quarter only.
2. Before 1983 the maturity for new car loans was 36 months, and for mobile home loans was 84 months.
3. At auto finance companies.

NOTE. These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; half-yearly data are at seasonally adjusted annual rates.

Transaction category, sector	1980	1981	1982	1983	1984	1985r	1983 H1	1983 H2	1984 H1	1984 H2	1985r H1	1985r H2
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**341.8**	**372.7**	**395.3**	**542.9**	**765.9**	**898.2**	**506.0**	**579.7**	**713.4**	**818.4**	**729.2**	**1,066.6**
By sector and instrument												
2 U.S. government	79.2	87.4	161.3	186.6	198.8	223.6	221.9	151.2	172.2	225.4	183.2	263.6
3 Treasury securities	79.8	87.8	162.1	186.7	199.0	223.7	222.0	151.4	172.4	225.5	183.3	263.7
4 Agency issues and mortgages	−.6	−.5	−.9	−.1	−.2	−.1	−.1	−.1	−.2	−.1	−.1	−.1
5 Private domestic nonfinancial sectors	262.6	285.3	234.1	356.3	567.1	674.5	284.1	428.5	541.2	593.1	546.0	803.0
6 Debt capital instruments	188.1	154.5	152.6	253.7	325.3	492.9	227.3	280.1	287.7	362.8	370.0	615.2
7 Tax-exempt obligations	30.3	23.4	48.6	57.3	65.8	182.8	57.3	57.4	38.9	92.6	88.3	277.2
8 Corporate bonds	26.7	21.8	18.7	16.0	47.1	72.9	21.4	10.6	31.9	62.3	71.9	73.2
9 Mortgages	131.2	109.3	85.4	180.3	212.4	237.3	148.6	212.1	216.9	207.9	209.8	264.9
10 Home mortgages	94.2	72.2	50.5	116.9	130.7	155.3	98.7	135.2	135.6	125.7	130.8	180.0
11 Multifamily residential	7.6	4.8	5.4	11.9	20.7	26.1	6.1	17.6	23.6	17.7	22.3	30.0
12 Commercial	19.2	22.2	25.2	48.9	62.0	60.8	42.2	55.7	58.5	65.6	59.0	62.7
13 Farm	10.2	10.0	4.2	2.6	−1.0	−5.0	1.6	3.6	−.8	−1.2	−2.2	−7.8
14 Other debt instruments	74.5	130.8	81.4	102.6	241.9	181.6	56.8	148.4	253.5	230.2	175.9	187.7
15 Consumer credit	4.7	22.6	17.7	56.7	94.8	96.6	38.0	75.4	98.0	91.6	98.3	95.0
16 Bank loans n.e.c.	37.0	54.7	54.2	26.8	79.5	39.4	13.7	39.8	89.9	69.0	28.3	51.0
17 Open market paper	5.7	19.2	−4.7	−1.6	24.2	12.4	−10.0	6.9	33.5	15.0	16.9	7.9
18 Other	27.1	34.4	14.2	20.7	43.3	33.2	15.1	26.3	32.1	54.6	32.5	33.9
19 By borrowing sector	262.6	285.3	234.1	356.3	567.1	674.5	284.1	428.5	541.2	593.1	546.0	803.0
20 State and local governments	17.2	6.8	25.9	37.6	45.0	140.9	36.0	39.2	21.4	68.6	74.1	207.6
21 Households	118.9	119.7	87.9	187.4	239.2	294.0	152.3	222.6	236.0	242.3	244.3	343.9
22 Farm	15.2	16.6	6.8	4.1	−.1	−11.9	.8	7.4	−.7	.5	−7.6	−16.2
23 Nonfarm noncorporate	31.2	38.6	41.3	70.8	90.8	85.4	56.1	85.5	96.9	84.7	84.4	86.4
24 Corporate	80.1	103.6	72.1	56.4	192.3	166.1	39.0	73.8	187.7	196.9	150.7	181.2
25 Foreign net borrowing in United States	27.2	27.2	15.7	18.9	2.8	1.5	15.4	22.4	23.0	−17.4	−3.2	6.2
26 Bonds	.8	5.4	6.7	3.8	4.1	3.9	4.6	2.9	1.1	7.0	5.1	2.7
27 Bank loans n.e.c.	11.5	3.7	−6.2	4.9	−7.8	−3.1	11.4	−1.6	−4.5	−11.1	−5.4	−.8
28 Open market paper	10.1	13.9	10.7	6.0	2.5	−.6	−4.6	16.5	20.9	−16.0	−5.4	4.2
29 U.S. government loans	4.7	4.2	4.5	4.3	4.0	1.3	3.9	4.6	5.5	2.6	2.4	.1
30 **Total domestic plus foreign**	**369.0**	**399.9**	**411.0**	**561.7**	**768.7**	**899.7**	**521.3**	**602.1**	**736.4**	**801.0**	**725.9**	**1,072.8**
	Financial sectors											
31 **Total net borrowing by financial sectors**	**57.6**	**89.0**	**80.2**	**89.2**	**138.2**	**193.7**	**69.1**	**109.3**	**126.5**	**149.9**	**167.2**	**220.1**
By instrument												
32 U.S. government related	44.8	47.4	64.9	67.8	74.9	101.6	66.2	69.4	69.6	80.1	92.7	110.4
33 Sponsored credit agency securities	24.4	30.5	14.9	1.4	30.4	20.6	−4.1	6.9	29.9	30.9	26.0	15.1
34 Mortgage pool securities	19.2	15.0	49.5	66.4	44.4	79.9	70.3	62.5	39.7	49.2	66.7	93.1
35 Loans from U.S. government	1.2	1.9	.4	......	......	1.1	......	......	......	......	......	2.2
36 Private financial sectors	12.8	41.6	15.3	21.4	63.3	92.1	2.9	40.0	56.9	69.7	74.5	109.7
37 Corporate bonds	1.8	3.5	13.7	12.6	25.9	31.2	10.3	14.9	20.7	31.1	32.2	29.8
38 Mortgages	*	*	.1	*	.4	.1	*	*	.4	.4	*	.1
39 Bank loans n.e.c.	−.9	.9	1.9	−.2	1.0	5.3	−3.3	3.0	−.5	2.4	1.7	9.2
40 Open market paper	4.8	20.9	−1.1	16.0	20.4	41.3	7.9	24.1	20.4	20.4	28.8	53.9
41 Loans from Federal Home Loan Banks	7.1	16.2	.8	−7.0	15.7	14.2	−12.1	−2.0	15.9	15.5	11.7	16.7
By sector												
42 Sponsored credit agencies	25.6	32.4	15.3	1.4	30.4	21.7	−4.1	6.9	29.9	30.9	26.0	17.3
43 Mortgage pools	19.2	15.0	49.5	66.4	44.4	79.9	70.3	62.5	39.7	49.2	66.7	93.1
44 Private financial sectors	12.8	41.6	15.3	21.4	63.3	92.1	2.9	40.0	56.9	69.7	74.5	109.7
45 Commercial banks	.5	.4	1.2	.5	4.4	5.4	.8	.2	4.8	3.9	5.2	5.7
46 Bank affiliates	6.9	8.3	5.9	12.6	16.9	9.2	10.1	15.1	26.0	7.8	9.2	9.2
47 Savings and loan associations	7.4	15.5	2.5	−2.1	22.7	22.1	−9.3	5.2	19.7	25.6	11.1	33.0
48 Finance companies	−1.1	18.2	6.3	11.3	19.3	55.9	2.1	20.5	6.3	32.4	49.6	62.2
49 REITs	−.5	−.2	*	−.2	.8	.5	−.1	−.3	.8	.8	.5	.5
	All sectors											
50 **Total net borrowing**	**426.6**	**488.9**	**491.2**	**651.0**	**906.9**	**1093.4**	**590.4**	**711.5**	**863.0**	**950.9**	**893.2**	**1,292.9**
51 U.S. government securities	122.9	133.0	225.9	254.4	273.8	324.2	288.2	220.7	241.9	305.6	276.0	371.9
52 State and local obligations	30.3	23.4	48.6	57.3	65.8	182.8	57.3	57.4	38.9	92.6	88.3	277.2
53 Corporate and foreign bonds	29.3	30.7	39.0	32.4	77.1	108.0	36.3	28.4	53.8	100.5	109.3	105.7
54 Mortgages	131.1	109.2	85.4	180.3	212.7	237.3	148.6	212.0	217.2	208.2	209.8	264.9
55 Consumer credit	4.7	22.6	17.7	56.7	94.8	96.6	38.0	75.4	98.0	91.6	98.3	95.0
56 Bank loans n.e.c.	47.7	59.2	49.9	31.5	72.7	41.7	21.8	41.2	84.9	60.4	24.6	59.4
57 Open market paper	20.6	54.0	4.9	20.4	47.1	53.1	−6.7	47.5	74.8	19.3	40.4	66.0
58 Other loans	40.1	56.7	19.9	17.9	63.0	49.7	6.9	29.0	53.4	72.7	46.6	52.9
	External corporate equity funds raised in United States											
59 **Total new share issues**	**21.2**	**−3.3**	**33.6**	**66.3**	**−33.6**	**32.9**	**81.9**	**50.7**	**−41.2**	**−25.9**	**25.7**	**40.1**
60 Mutual funds	4.5	6.0	16.8	31.5	37.1	105.3	35.3	27.7	39.0	35.3	92.0	118.6
61 All other	16.8	−9.3	16.8	34.8	−70.7	−72.4	46.6	23.0	−80.2	−61.2	−66.3	−78.4
62 Nonfinancial corporations	12.9	−11.5	11.4	28.3	−77.0	−81.6	38.2	18.4	−84.5	−69.4	−75.7	−87.5
63 Financial corporations	1.8	1.9	4.0	2.5	5.2	5.3	2.6	2.4	5.0	5.3	5.1	5.4
64 Foreign shares purchased in United States	2.1	.3	1.5	4.0	1.1	4.0	5.7	2.2	−.7	2.9	4.3	3.6

1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, except as noted; half-yearly data are at seasonally adjusted annual rates.

Transaction category, or sector	1980	1981	1982	1983	1984	1985r	1983		1984		1985r	
							H1	H2	H1	H2	H1	H2
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**341.8**	**372.7**	**395.3**	**542.9**	**765.9**	**898.2**	**506.0**	**579.7**	**713.4**	**818.4**	**729.2**	**1,066.6**
By public agencies and foreign												
2 Total net advances	97.1	97.7	114.1	117.4	144.6	216.4	120.5	114.4	124.2	165.1	197.6	236.9
3 U.S. government securities	15.8	17.1	22.7	27.6	36.0	45.7	41.0	14.1	30.5	41.4	48.0	45.1
4 Residential mortgages	31.7	23.5	61.0	76.1	56.5	94.7	80.2	72.1	52.8	60.1	86.0	103.4
5 FHLB advances to savings and loans	7.1	16.2	.8	−7.0	15.7	14.2	−12.1	−2.0	15.9	15.5	11.7	16.7
6 Other loans and securities	42.5	40.9	29.5	20.8	36.6	61.8	11.4	30.2	25.0	48.1	52.0	71.6
Total advanced, by sector												
7 U.S. government	23.7	24.0	15.9	9.7	17.1	17.4	9.1	10.3	7.8	26.4	18.1	16.8
8 Sponsored credit agencies	45.6	48.2	65.5	69.8	73.3	101.6	68.6	71.0	73.6	73.0	97.7	105.5
9 Monetary authorities	4.5	9.2	9.8	10.9	8.4	21.6	15.7	6.1	12.1	4.7	27.1	16.4
10 Foreign	23.3	16.2	22.8	27.1	45.9	75.7	27.2	27.0	30.7	61.0	54.7	98.2
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	44.8	47.4	64.9	67.8	74.9	101.6	66.2	69.4	69.6	80.1	92.7	110.4
12 Foreign	27.2	27.2	15.7	18.9	2.8	1.5	15.4	22.4	23.0	−17.4	−3.2	6.2
Private domestic funds advanced												
13 Total net advances	316.7	349.6	361.8	512.1	699.0	784.9	467.1	557.1	681.8	716.1	621.0	946.3
14 U.S. government securities	107.1	115.9	203.1	226.9	237.8	278.5	247.2	206.6	211.4	264.2	228.0	326.8
15 State and local obligations	30.3	23.4	48.6	57.3	65.8	182.8	57.3	57.4	38.9	92.6	88.3	277.2
16 Corporate and foreign bonds	19.3	18.8	14.8	14.9	34.8	33.6	21.4	8.5	25.3	44.3	43.5	23.0
17 Residential mortgages	70.0	53.5	−5.3	52.6	94.8	86.7	24.6	80.6	106.3	83.3	67.0	106.5
18 Other mortgages and loans	97.1	154.2	101.4	153.0	281.5	217.6	104.6	202.0	315.8	247.1	205.9	229.6
19 LESS: Federal Home Loan Bank advances	7.1	16.2	.8	−7.0	15.7	14.2	−12.1	−2.0	15.9	15.5	11.7	16.7
Private financial intermediation												
20 Credit market funds advanced by private financial institutions	283.8	321.7	288.4	384.6	555.6	555.2	332.0	437.2	552.5	558.7	448.9	659.9
21 Commercial banking	100.6	102.3	107.2	136.1	181.7	196.6	121.0	151.3	195.2	168.1	142.6	251.9
22 Savings institutions	54.5	27.8	30.1	139.8	146.3	86.0	131.3	148.3	167.9	124.7	57.4	114.8
23 Insurance and pension funds	94.5	97.6	107.4	94.2	119.0	125.2	83.0	105.3	112.0	126.0	101.6	148.7
24 Other finance	34.2	94.0	43.7	14.5	108.6	147.4	−3.3	32.3	77.4	139.9	147.3	144.5
25 Sources of funds	283.8	321.7	288.4	384.6	555.2	555.2	332.0	437.2	552.5	558.7	448.9	659.9
26 Private domestic deposits and RPs	169.6	211.9	196.2	209.3	298.8	194.5	203.8	214.8	292.2	305.5	177.9	208.5
27 Credit market borrowing	12.8	41.6	15.3	21.4	63.3	92.1	2.9	40.0	56.9	69.7	74.5	109.7
28 Other sources	101.3	68.2	77.0	153.9	193.5	268.6	125.3	182.4	203.4	183.5	196.5	341.7
29 Foreign funds	−21.7	−8.7	−26.7	22.1	19.0	14.0	−14.2	58.5	27.2	10.9	10.7	15.4
30 Treasury balances	−2.6	−1.1	6.1	−5.3	4.0	10.3	9.9	−20.6	1.2	6.8	19.3	.7
31 Insurance and pension reserves	83.7	90.7	103.2	95.1	110.3	116.7	83.5	106.8	119.5	101.2	100.6	132.9
32 Other, net	41.8	−12.7	−5.6	41.9	60.1	127.6	46.1	37.7	55.5	64.6	66.0	192.7
Private domestic nonfinancial investors												
33 Direct lending in credit markets	45.8	69.5	88.7	148.9	206.7	321.8	137.9	159.9	186.3	227.1	246.6	396.1
34 U.S. government securities	24.6	29.3	32.1	88.3	125.8	164.1	96.9	79.7	126.3	125.3	119.1	206.5
35 State and local obligations	7.0	11.1	29.2	43.5	43.2	90.4	47.2	39.9	25.3	61.2	47.0	133.6
36 Corporate and foreign bonds	−11.0	−3.9	8.1	−5.5	15.3	3.1	−10.8	−.3	7.5	23.0	40.3	−32.4
37 Open market paper	−3.1	2.7	−.6	6.5	−1.4	37.2	−6.6	19.7	3.2	−6.1	11.7	62.8
38 Other	28.4	30.3	19.9	16.1	23.8	27.1	11.3	20.8	24.0	23.7	28.5	25.7
39 Deposits and currency	181.1	221.9	203.3	228.4	303.4	206.9	225.6	231.3	303.6	303.2	191.8	219.3
40 Currency	10.3	9.5	9.7	14.3	8.6	12.4	14.8	13.8	15.9	1.3	18.5	6.3
41 Checkable deposits	5.4	18.1	17.6	26.7	24.1	43.5	53.0	−.4	30.4	17.7	15.9	69.3
42 Small time and savings accounts	82.9	47.0	138.1	218.3	149.8	128.8	278.9	157.7	130.7	169.0	156.6	100.6
43 Money market fund shares	29.2	107.5	24.7	−44.1	47.2	−2.2	−84.0	−4.2	30.2	64.2	4.2	−8.6
44 Large time deposits	45.6	36.8	11.9	−5.9	83.6	14.3	−55.1	43.4	97.6	69.6	−.5	28.6
45 Security RPs	6.5	2.5	3.8	14.3	−5.8	10.1	11.0	17.5	3.3	−15.0	1.7	18.5
46 Deposits in foreign countries	1.1	.5	−2.5	4.8	−4.0	*	7.0	2.7	−4.5	−3.6	−4.5	4.5
47 **Total of credit market instruments, deposits and currency**	**226.9**	**291.4**	**292.0**	**377.3**	**510.1**	**528.7**	**363.5**	**391.2**	**489.9**	**530.3**	**438.4**	**615.4**
48 Public holdings as percent of total	26.3	24.4	27.8	20.9	18.8	24.0	23.1	19.0	16.9	20.6	27.2	22.1
49 Private financial intermediation (in percent)	89.6	92.0	79.7	75.1	79.5	70.7	71.1	78.5	81.0	78.0	72.3	69.7
50 Total foreign funds	1.6	7.6	−3.9	49.2	64.9	89.7	13.0	85.5	57.9	71.9	65.4	113.6
MEMO: Corporate equities not included above												
51 **Total net issues**	**21.2**	**−3.3**	**33.6**	**66.3**	**−33.6**	**32.9**	**81.9**	**50.7**	**−41.2**	**−25.9**	**25.7**	**40.1**
52 Mutual fund shares	4.5	6.0	16.8	31.5	37.1	105.3	35.3	27.7	39.0	35.3	92.0	118.6
53 Other equities	16.8	−9.3	16.8	34.8	−70.7	−72.4	46.6	23.0	−80.2	−61.2	−66.3	−78.4
54 Acquisitions by financial institutions	24.9	20.9	36.9	56.7	10.3	43.8	76.4	36.9	2.1	18.5	60.7	23.9
55 Other net purchases	−3.6	−24.3	−3.3	9.6	−43.9	−10.9	5.5	13.7	−43.4	−44.5	−35.0	16.2

NOTES BY LINE NUMBER.
1. Line 1 of table 1.57.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.
18. Includes farm and commercial mortgages.
26. Line 39 less lines 40 and 46.
27. Excludes equity issues and investment company shares. Includes line 19.
29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
30. Demand deposits and note balances at commercial banks.
31. Excludes net investment of these reserves in corporate equities.
32. Mainly retained earnings and net miscellaneous liabilities.
33. Line 13 less line 20 plus line 27.
34–38. Lines 14–18 less amounts acquired by private finance plus amounts borrowed by private finance. Line 38 includes mortgages.
40. Mainly an offset to line 9.
47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.
48. Line 2/line 1.
49. Line 20/line 13.
50. Sum of lines 10 and 29.
51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures[1]

1977 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1983	1984	1985	1985				1986				
				Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.r	Mar.r	Apr.r	May
1 **Industrial production**	**109.2**	**121.8**	**124.5**	**125.1**	**124.4**	**125.4**	**126.4**	**126.7**	**125.6**	**124.4**	**125.0**	**124.2**
Market groupings												
2 Products, total	113.9	127.1	131.7	133.1	131.8	133.5	134.1	134.4	133.1	131.8	132.6	131.8
3 Final, total	114.7	127.8	132.0	133.3	131.9	133.7	134.4	134.4	132.8	131.3	132.2	131.2
4 Consumer goods	109.3	118.2	120.7	121.8	120.8	122.7	124.2	123.9	123.2	122.1	123.6	123.0
5 Equipment	121.7	140.5	147.1	148.6	146.6	148.3	147.9	148.4	145.5	143.4	143.6	142.1
6 Intermediate	111.2	124.9	130.6	132.3	131.5	132.7	132.9	134.4	134.1	133.7	134.0	133.8
7 Materials	102.8	114.6	114.7	114.2	114.2	114.3	115.9	116.2	115.4	114.3	114.6	113.9
Industry groupings												
8 Manufacturing	110.2	123.9	127.1	127.7	127.2	128.4	129.1	129.8	128.8	127.8	128.6	127.9
Capacity utilization (percent)[2]												
9 Manufacturing	74.0	80.8	80.3	80.1	79.6	80.2	80.4	80.7	79.8	78.9	79.4	78.8
10 Industrial materials industries	75.3	82.3	80.2	79.5	79.3	79.2	80.1	80.2	79.6	78.8	78.9	78.3
11 Construction contracts (1977 = 100)[3]	138.0	150.0	161.0	167.0	168.0	162.0	162.0	146.0	162.0	149.0	176.0	160.0
12 Nonagricultural employment, total[4]	109.4r	114.5r	118.5r	119.0r	119.4r	119.6r	119.9r	120.4	120.6	120.6	121.0	121.2
13 Goods-producing, total	95.9r	101.6r	102.9r	102.1r	102.3r	102.4r	102.6r	103.1	102.9	102.5	102.9	102.7
14 Manufacturing, total	93.6r	98.6r	98.7r	97.5r	97.7r	97.8r	98.0r	98.0	98.0	97.8	97.8	97.6
15 Manufacturing, production-worker	88.6r	94.1r	93.5r	92.1r	92.4r	92.5r	92.7r	92.7	92.6	92.4	92.4	92.2
16 Service-producing	115.0r	120.0r	125.0r	126.1r	126.5r	126.9r	127.2r	127.6	128.0	128.2	128.6	129.0
17 Personal income, total	176.4r	193.6r	204.9r	205.9r	207.2r	208.3r	210.5r	210.6	211.5	211.9	214.5	214.3
18 Wages and salary disbursements	168.6r	184.6r	197.3r	199.3r	200.4r	201.6r	203.5r	203.9	204.7	205.7	206.0	206.4
19 Manufacturing	149.0r	164.6r	171.6r	171.8r	173.7r	173.6r	175.4r	175.1	174.3	175.1	174.4	174.4
20 Disposable personal income[5]	175.8	193.6	203.1	203.5	204.9	205.9	208.2	208.9	209.9	210.5	213.4	213.0
21 Retail sales (1977 = 100)[6]	162.0	179.0	190.6	198.4	190.6	191.6	194.0	194.8	194.5	193.7	194.4	194.3
Prices[7]												
22 Consumer	298.4	311.1	322.2	324.5	325.5	326.6	327.4	328.4	327.5	326.0	325.3	326.3
23 Producer finished goods	285.2	291.1	293.7	290.0	294.7	296.4	297.2	296.0	292.3	288.1	286.9	289.0

1. A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71 (July 1985), pp. 487–501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

2. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, 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 in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.

5. Based on data in *Survey of Current Business* (U.S. Department of Commerce).

6. Based on Bureau of Census data published in *Survey of Current Business*.

7. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5, and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the last two months are preliminary and estimated, respectively.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted.

Category	1983	1984	1985	1985			1986[r]				
				Oct.[r]	Nov.[r]	Dec.[r]	Jan.	Feb.	Mar.	Apr.	May
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population**[1]	**176,414**	**178,602**	**180,440**	**181,011**	**181,186**	**181,349**	**181,898**	**182,055**	**182,223**	**182,387**	**182,545**
2 Labor force (including Armed Forces)[1]	113,749	115,763	117,695	118,355	118,376	118,466	119,014	119,322	119,445	119,473	119,898
3 Civilian labor force	111,550	113,544	115,461	116,114	116,130	116,229	116,786	117,088	117,207	117,234	117,664
Employment											
4 Nonagricultural industries[2]	97,450	101,685	103,971	104,755	104,899	105,055	105,655	105,465	105,503	105,670	105,950
5 Agriculture	3,383	3,321	3,179	3,058	3,070	3,151	3,299	3,096	3,285	3,222	3,160
Unemployment											
6 Number	10,717	8,539	8,312	8,301	8,161	8,023	7,831	8,527	8,419	8,342	8,554
7 Rate (percent of civilian labor force)	9.6	7.5	7.2	7.1	7.0	6.9	6.7	7.3	7.2	7.1	7.3
8 Not in labor force	62,665	62,839	62,745	62,656	62,810	62,883	62,884	62,733	62,778	62,914	62,647
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment**[3]	**90,196**	**94,461**	**97,698**	**98,428**	**98,666**	**98,910**	**99,296**	**99,429**	**99,484**	**99,797**	**99,946**
10 Manufacturing	18,434	19,412	19,426	19,236	19,259	19,289	19,303	19,294	19,255	19,247	19,208
11 Mining	952	974	969	913	907	901	897	880	852	821	789
12 Contract construction	3,948	4,345	4,661	4,754	4,765	4,787	4,901	4,864	4,838	4,970	4,991
13 Transportation and public utilities	4,954	5,171	5,300	5,2[illegible]0	5,272	5,277	5,286	5,277	5,280	5,244	5,240
14 Trade	20,881	22,134	23,195	23,3[illegible]	23,385	23,431	23,564	23,638	23,669	23,710	23,765
15 Finance	5,468	5,682	5,924	6,038	6,070	6,095	6,123	6,157	6,184	6,231	6,259
16 Service	19,694	20,761	21,929	22,313	22,415	22,501	22,585	22,638	22,707	22,854	22,953
17 Government	15,869	15,984	16,295	16,575	16,593	16,629	16,637	16,681	16,699	16,720	16,741

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).
2. Includes self-employed, unpaid family, and domestic service workers.
3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1984 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).
4. In addition to the revisions noted here, data for January through June 1985 have been revised as follows: Jan., 21,382; Feb., 21,480; Mar., 21,644; Apr., 21,723; May, 21,813; and June, 21,856. These data were reported incorrectly in the BULLETIN for November 1985 through March 1986.

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION

Seasonally adjusted

Series	1985 Q2	1985 Q3	1985 Q4	1986 Q1[r]	1985 Q2	1985 Q3	1985 Q4	1986 Q1	1985 Q2	1985 Q3	1985 Q4	1986 Q1[r]
	Output (1977 = 100)				Capacity (percent of 1977 output)				Utilization rate (percent)			
1 **Total industry**	**124.2**	**124.8**	**125.4**	**125.6**	**154.0**	**155.1**	**156.2**	**157.2**	**80.7**	**80.5**	**80.3**	**79.9**
2 Mining	110.0	108.5	107.6	105.1	133.6	133.9	134.1	134.3	82.3	81.0	80.2	78.3
3 Utilities	113.6	111.4	113.7	113.6	134.5	135.4	136.3	136.9	84.4	82.3	83.4	82.9
4 **Manufacturing**	**126.6**	**127.6**	**128.2**	**128.8**	**157.7**	**158.9**	**160.2**	**161.3**	**80.3**	**80.3**	**80.0**	**79.8**
5 Primary processing	108.1	109.5	110.4	111.7	132.0	132.4	132.8	133.2	81.9	82.7	83.1	83.8
6 Advanced processing	137.9	138.6	139.0	139.1	173.2	174.9	176.7	178.3	79.6	79.2	78.7	78.0
7 **Materials**	**114.5**	**114.2**	**114.8**	**115.3**	142.5	**143.4**	**144.3**	**145.0**	**80.4**	**79.6**	**79.5**	**79.5**
8 Durable goods	121.4	120.7	121.4	121.6	157.4	158.9	160.5	161.6	77.1	76.0	75.6	75.3
9 Metal materials	80.2	79.4	82.4	80.1	117.3	117.3	117.3	116.7	68.4	67.7	70.3	68.7
10 Nondurable goods	111.2	113.7	113.8	115.9	137.8	138.2	138.7	139.1	80.7	82.2	82.0	83.3
11 Textile, paper, and chemical	111.0	114.1	114.0	116.3	137.0	137.4	137.8	138.1	81.0	83.0	82.7	84.2
12 Paper	121.8	123.8	124.5	128.1	136.2	136.3	136.5	136.8	89.4	90.8	91.2	93.6
13 Chemical	112.6	114.6	114.2	116.0	142.0	142.6	143.1	143.5	79.3	80.4	79.8	80.8
14 Energy materials	105.2	103.2	104.2	103.9	120.3	120.6	120.9	121.2	87.5	85.5	86.1	85.7

Series	Previous cycle[1] High	Previous cycle[1] Low	Latest cycle[2] High	Latest cycle[2] Low	1985 May	1985 Sept.	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.[r]	1986 Mar.[r]	1986 Apr.[r]	1986 May
	Capacity utilization rate (percent)													
15 **Total industry**	**88.6**	**72.1**	**86.9**	**69.5**	**80.6**	**80.5**	**79.8**	**80.3**	**80.7**	**80.8**	**79.9**	**79.0**	**79.2**	**78.6**
16 Mining	92.8	87.8	95.2	76.9	82.2	81.0	80.9	79.7	80.0	80.0	78.4	76.5	75.8	74.2
17 Utilities	95.6	82.9	88.5	78.0	84.5	83.4	82.7	82.3	85.3	83.8	82.1	82.9	83.2	83.4
18 **Manufacturing**	**87.7**	**69.9**	**86.5**	**68.0**	**80.3**	**80.1**	**79.6**	**80.2**	**80.4**	**80.7**	**79.8**	**78.9**	**79.4**	**78.8**
19 Primary processing	91.9	68.3	89.1	65.1	81.5	82.8	83.1	83.0	83.3	84.8	83.9	82.9	83.3	83.0
20 Advanced processing	86.0	71.1	85.1	69.5	79.8	79.0	78.0	79.0	79.0	78.8	78.1	77.3	77.8	77.0
21 **Materials**	**92.0**	**70.5**	**89.1**	**68.4**	**80.1**	**79.5**	**79.3**	**79.2**	**80.1**	**80.2**	**79.6**	**78.8**	**78.9**	**78.3**
22 Durable goods	91.8	64.4	89.8	60.9	76.6	75.4	75.2	75.8	75.8	76.4	75.2	74.2	74.0	73.3
23 Metal materials	99.2	67.1	93.6	45.7	66.2	67.3	69.4	70.8	70.7	71.3	68.4	66.3	66.7	66.4
24 Nondurable goods	91.1	66.7	88.1	70.6	80.8	82.9	81.9	81.5	82.7	83.5	83.7	82.8	83.2	83.3
25 Textile, paper, and chemical	92.8	64.8	89.4	68.6	80.9	83.7	82.4	82.1	83.5	84.3	84.6	83.8	83.8	84.1
26 Paper	98.4	70.6	97.3	79.9	88.8	90.7	88.8	90.1	94.7	94.8	93.7	92.3	92.2	n.a.
27 Chemical	92.5	64.4	87.9	63.3	79.5	81.2	80.5	78.8	80.1	81.1	80.9	80.5	80.4	n.a.
28 Energy materials	94.6	86.9	94.0	82.2	87.5	85.6	86.2	84.7	87.4	85.9	85.7	85.4	85.8	84.9

1. Monthly high 1973; monthly low 1975.
2. Monthly highs 1978 through 1980; monthly lows 1982.

NOTE. These data also appear in the Board's G.3 (402) release. For address, see inside front cover.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value ▲

Monthly data are seasonally adjusted

Grouping	1977 proportion	1985 avg.	1985								1986				
			May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.ʳ	Mar.	Apr.ᵖ	Mayᵉ
			Index (1977 = 100)												
MAJOR MARKET															
1 **Total index**	**100.00**	**124.5**	**124.1**	**124.3**	**124.1**	**125.2**	**125.1**	**124.4**	**125.4**	**126.4**	**126.7**	**125.6**	**124.4**	**125.0**	**124.2**
2 Products	57.72	131.7	131.4	131.6	131.6	133.0	133.1	131.8	133.5	134.1	134.4	133.1	131.8	132.6	131.8
3 Final products	44.77	132.0	131.7	131.6	131.8	133.3	133.3	131.9	133.7	134.4	134.4	132.8	131.3	132.2	131.2
4 Consumer goods	25.52	120.7	120.0	120.4	120.1	121.5	121.8	120.8	122.7	124.2	123.9	123.2	122.1	123.6	123.0
5 Equipment	19.25	147.1	147.1	146.6	147.3	149.0	148.6	146.6	148.3	147.9	148.4	145.5	143.4	143.6	142.1
6 Intermediate products	12.94	130.6	130.3	131.4	130.7	132.0	132.3	131.5	132.7	132.9	134.4	134.1	133.7	134.0	133.8
7 Materials	42.28	114.7	114.2	114.3	113.8	114.5	114.2	114.2	114.3	115.9	116.2	115.4	114.3	114.6	113.9
Consumer goods															
8 Durable consumer goods	6.89	112.9	111.8	112.0	111.3	114.0	112.9	111.4	115.5	116.8	116.6	116.3	113.0	116.0	113.7
9 Automotive products	2.98	115.1	113.6	113.4	115.0	120.0	117.8	112.9	116.8	116.6	117.0	118.3	112.3	118.2	114.1
10 Autos and trucks	1.79	112.0	109.6	109.4	113.7	120.2	116.6	108.7	113.7	112.0	116.2	118.8	107.6	116.0	109.6
11 Autos, consumer	1.16	98.9	98.1	97.0	101.1	101.3	98.8	92.3	94.9	99.9	103.6	107.0	95.1	101.0	94.0
12 Trucks, consumer	.63	136.3	130.9	132.3	137.2	155.4	149.7	139.1	148.6	134.5	139.5	140.6	130.6	143.9	.....
13 Auto parts and allied goods	1.19	119.7	119.6	119.4	116.8	119.6	119.5	119.3	121.4	123.4	118.2	117.7	119.5	121.6	120.9
14 Home goods	3.91	111.3	110.4	110.9	108.4	109.5	109.3	110.2	114.5	116.9	116.4	114.8	113.6	114.3	113.3
15 Appliances, A/C and TV	1.24	129.5	129.3	131.5	121.6	124.5	123.7	126.3	139.4	145.4	138.8	136.5	135.4	140.4	137.4
16 Appliances and TV	1.19	130.3	128.7	131.7	123.2	125.5	125.6	128.6	141.9	148.4	141.5	139.1	137.9	142.1	.....
17 Carpeting and furniture	.96	119.4	116.9	119.6	122.2	119.5	120.2	120.1	122.9	118.9	122.3	121.9	118.4	117.8	.....
18 Miscellaneous home goods	1.71	93.6	93.1	91.2	91.2	93.0	92.7	92.9	91.9	95.2	96.9	95.1	95.1	93.5	.....
19 Nondurable consumer goods	18.63	123.6	123.1	123.5	123.4	124.2	125.1	124.3	125.4	127.0	126.5	125.7	125.5	126.4	126.4
20 Consumer staples	15.29	129.4	129.0	129.6	129.3	130.3	131.0	130.1	131.0	133.0	132.2	131.7	131.5	132.5	132.6
21 Consumer foods and tobacco	7.80	129.7	128.9	130.5	130.1	130.8	131.5	129.5	130.7	132.4	131.3	131.9	130.8	131.4	.....
22 Nonfood staples	7.49	129.1	129.1	128.7	128.5	129.7	130.5	130.6	131.2	133.6	133.1	131.5	132.3	133.6	133.6
23 Consumer chemical products	2.75	147.5	147.3	145.4	145.4	149.1	151.4	149.4	152.4	152.9	153.8	155.6	155.2	157.2	.....
24 Consumer paper products	1.88	143.7	143.7	144.6	144.9	143.9	144.7	145.5	145.7	148.0	144.4	141.7	142.6	144.1	.....
25 Consumer energy	2.86	101.9	102.1	102.2	101.5	101.8	101.0	102.9	101.4	105.6	105.8	102.1	103.5	104.0	.....
26 Consumer fuel	1.44	88.5	90.2	88.8	89.2	91.1	85.8	90.2	90.1	92.3	93.9	91.4	91.0	93.0	.....
27 Residential utilities	1.42	.....	114.4	115.9	114.0	112.7	116.5	115.8	112.9	119.2	117.8	113.0	116.2	.....	.....
Equipment															
28 Business and defense equipment	18.01	147.8	147.9	147.4	147.9	149.7	149.4	147.5	149.7	149.4	150.3	148.3	147.1	148.2	147.1
29 Business equipment	14.34	141.3	141.9	140.7	141.3	143.0	142.2	139.6	141.7	141.4	142.9	141.1	139.1	140.3	138.8
30 Construction, mining, and farm	2.08	67.7	67.4	67.7	68.6	67.2	67.0	65.9	68.2	68.3	67.7	65.3	62.3	62.4	.....
31 Manufacturing	3.27	112.8	113.1	111.9	113.5	115.1	114.8	111.7	112.8	112.8	113.1	114.1	114.0	113.5	112.5
32 Power	1.27	83.6	82.8	84.1	85.6	84.5	85.1	85.5	84.7	87.1	84.5	83.4	82.0	82.9	82.4
33 Commercial	5.22	219.3	222.8	219.6	219.5	222.8	219.4	213.9	217.7	217.9	219.2	216.4	215.6	215.7	214.6
34 Transit	2.49	106.1	102.9	103.4	103.3	106.0	108.3	109.7	111.2	107.7	114.6	111.4	105.0	112.1	108.1
35 Defense and space equipment	3.67	173.6	171.2	173.4	173.9	175.5	177.5	178.7	180.7	180.7	179.3	176.7	178.5	179.0	179.3
Intermediate products															
36 Construction supplies	5.95	119.0	118.1	119.2	119.4	121.5	121.3	120.0	120.9	120.7	124.0	123.5	123.4	123.5	123.3
37 Business supplies	6.99	140.5	140.7	141.7	140.3	140.9	141.7	141.2	142.7	143.3	143.2	143.1	142.6	142.9	.....
38 General business supplies	5.67	144.4	144.4	146.1	144.4	145.1	145.4	144.8	146.7	146.8	147.2	146.7	146.3	147.2	.....
39 Commercial energy products	1.31	123.7	124.6	122.7	122.7	122.5	125.7	125.7	125.3	128.1	125.9	127.5	126.4	124.2	.....
Materials															
40 Durable goods materials	20.50	121.8	120.7	120.8	120.2	121.8	120.2	120.4	121.7	122.1	123.2	121.5	120.0	119.9	118.9
41 Durable consumer parts	4.92	100.7	100.1	98.7	98.3	100.0	99.0	100.2	101.6	101.5	103.9	103.2	100.7	99.6	98.7
42 Equipment parts	5.94	159.0	157.8	157.3	157.0	158.7	156.5	154.0	155.0	155.1	154.8	154.0	153.4	154.1	151.9
43 Durable materials n.e.c	9.64	109.7	108.2	109.6	108.6	110.2	108.7	109.9	111.4	112.3	113.7	110.9	109.3	109.2	108.9
44 Basic metal materials	4.64	84.8	82.0	85.0	82.5	85.1	82.8	85.8	87.6	88.5	87.5	83.4	81.1	81.7	.....
45 Nondurable goods materials	10.09	112.2	111.3	111.8	112.8	113.5	114.7	113.4	113.0	114.9	116.1	116.4	115.2	115.9	116.1
46 Textile, paper, and chemical materials	7.53	112.4	110.9	111.7	113.5	113.8	115.1	113.5	113.2	115.2	116.4	116.8	115.8	115.9	116.3
47 Textile materials	1.52	97.7	95.0	97.3	100.2	104.4	104.1	101.2	104.4	102.1	103.2	107.3	105.9	106.4	.....
48 Pulp and paper materials	1.55	123.7	120.9	123.3	125.0	122.8	123.7	121.1	123.0	129.3	129.5	128.2	126.5	126.5	.....
49 Chemical materials	4.46	113.6	112.9	112.6	114.0	113.8	115.9	115.0	112.8	114.8	116.3	116.1	115.5	115.5	.....
50 Miscellaneous nondurable materials	2.57	111.3	112.5	112.0	110.8	112.7	113.5	113.3	112.5	113.9	115.3	115.2	113.4	115.9	.....
51 Energy materials	11.69	104.3	105.3	105.1	103.5	102.7	103.4	104.2	102.5	105.8	104.1	103.9	103.7	104.2	103.2
52 Primary energy	7.57	107.8	107.8	109.0	107.4	106.4	106.8	108.2	106.7	109.0	106.8	107.6	107.1	107.4	.....
53 Converted fuel materials	4.12	97.9	100.6	98.1	96.2	95.9	97.0	96.8	94.7	100.1	99.1	97.0	97.4	98.2	.....

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value—Continued

Grouping	SIC code	1977 proportion	1985 avg.	1985								1986				
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.r	Mar.	Apr.p	Maye
				Index (1977 = 100)												
MAJOR INDUSTRY																
1 Mining and utilities	......	15.79	110.6	111.3	111.6	109.4	109.1	110.3	109.9	108.9	110.8	110.2	108.0	106.8	106.4	105.2
2 Mining	......	9.83	109.0	109.8	110.6	108.7	108.3	108.4	108.4	106.9	107.4	107.4	105.3	102.7	101.8	99.6
3 Utilities	......	5.96	113.2	113.7	113.4	110.7	110.3	113.2	112.4	112.2	116.5	114.6	112.4	113.6	114.1	114.5
4 Manufacturing	......	84.21	127.1	126.6	126.7	126.9	128.2	127.7	127.2	128.4	129.1	129.8	128.8	127.8	128.6	127.9
5 Nondurable	......	35.11	125.6	124.7	125.5	125.6	126.6	126.9	126.4	127.3	128.0	129.1	128.5	128.0	128.8	128.9
6 Durable	......	49.10	128.2	127.9	127.6	127.9	129.4	128.3	127.7	129.2	129.9	130.4	129.0	127.6	128.4	127.2
Mining																
7 Metal	10	.50	75.1	78.3	77.5	60.9	73.1	71.4	74.2	78.3	74.3	75.5	77.2	78.1	76.8	.....
8 Coal	11.12	1.60	127.5	128.7	134.0	128.0	127.7	126.3	130.1	125.5	128.0	130.6	124.9	123.5	124.5	.....
9 Oil and gas extraction	13	7.07	106.3	106.9	106.9	106.9	105.5	106.0	104.8	103.5	104.4	103.6	101.4	98.5	97.1	95.0
10 Stone and earth minerals	14	.66	118.8	118.7	117.9	116.6	117.7	119.3	120.4	119.0	114.0	117.1	120.2	115.4	116.1	.....
Nondurable manufactures																
11 Foods	20	7.96	131.0	131.4	131.8	132.2	132.6	132.5	130.7	131.4	132.6	133.2	133.8	133.0	134.2	.....
12 Tobacco products	21	.62	.....	95.7	98.9	96.0	97.7	97.8	105.3	104.5	103.5	99.3	97.9	93.0	.....	.....
13 Textile mill products	22	2.29	102.5	100.0	103.3	104.1	106.3	106.7	104.9	108.0	106.3	107.4	110.4	109.1	109.7	.....
14 Apparel products	23	2.79	101.8	100.3	99.2	100.6	100.4	101.8	102.6	103.9	105.0	105.8	103.6	104.0	104.6	.....
15 Paper and products	26	3.15	127.4	124.1	127.1	129.0	127.5	128.6	127.3	128.2	132.3	133.1	132.1	131.4	132.0	.....
16 Printing and publishing	27	4.54	155.3	155.4	156.7	154.3	156.3	156.2	157.0	159.0	158.4	158.9	155.4	156.7	157.7	158.3
17 Chemicals and products	28	8.05	127.1	126.7	126.4	126.4	128.2	129.0	127.9	128.0	128.5	130.5	130.9	130.7	131.2	.....
18 Petroleum products	29	2.40	86.7	87.4	87.1	88.3	88.2	85.9	87.7	87.3	88.7	92.6	88.4	87.8	90.1	90.9
19 Rubber and plastic products	30	2.80	147.0	144.3	145.5	145.6	148.0	148.6	148.7	150.5	150.0	150.5	150.7	149.0	148.4	.....
20 Leather and products	31	.53	70.9	71.0	71.5	72.2	72.7	72.3	71.4	72.1	69.9	67.5	67.0	65.4	64.5	.....
Durable manufactures																
21 Lumber and products	24	2.30	.....	112.2	113.5	113.0	114.8	115.9	116.5	115.6	116.5	119.9	118.2	118.5	.....	.....
22 Furniture and fixtures	25	1.27	142.0	142.0	141.9	145.3	144.3	143.2	141.9	144.1	142.1	143.9	145.4	144.5	145.4	.....
23 Clay, glass, stone products	32	2.72	114.8	116.3	116.1	115.1	116.2	116.2	115.6	115.2	118.2	120.2	118.8	119.5	120.4	.....
24 Primary metals	33	5.33	80.6	76.4	78.3	79.0	82.0	80.3	83.1	83.6	81.7	84.9	80.7	77.3	77.9	77.3
25 Iron and steel	331.2	3.49	70.7	65.4	67.6	68.7	71.6	69.7	74.4	75.3	72.0	75.5	69.9	65.0	65.7	.....
26 Fabricated metal products	34	6.46	107.8	108.3	107.4	107.3	107.8	107.5	108.4	107.9	108.8	109.3	109.4	108.0	108.6	107.1
27 Nonelectrical machinery	35	9.54	146.6	149.1	145.6	147.5	149.2	146.5	143.0	145.6	146.0	146.2	144.6	143.4	142.6	141.5
28 Electrical machinery	36	7.15	169.3	169.3	169.5	165.7	166.1	165.1	165.1	168.9	171.9	167.9	165.5	165.6	167.1	165.5
29 Transportation equipment	37	9.13	123.2	120.9	121.8	123.7	126.8	126.2	124.5	126.5	126.8	128.9	128.1	124.2	127.0	125.1
30 Motor vehicles and parts	371	5.25	112.8	110.5	110.5	112.8	116.8	115.3	111.7	114.5	115.4	117.8	117.8	110.4	114.7	110.4
31 Aerospace and miscellaneous transportation equipment	372–6.9	3.87	137.5	134.9	137.1	138.5	140.4	141.1	141.9	142.9	142.3	144.0	142.1	142.8	143.8	145.0
32 Instruments	38	2.66	139.9	139.9	140.7	141.1	141.8	139.4	139.8	140.7	140.6	141.1	141.8	142.5	142.7	141.0
33 Miscellaneous manufactures	39	1.46	96.4	98.3	96.8	95.9	97.2	96.4	95.9	94.5	96.3	99.0	98.1	97.2	97.8	.....
Utilities																
34 Electric	......	4.17	119.5	119.5	119.4	117.5	116.7	120.6	119.3	118.7	124.4	119.9	118.5	119.8	120.7	.....
		Gross value (billions of 1972 dollars, annual rates)														
MAJOR MARKET																
35 Products, total	......	**517.5**	**773.4**	**774.4**	**773.5**	**769.0**	**778.7**	**777.9**	**772.2**	**782.8**	**783.3**	**792.9**	**786.3**	**776.2**	**785.4**	**778.8**
36 Final	......	405.7	614.8	616.2	614.0	610.1	618.6	617.8	613.0	622.4	622.1	629.2	623.7	614.0	623.3	617.0
37 Consumer goods	......	272.7	364.8	365.1	364.0	361.7	366.2	365.6	363.8	370.5	373.6	375.0	373.9	369.9	377.2	373.7
38 Equipment	......	133.0	250.1	250.8	251.0	250.3	252.4	252.2	249.3	251.9	248.5	254.1	249.8	244.0	246.2	243.2
39 Intermediate	......	111.9	158.6	158.3	159.7	160.4	160.1	160.1	159.2	160.4	161.2	163.7	162.6	162.3	162.0	161.8

▲ A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71 (July 1985), pp. 487–501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

NOTE. These data also appear in the Board's G.12.3 (414) release. For address, see inside front cover.

2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1983	1984	1985	1985 July	Aug.	Sept.	Oct.	Nov.	Dec.	1986 Jan.	Feb.r	Mar.r	Apr.
	Private residential real estate activity (thousands of units)												
NEW UNITS													
1 Permits authorized	1,605	1,682	1,733	1,709	1,782	1,846	1,703	1,668	1,839	1,861	1,808	1,834	1,885
2 1-family	902	922	957	961	990	956	984	932	963	1,060	1,033	1,043	1,139
3 2-or-more-family	703	759	777	748	792	890	719	736	876	801	775	791	746
4 Started	1,703	1,749	1,742	1,673	1,737	1,653	1,784	1,654	1,882	2,034	2,001	1,960	2,039
5 1-family	1,067	1,084	1,072	1,068	1,071	1,006	1,118	1,006	1,098	1,335	1,202	1,221	1,262
6 2-or-more-family	635	665	669	605	666	647	666	648	784	699	799	739	777
7 Under construction, end of period[1]	1,003	1,051	1,063	1,071	1,079	1,065	1,089	1,087	1,088	1,094	1,110	1,100	1,134
8 1-family	524	556	539	577	582	568	578	570	561	571	581	574	588
9 2-or-more-family	479	494	524	494	499	496	512	517	528	522	529	527	546
10 Completed	1,390	1,652	1,703	1,722	1,720	1,778	1,541	1,721	1,762	1,778	1,725	1,813	1,688
11 1-family	924	1,025	1,072	1,042	1,032	1,100	1,072	1,095	1,141	1,075	1,038	1,157	1,129
12 2-or-more-family	466	627	631	680	688	678	469	626	621	703	687	656	559
13 Mobile homes shipped	296	296	284	285	286	283	291	287	285	280	266	240	249
Merchant builder activity in 1-family units													
14 Number sold	622	639	688	745	708	681	637	722	729	735	740r	893	862
15 Number for sale, end of period[1]	304	358	350	351	348	350	353	353	349	352	354r	340	336
Price (thousands of dollars)[2]													
Median													
16 Units sold	75.5	80.0	84.3	82.1	83.3	84.6	85.4	87.2	87.9	86.6	89.3r	88.7	92.9
Average													
17 Units sold	89.9	97.5	101.0	99.4	99.2	102.6	102.7	104.1	106.1	104.1	105.9r	109.4	113.0
EXISTING UNITS (1-family)													
18 Number sold	2,719	2,868	3,217	3,170	3,430	3,480	3,530	3,450	3,520	3,300	3,270	3,200	3,570
Price of units sold (thousands of dollars)[2]													
19 Median	69.8	72.3	75.4	76.7	77.2	75.9	75.2	74.9	75.5	77.1	77.4	79.8	80.2
20 Average	82.5	85.9	90.6	92.7	93.2	91.4	91.2	90.3	91.8	93.0	93.1	96.8	98.1
	Value of new construction[3] (millions of dollars)												
CONSTRUCTION													
21 Total put in place	**268,730**	**312,989**	**342,363**	**344,206**	**343,246**	**346,084**	**344,502**	**343,847**	**351,669**	**355,063**	**358,844**	**353,873**	**356,733**
22 Private	218,016	257,802	280,023	279,521	279,371	282,505	282,115	281,284	286,914	286,701	290,230	284,841	287,322
23 Residential	121,309	145,058	148,250	148,699	146,858	148,915	150,873	149,670	150,690	151,716	155,220	155,500	159,584
24 Nonresidential, total	96,707	112,744	131,773	130,822	132,513	133,590	131,242	131,614	136,224	134,985	135,010	129,341	127,738
Buildings													
25 Industrial	12,863	13,746	15,767	15,384	15,118	15,567	15,630	16,271	17,357	15,748	16,307	13,760	14,229
26 Commercial	35,787	48,102	60,050	57,956	59,910	61,227	60,740	61,101	64,496	64,340	63,205	60,949	59,392
27 Other	11,660	12,298	12,406	12,578	12,957	12,769	12,250	12,495	12,048	12,448	12,773	12,825	12,714
28 Public utilities and other	36,397	38,598	43,550	44,904	44,528	44,027	42,622	41,747	42,323	42,449	42,725	41,807	41,403
29 Public	50,715	55,186	62,342	64,686	63,875	63,580	62,387	62,563	64,755	68,361	68,614	69,032	69,411
30 Military	2,544	2,839	3,152	3,364	2,966	3,008	3,086	3,040	3,452	3,765	4,105	3,294	3,619
31 Highway	14,143	16,295	19,951	19,589	20,224	19,585	19,193	19,826	20,827	22,020	21,960	22,884	22,203
32 Conservation and development	4,822	4,656	4,959	5,075	4,824	5,254	4,892	5,176	4,978	5,620	4,404	4,616	4,818
33 Other	29,206	31,396	34,280	36,658	35,861	35,733	35,216	34,521	35,498	36,956	38,145	38,238	38,771

1. Not at annual rates.
2. Not seasonally adjusted.
3. Value of new construction data in recent periods may not be strictly comparable with data in prior 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 Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (a) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (b) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from originating agency. Permit authorizations are those reported to the Census Bureau from 16,000 jurisdictions beginning with 1978.

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 (at annual rate)				Change from 1 month earlier					Index level May 1986 (1967 = 100)[1]
	1985 May	1986 May	1985 June	1985 Sept.	1985 Dec.	1986 Mar.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May	
CONSUMER PRICES[2]												
1 **All items**	**3.7**	**1.6**	**3.3**	**2.4**	**5.3**	**−1.9**	**.3**	**−.4**	**−.4**	**−.3**	**.2**	**326.3**
2 Food	2.5	2.6	.6	2.1	5.9	−1.4	.2	−.7	.1	.3	.4	317.0
3 Energy items	1.3	−14.8	6.9	−3.2	3.3	−34.2	.1	−3.8	−6.5	−5.8	.3	367.6
4 All items less food and energy	4.5	4.0	3.5	3.4	5.4	4.1	.4	.2	.4	.4	.1	325.3
5 Commodities	2.8	1.0	−.9	1.1	3.6	.3	.3	−.1	−.1	−.1	−.1	262.2
6 Services	5.5	5.8	6.2	4.8	6.5	6.5	.5	.4	.6	.7	.2	394.5
PRODUCER PRICES												
7 Finished goods	1.0	−1.7	2.2	−2.4	9.2	−12.4	−.7	−1.5r	−1.1	−.6	.6	289.0
8 Consumer foods	−.8	2.0	−5.7	−2.9	16.0	−7.4	−.6	−1.6	.3	.1	1.1	274.9
9 Consumer energy	−2.2	−28.6	24.7	−11.3	20.7	−67.6	−4.4r	−8.9r	−13.4	−8.4	2.7	532.7
10 Other consumer goods	2.4	2.5	1.9	.0	4.4	2.9	.0	−.1	.8	.2	.2	257.7
11 Capital equipment	2.2	1.8	1.5	−.9	5.6	.7	−.2	.1	.3	.3	.1	305.8
12 Intermediate materials[3]	.3	−4.3	.6	−1.3	2.9	−11.9	−.5	−1.4	−1.3	−1.0	−.3	312.5
13 Excluding energy	.7	−.6	.8	−.7	.0	−1.2	−.1	−.3r	.0	−.3	.0	304.0
Crude materials												
14 Foods	−11.3	−3.1	−16.7	−20.6	47.0	−25.2	−2.5r	−3.7r	−1.0	−3.1	4.1	228.9
15 Energy	−3.3	−24.9	4.4	−5.9	−4.0	−50.1	−.4r	−7.3r	−8.9	−7.7	.2	571.6
16 Other	−9.2	−1.2	−7.8	−4.4	1.5	−3.7	.4r	−3.8r	2.6	1.2	.2	249.3

1. Not seasonally adjusted.
2. Figures for consumer prices are those for all urban consumers and reflect a rental equivalence measure of homeownership after 1982.
3. Excludes intermediate materials for food manufacturing and manufactured animal feeds.

SOURCE. Bureau of Labor Statistics.

2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data are at seasonally adjusted annual rates.

	Account	1983	1984	1985	1985 Q1	1985 Q2	1985 Q3	1985 Q4	1986 Q1r
	GROSS NATIONAL PRODUCT								
1	**Total**	**3,401.6**	**3,774.7**	**3,988.5**	**3,917.5**	**3,960.6**	**4,016.9**	**4,059.3**	**4,115.7**
	By source								
2	Personal consumption expenditures	2,229.3	2,423.0	2,582.3	2,525.0	2,563.3	2,606.1	2,634.8	2,668.2
3	Durable goods	289.6	331.1	361.5	351.5	356.5	376.0	362.0	363.1
4	Nondurable goods	817.0	872.4	912.2	895.7	910.2	914.5	928.3	935.6
5	Services	1,122.7	1,219.6	1,308.6	1,277.8	1,296.6	1,315.6	1,344.6	1,369.5
6	Gross private domestic investment	501.9	674.0	669.3	657.6	672.8	666.1	680.7	717.2
7	Fixed investment	508.3	607.0	661.8	639.1	657.3	665.9	685.0	677.3
8	Nonresidential	356.3	427.9	476.2	459.6	474.2	478.5	492.5	479.1
9	Structures	126.1	147.6	170.2	166.1	169.7	170.4	174.5	169.1
10	Producers' durable equipment	230.2	280.2	306.0	293.5	304.5	308.1	318.0	309.9
11	Residential structures	152.0	179.1	185.6	179.4	183.1	187.4	192.5	198.2
12	Change in business inventories	−6.4	67.1	7.5	18.5	15.5	.2	−4.3	39.9
13	Nonfarm	.8	58.0	11.8	14.2	10.8	3.1	19.0	40.7
14	Net exports of goods and services	−5.3	−59.2	−78.5	−42.3	−70.3	−87.8	−113.4	−105.8
15	Exports	354.1	384.6	369.9	379.6	369.2	363.2	367.8	374.4
16	Imports	359.4	443.8	448.4	421.9	439.5	451.0	481.2	480.2
17	Government purchases of goods and services	675.7	736.8	815.4	777.2	794.8	832.5	857.2	836.2
18	Federal	284.8	312.9	355.4	334.4	337.8	364.8	384.7	357.1
19	State and local	390.9	423.9	460.0	442.8	457.1	467.7	472.5	479.0
	By major type of product								
20	Final sales, total	3,408.0	3,707.6	3,981.1	3,899.0	3,945.0	4,016.7	4,063.6	4,075.7
21	Goods	1,394.7	1,585.9	1,639.3	1,628.3	1,636.1	1,650.7	1,642.2	1,668.6
22	Durable	572.3	679.5	709.2	706.2	705.9	714.8	710.0	709.8
23	Nondurable	822.4	906.3	930.1	922.1	930.2	935.9	932.2	958.8
24	Services	1,678.0	1,806.6	1,930.5	1,887.6	1,908.2	1,939.9	1,986.4	2,014.5
25	Structures	328.9	382.2	418.6	401.5	416.3	426.2	430.6	432.5
26	Change in business inventories	−6.4	67.1	7.5	18.5	15.5	.2	−4.3	39.9
27	Durable goods	−.8	37.0	6.4	16.9	1.8	−6.4	13.4	28.7
28	Nondurable goods	−5.5	30.1	1.0	1.6	13.7	6.6	−17.7	11.2
29	**MEMO: Total GNP in 1982 dollars**	**3,277.7**	**3,492.0**	**3,570.0**	**3,547.8**	**3,557.4**	**3,584.1**	**3,590.8**	**3,616.9**
	NATIONAL INCOME								
30	**Total**	**2,718.3**	**3,039.3**	**3,211.3**	**3,155.3**	**3,192.2**	**3,228.0**	**3,269.9**	**3,314.9**
31	Compensation of employees	2,025.9	2,221.3	2,372.5	2,320.4	2,356.9	2,385.2	2,427.5	2,463.1
32	Wages and salaries	1,675.4	1,835.2	1,960.3	1,917.7	1,947.6	1,970.1	2,005.8	2,035.4
33	Government and government enterprises	324.2	346.1	370.8	362.6	367.4	372.6	379.7	384.9
34	Other	1,351.6	1,488.9	1,589.7	1,555.1	1,580.2	1,597.5	1,626.1	1,650.5
35	Supplement to wages and salaries	350.5	386.2	412.2	402.7	409.4	415.1	421.7	427.7
36	Employer contributions for social insurance	171.0	192.8	205.8	201.8	204.6	206.7	210.2	213.4
37	Other labor income	179.5	193.4	206.4	200.9	204.8	208.4	211.5	214.3
38	Proprietors' income[1]	192.3	233.7	242.2	239.4	240.9	237.5	250.9	250.6
39	Business and professional[1]	178.0	201.6	221.0	212.9	218.1	225.3	227.6	235.1
40	Farm[1]	14.3	32.1	21.2	26.5	22.8	12.2	23.3	15.5
41	Rental income of persons[2]	12.8	10.8	13.8	11.0	13.8	14.5	15.9	19.7
42	Corporate profits[1]	213.8	273.3	295.5	281.7	288.1	309.1	303.1	313.7
43	Profits before tax[3]	205.0	237.6	225.3	220.0	218.7	228.6	233.8	216.6
44	Inventory valuation adjustment	−10.0	−5.4	−.6	.7	2.2	4.7	−10.1	18.0
45	Capital consumption adjustment	18.8	41.0	70.9	61.1	67.2	75.9	79.4	79.0
46	Net interest	273.6	300.2	287.4	302.9	292.4	281.8	272.6	267.8

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. *Survey of Current Business* (Department of Commerce).

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. Exceptions noted.

Account	1983	1984	1985	1985				1986
				Q1	Q2	Q3	Q4	Q1r
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**2,836.4**	**3,111.9**	**3,293.5**	**3,240.9**	**3,280.1**	**3,298.5**	**3,354.3**	**3,397.5**
2 Wage and salary disbursements	1,675.8	1,834.9	1,960.5	1,917.6	1,948.6	1,970.1	2,005.8	2,035.4
3 Commodity-producing industries	523.0	577.9	607.3	600.1	604.7	607.6	616.9	620.4
4 Manufacturing	397.4	438.9	457.6	453.5	454.9	457.2	464.7	466.3
5 Distributive industries	404.2	441.6	468.8	459.8	467.4	471.2	476.8	482.9
6 Service industries	424.4	469.4	513.6	495.2	508.1	518.7	532.4	547.2
7 Government and government enterprises	324.2	346.1	370.8	362.5	368.4	372.6	379.7	384.9
8 Other labor income	179.5	193.4	206.4	200.9	204.8	208.4	211.5	214.3
9 Proprietors' income[1]	192.3	233.7	242.2	239.4	240.9	237.5	250.9	250.6
10 Business and professional[1]	178.0	201.6	221.0	212.9	218.1	225.3	227.6	235.1
11 Farm[1]	14.3	32.1	21.2	26.5	22.8	12.2	23.3	15.5
12 Rental income of persons[2]	12.8	10.8	13.8	11.0	13.8	14.5	15.9	19.7
13 Dividends	68.0	74.6	78.9	77.9	78.7	79.1	79.8	82.1
14 Personal interest income	385.7	442.2	456.3	462.8	460.5	450.6	451.4	450.2
15 *Transfer payments*	442.2	454.7	484.5	477.6	481.0	488.1	491.2	502.6
16 Old-age survivors, disability, and health insurance benefits	221.7	235.7	253.4	249.2	250.7	256.5	257.1	264.3
17 LESS: Personal contributions for social insurance	119.8	132.4	149.1	146.3	148.3	149.7	152.0	157.5
18 EQUALS: Personal income	2,836.4	3,111.9	3,293.5	3,240.9	3,280.1	3,298.5	3,354.3	3,397.5
19 LESS: Personal tax and nontax payments	411.1	441.8	492.7	501.7	462.4	498.2	508.5	504.1
20 EQUALS: Disposable personal income	2,425.4	2,670.2	2,800.8	2,739.2	2,817.7	2,800.2	2,845.9	2,893.4
21 LESS: Personal outlays	2,292.2	2,497.7	2,671.8	2,608.4	2,650.6	2,697.6	2,730.6	2,767.4
22 EQUALS: Personal saving	133.2	172.5	129.0	130.9	167.2	102.6	115.2	126.0
MEMO								
Per capita (1982 dollars)								
23 Gross national product	13,957.8r	14,730.0r	14,917.4r	14,877.4r	14,885.4r	14,958.3r	14,949.2r	15,026.5
24 Personal consumption expenditures	9,138.1r	9,448.4r	9,665.0r	9,597.0r	9,638.7r	9,722.6r	9,701.9r	9,772.7
25 *Disposable personal income*	9,942.0	10,412.0	10,483.0	10,411.0	10,595.0	10,447.0	10,479.0	10,597.0
26 Saving rate (percent)	5.5	6.5	4.6	4.8	5.9	3.7	4.0	4.4
GROSS SAVING								
27 **Gross saving**	**469.8**	**584.5**	**553.4**	**578.3**	**571.7**	**537.3**	**526.1**	**578.7**
28 Gross private saving	600.6	693.0	694.3	677.7	723.6	681.8	694.2	723.0
29 Personal saving	133.2	172.5	129.0	130.9	167.2	102.6	115.2	126.0
30 Undistributed corporate profits[1]	67.9	101.6	126.9	116.3	122.6	137.8	131.0	146.4
31 Corporate inventory valuation adjustment	-10.0	-5.4	-.6	.7	2.2	4.7	-10.1	18.0
Capital consumption allowances								
32 Corporate	245.0	256.6	269.2	264.3	266.8	270.9	274.8	277.2
33 Noncorporate	154.6	162.3	169.2	166.3	167.0	170.5	173.2	173.3
34 Wage accruals less disbursements	.0	.0	.0	.0	.0	.0	.0	.0
35 Government surplus, or deficit (-), national income and product accounts	-130.8	-108.5	-141.0	-99.4	-151.9	-144.5	-168.0	-144.3
36 Federal	-179.4	-172.9	-200.0	-162.6	-209.1	-201.3	-226.9	-208.8
37 State and local	48.6	64.4	59.0	63.2	57.3	56.9	58.8	64.5
38 Capital grants received by the United States, net	.0	.0	.0	.0	.0	.0	.0	.0
39 **Gross investment**	**469.2**	**583.0**	**554.0**	**580.8**	**567.0**	**539.9**	**528.2**	**575.8**
40 Gross private domestic	501.9	674.0	669.3	657.6	672.8	666.1	680.7	717.2
41 Net foreign	-32.7	-91.0	-115.3	-76.8	-105.8	-126.2	-152.5	-141.4
42 **Statistical discrepancy**	**-.6**	**-1.5**	**.6**	**2.5**	**-4.7**	**2.5**	**2.1**	**-2.9**

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. *Survey of Current Business* (Department of Commerce).

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.[1]

Item credits or debits	1983[r]	1984[r]	1985[r]	1985[r]				1986
				Q1	Q2	Q3	Q4	Q1[p]
1 Balance on current account	−46,605	−106,466	−117,676	−26,112	−29,417	−28,455	−33,695	−33,668
2 Not seasonally adjusted	....	....	....	−23,529	−30,363	−32,275	−31,510	−30,695
3 Merchandise trade balance[2]	−67,080	−112,522	−124,439	−25,045	−30,367	−31,675	−37,352	−36,585
4 Merchandise exports	201,820	219,900	214,424	55,324	53,875	52,498	52,727	53,548
5 Merchandise imports	−268,900	−332,422	−338,863	−80,369	−84,242	−84,173	−90,079	−90,133
6 Military transactions, net	−370	−1,827	−2,917	−246	−729	−619	−1,322	−945
7 Investment income, net[3]	24,841	18,751	25,187	2,219	5,449	8,262	9,255	6,820
8 Other service transactions, net	5,484	1,288	−524	−240	312	−422	−32	−73
9 Remittances, pensions, and other transfers	−3,194	−3,621	−3,787	−1,056	−881	−914	−937	−968
10 U.S. government grants (excluding military)	−6,286	−8,536	−11,196	−2,224	−2,577	−3,087	−3,307	−2,063
11 Change in U.S. government assets, other than official reserve assets, net (increase, −)	−5,005	−5,523	−2,824	−807	−1,055	−422	−540	−146
12 Change in U.S. official reserve assets (increase, −)	−1,196	−3,130	−3,858	−233	−356	−121	−3,147	−115
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	−66	−979	−897	−264	−180	−264	−189	−274
15 Reserve position in International Monetary Fund	−4,434	−995	908	281	72	388	168	344
16 Foreign currencies	3,304	−1,156	−3,869	−250	−248	−245	−3,126	−185
17 Change in U.S. private assets abroad (increase, −)[3]	−43,821	−14,987	−25,755	530	−1,382	−5,324	−19,579	−8,416
18 Bank-reported claims	−29,928	−11,127	−691	335	3,450	4,009	−8,485	7,842
19 Nonbank-reported claims	−6,513	5,081	1,665	1,058	1,706	−1,517	418	n.a.
20 U.S. purchase of foreign securities, net	−7,007	−5,082	−7,977	−2,577	−2,325	−1,664	−1,411	−6,138
21 U.S. direct investments abroad, net[3]	−373	−3,859	−18,752	1,714	−4,213	−6,152	−10,101	−10,120
22 Change in foreign official assets in the United States (increase, +)	5,968	3,037	−1,324	11,066	8,486	2,577	−1,322	2,510
23 U.S. Treasury securities	6,972	4,690	−546	7,174	8,685	−81	−1,976	−3,256
24 Other U.S. government obligations	−476	13	−295	−306	136	46	−171	−177
25 Other U.S. government liabilities[4]	725	436	483	−445	606	58	263	192
26 Other U.S. liabilities reported by U.S. banks	545	555	522	−3,025	−107	2,932	722	−1,124
27 Other foreign official assets[5]	−1,798	−2,657	−1,488	−116	−834	−378	−160	363
28 Change in foreign private assets in the United States (increase, +)[3]	79,528	99,730	128,431	25,313	16,872	33,088	53,158	36,974
29 U.S. bank-reported liabilities	50,342	33,849	40,387	12,078	606	7,276	20,427	8,582
30 U.S. nonbank-reported liabilities	−118	4,704	−1,172	−2,156	−1,837	589	2,232	n.a.
31 Foreign private purchases of U.S. Treasury securities, net	8,721	23,059	20,500	2,217	5,123	7,484	5,676	8,311
32 Foreign purchases of other U.S. securities, net	8,636	12,759	50,859	9,567	7,223	11,628	22,441	18,793
33 Foreign direct investments in the United States, net[3]	11,947	25,359	17,857	3,607	5,757	6,111	2,382	1,288
34 Allocation of SDRs	0	0	0	0	0	0	0	0
35 Discrepancy	11,130	27,338	23,006	12,375	6,852	−1,343	5,125	2,861
36 Owing to seasonal adjustments	....	....	....	1,094	−1,174	−3,687	3,771	1,535
37 Statistical discrepancy in recorded data before seasonal adjustment	11,130	27,338	23,006	11,282	8,026	2,344	1,354	1,326
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	−1,196	−3,130	−3,858	−233	−356	−121	−3,147	−115
39 Foreign official assets in the United States (increase, +)	5,243	2,601	−1,807	−10,621	7,880	2,519	1,585	2,318
40 Change in Organization of Petroleum Exporting Countries official assets in the United States (part of line 22 above)	−8,283	−4,304	−6,599	−1,923	−1,843	−1,831	−1,002	1,395
41 Transfers under military grant programs (excluded from lines 4, 6, and 10 above)	194	190	64	10	12	15	28	20

1. Seasonal factors are not calculated for lines 6, 10, 12–16, 18–20, 22–34, and 38–41.
2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing; military exports are excluded from merchandise data and are included in line 6.
3. Includes reinvested earnings.
4. Primarily associated 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.

NOTE. Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

3.11 U.S. FOREIGN TRADE

Millions of dollars; monthly data are not seasonally adjusted.

Item	1983	1984	1985	1985			1986			
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments	200,486	217,865	213,146	17,618	17,721	16,994	17,006	17,735	18,913	17,965
2 GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses	258,048	325,726	345,276	28,429	30,010	30,728	32,005	28,895	31,972	28,762
3 **Trade balance**	**−57,562**	**107,861**	**−132,129**	**−10,811**	**−12,290**	**−13,734**	**−14,999**	**−11,160**	**−13,059**	**−10,797**

NOTE. The data through 1981 in this table are reported by the Bureau of Census data of a free-alongside-ship (f.a.s.) value basis—that is, value at the port of export. Beginning in 1981, foreign trade of the U.S. Virgin Islands is included in the Census basis trade data; this adjustment has been made for all data shown in the table. Beginning with 1982 data, the value of imports are on a customs valuation basis.

The Census basis data differ from merchandise trade data shown in table 3.10, U.S. International Transactions Summary, for reasons of coverage and timing. On the *export side*, the largest adjustments are: (1) the addition of exports to Canada not covered in Census statistics, and (2) the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions; military payments are excluded and shown separately as indicated above.

SOURCE. FT900 "Summary of U.S. Export and Import Merchandise Trade" (Department of Commerce, Bureau of the Census).

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Type	1982	1983	1984	1985		1986				
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
1 **Total**	**33,958**	**33,747**	**34,934**	**42,852**	**43,191**	**43,673**	**45,505**	**44,919**	**46,491**	**45,260**
2 Gold stock, including Exchange Stabilization Fund[1]	11,148	11,121	11,096	11,090	11,090	11,090	11,090	11,090	11,089	11,085
3 Special drawing rights[2,3]	5,250	5,025	5,641	7,253	7,293	7,441	7,960	7,839	8,098	8,066
4 Reserve position in International Monetary Fund[2]	7,348	11,312	11,541	11,955	11,952	11,824	12,172	12,025	12,242	11,789
5 Foreign currencies[4]	10,212	6,289	6,656	12,554	12,856	13,318	14,283	13,965	15,062	14,320

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. Gold stock is valued at $42.22 per fine troy ounce.
2. Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; from January 1981, 5 currencies have been used. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.
3. Includes allocations by the International Monetary Fund of SDRs as follows: $867 million on Jan. 1, 1970; $717 million on Jan. 1, 1971; $710 million on Jan. 1, 1972; $1,139 million on Jan. 1, 1979; $1,152 million on Jan. 1, 1980; and $1,093 million on Jan. 1, 1981; plus transactions in SDRs.
4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS

Millions of dollars, end of period

Assets	1982	1983	1984	1985		1986				
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
1 Deposits	328	190	267	340	480	256	276	273	325	253
Assets held in custody										
2 U.S. Treasury securities[1]	112,544	117,670	118,000	117,814	121,004	121,995	124,905	127,611	132,017	136,762
3 Earmarked gold[2]	14,716	14,414	14,242	14,240	14,245	14,193	14,172	14,167	14,160	14,145

1. Marketable U.S. Treasury bills, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.
2. Earmarked gold is valued at $42.22 per fine troy ounce.

NOTE. Excludes deposits and U.S. Treasury securities held for international and regional organizations. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data[1]

Millions of dollars, end of period

Asset account	1982	1983	1984	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.[p]
	All foreign countries									
1 **Total, all currencies**	**469,712**	**477,090**	**453,656**	**454,492**	**455,935**	**458,076**	**447,529**	**448,258[r]**	**458,566**	**473,945**
2 Claims on United States	91,805	115,542	113,393	121,745[r]	115,507[r]	119,703[r]	116,786	113,708[r]	118,461	122,435
3 Parent bank	61,666	82,026	78,109	87,255	82,327	87,201	84,410	80,944[r]	85,164	88,961
4 Other banks in United States[2]	30,139	33,516	13,664	12,808	12,096	13,076	11,757	11,727	12,909	12,766
5 Nonbanks[2]			21,620	21,682[r]	21,084[r]	19,426[r]	20,619	21,037	20,388	20,708
6 Claims on foreigners	358,493	342,689	320,162	310,541[r]	317,578[r]	315,776[r]	308,673	310,677[r]	315,762	325,301
7 Other branches of parent bank	91,168	96,004	95,184	86,912	89,580	91,399	88,393	88,482[r]	91,586	95,675
8 Banks	133,752	117,668	100,397	98,578	102,907	103,014	100,449	99,399[r]	101,185	106,588
9 Public borrowers	24,131	24,517	23,343	23,478	23,613	23,395	23,350	23,603[r]	23,675	23,551
10 Nonbank foreigners	109,442	107,785	101,238	101,573[r]	101,478[r]	97,968[r]	96,481	99,193[r]	99,316	99,487
11 Other assets	19,414	18,859	20,101	22,206	22,850	22,597	22,070	23,873[r]	24,343	26,209
12 **Total payable in U.S. dollars**	**361,982**	**371,508**	**350,636**	**331,610**	**329,622**	**336,288**	**321,703**	**315,295[r]**	**322,871**	**330,294**
13 Claims on United States	90,085	113,436	111,426	118,571[r]	112,341[r]	116,635[r]	113,726	110,351[r]	114,908	118,583
14 Parent bank	61,010	80,909	77,229	86,101	81,162	85,971	83,264	79,609[r]	83,841	87,583
15 Other banks in United States[2]	29,075	32,527	13,500	12,258	11,463	12,473	11,102	11,070	12,216	11,871
16 Nonbanks[2]			20,697	20,212[r]	19,716[r]	18,191[r]	19,360	19,672	18,851	19,129
17 Claims on foreigners	259,871	247,406	228,600	203,068[r]	207,336[r]	209,937[r]	198,817	195,108[r]	198,582	201,816
18 Other branches of parent bank	73,537	78,431	78,746	68,576	70,548	72,689	68,748	67,630[r]	70,910	73,546
19 Banks	106,447	93,332	76,940	67,344	69,646	71,738	65,779	63,310[r]	63,320	65,478
20 Public borrowers	18,413	17,890	17,626	17,432	17,277	17,169	16,958	17,127	17,128	16,808
21 Nonbank foreigners	61,474	60,977	55,288	49,716[r]	49,865[r]	48,341[r]	47,332	47,041[r]	47,224	45,984
22 Other assets	12,026	10,666	10,610	9,971	9,945	9,716	9,160	9,836[r]	9,381	9,895
	United Kingdom									
23 **Total, all currencies**	**161,067**	**158,732**	**144,385**	**149,607**	**152,456**	**148,599**	**150,835**	**148,788**	**150,975**	**155,867**
24 Claims on United States	27,354	34,433	27,731	33,755[r]	33,694[r]	33,137[r]	36,308	33,458	33,990	34,234
25 Parent bank	23,017	29,111	21,918	26,956	26,718	26,970	29,837[r]	27,281	27,881	28,058
26 Other banks in United States[2]	4,337	5,322	1,429	1,269	1,289	1,106	1,173	1,133	1,129	1,386
27 Nonbanks[2]			4,384	5,530[r]	5,687[r]	5,061[r]	5,298	5,044	4,980	4,790
28 Claims on foreigners	127,734	119,280	111,828	110,386[r]	112,945[r]	110,237[r]	109,301	109,826	111,468	115,485
29 Other branches of parent bank	37,000	36,565	37,953	32,110	30,600	31,576	30,394	30,218	31,250	32,516
30 Banks	50,767	43,352	37,443	37,858	40,482	39,250	39,257	39,393	38,929	41,593
31 Public borrowers	6,240	5,898	5,334	5,482	5,735	5,644	5,949	6,065	5,833	5,642
32 Nonbank foreigners	33,727	33,465	31,098	34,936[r]	36,128[r]	33,767[r]	33,161	34,150	35,456	35,734
33 Other assets	5,979	5,019	4,882	5,466	5,817	5,225	5,226	5,504	5,517	6,148
34 **Total payable in U.S. dollars**	**123,740**	**126,012**	**112,809**	**108,024**	**108,699**	**108,626**	**108,566**	**105,272**	**105,111**	**107,359**
35 Claims on United States	26,761	33,756	26,868	32,510[r]	32,475[r]	32,072[r]	35,292	32,360	32,746	32,959
36 Parent bank	22,756	28,756	21,495	26,495	26,210	26,568	29,470	26,874	27,393	27,629
37 Other banks in United States[2]	4,005	5,000	1,363	1,194	1,205	1,005	1,089	1,047	1,027	1,225
38 Nonbanks[2]			4,010	4,821[r]	5,060[r]	4,499[r]	4,733	4,439	4,326	4,105
39 Claims on foreigners	92,228	88,917	82,945	72,323	72,920[r]	73,495[r]	70,356	69,621	69,433	71,058
40 Other branches of parent bank	31,648	31,838	33,607	26,719	24,989	26,011	25,083	24,474	25,250	26,224
41 Banks	36,717	32,188	26,805	23,888	25,667	26,139	24,013	23,598	22,106	23,310
42 Public borrowers	4,329	4,194	4,030	3,966	3,982	3,999	4,252	4,367	4,223	4,012
43 Nonbank foreigners	19,534	20,697	18,503	17,809[r]	18,282[r]	17,346[r]	17,008	17,182	17,854	17,512
44 Other assets	4,751	3,339	2,996	3,132	3,304	3,059	2,918	3,291	2,932	3,342
	Bahamas and Caymans									
45 **Total, all currencies**	**145,156**	**152,083**	**146,811**	**135,262**	**133,645**	**142,055**	**130,413**	**128,851**	**135,210**	**135,998**
46 Claims on United States	59,403	75,309	77,296	73,572	69,923	74,874	68,576	68,304	71,672	72,703
47 Parent bank	34,653	48,720	49,449	47,918	45,811	50,553	44,586	43,866	46,813	47,599
48 Other banks in United States[2]	24,750	26,589	11,544	10,812	10,082	11,223	9,867	9,815	10,776	10,419
49 Nonbanks[2]			16,303	14,842	14,030	13,098	14,123	14,623	14,083	14,685
50 Claims on foreigners	81,450	72,868	65,598	58,467	60,503	63,894	58,510	56,958	59,833	59,589
51 Other branches of parent bank	18,720	20,626	17,661	15,856	17,050	19,042	16,468	15,872	19,131	18,723
52 Banks	42,699	36,842	30,246	25,861	26,768	28,182	25,476	25,268	24,571	25,256
53 Public borrowers	6,413	6,093	6,089	6,417	6,440	6,458	6,320	6,186	6,197	6,232
54 Nonbank foreigners	13,618	12,592	11,602	10,333	10,245	10,212	10,246	9,632	9,934	9,378
55 Other assets	4,303	3,906	3,917	3,223	3,219	3,287	3,327	3,589	3,705	3,706
56 **Total payable in U.S. dollars**	**139,605**	**145,641**	**141,562**	**129,787**	**127,997**	**136,794**	**124,981**	**122,980**	**129,187**	**129,322**

1. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

2. Data for assets vis-à-vis other banks in the United States and vis-à-vis nonbanks are combined for dates before June 1984.

3.14 Continued

Liability account	1982	1983	1984	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.p
					All foreign countries					
57 **Total, all currencies**	**469,712**	**477,090**	**453,656**	**454,492**	**455,935**	**458,076**	**447,529**	**448,258r**	**458,566**	**473,945**
58 Negotiable CDs[3]	n.a.	n.a.	37,725	38,044	36,607	34,607	34,597	33,458	36,066	33,229
59 To United States	179,015	188,070	147,583	140,142	143,203r	155,273	142,182r	138,160r	140,019	150,452
60 Parent bank	75,621	81,261	78,739	75,479	81,171	83,649	76,805	73,449r	74,653	81,317
61 Other banks in United States	33,405	29,453	18,409	15,602	15,490	16,894	14,724	13,989r	15,714	14,260
62 Nonbanks	69,989	77,356	50,435	49,061	46,542	54,730	50,653r	50,722r	49,652	54,875
63 To foreigners	270,853	269,685	247,907	252,253	252,171	246,006	249,623r	254,313r	260,567	268,278
64 Other branches of parent bank	90,191	90,615	93,909	88,539	88,438	89,529	86,351	86,349r	90,914	93,882
65 Banks	96,860	92,889	78,203	82,470	81,871	76,878	84,158	83,834r	84,806	89,599
66 Official institutions	19,614	18,896	20,281	21,322	21,658	19,523	19,935	21,885r	20,672	20,735
67 Nonbank foreigners	64,188	68,845	55,514	59,922	60,204	60,076	59,179r	62,245r	64,175	64,062
68 Other liabilities	19,844	19,335	20,441	24,053	23,954	22,190	21,127	22,327r	21,914	21,986
69 **Total payable in U.S. dollars**	**379,270**	**388,291**	**367,145**	**346,883**	**345,810**	**353,470**	**337,194r**	**330,729**	**340,129**	**346,350**
70 Negotiable CDs[3]	n.a.	n.a.	35,227	33,995	32,838	31,063	31,182	30,202	32,418	29,912
71 To United States	175,528	184,305	143,571	134,266	137,070	149,896	136,784r	132,067r	133,823	143,665
72 Parent bank	73,295	79,035	76,254	71,996	77,892	80,623	73,897	70,111r	71,317	77,784
73 Other banks in United States	33,040	28,936	17,935	15,128	14,926	16,264	14,011	13,293r	14,923	13,467
74 Nonbanks	69,193	76,334	49,382	47,142	44,252	53,009	48,876r	48,663r	47,583	52,414
75 To foreigners	192,510	194,139	178,260	168,378	165,359	163,361	160,137r	159,603r	165,030	164,668
76 Other branches of parent bank	72,921	73,522	77,770	70,007	69,261	70,943	67,174	65,938r	70,458	71,955
77 Banks	57,463	57,022	45,123	41,559	39,682	37,323	38,469	36,690r	37,476	37,231
78 Official institutions	15,055	13,855	15,773	16,010	15,905	14,354	14,796	15,849r	14,703	14,737
79 Nonbank foreigners	47,071	51,260	39,594	40,802	40,511	40,741	39,698r	41,126r	42,393	40,745
80 Other liabilities	11,232	9,847	10,087	10,244	10,543	9,150	9,091	8,857	8,858	8,105
					United Kingdom					
81 **Total, all currencies**	**161,067**	**158,732**	**144,385**	**149,607**	**152,456**	**148,599**	**150,835**	**148,788**	**150,975**	**155,867**
82 Negotiable CDs[3]	n.a.	n.a.	34,413	33,913	32,708	31,260	30,788	29,419	32,217	29,898
83 To United States	53,954	55,799	25,250	24,958	27,933	29,422	29,901	26,705	22,945	28,449
84 Parent bank	13,091	14,021	14,651	13,893	18,167	19,330	19,845	16,783	13,724	17,231
85 Other banks in United States	12,205	11,328	3,125	2,602	2,453	2,974	2,264	1,965	2,793	1,966
86 Nonbanks	28,658	30,450	7,474	8,463	7,313	7,118	7,792	7,957	6,428	9,252
87 To foreigners	99,567	95,847	77,424	80,646	81,446	78,525	80,724	82,666	86,053	87,774
88 Other branches of parent bank	18,361	19,038	21,631	20,175	21,932	23,389	21,858	21,954	24,733	25,379
89 Banks	44,020	41,624	30,436	33,102	32,200	28,581	32,326	32,088	33,301	34,294
90 Official institutions	11,504	10,151	10,154	10,812	10,519	9,676	10,093	10,956	9,750	9,757
91 Nonbank foreigners	25,682	25,034	15,203	16,557	16,795	16,879	16,447	17,668	18,269	18,344
92 Other liabilities	7,546	7,086	7,298	10,090	10,369	9,392	9,422	9,998	9,760	9,746
93 **Total payable in U.S. dollars**	**130,261**	**131,167**	**117,497**	**111,263**	**112,681**	**112,697**	**112,073**	**108,402**	**108,303**	**110,376**
94 Negotiable CDs[3]	n.a.	n.a.	33,070	31,574	30,570	29,337	28,845	27,655	30,042	27,978
95 To United States	53,029	54,691	24,105	22,854	25,581	27,756	28,150	24,967	21,070	26,410
96 Parent bank	12,814	13,839	14,339	13,350	17,651	18,956	19,461	16,513	13,405	16,867
97 Other banks in United States	12,026	11,044	2,980	2,479	2,295	2,826	2,090	1,835	2,596	1,774
98 Nonbanks	28,189	29,808	6,786	7,025	5,635	5,974	6,599	6,619	5,069	7,769
99 To foreigners	73,477	73,279	56,923	52,469	52,091	51,980	50,762	51,686	53,102	52,263
100 Other branches of parent bank	14,300	15,403	18,294	15,480	16,687	18,493	16,614	16,829	19,068	19,297
101 Banks	28,810	29,320	18,356	17,053	15,840	14,344	14,872	14,457	14,731	14,125
102 Official institutions	9,668	8,279	8,871	8,877	8,357	7,661	8,242	8,747	7,839	7,449
103 Nonbank foreigners	20,699	20,277	11,402	11,059	11,207	11,482	11,034	11,653	11,464	11,392
104 Other liabilities	3,755	3,197	3,399	4,366	4,439	3,624	4,316	4,094	4,089	3,725
					Bahamas and Caymans					
105 **Total, all currencies**	**145,156**	**152,083**	**146,811**	**135,262**	**133,645**	**142,055**	**130,413**	**128,851**	**135,210**	**135,998**
106 Negotiable CDs[3]	n.a.	n.a.	615	745	747	610	1,076	1,237	1,132	629
107 To United States	104,425	111,299	102,955	92,978	92,508	103,548	91,918r	91,705	97,304	98,710
108 Parent bank	47,081	50,980	47,162	43,083	43,509	44,546	38,850	39,380	43,535	43,387
109 Other banks in United States	18,466	16,057	13,938	11,946	11,874	12,778	11,185	10,854	11,604	11,014
110 Nonbanks	38,878	44,262	41,855	37,949	37,125	46,224	41,883r	41,471	42,165	44,309
111 To foreigners	38,274	38,445	40,320	38,787	37,307	35,053	35,296r	33,773	34,450	34,275
112 Other branches of parent bank	15,796	14,936	16,782	17,201	15,593	14,075	14,755	13,072	13,191	14,191
113 Banks	10,166	11,876	12,405	11,120	10,954	10,669	11,108	10,842	10,346	10,779
114 Official institutions	1,967	1,919	2,054	1,872	2,278	1,776	1,505	1,737	1,743	2,167
115 Nonbank foreigners	10,345	11,274	9,079	8,594	8,482	8,533	7,928r	8,122	9,170	7,138
116 Other liabilities	2,457	2,339	2,921	2,752	3,083	2,844	2,123	2,136	2,324	2,384
117 **Total payable in U.S. dollars**	**141,908**	**148,278**	**143,582**	**130,992**	**129,575**	**138,322**	**126,536**	**124,572**	**131,004**	**131,708**

3. Before June 1984, liabilities on negotiable CDs were included in liabilities to the United States or liabilities to foreigners, according to the address of the initial purchaser.

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1983	1984	1985			1986			
			Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.p
1 **Total**[1]	**177,950**	**180,552**	**178,331**	**179,971**	**178,743**	**180,773**	**180,335r**	**181,067r**	**188,951**
By type									
2 Liabilities reported by banks in the United States[2]	25,534	26,089	27,014	29,276	26,611	28,233	26,456r	25,492r	26,642
3 U.S. Treasury bills and certificates[3]	54,341	59,976	54,398	54,331	53,252	53,294	54,420	55,933	59,547
U.S. Treasury bonds and notes									
4 Marketable	68,514	69,019	74,972	74,735	77,447	77,809	78,428	78,822	82,538
5 Nonmarketable[4]	7,250	5,800	3,550	3,550	3,550	3,550	3,150	2,750	2,300
6 U.S. securities other than U.S. Treasury securities[5]	22,311	19,668	18,397	18,079	17,883	17,887	17,881	18,070r	17,924
By area									
7 Western Europe[1]	67,645	69,776	74,257	76,832	74,290	74,355	72,826r	72,434r	76,254
8 Canada	2,438	1,528	1,586	1,507	1,314	1,118	1,762	1,445	1,711
9 Latin America and Caribbean	6,248	8,561	10,100	10,871	11,121	11,506	10,228	10,414	10,775
10 Asia	92,572	93,954	87,288	85,876	86,995	89,088	90,268	91,423r	94,800
11 Africa	958	1,264	1,410	1,629	1,824	1,897	1,786	1,846	1,833
12 Other countries[6]	8,089	5,469	3,690	3,256	3,199	2,809	3,465	3,505	3,578

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 (including those payable in foreign currencies through 1974) and Treasury bills issued to official institutions of foreign countries.
4. Excludes notes issued to foreign official nonreserve agencies. Includes bonds and notes payable in foreign currencies.
5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.
6. Includes countries in Oceania and Eastern Europe.

NOTE. Based on Treasury Department data and on data reported to the Treasury Department by banks (including Federal Reserve Banks) and securities dealers in the United States.

3.16 LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in Foreign Currencies

Millions of dollars, end of period

Item	1982	1983	1984	1985			
				Mar.	June	Sept.	Dec.
1 Banks' own liabilities	4,844	5,219	8,586	7,992	10,238	12,901	15,168
2 Banks' own claims	7,707	7,231	11,984	12,618	14,179	15,233	16,088
3 Deposits	4,251	2,731	4,998	5,941	7,308	8,540	8,329
4 Other claims	3,456	4,501	6,986	6,677	6,871	6,693	7,759
5 Claims of banks' domestic customers[1]	676	1,059	569	440	243	328	832

1. 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 their domestic customers.

NOTE. Data on claims exclude foreign currencies held by U.S. monetary authorities.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States
Payable in U.S. dollars

Millions of dollars, end of period

Holder and type of liability	1982	1983	1984	1985			1986			
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.p
1 **All foreigners**	**307,056**	**369,607**	**407,306**	**417,541**	**421,341**	**434,671**	**430,836**	**436,434r**	**440,110**	**442,878**
2 Banks' own liabilities	227,089	279,087	306,898	321,857	324,049	340,373	335,036	340,071r	344,079	346,338
3 Demand deposits	15,889	17,470	19,571	18,450	20,940	21,107	19,648	19,659	20,195	19,753
4 Time deposits[1]	68,797	90,632	110,413	114,438	114,314	116,716	114,241	116,543r	116,390	114,672
5 Other[2]	23,184	25,874	26,268	28,932	29,856	29,468	30,805	31,560r	32,238	32,755
6 Own foreign offices[3]	119,219	145,111	150,646	160,037	158,939	173,082	170,342	172,309r	175,256	179,158
7 Banks' custody liabilities[4]	79,967	90,520	100,408	95,684	97,292	94,298	95,800	96,362	96,031	96,540
8 U.S. Treasury bills and certificates[5]	55,628	68,669	76,368	72,163	73,189	68,785	69,801	72,631	72,714	74,284
9 Other negotiable and readily transferable instruments[6]	20,636	17,467	18,747	16,755	16,979	17,964	17,946	15,547	15,329	13,775
10 Other	3,702	4,385	5,293	6,766	7,124	7,549	8,054	8,184	7,989	8,480
11 **Nonmonetary international and regional organizations**[7]	**4,922**	**5,957**	**4,454**	**6,766**	**7,803**	**5,566**	**7,487**	**9,867r**	**5,228**	**3,420**
12 Banks' own liabilities	1,909	4,632	2,014	1,842	1,535	2,366	2,714	4,326r	1,409	1,674
13 Demand deposits	106	297	254	143	252	85	96	184	102	138
14 Time deposits[1]	1,664	3,584	1,267	1,299	1,051	2,067	2,369	3,892r	397	681
15 Other[2]	139	750	493	399	233	214	250	250	910	856
16 Banks' custody liabilities[4]	3,013	1,325	2,440	4,924	6,268	3,200	4,773	5,540	3,820	1,746
17 U.S. Treasury bills and certificates	1,621	463	916	3,636	5,069	1,736	3,216	4,219	2,311	768
18 Other negotiable and readily transferable instruments[6]	1,392	862	1,524	1,287	1,195	1,464	1,556	1,322	1,508	970
19 Other	0	0	0	1	5	0	1	0	0	7
20 **Official institutions**[8]	**71,647**	**79,876**	**86,065**	**81,412**	**83,608**	**79,862**	**81,527**	**80,876r**	**81,425**	**86,189**
21 Banks' own liabilities	16,640	19,427	19,039	21,178	23,323	20,825	22,590	22,056r	21,739	23,541
22 Demand deposits	1,899	1,837	1,823	1,707	2,018	2,077	1,638	1,602	1,917	1,834
23 Time deposits[1]	5,528	7,318	9,374	10,277	10,523	10,935	10,680	10,319r	10,402	9,423
24 Other[2]	9,212	10,272	7,842	9,195	10,783	7,813	10,272	10,136	9,419	12,284
25 Banks' custody liabilities[4]	55,008	60,448	67,026	60,234	60,284	59,037	58,937	58,820	59,686	62,648
26 U.S. Treasury bills and certificates[5]	46,658	54,341	59,976	54,398	54,331	53,252	53,294	54,420	55,933	59,547
27 Other negotiable and readily transferable instruments[6]	8,321	6,082	6,966	5,767	5,848	5,711	5,526	4,052	3,585	2,916
28 Other	28	25	84	69	105	75	117	348	168	185
29 **Banks**[9]	**185,881**	**226,887**	**248,893**	**256,379**	**255,021**	**274,991**	**266,460**	**269,788r**	**278,549**	**277,729**
30 Banks' own liabilities	169,449	205,347	225,368	234,428	233,188	252,290	243,740	247,127r	255,567	254,947
31 Unaffiliated foreign banks	50,230	60,236	74,722	74,391	74,249	79,208	73,397	74,818	80,311	75,789
32 Demand deposits	8,675	8,759	10,556	9,045	10,043	10,271	9,792	9,659	9,692	8,689
33 Time deposits[1]	28,386	37,439	47,095	47,833	46,809	48,962	44,662	45,536r	50,071	48,891
34 Other[2]	13,169	14,038	17,071	17,514	17,397	19,975	18,943	19,623r	20,547	18,209
35 Own foreign offices[3]	119,219	145,111	150,646	160,037	158,939	173,082	170,342	172,309r	175,256	179,158
36 Banks' custody liabilities[4]	16,432	21,540	23,525	21,951	21,832	22,701	22,720	22,661	22,982	22,782
37 U.S. Treasury bills and certificates	5,809	10,178	11,448	9,897	9,429	9,554	9,223	9,501	9,869	9,546
38 Other negotiable and readily transferable instruments[6]	7,857	7,485	7,236	5,906	5,853	6,153	6,006	5,876	5,752	5,423
39 Other	2,766	3,877	4,841	6,148	6,551	6,994	7,491	7,283	7,361	7,813
40 **Other foreigners**	**44,606**	**56,887**	**67,894**	**72,984**	**74,909**	**74,251**	**75,362**	**75,902**	**74,908**	**75,540**
41 Banks' own liabilities	39,092	49,680	60,477	64,409	66,002	64,892	65,992	66,561	65,365	66,176
42 Demand deposits	5,209	6,577	6,938	7,555	8,627	8,673	8,122	8,214	8,484	9,093
43 Time deposits	33,219	42,290	52,678	55,029	55,932	54,752	56,530	56,796	55,519	55,677
44 Other[2]	664	813	861	1,825	1,444	1,467	1,340	1,550	1,361	1,406
45 Banks' custody liabilities[4]	5,514	7,207	7,417	8,575	8,907	9,359	9,370	9,341	9,544	9,364
46 U.S. Treasury bills and certificates	1,540	3,686	4,029	4,232	4,360	4,243	4,068	4,491	4,601	4,423
47 Other negotiable and readily transferable instruments[6]	3,065	3,038	3,021	3,795	4,084	4,636	4,858	4,297	4,483	4,465
48 Other	908	483	367	548	463	480	444	553	459	476
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	14,307	10,346	10,476	9,088	9,152	9,845	9,628	7,386	6,603	6,286

1. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
2. Includes borrowing under repurchase agreements.
3. U.S. banks: includes amounts due to own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due to head office or parent foreign bank, and foreign branches, agencies or wholly owned subsidiaries of head office or parent foreign bank.
4. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks.
5. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
6. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
7. Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks.
8. Foreign central banks and foreign central governments, and the Bank for International Settlements.
9. Excludes central banks, which are included in "Official institutions."

3.17 Continued

	Area and country	1982	1983	1984	1985			1986			
					Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.p
1	**Total**	**307,056**	**369,607**	**407,306**	**417,541**	**421,341**	**434,671**	**430,836**	**436,434r**	**440,110**	**442,878**
2	**Foreign countries**	**302,134**	**363,649**	**402,852**	**410,775**	**413,538**	**429,105**	**423,349**	**426,567r**	**434,882**	**439,458**
3	Europe	117,756	138,072	153,145	158,857	163,433	163,438	161,234	157,176r	157,252	164,909
4	Austria	519	585	615	613	655	693	692	769	1,665	932
5	Belgium-Luxembourg	2,517	2,709	4,114	5,262	5,556	5,214	5,189	4,732	4,268	5,736
6	Denmark	509	466	438	558	624	513	536	533	536	752
7	Finland	748	531	418	594	497	491	373	506	354	697
8	France	8,171	9,441	12,701	15,984	15,863	15,540	15,595	15,148	15,905	19,227
9	Germany	5,351	3,599	3,358	4,366	7,265	4,835	5,622	5,309	5,691	6,718
10	Greece	537	520	699	536	574	664	612	551	535	559
11	Italy	5,626	8,462	10,762	9,717	9,069	9,642	7,739	7,235	7,215	6,536
12	Netherlands	3,362	4,290	4,731	4,295	4,359	4,212	4,069	4,027	4,334	4,320
13	Norway	1,567	1,673	1,548	1,132	1,008	848	781	552	469	731
14	Portugal	388	373	597	647	619	652	706	685	705	674
15	Spain	1,405	1,603	2,082	2,094	2,122	2,113	1,899	1,794	1,772	1,918
16	Sweden	1,390	1,799	1,676	1,760	1,482	1,344	1,622	1,693	1,547	1,313
17	Switzerland	29,066	32,246	31,740	28,495	28,992	28,742	26,119	25,606	26,754	26,962
18	Turkey	296	467	584	417	288	429	504	404	383	377
19	United Kingdom	48,172	60,683	68,671	73,877	74,595	76,571	80,563	80,100r	78,569	81,665
20	Yugoslavia	499	562	602	626	675	673	595	600	535	547
21	Other Western Europe[1]	7,006	7,403	7,192	7,403	8,619	9,635	7,643	6,441r	5,366	4,308
22	U.S.S.R.	50	65	79	51	36	105	43	64	63	287
23	Other Eastern Europe[2]	576	596	537	429	533	523	332	427	587	649
24	Canada	12,232	16,026	16,059	16,288	16,428	17,426	18,037	21,466	22,496	20,449
25	Latin America and Caribbean	114,163	140,088	153,381	156,319	155,202	167,745	161,389	161,061r	164,241	164,614
26	Argentina	3,578	4,038	4,394	5,872	5,899	6,029	5,786	5,551	5,155	5,625
27	Bahamas	44,744	55,818	56,897	54,518	53,394	57,621	53,809	54,647r	55,280	57,861
28	Bermuda	1,572	2,266	2,370	2,238	2,415	2,765	2,596	2,147	2,324	2,276
29	Brazil	2,014	3,168	5,275	5,861	5,614	5,369	6,049	5,759	6,071	5,814
30	British West Indies	26,381	34,545	36,773	37,163	35,858	42,645	40,469	41,127	43,945	41,180
31	Chile	1,626	1,842	2,001	1,940	2,867	2,042	2,019	1,997	2,084	2,137
32	Colombia	2,594	1,689	2,514	2,562	2,920	3,102	3,336	3,140	3,076	3,100
33	Cuba	9	8	10	64	7	11	16	6	6	8
34	Ecuador	455	1,047	1,092	1,029	1,253	1,238	1,211	1,172	1,209	1,199
35	Guatemala	670	788	896	957	1,087	1,071	1,146	1,132	1,126	1,128
36	Jamaica	126	109	183	122	150	122	244	126	144	173
37	Mexico	8,377	10,392	12,303	13,610	13,948	14,045	13,702	13,433	12,990	13,109
38	Netherlands Antilles	3,597	3,879	4,220	4,666	4,612	4,875	4,696	4,560	4,561	4,860
39	Panama	4,805	5,924	6,951	7,343	6,502	7,492	7,416	7,161	7,226	6,948
40	Peru	1,147	1,166	1,266	1,093	1,124	1,166	1,124	1,100	1,166	1,115
41	Uruguay	759	1,244	1,394	1,498	1,534	1,549	1,730	1,727	1,567	1,644
42	Venezuela	8,417	8,632	10,545	11,404	11,345	11,919	11,467	11,741	11,670	11,705
43	Other Latin America and Caribbean	3,291	3,535	4,297	4,381	4,673	4,683	4,571	4,534	4,641	4,729
44	Asia	48,716	58,570	71,187	71,643	71,047	72,266	74,841	78,767	82,647	81,646
	China										
45	Mainland	203	249	1,153	1,809	1,380	1,594	1,003	1,624	1,410	1,555
46	Taiwan	2,761	4,051	4,990	6,455	7,427	7,799	9,092	9,661	10,840	11,102
47	Hong Kong	4,465	6,657	6,581	7,964	8,170	8,062	8,215	8,194	8,643	8,682
48	India	433	464	507	473	562	711	606	630	926	575
49	Indonesia	857	997	1,033	1,570	1,381	1,466	1,524	1,738	2,107	1,787
50	Israel	606	1,722	1,268	2,118	1,595	1,595	1,459	1,358	1,451	1,483
51	Japan	16,078	18,079	21,640	22,059	21,689	23,077	25,047	26,397	28,273	28,332
52	Korea	1,692	1,648	1,730	1,751	1,685	1,665	1,503	1,602	1,551	1,246
53	Philippines	770	1,234	1,383	1,325	1,189	1,140	942	1,086	978	1,051
54	Thailand	629	747	1,257	1,014	1,066	1,358	1,199	1,141	1,103	994
55	Middle-East oil-exporting countries[3]	13,433	12,976	16,804	15,252	14,941	14,523	15,174	16,308	15,384	14,419
56	Other Asia	6,789	9,748	12,841	9,852	9,961	9,276	9,076	9,028	9,980	10,419
57	Africa	3,124	2,827	3,396	3,723	3,989	4,883	4,643	4,359	4,260	4,174
58	Egypt	432	671	647	885	780	1,363	1,080	987	870	960
59	Morocco	81	84	118	140	145	163	98	92	91	85
60	South Africa	292	449	328	404	462	388	567	421	465	387
61	Zaire	23	87	153	136	140	163	73	92	95	90
62	Oil-exporting countries[4]	1,280	620	1,189	1,076	1,407	1,494	1,644	1,614	1,601	1,443
63	Other Africa	1,016	917	961	1,082	1,056	1,312	1,182	1,152	1,137	1,210
64	Other countries	6,143	8,067	5,684	3,945	3,440	3,347	3,205	3,739	3,986	3,666
65	Australia	5,904	7,857	5,300	3,451	2,906	2,779	2,707	3,024	3,236	3,062
66	All other	239	210	384	494	534	568	498	714	750	604
67	Nonmonetary international and regional organizations	4,922	5,957	4,454	6,766	7,803	5,566	7,487	9,867r	5,228	3,420
68	International	4,049	5,273	3,747	5,779	6,952	4,551	6,109	8,671r	4,139	2,421
69	Latin American regional	517	419	587	646	580	894	909	863	916	823
70	Other regional[5]	357	265	120	341	271	121	470	333	173	176

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.
2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.
3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
4. Comprises Algeria, Gabon, Libya, and Nigeria.
5. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Western Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in U.S. Dollars

Millions of dollars, end of period

Area and country	1982	1983	1984	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.[p]
1 **Total**	**355,705**	**391,312**	**400,162**	**381,103**	**384,515**	**403,209**	**386,367**	**389,338[r]**	**394,660**	**400,936**
2 **Foreign countries**	**355,636**	**391,148**	**399,363**	**380,334**	**383,903**	**402,178**	**385,075**	**388,529[r]**	**394,177**	**400,434**
3 Europe	85,584	91,927	99,014	102,194	106,915	108,360	104,277	100,139[r]	100,398	101,186
4 Austria	229	401	433	673	614	598	485	542	494	431
5 Belgium-Luxembourg	5,138	5,639	4,794	5,882	6,801	5,741	5,831	5,276	5,428	5,499
6 Denmark	554	1,275	648	636	558	706	864	940	845	794
7 Finland	990	1,044	898	789	909	823	843	741	1,194	795
8 France	7,251	8,766	9,157	10,190	9,785	9,134	9,058	7,943[r]	8,598	8,902
9 Germany	1,876	1,284	1,306	1,036	1,355	1,257	1,211	1,309[r]	1,374	1,332
10 Greece	452	476	817	966	854	991	933	884	798	764
11 Italy	7,560	9,018	9,119	7,597	7,765	8,833	7,482	6,913[r]	7,297	6,709
12 Netherlands	1,425	1,267	1,356	1,110	1,389	1,258	1,248	1,249	1,394	1,380
13 Norway	572	690	675	788	755	697	692	652	613	786
14 Portugal	950	1,114	1,243	1,141	1,123	1,058	1,040	936	897	874
15 Spain	3,744	3,573	2,884	2,310	2,199	1,908	1,801	1,885[r]	1,866	1,701
16 Sweden	3,038	3,358	2,230	2,643	2,546	2,203	2,174	2,278	2,422	1,923
17 Switzerland	1,639	1,863	2,123	2,604	3,162	3,161	2,836	2,361	2,940	2,966
18 Turkey	560	812	1,130	1,355	1,269	1,200	1,512	1,519	1,587	1,584
19 United Kingdom	45,781	47,364	56,185	58,106	61,655	64,594	62,356	60,587[r]	57,936	60,555
20 Yugoslavia	1,430	1,718	1,886	1,867	1,879	1,964	1,901	1,953	1,960	1,952
21 Other Western Europe[1]	368	477	596	1,206	1,082	998	716	734	1,166	648
22 U.S.S.R	263	192	142	165	128	130	169	287	424	480
23 Other Eastern Europe[2]	1,762	1,598	1,389	1,131	1,086	1,107	1,126	1,151[r]	1,165	1,111
24 Canada	13,678	16,341	16,109	15,941	16,209	16,466	17,279	18,280[r]	17,945	18,774
25 Latin America and Caribbean	187,969	205,491	207,862	190,779	191,663	202,401	188,975	190,479[r]	196,676	198,939
26 *Argentina*	10,974	11,749	11,050	11,236	11,486	11,462	11,463	11,574[r]	11,456	11,812
27 Bahamas	56,649	59,633	58,009	51,256	49,015	58,223	49,712	49,646[r]	55,646	55,130
28 Bermuda	603	566	592	1,017	498	499	542	380	460	275
29 Brazil	23,271	24,667	26,315	25,397	25,376	25,283	25,209	25,129[r]	25,379	25,391
30 British West Indies	29,101	35,527	38,205	34,258	37,063	38,640	34,345	36,475[r]	36,825	38,892
31 Chile	5,513	6,072	6,839	6,145	6,198	6,603	6,525	6,478[r]	6,557	6,585
32 Colombia	3,211	3,745	3,499	3,210	3,222	3,259	3,185	3,044	2,903	2,861
33 Cuba	3	0	0	4	0	0	0	0	1	0
34 Ecuador	2,062	2,307	2,420	2,411	2,419	2,390	2,439	2,369	2,399	2,388
35 Guatemala[3]	124	129	158	168	197	194	174	167	167	124
36 Jamaica[3]	181	215	252	222	222	224	228	213	213	341
37 Mexico	29,552	34,802	34,885	31,720	32,424	31,788	31,826	32,050[r]	31,620	32,235
38 *Netherlands Antilles*	839	1,154	1,350	1,387	1,071	1,340	1,022	1,043	927	839
39 Panama	10,210	7,848	7,707	6,526	6,519	6,650	6,532	5,859[r]	6,198	6,135
40 Peru	2,357	2,536	2,384	2,016	1,990	1,947	1,874	1,852[r]	1,806	1,767
41 Uruguay	686	977	1,088	947	954	960	966	956	961	953
42 Venezuela	10,643	11,287	11,017	10,838	10,876	10,871	10,947	11,269[r]	11,185	11,294
43 Other Latin America and Caribbean	1,991	2,277	2,091	2,022	2,135	2,067	1,984	1,976[r]	1,973	1,918
44 Asia	60,952	67,837	66,316	62,847	60,578	66,166	65,898	71,073[r]	70,726	73,451
China										
45 Mainland	214	292	710	997	748	639	750	820	902	603
46 Taiwan	2,288	1,908	1,849	1,329	1,258	1,535	1,300	1,243[r]	1,400	1,132
47 Hong Kong	6,787	8,489	7,293	6,917	6,472	6,796	6,923	7,602[r]	8,208	8,142
48 India	222	330	425	388	439	450	332	284	481	398
49 Indonesia	348	805	724	653	608	698	692	793	710	716
50 Israel	2,029	1,832	2,088	1,901	1,958	1,991	1,834	1,697	1,616	1,613
51 Japan	28,379	30,354	29,066	28,558	26,768	31,209	32,232	36,471[r]	36,711	37,898
52 Korea	9,387	9,943	9,285	9,096	8,908	9,241	8,839	9,087[r]	9,242	9,286
53 Philippines	2,625	2,107	2,555	2,239	2,285	2,224	2,206	2,224[r]	2,336	2,325
54 Thailand	643	1,219	1,125	756	788	840	793	765[r]	810	765
55 Middle East oil-exporting countries[4]	3,087	4,954	5,044	4,576	4,239	4,298	3,975	3,869	3,577	4,765
56 Other Asia	4,943	5,603	6,152	5,436	6,106	6,245	6,021	6,218	4,732	5,807
57 Africa	5,346	6,654	6,615	5,463	5,394	5,407	5,416	5,360[r]	5,128	5,003
58 Egypt	322	747	728	668	685	721	677	690	653	637
59 Morocco	353	440	583	610	584	575	591	612	646	660
60 South Africa	2,012	2,634	2,795	1,968	1,848	1,942	1,965	1,856[r]	1,799	1,716
61 Zaire	57	33	18	21	21	20	18	18[r]	17	17
62 Oil-exporting countries[5]	801	1,073	842	674	677	630	582	562[r]	488	464
63 Other	1,802	1,727	1,649	1,521	1,579	1,520	1,584	1,621	1,525	1,508
64 Other countries	2,107	2,898	3,447	3,111	3,144	3,379	3,230	3,199	3,305	3,082
65 Australia	1,713	2,256	2,769	2,293	2,341	2,401	2,409	2,367	2,480	2,237
66 All other	394	642	678	818	803	978	821	832	825	845
67 Nonmonetary international and regional organizations[6]	68	164	800	768	612	1,030	1,292	809	483	502

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.
2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.
3. Included in "Other Latin America and Caribbean" through March 1978.
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 Western Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States
Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1982	1983	1984	1985			1986			
				Oct.	Nov.	Dec.	Jan.	Feb.[r]	Mar.	Apr.[p]
1 **Total**	**396,015**	**426,215**	**433,078**	....	....	**432,090**	....	....	**417,850**	....
2 Banks' own claims on foreigners	355,705	391,312	400,162	381,103	384,515	403,209	386,367	389,338	394,660	400,936
3 Foreign public borrowers	45,422	57,569	62,237	60,132	59,920	60,331	60,469	60,539	60,424	60,001
4 Own foreign offices[1]	127,293	146,393	156,216	156,011	158,752	176,535	163,983	169,036	173,948	178,527
5 Unaffiliated foreign banks	121,377	123,837	124,932	113,664	115,189	116,244	111,957	110,175	110,567	111,901
6 Deposits	44,223	47,126	49,226	47,345	47,610	47,416	45,694	44,160	44,973	46,097
7 Other	77,153	76,711	75,706	66,319	67,578	68,829	66,263	66,015	65,593	65,804
8 All other foreigners	61,614	63,514	56,777	51,296	50,654	50,098	49,958	49,587	49,721	50,506
9 Claims of banks' domestic customers[2]	40,310	34,903	32,916	....	....	28,881	....	....	23,190	....
10 Deposits	2,491	2,969	3,380	....	....	3,335	....	....	2,496	....
11 Negotiable and readily transferable instruments[3]	30,763	26,064	23,805	....	....	19,332	....	....	15,943	....
12 Outstanding collections and other claims	7,056	5,870	5,732	....	....	6,214	....	....	4,751	....
13 MEMO: Customer liability on acceptances	38,153	37,715	37,103	....	....	28,180	....	....	28,819	....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[4]	42,499	46,337	40,714	37,757[r]	37,856	37,378[r]	39,465[r]	42,112	41,317	n.a.

1. *U.S. banks:* includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. *Agencies, branches, and majority-owned subsidiaries of foreign banks:* principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.

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 account of their domestic customers.

3. Principally negotiable time certificates of deposit and bankers acceptances.

4. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 BULLETIN, p. 550.

NOTE. Beginning April 1978, data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States
Payable in U.S. Dollars

Millions of dollars, end of period

Maturity; by borrower and area	1982	1983	1984	1985			1986
				June	Sept.	Dec.	Mar.[p]
1 **Total**	**228,150**	**243,715**	**243,952**	**232,485**	**232,360**	**227,238**	**219,209**
By borrower							
2 Maturity of 1 year or less[1]	173,917	176,158	167,858	159,383	162,262	160,162	151,300
3 Foreign public borrowers	21,256	24,039	23,912	23,764	26,466	26,312	24,027
4 All other foreigners	152,661	152,120	143,947	135,619	135,797	133,850	127,273
5 Maturity of over 1 year[1]	54,233	67,557	76,094	73,102	70,098	67,076	67,910
6 Foreign public borrowers	23,137	32,521	38,695	37,554	36,257	34,510	36,762
7 All other foreigners	31,095	35,036	37,399	35,549	33,841	32,566	31,148
By area							
Maturity of 1 year or less[1]							
8 Europe	50,500	56,117	58,498	56,369	58,403	56,425	53,159
9 Canada	7,642	6,211	6,028	6,160	6,100	6,386	5,658
10 Latin America and Caribbean	73,291	73,660	62,791	63,517	62,973	63,040	59,319
11 Asia	37,578	34,403	33,504	27,569	29,049	27,779	27,424
12 Africa	3,680	4,199	4,442	4,003	3,954	3,753	3,321
13 All other[2]	1,226	1,569	2,593	1,764	1,782	2,779	2,419
Maturity of over 1 year[1]							
14 Europe	11,636	13,576	9,605	8,739	8,078	7,643	7,538
15 Canada	1,931	1,857	1,882	2,116	1,932	1,804	1,836
16 Latin America and Caribbean	35,247	43,888	56,144	53,507	52,049	50,662	51,989
17 Asia	3,185	4,850	5,323	5,123	5,217	4,502	4,191
18 Africa	1,494	2,286	2,033	1,996	1,665	1,538	1,634
19 All other[2]	740	1,101	1,107	1,622	1,157	926	722

1. Remaining time to maturity.

2. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks[1]

Billions of dollars, end of period

	Area or country[2]	1981	1982	1983	1984			1985				1986
					June[3]	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.[p]
1	**Total**	**415.2**	**438.0[r]**	**436.4[r]**	**430.2[r]**	**409.1[r]**	**408.0[r]**	**407.9[r]**	**399.0[r]**	**397.5[r]**	**396.9[r]**	**395.9**
2	G-10 countries and Switzerland	175.5	179.7	167.8[r]	157.6[r]	147.6[r]	148.1[r]	153.2[r]	146.6[r]	151.5[r]	150.5[r]	156.9
3	Belgium-Luxembourg	13.3	13.1	12.4	10.9	9.8	8.7[r]	9.3[r]	8.9[r]	9.5[r]	9.3[r]	8.3
4	France	15.3	17.1	16.2[r]	14.2	14.3	14.1	14.6	13.5[r]	14.8[r]	12.3[r]	13.8
5	Germany	12.9	12.7	11.3	10.9	10.0	9.0	8.9	9.6	9.8[r]	10.5[r]	11.2
6	Italy	9.6	10.3	11.4	11.5	9.7	10.1	10.0	8.6[r]	8.3[r]	9.8[r]	8.5
7	Netherlands	4.0	3.6	3.5	3.0	3.4	3.9	3.8	3.7	3.4	3.8[r]	3.5
8	Sweden	3.7	5.0	5.1	4.3	3.5	3.2	3.1	2.9[r]	3.1	2.7	2.9
9	Switzerland	5.5	5.0	4.3	4.2	3.9	3.9	4.2	4.0	4.1	4.4	5.4
10	United Kingdom	70.1	72.1	65.3[r]	60.3[r]	57.1[r]	60.3[r]	65.4[r]	65.7[r]	66.9[r]	66.6[r]	69.2
11	Canada	10.9	10.4	8.3	8.9	8.1	7.9	9.1[r]	8.1[r]	7.5	7.0[r]	6.1
12	Japan	30.2	30.2	29.9	29.3	27.7[r]	27.1[r]	24.7[r]	21.7[r]	24.0[r]	24.1[r]	28.1
13	Other developed countries	28.4	33.7	36.1	37.1[r]	36.3[r]	33.8[r]	33.0	32.5	32.2[r]	30.5	31.6
14	Austria	1.9	1.9	1.9	1.9	1.8	1.6	1.6	1.6	1.7	1.6[r]	1.6
15	Denmark	2.3	2.4	3.4	3.1	2.9	2.2	2.1	1.9	2.1	2.4	2.5
16	Finland	1.7	2.2	2.4	2.3	1.9	1.9	1.8	1.8	1.8	1.6	1.9
17	Greece	2.8	3.0	2.8	3.3	3.2	2.9	2.9	2.9	2.8	2.6	2.5
18	Norway	3.1	3.3	3.3	3.2	3.2	3.0	2.9	2.9	3.4	2.9	2.7
19	Portugal	1.1	1.5	1.5	1.7	1.6	1.4	1.4	1.3	1.4	1.3	1.1
20	Spain	6.6	7.5	7.1	7.3	6.9	6.5	6.4	5.9	6.1[r]	5.8	6.4
21	Turkey	1.4	1.4	1.7	2.0	2.0	1.9	1.9	2.0	2.1	1.9	2.3
22	Other Western Europe	2.1	2.3	1.8	1.9	1.7	1.7	1.7	1.8	1.7	2.0	2.4
23	South Africa	2.8	3.7	4.7	4.7	5.0	4.5	4.2	3.9	3.3	3.2	3.2
24	Australia	2.5	4.4	5.5	5.7[r]	6.2[r]	6.1[r]	6.2	6.4	5.8	5.2	5.0
25	OPEC countries[4]	24.8	27.2[r]	28.8[r]	26.4[r]	24.7[r]	25.3[r]	24.8[r]	23.0[r]	23.1[r]	21.8[r]	20.7
26	Ecuador	2.2	2.2	2.2	2.1	2.1	2.2	2.2	2.2[r]	2.2[r]	2.1[r]	2.2
27	Venezuela	9.9	10.5	9.9	9.5	9.2	9.3	9.3	9.3	9.0[r]	8.9	8.7
28	Indonesia	2.6	3.2	3.8	3.9[r]	3.6[r]	3.7[r]	3.6[r]	3.4[r]	3.4[r]	3.3[r]	3.3
29	Middle East countries	7.5	8.5[r]	9.9[r]	8.2[r]	7.3[r]	7.9[r]	7.4[r]	6.1[r]	6.2[r]	5.5[r]	4.7
30	African countries	2.5	2.8	3.0	2.7	2.5	2.3	2.3	2.2	2.3	2.0[r]	1.8
31	Non-OPEC developing countries	96.3	106.8[r]	111.3[r]	112.7[r]	112.1[r]	112.2[r]	111.3[r]	110.4[r]	108.2[r]	105.5[r]	103.6
	Latin America											
32	Argentina	9.4	8.9	9.5	9.2	9.1	8.7	8.6	8.6	8.9[r]	8.9	8.9
33	Brazil	19.1	22.9	23.1	25.4	26.3	26.3	26.4	26.6	25.5[r]	25.6	25.7
34	Chile	5.8	6.3	6.4	6.7	7.1	7.0	7.0	6.9	6.6[r]	7.0[r]	6.9
35	Colombia	2.6	3.1	3.2	3.0	2.9	2.9	2.8	2.7	2.6	2.7	2.3
36	Mexico	21.6	24.2[r]	25.8[r]	25.9[r]	26.0[r]	25.7[r]	25.5[r]	25.3[r]	24.4[r]	24.1[r]	23.9
37	Peru	2.0	2.6	2.4	2.3	2.2	2.2	2.2	2.1	1.9[r]	1.8	1.7
38	Other Latin America	4.1	4.0	4.2	4.1	3.9	3.9	3.7	3.6	3.5	3.4	3.6
	Asia											
	China											
39	Mainland	.2	.2	.3	.6	.5	.7	.7	.3	1.1	.5	.6
40	Taiwan	5.1	5.3	5.3	5.3[r]	5.2[r]	5.1[r]	5.3[r]	5.5	5.1[r]	4.5	4.3
41	India	.3	.6	1.0	1.0	1.0[r]	1.0	1.0	1.0	1.1[r]	1.3[r]	1.2
42	Israel	2.1	2.3	1.9	1.9	1.7	1.8	1.7	2.3	1.5	1.6	1.3
43	Korea (South)	9.4	10.9	11.3	11.2[r]	10.4[r]	10.8[r]	10.5[r]	10.2[r]	10.5[r]	9.6[r]	9.5
44	Malaysia	1.7	2.1	2.9	2.7[r]	3.0[r]	2.8[r]	2.8[r]	2.8[r]	2.8[r]	2.4[r]	2.2
45	Philippines	6.0	6.3	6.2	6.3	5.9	6.0	6.1	6.0	6.0[r]	5.7[r]	5.6
46	Thailand	1.5	1.6	2.2	1.9	1.8	1.8	1.7	1.6	1.6	1.4	1.3
47	Other Asia	1.0	1.1	1.0	1.1	1.0	1.2	1.1	1.0	1.1	1.1	.9
	Africa											
48	Egypt	1.1	1.2	1.5	1.4	1.2	1.2	1.1	1.0	1.0	1.0	.9
49	Morocco	.7	.7	.8	.8	.8	.8	.8	.8	.9	.9	.9
50	Zaire	.2	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
51	Other Africa[5]	2.3	2.4	2.3	1.9	1.9	2.1	2.2	2.0	2.0	1.9	1.9
52	Eastern Europe	7.8	6.2	5.3	4.9	4.5	4.4	4.3	4.3	4.6	4.2[r]	4.0
53	U.S.S.R.	.6	.3	.2	.2	.2	.1	.2	.3	.2	.1	.3
54	Yugoslavia	2.5	2.2	2.4	2.3	2.3	2.3	2.2	2.2	2.4[r]	2.2	2.0
55	Other	4.7	3.7	2.8	2.4	2.1	2.0	1.9	1.8	1.9	1.8	1.7
56	Offshore banking centers	63.7	66.6[r]	70.2[r]	73.9[r]	66.4[r]	66.7[r]	64.2[r]	65.0[r]	60.3[r]	67.2[r]	62.6
57	Bahamas	19.0	19.0	21.8	27.4[r]	23.3[r]	21.5	20.0[r]	21.1[r]	16.6[r]	22.1[r]	21.0
58	Bermuda	.7	.9	.9	.7	1.0	.9	.7	.9	.8	.7	.7
59	Cayman Islands and other British West Indies	12.4	12.8[r]	12.2	12.2[r]	11.1[r]	11.8[r]	12.3[r]	12.1[r]	12.3[r]	13.2[r]	11.3
60	Netherlands Antilles	3.2	3.3	4.1[r]	3.3	3.1	3.4	3.3	3.2	2.3	2.3	2.3
61	Panama[6]	7.7	7.5[r]	5.8[r]	6.5[r]	5.6[r]	6.7[r]	5.5[r]	5.4[r]	6.1[r]	6.0[r]	5.9
62	Lebanon	.2	.1	.1	.1	.1	.1	.1	.1	.0	.1	.1
63	Hong Kong	11.8	13.9	15.0	13.5[r]	12.7[r]	12.5[r]	12.4[r]	12.6[r]	12.7[r]	12.9[r]	12.9
64	Singapore	8.7	9.2	10.3	10.3	9.5	9.8	10.0	9.7	9.4	9.9[r]	8.4
65	Others[7]	.1	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
66	Miscellaneous and unallocated[8]	18.8	17.9	17.0	17.6[r]	17.4	17.5[r]	17.2[r]	17.3	17.6	17.2[r]	16.5

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize 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. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).

2. Revisions shown in this issue have been made in part to correct some double-counting of claims held by foreign branches located in Puerto Rico, the U.S. Virgin Islands, and Guam.

3. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1981	1982	1983	1984	1985			
				Dec.	Mar.	June	Sept.	Dec.
1 **Total**	**28,618**	**27,512**	**25,346**	**29,357**	**26,243**	**24,591**	**25,184**	**27,018**
2 Payable in dollars	24,909	24,280	22,233	26,389	23,466	21,945	22,364	23,811
3 Payable in foreign currencies	3,709	3,232	3,113	2,968	2,777	2,646	2,820	3,208
By type								
4 Financial liabilities	12,157	11,066	10,572	14,509	11,722	11,489	11,743	12,856
5 Payable in dollars	9,499	8,858	8,700	12,553	9,873	9,533	9,780	10,835
6 Payable in foreign currencies	2,658	2,208	1,872	1,955	1,849	1,956	1,963	2,021
7 Commercial liabilities	16,461	16,446	14,774	14,849	14,521	13,103	13,441	14,162
8 Trade payables	10,818	9,438	7,765	7,005	7,052	5,854	5,694	6,685
9 Advance receipts and other liabilities	5,643	7,008	7,009	7,843	7,469	7,249	7,747	7,477
10 Payable in dollars	15,409	15,423	13,533	13,836	13,593	12,413	12,584	12,976
11 Payable in foreign currencies	1,052	1,023	1,241	1,013	928	690	857	1,186
By area or country								
Financial liabilities								
12 Europe	6,825	6,501	5,742	6,728	6,138	5,934	6,534	7,146
13 Belgium-Luxembourg	471	505	302	471	298	351	367	329
14 France	709	783	843	995	896	865	849	857
15 Germany	491	467	502	489	506	474	493	419
16 Netherlands	748	711	621	590	619	604	624	745
17 Switzerland	715	792	486	569	541	566	593	676
18 United Kingdom	3,565	3,102	2,839	3,297	3,039	2,825	3,318	3,822
19 Canada	963	746	764	863	840	850	826	760
20 Latin America and Caribbean	3,356	2,751	2,596	5,086	3,147	3,106	2,619	3,152
21 Bahamas	1,279	904	751	1,926	1,341	1,107	1,145	1,120
22 Bermuda	7	14	13	13	25	10	4	4
23 Brazil	22	28	32	35	29	27	23	29
24 British West Indies	1,241	1,027	1,041	2,103	1,521	1,734	1,234	1,814
25 Mexico	102	121	213	367	25	32	28	15
26 Venezuela	98	114	124	137	3	3	3	3
27 Asia	976	1,039	1,424	1,777	1,555	1,555	1,728	1,765
28 Japan	792	715	991	1,209	1,033	965	1,098	1,148
29 Middle East oil-exporting countries[2]	75	169	170	155	124	147	82	82
30 Africa	14	17	19	14	12	14	14	12
31 Oil-exporting countries[3]	0	0	0	0	0	0	0	0
32 All other[4]	24	12	27	41	31	30	22	21
Commercial liabilities								
33 Europe	3,770	3,831	3,245	4,001	3,519	3,485	3,897	4,011
34 Belgium-Luxembourg	71	52	62	48	37	53	56	62
35 France	573	598	437	438	401	425	431	453
36 Germany	545	468	427	622	590	431	601	607
37 Netherlands	220	346	268	245	272	284	386	364
38 Switzerland	424	367	241	257	233	353	289	379
39 United Kingdom	880	1,027	732	1,095	752	740	858	976
40 Canada	897	1,495	1,841	1,975	1,727	1,494	1,383	1,449
41 Latin America and Caribbean	1,044	1,570	1,473	1,871	1,717	1,244	1,262	1,088
42 Bahamas	2	16	1	7	11	12	2	12
43 Bermuda	67	117	67	114	112	77	105	77
44 Brazil	67	60	44	124	101	90	120	58
45 British West Indies	2	32	6	32	21	1	15	44
46 Mexico	340	436	585	586	654	492	415	430
47 Venezuela	276	642	432	636	395	309	311	212
48 Asia	9,384	8,144	6,741	5,285	5,721	5,259	5,353	6,046
49 Japan	1,094	1,226	1,247	1,256	1,241	1,232	1,567	1,799
50 Middle East oil-exporting countries[2,5]	7,008	5,503	4,178	2,372	2,786	2,396	2,109	2,829
51 Africa	703	753	553	588	765	633	572	587
52 Oil-exporting countries[3]	344	277	167	233	294	265	235	238
53 All other[4]	664	651	921	1,128	1,070	988	975	982

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.
5. Revisions include a reclassification of transactions, which also affects the totals for Asia and the grand totals.

NOTES TO TABLE 3.21—CONTINUED

4. Besides the Organization of Petroleum Exporting Countries shown individually, this group includes other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates) as well as Bahrain and Oman (not formally members of OPEC).
5. Excludes Liberia.
6. Includes Canal Zone beginning December 1979.
7. Foreign branch claims only.
8. Includes New Zealand, Liberia, and international and regional organizations.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1981	1982	1983	1984	1985			
				Dec.	Mar.	June	Sept.	Dec.
1 **Total**	**36,185**	**28,725**	**34,911**	**29,839**	**28,672**	**26,968**	**28,487**	**28,071**
2 Payable in dollars	32,582	26,085	31,815	27,242	26,100	24,339	25,621	25,769
3 Payable in foreign currencies	3,603	2,640	3,096	2,597	2,571	2,629	2,866	2,302
By type								
4 Financial claims	21,142	17,684	23,780	19,192	18,375	16,512	19,024	18,031
5 Deposits	15,081	13,058	18,496	14,559	14,368	12,657	15,135	14,805
6 Payable in dollars	14,456	12,628	17,993	14,140	13,871	12,101	14,432	14,190
7 Payable in foreign currencies	625	430	503	420	497	556	704	615
8 Other financial claims	6,061	4,626	5,284	4,633	4,007	3,856	3,889	3,227
9 Payable in dollars	3,599	2,979	3,328	3,190	2,442	2,375	2,351	2,192
10 Payable in foreign currencies	2,462	1,647	1,956	1,442	1,565	1,480	1,538	1,035
11 Commercial claims	15,043	11,041	11,131	10,646	10,297	10,456	9,463	10,040
12 Trade receivables	14,007	9,994	9,721	9,177	8,784	9,089	7,988	8,750
13 Advance payments and other claims	1,036	1,047	1,410	1,470	1,513	1,367	1,475	1,290
14 Payable in dollars	14,527	10,478	10,494	9,912	9,787	9,863	8,839	9,387
15 Payable in foreign currencies	516	563	637	735	510	592	624	652
By area or country								
Financial claims								
16 Europe	4,596	4,873	6,488	5,754	5,774	5,445	6,452	6,306
17 Belgium-Luxembourg	43	15	37	15	29	15	12	10
18 France	285	134	150	126	92	51	132	184
19 Germany	224	178	163	224	196	175	158	223
20 Netherlands	50	97	71	66	81	46	127	61
21 Switzerland	117	107	38	66	46	16	53	74
22 United Kingdom	3,546	4,064	5,817	4,856	5,042	4,867	5,725	5,492
23 Canada	6,755	4,377	5,989	3,979	3,934	3,747	4,022	3,256
24 Latin America and Caribbean	8,812	7,546	10,234	8,170	7,612	6,475	7,450	7,650
25 Bahamas	3,650	3,279	4,771	3,282	3,018	2,153	2,290	2,638
26 Bermuda	18	32	102	6	4	6	5	6
27 Brazil	30	62	53	100	98	96	92	78
28 British West Indies	3,971	3,255	4,206	4,021	3,924	3,657	4,504	4,440
29 Mexico	313	274	293	215	201	206	201	180
30 Venezuela	148	139	134	125	101	100	73	48
31 Asia	758	698	764	961	856	639	969	696
32 Japan	366	153	297	353	509	281	725	475
33 Middle East oil-exporting countries[2]	37	15	4	13	6	6	6	4
34 Africa	173	158	147	210	101	111	104	103
35 Oil-exporting countries[3]	46	48	55	85	32	25	31	29
36 All other[4]	48	31	159	117	97	95	26	21
Commercial claims								
37 Europe	5,405	3,826	3,670	3,801	3,360	3,689	3,235	3,533
38 Belgium-Luxembourg	234	151	135	165	149	212	158	175
39 France	776	474	459	440	375	408	360	426
40 Germany	561	357	349	374	358	375	336	346
41 Netherlands	299	350	334	335	340	301	286	284
42 Switzerland	431	360	317	271	253	376	208	284
43 United Kingdom	985	811	809	1,063	885	950	779	898
44 Canada	967	633	829	1,021	1,248	1,065	1,100	1,023
45 Latin America and Caribbean	3,479	2,526	2,695	2,052	1,973	2,124	1,717	1,808
46 Bahamas	12	21	8	8	9	11	18	13
47 Bermuda	223	261	190	115	164	65	62	93
48 Brazil	668	258	493	214	210	193	211	206
49 British West Indies	12	12	7	7	6	29	7	6
50 Mexico	1,022	775	884	583	493	616	416	510
51 Venezuela	424	351	272	206	192	224	149	157
52 Asia	3,959	3,050	3,063	3,073	2,985	2,721	2,712	2,982
53 Japan	1,245	1,047	1,114	1,191	1,154	968	884	1,016
54 Middle East oil-exporting countries[2]	905	751	737	668	666	593	541	638
55 Africa	772	588	588	470	510	522	434	437
56 Oil-exporting countries[3]	152	140	139	134	141	139	131	130
57 All other[4]	461	417	286	229	221	336	264	257

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.

3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transactions, and area or country	1984	1985	1986	1985			1986			
			Jan.–Apr.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.p
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	59,834	81,819	48,123	7,244	8,409	11,172	8,729	10,585	13,503	15,306
2 Foreign sales	62,814	76,851	37,875	6,560	7,137	9,010	6,987	8,828	10,640	11,420
3 Net purchases, or sales (−)	**−2,980**	**4,968**	**10,248**	**684**	**1,273**	**2,161**	**1,743**	**1,756**	**2,863**	**3,886**
4 Foreign countries	**−3,109**	**4,884**	**10,130**	**656**	**1,362**	**1,996**	**1,755**	**1,737**	**2,816**	**3,822**
5 Europe	−3,077	2,068	6,820	554	948	1,339	1,173	1,393	2,205	2,049
6 France	−405	−438	−120	−82	−85	−105	−63	−68	−26	36
7 Germany	−50	730	645	235	270	283	134	234	229	47
8 Netherlands	−357	−122	518	33	47	125	109	121	166	123
9 Switzerland	−1,542	−75	1,972	125	107	280	288	420	698	566
10 United Kingdom	−677	1,674	2,989	210	579	700	615	634	1,021	719
11 Canada	1,691	355	189	−31	−70	93	121	−59	77	50
12 Latin America and Caribbean	495	1,718	1,206	89	243	305	−68	213	198	862
13 Middle East[1]	−1,992	238	654	8	−174	227	208	−19	127	338
14 Other Asia	−378	313	920	−16	384	−25	268	154	122	376
15 Africa	−22	24	163	−4	−1	12	25	30	59	48
16 Other countries	175	168	176	55	32	44	26	24	28	98
17 Nonmonetary international and regional organizations	**129**	**84**	**118**	**28**	**−89**	**165**	**−12**	**20**	**47**	**63**
BONDS[2]										
18 Foreign purchases	39,296	87,176	41,455	7,401	12,466	9,755	6,065	9,285r	12,564	13,541
19 Foreign sales	26,199	43,068	24,255	2,786	4,284	4,558	2,939	4,936	7,420	8,960
20 Net purchases, or sales (−)	**13,096**	**44,109**	**17,200**	**4,614**	**8,182**	**5,197**	**3,126**	**4,350r**	**5,144**	**4,581**
21 Foreign countries	**12,799**	**44,203**	**16,664**	**4,768**	**7,824**	**5,555**	**3,229**	**4,201r**	**4,843**	**4,391**
22 Europe	11,697	40,042	13,189	3,662	6,835	5,176	2,840	3,123r	3,690	3,536
23 France	207	210	−47	8	−15	0	27	−33	−17	−23
24 Germany	1,724	2,001	−254	308	897	408	−2	45	−224	−73
25 Netherlands	100	222	115	0	158	13	85	3	25	2
26 Switzerland	643	3,987	2,436	249	804	1,013	235	511	459	1,231
27 United Kingdom	8,429	32,757	10,936	3,036	4,903	3,696	2,471	2,617r	3,374	2,474
28 Canada	−62	189	−152	42	110	19	2	−31	−198	75
29 Latin America and Caribbean	376	498	509	81	124	68	18	27	200	263
30 Middle East[1]	−1,030	−2,643	−548	11	−215	−435	−174	0	15	−389
31 Other Asia	1,817	6,068	3,632	966	975	703	541	1,064	1,144	883
32 Africa	1	11	5	1	0	4	1	1	0	3
33 Other countries	0	38	28	6	−5	19	2	17	−10	19
34 Nonmonetary international and regional organizations	**297**	**−95**	**537**	**−154**	**358**	**−358**	**−103**	**149**	**301**	**190**
	Foreign securities									
35 Stocks, net purchases, or sales (−)	−1,101	−3,895	−3,757	−49	−303	−413	123	−772	−1,440	−1,668
36 Foreign purchases	14,816	21,006	13,449	2,168	2,159	2,740	2,509	2,933	3,618	4,388
37 Foreign sales	15,917	24,902	17,206	2,217	2,462	3,153	2,386	3,705	5,058	6,057
38 Bonds, net purchases, or sales (−)	−3,930	−4,018	−5,112	−756	272	−138	−67	−966	−3,003	−1,076
39 Foreign purchases	56,017	81,153	47,634	8,538	9,000	8,370	9,796	10,418	12,438	14,982
40 Foreign sales	59,948	85,171	52,746	9,294	8,728	8,507	9,862	11,385	15,441	16,058
41 Net purchases, or sales (−), of stocks and bonds	**−5,031**	**−7,913**	**−8,869**	**−805**	**−31**	**−551**	**57**	**−1,738**	**−4,443**	**−2,744**
42 Foreign countries	**−4,642**	**−8,977**	**−8,643**	**−793**	**−254**	**−886**	**−31**	**−1,879**	**−4,119**	**−2,614**
43 Europe	−8,655	−9,926	−8,575	−635	−1,046	−424	−379	−1,918	−3,840	−2,438
44 Canada	542	−1,686	−1,315	−27	112	−394	−219	−319	−491	−286
45 Latin America and Caribbean	2,460	1,850	800	48	32	85	220	297	121	162
46 Asia	1,356	667	943	−179	814	−352	395	563	127	−143
47 Africa	−108	75	27	−5	37	42	7	10	4	6
48 Other countries	−238	43	−522	6	−204	156	−56	−512	−40	85
49 Nonmonetary international and regional organizations	**−389**	**1,063**	**−226**	**−13**	**223**	**335**	**88**	**140**	**−324**	**−130**

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

Millions of dollars

Country or area	1984	1985	1986	1985			1986			
			Jan.–Apr.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.p
	Transactions, net purchases or sales (–) during period[1]									
1 **Estimated total**[2]	**21,501**	**29,786**	**16,955**	**–647**	**2,500**	**6,460**	**–1,359**	**352r**	**9,572**	**8,390**
2 Foreign countries[2]	16,496	29,303	13,346	–116	2,276	3,066	–884	3,883r	2,361	7,986
3 Europe[2]	11,014	3,918	5,275	–699	–995	180	114	1,818	1,813	1,531
4 Belgium-Luxembourg	287	476	–135	10	29	–44	33	–2	–196	29
5 Germany[2]	2,929	1,917	1,030	17	–101	302	132	459	322	117
6 Netherlands	449	269	–93	–126	155	–82	26	–261	61	81
7 Sweden	40	976	71	–41	–42	–41	–200	193	–14	93
8 Switzerland[2]	656	760	368	116	–151	–116	68	115	22	163
9 United Kingdom	5,188	–2,186	2,594	–733	–584	50	–60	1,388	1,474	–207
10 Other Western Europe	1,466	1,706	1,441	58	–301	111	116	–75	144	1,255
11 Eastern Europe	0	0	0	0	0	0	0	0	0	0
12 Canada	1,586	–190	225	138	–394	–71	–461	–131	762	55
13 Latin America and Caribbean	1,418	4,312	2,140	125	735	90	107	584	227	1,222
14 Venezuela	14	238	206	91	72	–41	–53	–63	127	196
15 Other Latin America and Caribbean	536	2,343	865	110	367	265	86	448	171	161
16 Netherlands Antilles	869	1,731	1,069	–76	296	–133	74	200	–70	865
17 Asia	2,431	20,839	5,066	248	2,979	2,833	–584	1,311r	–446	4,786
18 Japan	6,289	18,859	2,853	1,630	3,039	902	–861	1,601	140	1,973
19 Africa	–67	112	–39	9	1	9	–8	–12	–18	–1
20 All other	114	311	678	63	–51	25	–52	314	22	394
21 Nonmonetary international and regional organizations	5,009	483	3,608	–530	224	3,393	–474	–3,532	7,211	403
22 International	4,612	–394	3,339	–430	–15	3,001	–194	–3,766	6,957	342
23 Latin American regional	0	18	118	0	8	7	14	51	23	30
MEMO										
24 Foreign countries[2]	16,496	29,303	13,346	–116	2,276	3,066	–884	3,883r	2,361	7,986
25 Official institutions	505	8,427	5,092	–1,209	–236	2,712	362	619	394	3,716
26 Other foreign[2]	15,992	20,876	8,255	1,093	2,512	355	–1,246	3,264r	1,967	4,270
Oil-exporting countries										
27 Middle East[3]	–6,270	–1,576	650	–814	–413	740	222	–301	–607	1,336
28 Africa[4]	–101	7	0	4	0	2	1	0	–2	1

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.
2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.
3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
4. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per annum

Country	Rate on May 31, 1986		Country	Rate on May 31, 1986		Country	Rate on May 31, 1986	
	Percent	Month effective		Percent	Month effective		Percent	Month effective
Austria	4.0	Aug. 1985	France[1]	7.25	May 1986	Norway	8.0	June 1983
Belgium	8.0	May 1986	Germany, Fed. Rep. of	3.5	Mar. 1986	Switzerland	4.0	Mar. 1983
Brazil	49.0	Mar. 1981	Italy	12.0	May 1986	United Kingdom[2]	....	....
Canada	8.43	May 1986	Japan	3.5	Apr. 1986	Venezuela	8.0	Oct. 1985
Denmark	7.0	Oct. 1983	Netherlands	4.5	Mar. 1986			

1. As of the end of February 1981, the rate is that at which the Bank of France discounts Treasury bills for 7 to 10 days.
2. Minimum lending rate suspended as of Aug. 20, 1981.
NOTE. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper and/or government 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 the central bank transacts the largest proportion of its credit operations.

3.27 FOREIGN SHORT-TERM INTEREST RATES

Percent per annum, averages of daily figures

Country, or type	1983	1984	1985	1985		1986				
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
1 Eurodollars	9.57	10.75	8.27	8.02	7.99	8.02	7.89	7.42	6.80	6.86
2 United Kingdom	10.06	9.91	12.16	11.50	11.66	12.78	12.60	11.70	10.43	10.16
3 Canada	9.48	11.29	9.64	8.85	9.25	10.23	11.81	10.94	9.57	8.60
4 Germany	5.73	5.96	5.40	4.82	4.80	4.65	4.47	4.49	4.48	4.58
5 Switzerland	4.11	4.35	4.92	4.07	4.13	4.08	3.85	3.84	4.04	4.32
6 Netherlands	5.58	6.08	6.29	5.90	5.79	5.71	5.74	5.44	5.23	5.76
7 France	12.44	11.66	9.91	8.95	8.92	8.95	8.81	8.28	7.66	7.21
8 Italy	18.95	17.08	14.86	14.29	14.71	14.88	15.91	16.05	13.62	12.35
9 Belgium	10.51	11.41	9.60	8.66	9.14	9.75	9.75	9.75	8.51	7.90
10 Japan	6.49	6.32	6.47	7.29	7.36	6.54	6.04	5.47	4.85	4.58

NOTE. Rates are for 3-month interbank loans except for Canada, finance company paper; Belgium, 3-month Treasury bills; and Japan, Gensaki rate.

3.28 FOREIGN EXCHANGE RATES

Currency units per dollar

Country/currency	1983	1984	1985	1985	1986				
				Dec.	Jan.	Feb.	Mar.	Apr.	May
1 Australia/dollar[1]	90.14	87.937	70.026	68.11	70.00	69.93	70.79	72.28	72.72
2 Austria/schilling	17.968	20.005	20.676	17.658	17.151	16.389	15.976	15.965	15.667
3 Belgium/franc	51.121	57.749	59.336	51.251	49.843	47.748	46.603	46.394	45.497
4 Brazil/cruzeiro	573.27	1841.50	6205.10	9915.71	11345.26	13020.00	13.84[3]	13.84	13.84
5 Canada/dollar	1.2325	1.2953	1.3658	1.3954	1.4070	1.4043	1.4009	1.3879	1.3757
6 China, P.R./yuan	1.9809	2.3308	2.9434	3.2095	3.2095	3.2152	3.2202	3.2143	3.2014
7 Denmark/krone	9.1483	10.354	10.598	9.1221	8.9468	8.6048	8.4096	8.3928	8.2479
8 Finland/markka	5.5636	6.0007	6.1971	5.4824	5.4131	5.2465	5.1517	5.1235	5.0967
9 France/franc	7.6203	8.7355	8.9799	7.6849	7.4821	7.1575	6.9964	7.2060	7.0967
10 Germany/deutsche mark	2.5539	2.8454	2.9419	2.5122	2.4384	2.3317	2.2752	2.2732	2.2277
11 Greece/drachma	87.895	112.73	138.40	150.186	148.69	143.48	141.43	142.50	139.64
12 Hong Kong/dollar	7.2569	7.8188	7.7911	7.8064	7.8081	7.8042	7.8125	7.7957	7.8080
13 India/rupee	10.1040	11.348	12.332	12.1524	12.243	12.370	12.289	12.393	12.466
14 Ireland/pound[1]	124.81	108.64	106.62	122.48	124.75	129.79	132.87	133.71	136.62
15 Italy/lira	1519.30	1756.10	1908.90	1713.50	1663.14	1588.21	1548.43	1559.45	1528.50
16 Japan/yen	237.55	237.45	238.47	202.79	199.89	184.85	178.69	175.09	167.03
17 Malaysia/ringgit	2.3204	2.3448	2.4806	2.4291	2.4489	2.4704	2.5367	2.5981	2.5978
18 Netherlands/guilder	2.8543	3.2083	3.3184	2.8293	2.7489	2.6343	2.5678	2.5629	2.5082
19 New Zealand/dollar[1]	66.790	57.837	49.752	52.633	51.657	53.177	52.820	56.127	56.666
20 Norway/krone	7.3012	8.1596	8.5933	7.6524	7.5541	7.2789	7.1711	7.1603	7.4106
21 Portugal/escudo	111.610	147.70	172.07	160.798	157.99	152.63	149.40	150.79	149.12
22 Singapore/dollar	2.1136	2.1325	2.2008	2.1213	2.1289	2.1401	2.1600	2.1880	2.2157
23 South Africa/rand[1]	89.85	69.534	45.57	37.05	42.40	47.94	49.04	48.77	45.67
24 South Korea/won	776.04	807.91	861.89	893.13	892.75	888.57	886.66	887.95	889.09
25 Spain/peseta	143.500	160.78	169.98	156.052	152.91	147.31	143.06	144.11	141.62
26 Sri Lanka/rupee	23.510	25.428	27.187	27.420	26.342	27.596	27.623	27.791	27.932
27 Sweden/krona	7.6717	8.2706	8.6031	7.6817	7.5938	7.3997	7.2610	7.2433	7.1458
28 Switzerland/franc	2.1006	2.3500	2.4551	2.1042	2.0660	1.9547	1.9150	1.9016	1.8538
29 Taiwan/dollar	n.a.	39.633	39.889	39.906	39.405	39.239	39.027	38.689	38.460
30 Thailand/baht	22.991	23.582	27.193	26.715	26.676	26.492	26.418	26.429	26.327
31 United Kingdom/pound[1]	151.59	133.66	129.74	144.47	142.44	142.97	146.74	149.85	152.11
MEMO									
32 United States/dollar[2]	125.34	138.19	143.01	125.80	123.65	118.77	116.05	115.67	113.27

1. Value in U.S. cents.
2. Index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland. March 1973 = 100. Weights are 1972–76 global trade of each of the 10 countries. Series revised as of August 1978. For description and back data, see "Index of the Weighted-Average Exchange Value of the U.S. Dollar: Revision" on p. 700 of the August 1978 BULLETIN.
3. Currency reform.

NOTE. 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) release. For address, see inside front cover.

Guide to Tabular Presentation, Statistical Releases, and Special Tables

GUIDE TO TABULAR PRESENTATION

Symbols and Abbreviations

c	Corrected
e	Estimated
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
n.a.	Not available
n.e.c.	Not elsewhere classified
IPCs	Individuals, partnerships, and corporations
REITs	Real estate investment trusts
RPs	Repurchase agreements
SMSAs	Standard metropolitan statistical areas
. . .	Cell not applicable

General Information

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.

In some of the tables details do not add to totals because of rounding.

STATISTICAL RELEASES

List Published Semiannually, with Latest Bulletin Reference

SPECIAL TABLES

Published Irregulary, with Latest Bulletin Reference

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, May 5-9, 1986[1]

A. Commercial and Industrial Loans

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
			Days	Weighted average effective[3]	Standard error[4]	Inter-quartile range[5]		
ALL BANKS								
1 Overnight[6]	16,796,379	6,319	*	7.45	.09	7.28–7.65	79.3	1.4
2 One month and under	7,400,682	630	18	7.97	.09	7.41–8.20	68.3	8.5
3 Fixed rate	5,582,297	869	17	7.82	.08	7.38–8.04	63.4	6.0
4 Floating rate	1,818,385	342	21	8.45	.21	7.51–9.14	83.2	16.1
5 Over one month and under a year	8,758,794	94	145	9.02	.26	7.65–9.92	70.0	16.5
6 Fixed rate	3,872,503	75	117	8.89	.32	7.64–9.74	61.4	13.6
7 Floating rate	4,886,291	116	167	9.12	.23	7.72–9.92	76.9	18.8
8 Demand[7]	6,444,800	181	*	8.84	.12	7.76–9.65	74.7	7.1
9 Fixed rate	1,067,107	278	*	8.00	.12	7.32–8.30	75.7	1.0
10 Floating rate	5,377,693	169	*	9.01	.11	8.17–9.92	74.5	8.3
11 Total short term	**39,400,655**	**275**	**43**	**8.13**	**.18**	**7.36–8.78**	**74.4**	**7.0**
12 Fixed rate (thousands of dollars)	25,923,503	406	23	7.75	.19	7.30–7.88	72.5	3.8
13 1–24	340,596	7	115	11.90	.23	10.75–12.96	19.3	.1
14 25–49	246,526	33	117	11.36	.25	9.70–12.75	26.3	3.3
15 50–99	234,280	64	103	10.75	.30	9.84–11.84	26.9	.1
16 100–499	502,385	190	99	9.91	.25	8.87–10.49	52.8	5.1
17 500–999	313,732	649	68	8.78	.18	7.76–9.42	62.2	9.6
18 1000 and over	24,285,983	7,587	18	7.57	.07	7.30–7.79	74.7	3.8
19 Floating rate (thousands of dollars)	13,477,153	169	105	8.85	.16	7.66–9.69	78.1	13.3
20 1–24	405,983	10	160	10.82	.14	9.92–11.49	67.2	1.7
21 25–49	414,745	34	155	10.41	.07	9.65–11.02	63.8	2.2
22 50–99	624,411	66	153	10.04	.05	9.38–10.52	66.1	4.9
23 100–499	2,325,315	194	154	9.80	.08	8.87–10.38	69.8	4.8
24 500–999	1,075,887	634	143	9.45	.06	8.84–9.92	72.1	5.6
25 1000 and over	8,630,812	4,141	83	8.26	.15	7.42–8.84	83.2	18.2
			Months					
26 Total long term	**5,130,929**	**221**	**50**	**9.07**	**.21**	**7.76–9.92**	**75.4**	**14.9**
27 Fixed rate (thousands of dollars)	1,562,951	162	49	9.06	.34	7.44–10.47	64.6	5.9
28 1–99	138,468	16	46	12.28	.45	11.02–12.75	12.9	.6
29 100–499	121,037	171	87	11.45	.33	10.47–12.19	19.5	3.3
30 500–999	22,967	665	67	9.39	.36	8.93–10.33	65.5	7.2
31 1000 and over	1,280,480	5,648	46	8.48	.31	7.39–9.03	74.5	6.8
32 Floating rate (thousands of dollars)	3,567,977	263	51	9.07	.16	8.19–9.92	80.1	18.9
33 1–99	249,406	24	48	10.54	.15	9.84–11.02	40.0	2.0
34 100–499	442,587	204	52	9.85	.08	9.38–10.38	72.6	7.7
35 500–999	216,735	639	49	9.47	.11	8.84–9.96	82.9	16.7
36 1000 and over	2,659,250	4,450	51	8.77	.19	7.78–9.58	84.9	22.5

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Days	Loan rate (percent)		Prime rate[9]	Loans made under commitment (percent)	Participation loans (percent)
				Effective[3]	Nominal[8]			
LOANS MADE BELOW PRIME[10]								
37 Overnight[6]	16,214,379	9,774	*	7.39	7.21	8.50	79.4	1.5
38 One month and under	6,358,788	3,968	18	7.68	7.41	8.52	73.6	12.7
39 Over one month and under a year	4,294,210	614	124	7.84	7.61	8.65	80.5	22.4
40 Demand[7]	2,618,224	2,186	*	7.69	7.45	8.54	70.3	2.7
41 Total short term	**29,485,601**	**2,574**	**25**	**7.54**	**7.33**	**8.53**	**77.5**	**7.1**
42 Fixed rate	23,535,840	3,091	17	7.50	7.30	8.51	76.5	4.9
43 Floating rate	5,949,760	1,550	68	7.73	7.47	8.61	81.4	15.4
			Months					
44 Total long term	**2,171,279**	**1,065**	**46**	**7.83**	**7.61**	**8.63**	**84.4**	**11.4**
45 Fixed rate	914,661	1,088	44	7.75	7.58	8.58	77.3	5.6
46 Floating rate	1,256,619	1,049	47	7.89	7.62	8.67	89.7	15.6

For notes see end of table.

4.23 Continued

A. Continued

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
			Days	Weighted average effective[3]	Standard error[4]	Inter-quartile range[5]		
LARGE BANKS								
1 Overnight[6]	13,866,576	9,379	*	7.46	.09	7.28–7.65	82.0	1.6
2 One month and under	5,134,695	2,275	18	7.86	.08	7.38–8.10	64.0	7.8
3 Fixed rate	3,992,087	3,601	17	7.77	.10	7.38–7.96	57.7	2.8
4 Floating rate	1,142,608	995	21	8.17	.19	7.50–8.84	85.8	25.0
5 Over one month and under a year	4,443,531	474	138	8.25	.07	7.51–8.84	84.3	15.4
6 Fixed rate	2,064,793	1,002	121	8.09	.14	7.63–8.33	78.5	8.4
7 Floating rate	2,378,738	325	152	8.39	.12	7.50–8.87	89.3	21.4
8 Demand[7]	3,066,425	354	*	8.79	.16	7.88–9.42	76.1	1.6
9 Fixed rate	469,712	542	*	8.01	.19	7.24–8.84	70.2	.3
10 Floating rate	2,596,713	333	*	8.93	.14	8.30–9.65	77.2	1.8
11 **Total short term**	**26,511,227**	**1,218**	**31**	**7.83**	**.09**	**7.32–8.06**	**78.2**	**5.1**
12 Fixed rate (thousands of dollars)	19,229,477	3,632	18	7.59	.09	7.30–7.79	75.9	2.0
13 1–24	15,037	10	105	11.10	.32	9.85–12.13	49.1	.0
14 25–49	13,299	33	98	10.35	.18	9.38–11.03	51.4	.0
15 50–99	25,666	67	71	10.19	.42	9.38–10.92	60.1	.4
16 100–499	132,273	215	58	9.28	.15	8.84–9.92	58.0	2.4
17 500–999	159,661	649	59	8.64	.12	7.92–9.18	67.9	2.8
18 1000 and over	18,883,542	9,012	17	7.56	.08	7.30–7.79	76.1	2.0
19 Floating rate (thousands of dollars)	7,281,749	442	83	8.45	.13	7.50–9.11	84.2	13.4
20 1–24	68,312	11	164	10.34	.12	9.65–11.02	77.6	.3
21 25–49	84,255	34	167	10.20	.08	9.65–11.02	77.7	.4
22 50–99	161,833	67	154	9.96	.07	9.38–10.47	77.8	.4
23 100–499	723,399	197	138	9.68	.06	8.84–10.20	77.2	2.0
24 500–999	439,855	657	129	9.47	.11	8.84–9.93	80.6	6.7
25 1000 and over	5,804,096	5,406	72	8.14	.14	7.41–8.84	85.7	16.0
			Months					
26 **Total long term**	**3,322,932**	**1,114**	**51**	**8.72**	**.21**	**7.63–9.54**	**82.8**	**8.0**
27 Fixed rate (thousands of dollars)	1,066,433	1,494	45	8.54	.47	7.44–9.21	72.9	3.0
28 1–99	9,278	21	50	11.70	.80	9.96–12.68	31.7	.0
29 100–499	16,592	217	55	9.87	.30	8.84–10.52	61.7	3.1
30 500–999	18,839	695	57	9.40	.51	8.84–10.33	66.7	.0
31 1000 and over	1,021,725	5,735	44	8.47	.48	7.39–8.84	73.6	3.1
32 Floating rate (thousands of dollars)	2,256,498	995	53	8.81	.09	7.83–9.65	87.6	10.3
33 1–99	35,899	35	41	10.14	.13	9.65–10.75	66.8	4.5
34 100–499	135,264	206	47	9.58	.10	9.04–9.96	77.6	14.8
35 500–999	137,829	661	52	9.36	.05	8.84–9.96	82.5	11.9
36 1000 and over	1,947,507	4,985	54	8.69	.10	7.75–9.38	89.0	10.0
			Days	Loan rate (percent): Effective[3]	Loan rate (percent): Nominal[8]	Prime rate[9]		
LOANS MADE BELOW PRIME[10]								
37 Overnight[6]	13,298,928	11,289	*	7.39	7.23	8.50	82.2	1.7
38 One month and under	4,640,134	6,261	17	7.69	7.42	8.50	70.2	13.1
39 Over one month and under a year	3,163,950	4,723	122	7.72	7.49	8.50	88.6	19.9
40 Demand[7]	1,346,766	3,803	*	7.83	7.57	8.50	65.8	.1
41 **Total short term**	**22,449,778**	**7,628**	**23**	**7.52**	**7.33**	**8.50**	**79.6**	**6.5**
42 Fixed rate	18,228,722	8,215	16	7.49	7.30	8.50	78.5	3.6
43 Floating rate	4,221,056	5,828	61	7.68	7.42	8.50	84.8	19.2
			Months					
44 **Total long term**	**1,717,401**	**5,476**	**47**	**7.76**	**7.55**	**8.50**	**84.0**	**6.0**
45 Fixed rate	727,698	6,135	43	7.66	7.50	8.50	75.5	4.4
46 Floating rate	989,703	5,075	49	7.84	7.58	8.50	90.3	7.2

For notes see end of table.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS SURVEY of Loans Made, May 5–9, 1986[1]—Continued

A. Commercial and Industrial Loans—Continued

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
			Days	Weighted average effective[3]	Standard error[4]	Inter-quartile range[5]		
OTHER BANKS								
1 Overnight[6]	2,929,803	2,483	*	7.39	.16	7.32–7.65	66.6	.6
2 One month and under	2,265,987	239	20	8.23	.14	7.41–8.54	78.0	10.2
3 Fixed rate	1,590,210	299	19	7.94	.12	7.38–8.20	77.7	14.0
4 Floating rate	675,777	162	21	8.91	.35	7.55–9.93	78.7	1.1
5 Over one month and under a year	4,315,263	51	152	9.81	.19	8.78–10.65	55.3	17.7
6 Fixed rate	1,807,710	37	114	9.79	.40	7.64–11.48	41.8	19.5
7 Floating rate	2,507,553	72	180	9.82	.13	8.87–10.47	65.1	16.3
8 Demand[7]	3,378,375	125	*	8.89	.18	7.73–9.92	73.4	12.2
9 Fixed rate	597,395	201	*	7.99	.17	7.32–8.30	80.1	1.6
10 Floating rate	2,780,980	116	*	9.08	.16	8.12–9.92	72.0	14.4
11 Total short term	**12,889,429**	**106**	**74**	**8.74**	**.22**	**7.45–9.84**	**66.6**	**11.0**
12 Fixed rate (thousands of dollars)	6,694,025	114	39	8.21	.29	7.34–8.31	62.6	9.0
13 1–24	325,560	7	115	11.94	.23	10.92–12.96	17.9	.1
14 25–49	233,227	33	118	11.41	.31	9.84–12.75	24.8	3.5
15 50–99	208,614	64	106	10.82	.40	9.84–12.06	22.8	.1
16 100–499	370,112	182	111	10.13	.36	9.11–11.02	50.9	6.1
17 500–999	154,071	648	78	8.92	.31	7.71–9.92	56.3	16.6
18 1000 and over	5,402,440	4,887	23	7.60	.12	7.32–7.79	69.5	10.1
19 Floating rate (thousands of dollars)	6,195,403	98	136	9.31	.15	8.77–9.96	70.9	13.2
20 1–24	337,672	9	159	10.92	.19	9.92–11.57	65.1	2.0
21 25–49	330,490	34	153	10.46	.07	9.73–11.02	60.3	2.7
22 50–99	462,578	66	152	10.06	.07	9.35–10.65	62.0	6.5
23 100–499	1,601,917	192	160	9.85	.14	8.87–10.47	66.4	6.1
24 500–999	636,032	620	151	9.43	.07	8.84–9.92	66.2	4.9
25 1000 and over	2,826,715	2,797	111	8.52	.26	7.50–9.42	78.0	22.8
			Months					
26 Total long term	**1,807,997**	**89**	**50**	**9.70**	**.25**	**8.77–10.47**	**61.7**	**27.7**
27 Fixed rate (thousands of dollars)	496,518	55	58	10.17	.36	8.17–11.57	46.9	12.2
28 1–99	129,189	16	45	12.32	.36	11.02–12.75	11.5	.6
29 100–499	104,445	165	92	11.71	.33	11.02–12.19	12.8	3.3
30 500–999	4,128	554	113	9.37	.36	8.93–9.65	60.1	39.9
31 1000 and over	258,755	5,327	50	8.48	.43	7.36–9.03	78.1	21.1
32 Floating rate (thousands of dollars)	1,311,479	116	47	9.52	.21	8.77–10.38	67.3	33.6
33 1–99	213,507	23	49	10.61	.20	9.84–11.02	35.5	1.5
34 100–499	307,323	203	54	9.96	.07	9.42–10.47	70.4	4.6
35 500–999	78,906	604	43	9.66	.20	9.17–10.38	83.7	25.2
36 1000 and over	711,743	3,439	44	8.99	.34	8.57–9.92	73.7	56.7
			Days	Loan rate (percent)		Prime rate[9]		
				Effective[3]	Nominal[8]			
LOANS MADE BELOW PRIME[10]								
37 Overnight[6]	2,915,452	6,063	*	7.37	7.11	8.50	66.5	.6
38 One month and under	1,718,654	1,995	19	7.65	7.39	8.56	82.8	11.5
39 Over one month and under a year	1,130,259	179	129	8.18	7.94	9.08	58.1	29.3
40 Demand[7]	1,271,458	1,507	*	7.54	7.33	8.57	75.1	5.5
41 Total short term	**7,035,823**	**827**	**32**	**7.60**	**7.35**	**8.62**	**70.7**	**8.8**
42 Fixed rate	5,307,119	984	20	7.52	7.27	8.54	69.9	9.5
43 Floating rate	1,728,704	555	94	7.84	7.60	8.87	73.1	6.4
			Months					
44 Total long term	**453,878**	**263**	**43**	**8.10**	**7.83**	**9.13**	**86.2**	**31.7**
45 Fixed rate	186,963	259	48	8.12	7.89	8.88	84.4	10.2
46 Floating rate	266,915	266	40	8.08	7.79	9.30	87.4	46.8

For notes see end of table.

4.23 Continued

B. Construction and Land Development Loans

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity (months)[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
				Weighted average effective[3]	Standard error[4]	Inter-quartile range[5]		
ALL BANKS								
1 **Total**	**1,629,242**	**101**	**14**	**10.07**	**.27**	**8.84–11.02**	**71.5**	**13.1**
2 Fixed rate (thousands of dollars)	526,640	77	14	10.78	.46	9.04–12.63	63.3	8.9
3 1–24	41,742	11	10	11.97	.29	11.57–12.75	45.8	6.5
4 25–49	37,884	38	17	12.27	.55	12.01–13.44	21.9	.3
5 50–99	69,873	73	30	12.78	.51	12.68–12.96	71.3	.6
6 100–499	143,757	137	16	11.80	.34	11.57–12.63	42.7	.8
7 500 and over	233,385	2,532	7	9.11	.51	8.44–9.92	83.4	18.1
8 Floating rate (thousands of dollars)	1,102,602	119	14	9.73	.21	8.82–10.47	75.4	15.1
9 1–24	41,688	11	7	10.66	.10	10.21–11.02	82.9	.4
10 25–49	56,557	34	10	10.82	.11	10.20–11.02	76.4	1.5
11 50–99	99,677	65	13	10.64	.13	9.92–11.30	63.0	4.6
12 100–499	337,730	188	17	9.83	.10	8.87–10.47	70.2	1.4
13 500 and over	566,949	1,579	13	9.34	.28	8.77–9.92	80.1	27.6
By type of construction								
14 Single family	329,503	46	19	10.67	.23	9.82–12.61	67.3	.7
15 Multifamily	157,296	139	15	10.61	.17	9.38–12.63	59.1	.9
16 Nonresidential	1,142,444	146	12	9.82	.27	8.82–10.88	74.4	18.3
LARGE BANKS[11]								
1 **Total**	**454,086**	**461**	**11**	**9.18**	**.39**	**8.46–9.96**	**78.0**	**13.2**
2 Fixed rate (thousands of dollars)	93,056	465	3	9.21	.57	9.04–9.18	90.8	1.7
3 1–24	1,230	8	7	11.58	.36	11.07–12.13	84.6	21.0
4 25–49	*	*	*	*	*	*	*	*
5 50–99	*	*	*	*	*	*	*	*
6 100–499	*	*	*	*	*	*	*	*
7 500 and over	*	*	*	*	*	*	*	*
8 Floating rate (thousands of dollars)	361,030	460	13	9.17	.39	7.66–10.20	74.7	16.2
9 1–24	2,592	10	9	10.41	.14	9.92–11.02	86.0	2.9
10 25–49	3,884	35	12	10.29	.07	9.92–10.48	86.7	5.9
11 50–99	8,103	71	11	10.10	.12	9.65–10.47	85.5	2.0
12 100–499	49,368	249	12	10.08	.04	9.92–10.47	91.3	2.9
13 500 and over	297,082	3,034	13	8.97	.49	7.66–9.92	71.3	19.1
By type of construction								
14 Single family	28,504	75	10	10.29	.05	9.92–10.47	63.8	5.8
15 Multifamily	54,650	235	10	10.15	.17	9.65–10.47	76.5	1.2
16 Nonresidential	370,932	996	11	8.95	.45	7.66–9.92	79.3	15.6
OTHER BANKS[11]								
1 **Total**	**1,175,156**	**78**	**15**	**10.41**	**.26**	**9.31–11.57**	**69.0**	**13.0**
2 Fixed rate (thousands of dollars)	433,584	65	16	11.12	.59	9.92–12.63	57.4	10.4
3 1–24	40,512	11	10	11.98	.44	11.57–12.75	44.6	6.0
4 25–49	37,363	38	17	12.29	.54	12.01–13.44	21.3	.0
5 50–99	69,220	73	30	12.81	.50	12.68–12.96	71.1	.0
6 100–499	141,320	136	16	11.83	.33	11.57–12.63	41.8	.3
7 500 and over	145,170	1,820	10	9.09	.70	7.12–10.06	79.0	29.2
8 Floating rate (thousands of dollars)	741,572	88	14	10.00	.19	9.30–10.47	75.8	14.6
9 1–24	39,096	11	7	10.68	.12	10.29–11.02	82.7	.2
10 25–49	52,672	34	10	10.86	.14	10.31–11.02	75.6	1.1
11 50–99	91,574	65	14	10.68	.22	9.92–11.30	61.0	4.8
12 100–499	288,363	180	17	9.78	.21	8.87–10.47	66.5	1.2
13 500 and over	269,867	1,033	12	9.74	.30	8.84–9.92	89.8	36.9
By type of construction								
14 Single family	300,999	45	20	10.70	.39	9.65–12.68	67.6	.3
15 Multifamily	102,645	114	17	10.86	.29	9.30–12.63	49.8	.8
16 Nonresidential	771,512	104	12	10.24	.25	9.05–11.30	72.1	19.7

For notes see end of table.

*Fewer than 10 sample loans.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS SURVEY of Loans Made, May 5–9, 1986[1]—Continued

C. Loans to Farmers[11]

Characteristics	Size class of loans (thousands)						
	All sizes	$1–9	$10–24	$25–49	$50–99	$100–249	$250 and over
All Banks							
1 Amount of loans (thousands of dollars)	1,148,530	129,811	168,975	148,588	140,714	217,576	342,866
2 Number of loans	55,898	36,077	11,162	4,598	2,165	1,553	343
3 Weighted average maturity (months)[2]	9.3	7.7	9.4	10.8	10.5	11.7	6.8
4 Weighted average interest rate (percent)[3]	11.52	12.41	12.13	11.93	11.79	11.22	10.78
5 Standard error[4]	.53	.28	.26	.38	.29	.56	.81
6 Interquartile range[5]	10.64–12.63	11.51–13.23	11.18–13.00	11.00–12.89	10.92–12.82	10.47–11.91	9.32–11.91
By purpose of loan							
7 Feeder livestock	11.31	12.65	12.11	12.39	12.31	10.55	9.52
8 Other livestock	11.69	12.02	13.58	12.25	*	*	9.85
9 Other current operating expenses	11.56	12.40	11.87	11.62	11.46	11.50	10.86
10 Farm machinery and equipment	12.47	12.76	12.82	12.62	*	*	*
11 Other	11.30	12.27	11.64	11.95	10.92	11.02	11.19
Percentage of amount of loans							
12 With floating rates	60.0	43.7	42.4	48.6	49.8	61.8	82.8
13 Made under commitment	49.1	41.0	40.5	38.1	48.2	46.6	63.3
By purpose of loan							
14 Feeder livestock	14.7	6.5	10.2	14.0	35.3	14.6	11.8
15 Other livestock	8.2	5.5	11.3	7.7	*	*	5.5
16 Other current operating expenses	50.1	71.2	61.0	51.3	38.9	47.2	42.7
17 Farm machinery and equipment	4.6	7.4	6.9	9.2	*	*	*
18 Other	22.4	9.3	10.6	17.8	11.6	21.9	39.9
Large Banks[11]							
1 Amount of loans (thousands of dollars)	253,542	7,806	14,938	14,641	22,511	43,715	149,931
2 Number of loans	4,365	2,111	992	439	344	295	184
3 Weighted average maturity (months)[2]	6.4	7.6	7.1	6.8	10.8	4.9	6.2
4 Weighted average interest rate (percent)[3]	9.67	10.88	10.50	10.36	10.16	10.08	9.27
5 Standard error[4]	.52	.26	.18	.37	.18	.49	.32
6 Interquartile range[5]	8.84–10.38	10.11–11.53	9.84–11.07	9.62–11.02	9.69–10.65	9.31–10.78	8.57–9.84
By purpose of loan							
7 Feeder livestock	9.69	10.74	10.37	10.32	9.99	9.78	9.52
8 Other livestock	9.85	10.24	10.80	*	*	*	9.85
9 Other current operating expenses	9.79	10.91	10.65	10.38	10.39	10.27	9.23
10 Farm machinery and equipment	11.20	12.88	*	*	*	*	*
11 Other	9.34	10.88	10.22	10.23	10.03	10.25	*
Percentage of amount of loans							
12 With floating rates	71.9	78.4	86.6	86.8	90.8	89.7	60.7
13 Made under commitment	83.3	78.8	79.0	77.9	86.9	86.1	83.1
By purpose of loan							
14 Feeder livestock	25.7	13.8	12.6	15.5	24.1	32.0	27.1
15 Other livestock	9.8	6.3	5.6	*	*	*	12.6
16 Other current operating expenses	39.7	60.5	55.1	50.6	45.4	36.8	36.1
17 Farm machinery and equipment	.8	2.1	*	*	*	*	*
18 Other	23.9	17.3	26.3	24.2	25.6	22.1	*
Other Banks[11]							
1 Amount of loans (thousands of dollars)	894,987	122,005	154,037	133,947	118,203	173,861	*
2 Number of loans	51,534	33,966	10,170	4,159	1,821	1,258	*
3 Weighted average maturity (months)[2]	10.1	7.8	9.5	11.1	10.5	13.0	*
4 Weighted average interest rate (percent)[3]	12.04	12.51	12.29	12.10	12.11	11.51	*
5 Standard error[4]	.10	.09	.17	.05	.22	.26	*
6 Interquartile range[5]	11.46–12.82	11.65–13.28	11.41–13.15	11.07–12.90	11.63–12.82	10.80–12.29	*
By purpose of loan							
7 Feeder livestock	12.34	12.93	12.32	12.64	12.59	*	*
8 Other livestock	12.35	12.15	13.70	*	*	*	*
9 Other current operating expenses	11.93	12.48	11.98	11.75	11.71	11.72	*
10 Farm machinery and equipment	12.52	12.76	12.83	*	*	*	*
11 Other	11.90	12.44	12.04	12.22	*	*	*
Percentage of amount of loans							
12 With floating rates	56.6	41.4	38.1	44.4	42.0	54.7	*
13 Made under commitment	39.5	38.6	36.7	33.8	40.9	36.7	*
By purpose of loan							
14 Feeder livestock	11.5	6.1	10.0	13.8	37.4	*	*
15 Other livestock	7.7	5.4	11.9	*	*	*	*
16 Other current operating expenses	53.0	71.9	61.5	51.4	37.6	49.8	*
17 Farm machinery and equipment	5.7	7.8	7.6	*	*	*	*
18 Other	22.0	8.8	9.0	17.1	*	*	*

For notes see following page.

NOTES TO TABLE 4.23

1. The survey of terms of bank lending to business collects data on gross loan extensions made during the first full business week in the mid-month of each quarter by a sample of 340 commercial banks of all sizes. The sample data are blown up to estimate the lending terms at all insured commercial banks during that week. The estimated terms of bank lending are not intended for use in collecting the terms of loans extended over the entire quarter or residing in the portfolios of those banks. Construction and land development loans include both unsecured loans and loans secured by real estate. Thus, some of the construction and land development loans would be reported on the statement of condition as real estate loans and the remainder as business loans. The survey of terms of bank lending to farmers covers about 250 banks selected to represent all sizes of banks. Mortgage loans, purchased loans, foreign loans, and loans of less than $1,000 are excluded from the survey.

As of Dec. 31, 1985, assets of most of the large banks were at least $5.5 billion. For all insured banks total assets averaged $165 million.

2. The weighted average maturity is calculated only for loans with a stated date of maturity (that is, loans payable on demand are excluded). In computing the average, each loan is weighted by its dollar amount.

3. The approximate compounded annual interest rate on each loan is calculated from survey data on the stated rate and other terms of the loan; then, in computing the average of these approximate effective rates, each loan is weighted by its dollar amount.

4. The chances are about two out of three that the average rate shown would differ by less than this amount from the average rate that would be found by a complete survey of lending at all banks.

5. The interquartile range shows the interest rate range that encompasses the middle 50 percent of the total dollar amount of loans made.

6. Overnight loans are loans that mature on the following business day.

7. Demand loans have no stated date of maturity.

8. The approximate annual interest rate on each loan—without regard to compounding—is calculated from survey data on the stated rate and other terms of the loan; then in computing the average of these approximate nominal rates, each loan is weighted by its dollar amount.

9. The prime rate reported by each bank is weighted by the volume of loans extended and then averaged.

10. This survey provides data on gross loan extensions made during one week of each quarter. The proportion of these loan extensions that is made at rates below prime may vary substantially from the proportion of such loans outstanding in bank loan portfolios.

11. Among banks reporting loans to farmers, most "large banks" had over $1 billion in total assets, and most "other banks" had total assets below $1 billion.

NOTE: Through February 1986, the large bank category was comprised of 48 banks having the largest volume of C&I loans outstanding at the inception of the survey in 1977. Beginning with the May 1986 survey, estimates for this category of banks are based on a sample of 48 banks chosen to represent all of the nation's largest banks in terms of business lending. Additional information concerning this series break is available upon request from the Banking Section, Division of Research and Statistics.

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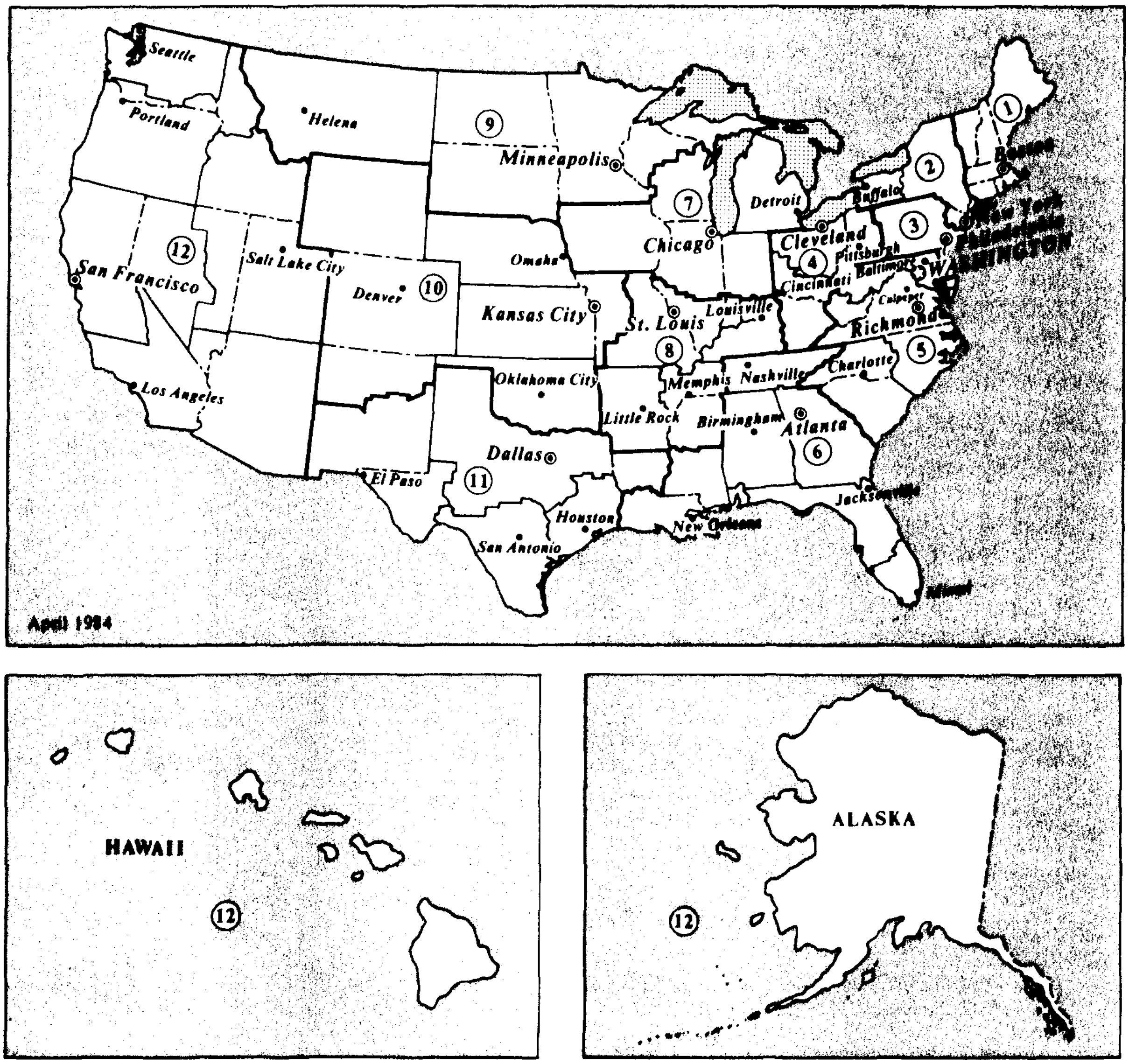

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