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Table of Contents

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Thrift Involvement in Commercial and Industrial Lending

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The rapid pace of mergers and acquisitions among financial institutions in recent years has heightened the need to understand competition in banking markets. Questions often arise as to the most appropriate ways to measure competition. One particular issue that has received attention from the bank regulators and antitrust officials who analyze the competitive effects of proposed bank mergers is the weight that should be given to thrift institutions as actual or potential competitors of commercial banks in the provision of financial services. The question arises because, historically, the menu of financial services offered by thrift institutions has been more limited than that offered by commercial banks.

Thrift institutions (savings and loan associations and savings banks) are financial intermediaries that raise funds primarily through time and savings deposits and invest principally in residential mortgages and consumer loans. Their focus on consumer accounts and loans, as opposed to business accounts and loans, is largely attributable to historical factors. Thrift institutions arose in the early nineteenth century to satisfy an unmet demand for small savings accounts and home mortgages in an era when commercial banks had little interest in these lines of business.

Savings and loan associations (originally called building and loan societies) were established to enable wage earners to obtain funds to build or purchase homes. Their balance sheets consisted primarily of residential mortgages on the asset side and savings shares on the liability side. Savings banks were established to encourage savings by poorer members of the working class. Their liabilities consisted mainly of savings deposits, and their assets were somewhat more diversified than those of savings and loan associations, including consumer loans in addition to residential mortgages. Subsequent regulations, at both the state and federal levels, limited the types of deposit accounts that thrifts were permitted to offer and the extent to which they were allowed to invest in non-mortgage assets. The relaxation of federal restrictions (particularly those affecting commercial and industrial lending) starting in the early 1980s has led to greater portfolio diversification by many thrift institutions; however, few thrifts have taken full advantage of their expanded powers.[1]

The limited range of financial services typically offered by thrift institutions compared with commercial banks raises a challenging question for those responsible for assessing the competitive effects of proposed bank mergers and acquisitions.[2] Should thrifts and commercial banks be treated as equal competitors in local banking markets, or should the role of thrifts be discounted because of their less extensive involvement in the provision of commercial and industrial (C&I) loans and other business services?[3] Although the degree of actual competition

1. Several key pieces of legislation included provisions that expanded the commercial lending powers of federally chartered thrift institutions. The Depository Institutions Deregulation and Monetary Control Act of 1980 permitted federally chartered savings banks to engage in commercial and industrial (C&I) lending, up to 5 percent of their assets. The Garn–St Germain Act of 1982 empowered federally chartered savings and loan associations to engage in C&I lending, up to 10 percent of their assets, and increased the limit on federally chartered savings banks' C&I lending authority to 10 percent of their assets. More recently, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 increased the C&I lending limits for federally chartered thrift institutions to 20 percent of assets, with the stipulation that all C&I lending in excess of 10 percent of assets must be small business loans.

For a discussion of changes over time in thrift activities, see Jim Burke and Stephen A. Rhoades, "Commercial and Consumer Lending by Thrift Institutions," *Journal of Commercial Bank Lending* (May 1991), pp. 15–24; and Peter S. Rose, *The Changing Structure of American Banking* (Columbia University Press, 1987), pp. 303–24.

2. All proposed bank mergers and acquisitions must be approved by one of three federal banking regulators—the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), or the Federal Reserve. The charter type and Federal Reserve System membership status of the resulting institution and the type of acquiring firm (whether or not it is a bank holding company) determine which federal regulator has jurisdiction. In addition, all proposed bank mergers and acquisitions are subject to review by the Department of Justice, whose antitrust authority applies to most industries.

3. Federal regulators do not take a uniform approach to the treatment of thrift institutions in antitrust analysis. Whereas the FDIC and the OCC tend to treat thrifts and commercial banks equally, the Federal Reserve and the Justice Department in many instances discount the role of thrifts as competitors in the market for banking services. For example, in analyzing the competitive effects of proposed bank mergers, the Federal Reserve constructs measures of

provided by thrifts in the area of C&I lending may be modest, their role as potential competitors could be important. A thrift institution that is actively involved in residential mortgage and consumer lending in a local market could, at least in theory, quickly shift resources into commercial lending if it determines that the risk-adjusted profits to be derived from commercial lending exceed those associated with more traditional thrift activities. Likewise, a thrift that is involved in commercial lending to a very limited extent could increase its involvement in response to profitable lending opportunities. In practice, however, the specialized expertise needed to engage in C&I lending and the perceived need to offer a broad menu of financial services to commercial banking customers may inhibit thrifts from aggressively pursuing commercial lending opportunities.

This article assesses the role played by thrift institutions as competitors of commercial banks in the provision of commercial and industrial loans by examining variations in bank and thrift involvement in C&I lending both over time and across institutions and markets having different characteristics. Two aspects of involvement are examined. "Participation" is examined by looking at the proportions of commercial banks and thrifts that have some of their assets in C&I loans, as well as the proportions whose C&I loan-to-asset ratios are above 1 percent and above 5 percent. And "extent of involvement" is examined by looking at the average ratios of C&I loans to assets for banks and thrifts that engage in C&I lending. Also examined are the ways in which the change between 1991 and 1997 in an institution's involvement in C&I lending is related to certain institutional characteristics.

PATTERNS OF C&I LENDING ACTIVITY

To examine patterns of commercial and industrial lending, we looked at variations in lending activity over the period 1991 through 1997 and at the relationship between 1997 lending activity and such variables as institution size, ownership status, and geographic location.[4] The initial sample consisted of commercial banks and thrift institutions that filed either a midyear Report of Condition and Income (Call Report) or a midyear Thrift Financial Report. With certain exceptions, an institution that filed a report was included in the sample if its total assets were reported to be greater than zero and an amount was reported for total loans. Institutions that held more than 25 percent of their assets in credit card loans were excluded because institutions that are heavily involved in such lending often specialize in that activity and do not provide, and therefore do not compete for, many of the retail banking products and services typically provided by commercial banks. (The Federal Reserve typically excludes credit card banks from its analysis of the competitive effects of proposed bank mergers.) Data are as of June 30 of each year.

The two types of thrift institutions included in the analysis, savings banks and savings and loan associations (S&Ls), were examined separately because differences in their origins and in the regulatory restrictions applied to them might have caused them to behave differently with respect to C&I lending.[5]

Variations in C&I Lending Activity over Time

Over the period 1991–97, the number of commercial banks and thrift institutions declined substantially as a result of mergers, acquisitions, and, particularly in the early part of the period, failures.[6] Each year, banks were four to five times as numerous as thrifts (table 1). Within the thrift population, the number of savings banks remained virtually unchanged but the number of savings and loan associations declined more than 60 percent, with many S&Ls converting to savings banks.

Nearly all banks (more than 98 percent) had some of their assets in C&I loans each year, and at least 96 percent had more than 1 percent of their assets in such loans. The share of banks with at least 5 percent of their assets in C&I loans exhibited cyclical behavior, declining from 72 percent in 1991 to less than 69 percent in 1993 as the economy slowed, and then rising during the recovery to reach a level of nearly 76 percent in 1997.

market structure based on the shares of deposits held by institutions in a local geographic market. These measures include 100 percent of commercial bank deposits, but typically only 50 percent of thrift deposits (though in certain cases, they include 100 percent of thrift deposits).

4. The choice of time period was dictated by concerns about the data. The thrift crisis of the 1980s adversely affected the quantity and quality of data available for thrift institutions for several years before 1991.

5. Although credit unions are sometimes included in the definition of thrift institutions, they were excluded from the analysis because of their specialized nature. Credit unions are restricted to serving a group of people with a "common bond," such as membership in a fraternal organization or employment by the same employer. As such, their ability to compete with commercial banks, savings banks, and savings and loan associations is somewhat limited.

6. For brevity, we hereafter refer to commercial banks as "banks"; when the subject is savings banks, we use the full term.

1. C&I lending by banks and thrift institutions, 1991–97

Type of institution and year	Number of institutions	Institutions with some assets in C&I loans (percent)	Institutions with more than 1 percent of assets in C&I loans (percent)	Institutions with more than 5 percent of assets in C&I loans (percent)	C&I loans as a percent of assets[1]	
					Simple average	Asset-weighted average
COMMERCIAL BANKS						
1991	11,933	99.0	96.4	72.3	10.2	16.6
1992	11,484	99.0	96.4	69.8	9.6	15.0
1993	11,021	99.1	96.4	68.5	9.1	14.2
1994	10,557	99.1	96.8	69.9	9.2	14.0
1995	10,008	99.1	97.0	73.1	9.5	15.3
1996	9,526	99.0	97.2	74.5	9.9	15.3
1997	9,156	98.8	97.0	75.5	10.1	15.7
SAVINGS BANKS						
1991	1,253	76.2	41.7	13.0	2.6	3.4
1992	1,203	74.7	38.4	9.0	2.1	2.5
1993	1,288	71.1	34.9	7.9	2.0	1.5
1994	1,308	69.7	35.5	8.0	2.1	1.4
1995	1,289	71.5	38.3	9.1	2.2	1.7
1996	1,244	74.9	41.4	12.3	2.4	1.9
1997	1,178	77.3	45.2	13.9	2.7	2.0
SAVINGS AND LOAN ASSOCIATIONS						
1991	1,510	51.9	20.7	4.4	1.6	1.6
1992	1,239	48.4	18.8	2.7	1.4	1.1
1993	1,003	49.5	18.1	3.2	1.4	.8
1994	823	48.6	16.6	3.3	1.2	.7
1995	699	48.4	16.7	2.9	1.3	.6
1996	642	51.1	19.2	3.3	1.4	.8
1997	579	53.2	22.5	4.1	1.6	1.0

1. For institutions with some assets in C&I loans. See text note 8 for an explanation of simple and asset-weighted averages.

Although the proportion of thrift institutions engaged in C&I lending was smaller than the proportion of banks, it was still substantial (approximately three-quarters of the savings banks and half the S&Ls engaged in some C&I lending). However, many of these institutions had only a small share of their assets invested in C&I loans: In each year, only about half the thrifts that engaged in some C&I lending had ratios of C&I loans to assets greater than 1 percent. In contrast, the vast majority of banks that engaged in C&I lending had ratios greater than 1 percent. Moreover, the share of thrifts having ratios greater than 5 percent was quite low (less than 15 percent of savings banks and less than 5 percent of S&Ls).

Each of the three C&I lending participation measures for thrift institutions generally followed a pattern of declining and then rising over the study period, in most cases reaching the highest level for the period in 1997. This pattern may simply reflect the cyclical nature of business borrowing. However, the increase in thrift participation in the mid-to-late 1990s may, to some degree, reflect a change in thrift strategy toward greater involvement in such lending, which some analysts attribute to rising competition in residential mortgage lending from nondepository institutions. Support for the latter interpretation of the data is provided by the observation that many thrifts have in recent years eliminated the word "savings" from their organizations' names so as to convey to their current and potential customers the message that they now offer a broader array of products than has traditionally been offered by "savings" institutions.[7]

Of those institutions that engaged in some C&I lending, banks had annual simple average ratios of C&I loans to assets of 9.1 percent to 10.2 percent over the 1991–97 period, whereas savings banks and S&Ls had simple average ratios of only 2.0 percent to 2.7 percent and 1.2 percent to 1.6 percent respectively.[8] Like the participation ratios, the simple average ratios of C&I loans to assets first declined and then increased over the period. The annual asset-weighted average ratios of C&I loans to assets for banks were typically about 50 percent higher than the simple average ratios, while the weighted aver-

7. Matt Andrejczak, "Thrifts, Shifting Financial Roles, Find a Name Change Helps the Transition," *American Banker*, July 6, 1998.

8. Two types of averages for the ratio of C&I loans to assets were calculated—a simple average and an asset-weighted average. The simple average is the mean of the ratios of C&I loans to assets for all institutions of each charter type that had some assets in C&I loans; it can be viewed as an unweighted average because the C&I lending ratio of each institution receives equal weight in its computation. The asset-weighted average is total C&I loans for all institutions of each charter type divided by total assets for all institutions of each charter type that had some assets in C&I loans; it is a weighted average because an institution's influence on the average is proportional to its size, as measured by assets.

2. C&I lending by banks and thrift institutions, by size of institution, 1997

Type of institution and level of assets (millions of dollars)	Number of institutions	Institutions with some assets in C&I loans (percent)	Institutions with more than 1 percent of assets in C&I loans (percent)	Institutions with more than 5 percent of assets in C&I loans (percent)	C&I loans as a percent of assets[1]	
					Simple average	Asset-weighted average
COMMERCIAL BANKS						
0–25	1,510	96.7	92.8	62.5	8.2	8.3
26–50	2,150	99.3	97.5	73.4	9.4	9.4
51–100	2,334	99.3	97.9	77.0	10.3	10.2
101–250	1,975	99.4	98.1	79.6	10.7	10.7
251–1,000	856	98.5	98.1	84.3	11.6	11.6
More than 1,000	331	98.8	97.3	89.4	15.4	17.3
SAVINGS BANKS						
0–25	70	42.9	24.3	11.4	3.5	3.8
26–50	128	68.0	43.0	19.5	3.4	3.4
51–100	211	73.9	47.4	13.7	3.0	3.0
101–250	322	78.3	44.4	12.7	2.4	2.5
251–1,000	311	83.9	47.9	11.3	2.4	2.4
More than 1,000	136	91.2	50.0	19.1	2.5	1.8
SAVINGS AND LOAN ASSOCIATIONS						
0–25	70	21.4	12.9	4.3	2.8	2.9
26–50	111	42.3	17.1	5.4	1.8	1.9
51–100	153	52.9	25.5	4.6	1.6	1.7
101–250	145	62.1	26.9	2.1	1.5	1.5
251–1,000	81	72.8	23.5	4.9	1.1	1.0
More than 1,000	19	84.2	26.3	5.3	1.6	.7

1. See note 1 to table 1.

age ratios for thrifts were typically below the simple average ratios. This pattern suggests that among banks engaged in C&I lending, larger institutions are more heavily involved in commercial lending than smaller ones, while the opposite is true for thrifts.

Cross-Sectional Variations in C&I Lending Activity

To get a clearer picture of commercial and industrial lending by thrift institutions, lending activity in 1997 was examined in greater detail. Of interest were several factors that might be expected to be associated with cross-sectional variations in lending activity—institution size and ownership status, geographic region, local banking market concentration and type, and firm market share.

Institution Size

Institution size might be expected to influence thrift involvement in C&I lending, though the direction of influence is unclear. Larger thrifts might be more likely than smaller ones to diversify into nontraditional activities such as C&I lending, partly because they may have the financial resources needed to incur the substantial fixed costs often associated with entering a new line of business. Larger thrifts may also be more visible than smaller thrifts, so that businesses view them as more likely sources of commercial loans. However, though participation and the absolute level of involvement may increase with thrift size, C&I lending may not increase proportionally to other aspects of an institution's business. Thus, if the extent of involvement is measured as C&I loans as a share of assets, C&I lending may not be seen to increase with size. Indeed, the data do show that although thrift participation in C&I lending increases with size, average ratios of C&I loans to assets (for those institutions engaged in C&I lending) generally decrease with size (table 2).

For banks having assets of more than $25 million, participation in C&I lending does not vary significantly with institution size; participation is slightly (but statistically significantly) lower for banks having assets of $25 million or less. The proportion with more than 1 percent of their assets in C&I loans also does not vary with size for banks having assets of more than $25 million; however, the proportion with more than 5 percent of assets in such loans increases monotonically with size, from a low of 63 percent to a high of 89 percent.

Thrift participation in C&I lending varies far more with institution size than bank participation does. The proportion of savings banks participating in C&I lending rises with size, from a low of 43 percent for those having assets of $25 million or less to a high of

3. C&I lending by banks and thrift institutions, by ownership status, 1997

Type of institution and ownership status	Number of institutions	Institutions with some assets in C&I loans (percent)	Institutions with more than 1 percent of assets in C&I loans (percent)	Institutions with more than 5 percent of assets in C&I loans (percent)	C&I loans as a percent of assets[1]	
					Simple average	Asset-weighted average
COMMERCIAL BANKS						
Independent	2,048	98.1	94.6	65.1	9.3	10.0
Owned by bank holding company (no thrifts)	6,645	99.2	97.9	78.5	10.4	15.0
Owned by bank holding company (with thrifts)	463	95.9	94.6	78.2	10.9	17.5
SAVINGS BANKS						
Independent	885	74.7	41.8	12.0	2.5	1.6
Owned by thrift holding company	186	80.6	48.4	15.1	2.7	1.6
Owned by bank holding company	107	92.5	67.3	28.0	4.1	3.9
SAVINGS AND LOAN ASSOCIATIONS						
Independent	547	51.6	21.9	4.0	1.6	1.0
Owned by thrift holding company	20	75.0	20.0	.0	.9	.9
Owned by bank holding company	12	91.7	50.0	16.7	2.8	1.6

1. See note 1 to table 1.

91 percent for those having assets of more than $1 billion. A similar monotonic relationship between participation in C&I lending and institution size exists for S&Ls, with the participation rate rising from 21 percent to 84 percent with increasing size. For both types of thrifts, differences in the participation rate between the largest and smallest institutions are highly statistically significant, as are many of the differences between adjacent size categories. The share of thrifts with C&I loan-to-asset ratios greater than 1 percent and 5 percent varies somewhat irregularly with institution size.

For banks involved in C&I lending, average ratios of C&I loans to assets (both simple and weighted) increase with size, with the ratios for the largest institutions (simple average of 15.4 percent, weighted average of 17.3 percent) being approximately double those for the smallest institutions (simple average of 8.2 percent, weighted average of 8.3 percent). (The difference in simple averages between the smallest and largest size categories is significant at the 0.01 level.) In contrast, for thrifts involved in C&I lending, average ratios of C&I loans to assets tend to decrease with size, with the simple average ratio ranging from 3.5 percent to 2.4 percent for savings banks and from 2.8 percent to 1.1 percent for savings and loan associations. (For savings banks, the difference in simple averages between the smallest and largest size categories is significant at the 0.10 level, but for S&Ls the difference is not statistically significant.) Thus, whereas the extent of bank involvement in C&I lending (as a share of assets) is positively related to institution size, the extent of thrift involvement is, for the most part, negatively related to size.

Ownership Status

Ownership status may also influence thrift involvement in C&I lending. Thrifts owned by bank holding companies might be expected to behave more like banks, and thus to be more heavily involved in C&I lending, than independent thrifts or those owned by thrift holding companies. Managers of thrifts affiliated with bank holding companies are likely either to have commercial lending expertise themselves or to have access to others in the holding company who have such expertise.[9]

Bank participation in C&I lending does not vary much with ownership status, except that independent banks are less likely than banks owned by holding companies to have more than 5 percent of their assets in C&I loans (table 3). Nearly all banks, regardless of their ownership status, hold at least 1 percent of their assets in such loans.

Thrift participation in C&I lending, in contrast, does vary with ownership status. Independent thrifts are less likely than those owned by holding companies to engage in some C&I lending; and thrifts owned by thrift holding companies are substantially less likely than those owned by bank holding companies to engage in C&I lending at each of the three

9. In competitive analyses of proposed bank mergers, the Federal Reserve typically treats thrift institutions owned by bank holding companies the same as commercial banks because the expertise of managers of bank holding companies is likely to make thrifts affiliated with them strong potential competitors for many bank products and services.

participation levels.[10] Thus, the data suggest that thrift institutions that are owned by bank holding companies tend to behave more like commercial banks than those under other types of ownership.

The simple average ratio of C&I loans to assets for banks operating under a holding company structure is unaffected by the presence or absence of thrift subsidiaries; the weighted average is slightly higher for banks owned by holding companies that also own thrifts than for banks owned by holding companies that do not own any thrifts. Independent banks have lower average C&I loan-to-asset ratios (simple and weighted) than do banks owned by holding companies.

Average C&I loan-to-asset ratios (both simple and weighted) are higher for thrifts under a bank holding company structure than for independent thrifts and those under a thrift holding company structure. The simple average ratios for thrifts owned by bank holding companies—4.1 percent for savings banks and 2.8 percent for S&Ls— are substantially greater than those for similar institutions not owned by bank holding companies. (Except for the difference between S&Ls owned by bank holding companies and independent S&Ls, these differences are statistically significant at the 0.05 level.) This finding provides further evidence that thrifts owned by bank holding companies behave more like commercial banks than other thrift institutions do.

Geographic Region

C&I lending by thrift institutions might be expected to vary across regions of the country as a result of cultural, historical, or regulatory differences that influence the behavior of depository institutions or their customers. For example, the New England states began to expand the range of activities permissible for state-chartered thrifts in the early 1970s, almost a decade before federal legislation granted expanded powers to thrifts nationwide.[11] This difference might cause New England thrifts to behave more like commercial banks than thrifts in other parts of the country.

For banks, participation in C&I lending varies little across geographic regions (table 4).[12] Although regional differences in C&I lending participation are more pronounced among thrift institutions than among banks, the differences are not consistent across the three participation measures. For example, whereas S&Ls headquartered in the Pacific region are the most likely to engage in some C&I lending, they are the least likely to have C&I loan-to-asset ratios greater than 1 percent and greater than 5 percent.

For banks, the simple average C&I loan-to-asset ratio is around 9 percent or 10 percent everywhere except the Mountain (12.1 percent) and Pacific (15.3 percent) regions. The weighted average ratio is more variable, ranging from just over 11 percent in the Mountain states to nearly 20 percent in New England.

For thrift institutions, simple average C&I loan-to-asset ratios are highest in the East South Central and West North Central regions. Both types of averages are lowest in the Pacific and Middle Atlantic regions. For savings banks, the weighted average ratio for the New England region (4.6 percent) far exceeds that for any other region, with the East South Central region having the second highest (2.6 percent); for S&Ls, it is highest for the East South Central region.

Overall, analysis reveals no consistent pattern of regional differences in the degree to which thrift institutions are involved in commercial lending. Although the weighted average ratio of C&I loans to assets suggests that New England savings banks do substantially more C&I lending than thrift institutions headquartered in other regions of the country, other measures of involvement do not support that conclusion. The unusually high weighted average ratio for New England savings banks appears to be attributable to the behavior of a small number of very large institutions.[13] This finding is particularly interesting, given that previous research on C&I lending by thrift institutions has focused on the weighted average ratio and concluded that New England thrifts behave substantially more like commercial banks than thrifts in other parts of the country do.[14]

10. Among savings banks, differences between independent institutions and those owned by bank holding companies are, for two of the three participation measures, statistically significant at the 0.01 level; the same is true for differences between savings banks owned by thrift holding companies and those owned by bank holding companies, but differences between independent savings banks and those owned by thrift holding companies generally are not significant. For S&Ls, differences between independent institutions and those owned by bank holding companies are, for two of the participation measures, statistically significant at the 0.05 level, but differences between other categories of S&Ls are not statistically significant.

11. For a detailed examination of C&I lending by New England savings banks, see Constance Dunham, "Mutual Savings Banks: Are They Now or Will They Ever Be Commercial Banks?" *New England Economic Review* (May/June 1982), pp. 51–72.

12. The regions are equivalent to the divisions used by the Bureau of the Census. Each institution was assigned to the region in which it was headquartered. For a list of states included in each region, see the general note to table 4.

13. The weighted average ratio for the 23 New England savings banks with assets of more than $1 billion is 6.2 percent, compared with 2.6 percent for the 189 New England savings banks with assets of $1 billion or less.

14. See, for example, Jim Burke and Stephen A. Rhoades, "Commercial and Consumer Lending by Thrift Institutions," *Journal of Commercial Bank Lending* (May 1991), pp. 15–24.

4. C&I lending by banks and thrift institutions, by geographic region, 1997

Type of institution and geographic region	Number of institutions	Institutions with some assets in C&I loans (percent)	Institutions with more than 1 percent of assets in C&I loans (percent)	Institutions with more than 5 percent of assets in C&I loans (percent)	C&I loans as a percent of assets[1]	
					Simple average	Asset-weighted average
COMMERCIAL BANKS						
New England	144	93.8	92.4	75.7	10.6	19.8
Middle Atlantic	444	96.2	93.2	65.5	9.6	14.7
South Atlantic	1,125	98.4	95.9	74.5	10.3	14.1
East North Central	1,768	99.0	97.2	74.4	10.3	19.2
East South Central	791	98.9	97.3	72.4	9.0	13.3
West North Central	2,336	99.5	98.5	77.4	9.5	13.3
West South Central	1,579	99.6	97.3	73.6	9.4	16.1
Mountain	529	97.5	94.9	80.9	12.1	11.2
Pacific	440	97.5	96.8	87.7	15.3	16.4
SAVINGS BANKS						
New England	212	90.6	62.7	17.0	3.0	4.6
Middle Atlantic	210	70.0	28.1	7.6	2.0	1.4
South Atlantic	204	76.0	49.0	14.2	2.9	2.5
East North Central	261	66.7	35.6	10.3	2.3	1.8
East South Central	64	85.9	64.1	20.3	3.3	2.6
West North Central	81	82.7	49.4	25.9	3.6	1.8
West South Central	64	89.1	57.8	20.3	3.0	2.0
Mountain	29	89.7	51.7	13.8	2.7	1.9
Pacific	53	69.8	26.4	9.4	1.6	1.2
SAVINGS AND LOAN ASSOCIATIONS						
New England	25	60.0	24.0	4.0	1.4	1.3
Middle Atlantic	98	59.2	18.4	3.1	1.1	.7
South Atlantic	87	48.3	27.6	3.4	1.7	1.1
East North Central	173	49.7	22.0	2.9	1.5	1.4
East South Central	29	41.4	20.7	3.4	2.1	2.0
West North Central	58	56.9	27.6	10.3	2.4	1.6
West South Central	50	54.0	28.0	6.0	2.0	.9
Mountain	17	47.1	17.6	5.9	1.6	1.8
Pacific	42	64.3	11.9	2.4	1.0	.7

NOTE. Geographic regions are the divisions used by the Bureau of the Census. The states in each division are as follows: *New England:* Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont; *Middle Atlantic:* New Jersey, New York, Pennsylvania; *South Atlantic:* Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia; *East North Central:* Illinois, Indiana, Michigan, Ohio, Wisconsin; *East South Central:* Alabama, Kentucky, Mississippi, Tennessee; *West North Central:* Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota; *West South Central:* Arkansas, Louisiana, Oklahoma, Texas; *Mountain:* Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming; *Pacific:* Alaska, California, Hawaii, Oregon, Washington.

1. See note 1 to table 1

Market Concentration

The generally low level of thrift institution involvement in C&I lending (compared with banks) suggests that there may be significant costs associated with thrift diversification into this line of business, even in markets in which thrifts already do a considerable amount of mortgage and other lending. If this is true, thrifts would be more likely to incur the costs associated with C&I lending in markets in which such lending is especially profitable. One source of high profitability would be high interest rates on commercial loans. Numerous empirical studies have found bank profits or loan interest rates to be positively related to market concentration.[15] To the extent that commercial loan rates are higher (and commercial lending is more profitable) in highly concentrated markets than in less concentrated markets, we would expect to find a positive relationship between market concentration and thrift involvement in C&I lending.

For this analysis, the level of market concentration was measured by the Herfindahl–Hirschman index (HHI).[16] The HHI was calculated as the sum of the squares of the deposit market shares of all banks operating in a particular geographic market.[17] Ideally,

15. See, for example, Timothy H. Hannan, "Bank Commercial Loan Markets and the Role of Market Structure: Evidence from Surveys of Commercial Lending," *Journal of Banking and Finance* (February 1991), pp. 133–49; Timothy H. Hannan and J. Nellie Liang, "The Influence of Thrift Competition on Bank Business Loan Rates," *Journal of Financial Services Research* (June 1995), pp. 107–22; Stephen A. Rhoades, *Structure–Performance Studies in Banking: A Summary and Evaluation*, Staff Studies 92 (Board of Governors of the Federal Reserve System, 1977); and Stephen A. Rhoades, *Structure–Performance Studies in Banking: An Updated Summary and Evaluation*, Staff Studies 119 (Board of Governors of the Federal Reserve System, 1982).

16. For a discussion of the HHI, see Stephen A. Rhoades, "The Herfindahl–Hirschman Index," *Federal Reserve Bulletin*, vol. 79 (March 1993), pp. 188–89.

17. Banking markets were defined as metropolitan statistical areas (MSAs) or non-MSA counties. Considering markets to be local in extent is appropriate because many banking customers, including

5. C&I lending by banks and thrift institutions, by deposit market concentration, 1997

Type of institution and level of deposit market concentration[1]	Number of institutions	Institutions with some assets in C&I loans (percent)	Institutions with more than 1 percent of assets in C&I loans (percent)	Institutions with more than 5 percent of assets in C&I loans (percent)	C&I loans as a percent of assets[2]	
					Simple average	Asset-weighted average
COMMERCIAL BANKS						
Unconcentrated	658	99.4	98.2	79.0	11.9	21.7
Moderately concentrated	2,860	98.6	96.7	75.3	10.6	15.3
Highly concentrated	1,726	98.3	96.8	77.5	10.9	16.3
Very highly concentrated	3,900	99.3	97.4	74.3	9.1	14.4
SAVINGS BANKS						
Unconcentrated	75	52.0	25.3	5.3	2.0	.9
Moderately concentrated	385	73.5	37.9	12.5	2.3	1.7
Highly concentrated	281	80.1	44.5	11.0	2.3	1.4
Very highly concentrated	435	83.2	55.4	18.6	3.3	3.5
SAVINGS AND LOAN ASSOCIATIONS						
Unconcentrated	37	29.7	8.1	2.7	1.0	.5
Moderately concentrated	222	52.0	20.3	2.3	1.3	.8
Highly concentrated	105	54.3	21.0	2.9	1.2	.4
Very highly concentrated	215	58.1	27.9	7.0	2.0	1.9

1. Concentration categories are based on bank-only deposit-based Herfindahl–Hirschman index values, as follows: Unconcentrated, HHI values of 0–1000; Moderately concentrated, 1001–1800; Highly concentrated, 1801–2200; Very highly concentrated, 2201–10,000.

2. See note 1 to table 1.

the HHI would measure concentration on the basis of C&I lending rather than deposits and would be calculated using shares of the C&I lending market. However, market-level data on each institution's C&I lending activity were not available.[18] Therefore, deposit market shares were used as a proxy for C&I lending shares. Because thrift institutions generally do far less C&I lending than banks, thrift deposits were excluded from the calculation of the HHI.[19]

many commercial borrowers, are dependent on local institutions. For evidence supporting the local nature of retail banking markets, see Myron L. Kwast, Martha Starr-McCluer, and John D. Wolken, "Market Definition and the Analysis of Antitrust in Banking," *Antitrust Bulletin*, vol. 42 (Winter 1997), pp. 973–95; Gregory E. Elliehausen and John D. Wolken, "Banking Markets and the Use of Financial Services by Small and Medium-Sized Businesses," *Federal Reserve Bulletin*, vol. 76 (October 1990), pp. 801–17; and Gregory E. Elliehausen and John D. Wolken, "Banking Markets and the Use of Financial Services by Households," *Federal Reserve Bulletin*, vol. 78 (March 1992), pp. 169–81. For firms operating in more than one local banking market, the HHI was calculated as a deposit-weighted average of the HHIs in the markets they served.

18. Geocoded data on the small-business-lending activities of depository institutions reporting under the Community Reinvestment Act have recently become available for analysis. Although these data do permit the calculation of HHIs based on commercial lending, they are of limited value in analyzing cross-sectional patterns of C&I lending behavior because they reflect the activities of a small fraction of depository institutions (1,460 commercial banks and 411 thrifts in 1996) and include only C&I loans of $1 million or less. See Anthony W. Cyrnak, "Bank Merger Policy and the New CRA Data," *Federal Reserve Bulletin*, vol. 84 (September 1998), pp. 703–15, for a detailed analysis employing these data.

19. When HHIs were calculated including thrift deposits—first including 50 percent of thrift deposits (as is often done in Federal Reserve Board analysis of the competitive implications of proposed bank mergers) and then 100 percent of thrift deposits—the results were similar.

Commercial bank participation in C&I lending is unrelated to local banking market concentration, but participation by both savings banks and S&Ls (at each of the three measured participation levels) tends to rise as market concentration increases (table 5).[20] Extent of involvement (as measured by ratios of C&I loans to assets) generally declines with increasing market concentration for banks and rises with increasing concentration for thrifts. (Differences in the simple average ratio of C&I loans to assets between institutions in markets with an HHI above 1800 and those in markets with an HHI of 1800 or less are statistically significant at the 0.01 level for all three types of institutions.) These findings are consistent with our expectations, given the well-established empirical relationship between market concentration and profits.

Urban vs. Rural Markets

Thrift involvement in C&I lending might be expected to differ between urban and rural markets. On the one hand, urban markets are likely to provide greater commercial lending opportunities than rural markets, leading to greater C&I lending activity. On the other

20. The analyses involving market-level variables (tables 5 and 6) are based on data on institutions that reported branch-level deposit data to the FDIC (Summary of Deposits) or the Office of Thrift Supervision (Branch Office Survey). Because branch-level data were not available for all institutions that filed Call Reports or Thrift Financial Reports, the number of institutions included in these analyses is slightly smaller than the number in the preceding analyses.

6. C&I lending by banks and thrift institutions, by type of market and market share, 1997

Type of institution and type of market	Number of institutions	Institutions with some assets in C&I loans (percent)	Institutions with more than 1 percent of assets in C&I loans (percent)	Institutions with more than 5 percent of assets in C&I loans (percent)	C&I loans as a percent of assets[1]	
					Simple average	Asset-weighted average
COMMERCIAL BANKS						
Urban						
All institutions	3,968	98.0	96.4	79.4	12.1	16.5
By market share (percent)						
0.0–0.5	1,632	96.4	94.4	76.9	12.7	15.3
0.6–1.0	517	99.0	96.7	76.8	11.8	15.0
1.1–5.0	1,087	98.8	97.3	78.2	11.2	13.5
5.1–10.0	310	99.7	99.4	85.5	12.4	16.9
Greater than 10.0	422	99.5	99.1	90.5	12.5	17.1
Rural						
All institutions	5,476	99.6	97.7	72.7	8.6	9.4
By market share (percent)						
0.0–5.0	682	99.0	95.0	63.1	8.1	8.6
5.1–10.0	880	99.8	97.4	71.7	8.6	8.9
10.1–20.0	1,341	99.9	98.5	75.8	9.0	9.7
Greater than 20.0	2,273	99.6	98.1	74.0	8.6	9.4
SAVINGS BANKS						
Urban						
All institutions	857	75.6	41.9	12.5	2.5	1.9
By market share (percent)						
0.0–0.5	360	63.3	28.9	8.6	2.2	1.7
0.6–1.0	109	79.8	42.2	10.1	2.1	2.1
1.1–5.0	225	78.7	48.0	14.7	2.7	2.1
5.1–10.0	105	95.2	52.4	15.2	2.4	1.4
Greater than 10.0	58	96.6	79.3	27.6	3.4	2.8
Rural						
All institutions	319	81.8	53.9	17.9	3.2	3.2
By market share (percent)						
0.0–5.0	44	56.8	38.6	13.6	3.1	2.3
5.1–10.0	76	82.9	50.0	11.8	2.3	1.8
10.1–20.0	125	84.8	54.4	18.4	3.2	3.0
Greater than 20.0	74	90.5	66.2	25.7	4.0	4.4
SAVINGS AND LOAN ASSOCIATIONS						
Urban						
All institutions	373	50.7	18.2	2.7	1.3	.8
By market share (percent)						
0.0–0.5	191	36.6	14.1	1.6	1.3	1.4
0.6–1.0	53	50.9	15.1	.0	.7	.5
1.1–5.0	93	69.9	24.7	5.4	1.4	.5
5.1–10.0	26	73.1	19.2	7.7	1.6	1.8
Greater than 10.0	10	80.0	50.0	.0	1.7	1.7
Rural						
All institutions	206	57.8	30.1	6.8	2.1	1.8
By market share (percent)						
0.0–5.0	43	30.2	11.6	2.3	2.1	1.2
5.1–10.0	59	54.2	33.9	8.5	2.3	2.0
10.1–20.0	56	75.0	35.7	5.4	1.9	1.6
Greater than 20.0	48	66.7	35.4	10.4	2.0	2.0

NOTE. Institutions are classified as urban if the majority of their deposits are held in branches located in metropolitan statistical areas and rural if the majority of their deposits are held in branches located in non-MSA counties. Market share is based on deposits.

1. See note 1 to table 1.

hand, concentration levels tend to be lower in urban markets than in rural markets, rendering thrift involvement in C&I lending in urban markets less attractive (because of lower profitability).

The data indicate that thrifts are more extensively involved in C&I lending in rural markets than in urban markets, while the opposite is generally true for banks (table 6).[21] Although most of the differences between urban and rural markets apparent in table 6 are statistically significant, they may be driven by systematic differences in concentration levels or in market shares.[22]

21. Local banking markets were considered urban if they were MSAs and rural if they were non-MSA counties. For an institution operating in both types of markets, the proportion of deposits held in each type was calculated and the institution was classified as operating in the type in which it held the larger share of its deposits. Assigning institutions to one type of market when they had deposits in both types should not have influenced the results because most institutions operated primarily in a single market. The market in which an institution had the greatest share of its deposits was home, on average, to 92 percent of its total deposits.

22. Regression results reported in the technical appendix indicate that when variations in concentration levels and market shares are controlled for, differences between urban and rural markets disappear.

Market Share

A firm's share of market deposits provides a measure of the strength of its presence in the market(s) in which it operates. A thrift institution that captures a large share of market deposits, and hence is locally prominent, may have greater commercial lending opportunities than a similar institution having only a small market share because it is more visible to commercial borrowers. Thus, we would expect to find a positive relationship between a thrift's market share and its C&I lending activity.[23]

For this analysis, institutions in urban and rural markets were treated separately because the number of firms, and hence the "typical" market share, tends to be quite different in these two settings. Bank participation in C&I lending does not vary much with market deposit share (table 6). For both savings banks and S&Ls, and in both urban and rural markets, participation is higher among firms having larger shares of market deposits than among those having smaller shares. For banks and S&Ls, extent of involvement is not related to market share; among savings banks, involvement is substantially greater for those in the largest market share category than for those in any other category, with the difference being statistically significant within urban banking markets.

Summary of Cross-Sectional Variations

In summary, although more than two-thirds of all thrift institutions engage in some C&I lending, their level of involvement is generally quite low relative to that of banks. Their participation generally increased over the mid-to-late 1990s after having trended downward earlier in the decade. For both banks and thrifts, participation rates and levels of involvement appear to vary with institution size, ownership status, geographic region, local banking market concentration, and firm market share and between urban and rural areas. Larger thrifts, thrifts owned by bank holding companies, those operating in more concentrated banking markets, those that have captured a larger share of local market deposits, and those operating in rural areas are most likely to be involved in C&I lending.

For those thrift institutions that do engage in C&I lending, the extent of their involvement, as measured by the proportion of their assets invested in C&I loans, tends to decrease with institution size, to increase with market concentration, and to be unrelated to deposit market share; involvement tends to be greater for thrifts owned by bank holding companies and for those operating in rural markets.

Changes in an Institution's C&I Lending Activity over Time

Cross-sectional analysis of the C&I lending behavior of banks and thrift institutions leads naturally to some questions about the dynamic aspects of thrift involvement in such lending. For instance, are changes over time in charter type or ownership status associated with changes in an institution's level of C&I lending activity? To address such questions, we examined the average change between 1991 and 1997 in the ratio of C&I loans to assets for firms with different types of ownership and charters.

The sample consisted of all organizations that existed in 1991 as thrifts and were still operating in 1997, either as thrifts or as commercial banks. Of the 2,664 thrifts that reported both financial and branch-level deposit data in 1991, 1,688 were still operating in 1997. Data for 123 of these 1,688 institutions were merger-adjusted, to make the 1991 and 1997 figures comparable.[24] Sixty-four of the surviving institutions were dropped from the sample because they had engaged in at least one acquisition in which only part of an organization was purchased (data for the partial institution could not be obtained, so adjusted 1991 data that would be comparable with the 1997 data could not be constructed). The change in the ratio of C&I loans to assets from 1991 to 1997 was calculated for each of the 1,624 institutions in the final sample. The institutions were then grouped according to their ownership status and charter type in 1991 and 1997, and the (simple) average change in the ratio for each subgroup was calculated.

For most subgroups of thrift institutions, the ratio of C&I loans to assets increased over the period (table 7). Thrifts that converted to bank charters between 1991 and 1997 showed, on average, the largest increases. Although the direction of causality cannot be determined (that is, whether charter changes prompted increases in C&I lending or whether a desire to do more C&I lending led to

23. For firms operating in more than one local banking market, the market share was calculated as a deposit-weighted average of the firm's market shares in all markets that it served.

24. For each of the merger-adjusted institutions, the procedure involved aggregating financial data for the 1991 institution and for all institutions that were merged into it between 1991 and 1997. For example, if thrift A acquired thrift B in 1993, the 1997 data for thrift A were compared with the 1991 data for the hypothetical combination of thrifts A and B.

7. Change from 1991 to 1997 in ratio of C&I loans to assets, by thrift institution ownership status and charter type

Ownership status and charter type in 1991	Ownership status and charter type in 1997							
	Independent savings bank	Savings bank owned by thrift holding company	Savings bank owned by bank holding company	Independent S&L	S&L owned by thrift holding company	S&L owned by bank holding company	Independent commercial bank	Commercial bank owned by bank holding company
Independent savings bank	.66*** (497)	.71* (48)	2.39** (35)	... (0)	... (0)	... (0)	9.35 (4)	5.71*** (22)
Savings bank owned by thrift holding company	-.85 (3)	.77 (28)	.05 (5)	... (0)	... (0)	... (0)	... (0)	1.94 (3)
Savings bank owned by bank holding company	... (0)	... (0)	2.65 (11)	... (0)	... (0)	... (0)	... (0)	3.20** (5)
Independent savings and loan association (S&L)	.51*** (290)	.83** (58)	3.16* (12)	.26*** (536)	.11** (10)	2.36 (6)	6.96* (6)	4.40*** (17)
Savings and loan association owned by thrift holding company	(0)	1.33 (5)	-1.25 (3)	... (0)	.50 (9)	-1.72 (3)	... (0)	... (0)
Savings and loan association owned by bank holding company	... (0)	.02 (1)	2.93* (3)	(0)	... (0)	2.00 (3)	... (0)	12.80 (1)

NOTE. Each table entry, consisting of a pair of figures, represents a unique combination of 1991 and 1997 ownership status and charter type. The top number in each pair of figures is the average change in the ratio of C&I loans to assets, in percentage points, across all institutions in that group; the number in parentheses is the number of institutions in that group. For example, four thrift institutions in the sample that were independent savings banks in 1991 converted to independent commercial banks during the study period; the average ratio of C&I loans to assets for this group of institutions increased 9.35 percentage points over the period.

*, **, *** Significantly different from zero at the 0.10, 0.05, and 0.01 levels.

charter conversion), inspection of the annual C&I loan-to-asset ratios of individual thrifts undergoing charter conversion suggests that increased C&I lending generally followed rather than preceded charter conversion. Thrifts that in 1991 were independent or owned by a bank holding company and in 1997 were owned by a bank holding company also showed fairly large average increases in C&I loan-to-asset ratios.

CONCLUSION

Our analysis confirms that thrift institutions are less likely than commercial banks to engage in commercial and industrial lending and that the extent of involvement of thrifts that do engage in such lending is generally low compared with that of banks. We also identified several factors that are related either to the level of thrift involvement in C&I lending at a given time or to the change over time in the level of such involvement.

Among thrift institutions, savings banks are much more heavily involved in C&I lending than savings and loan associations. Ownership status is also strongly associated with the C&I lending activity of thrifts: Involvement is greater among those owned by bank holding companies than among either independent thrifts or those owned by thrift holding companies.

Although larger thrifts are more likely than smaller thrifts to be involved in C&I lending, for those that are involved in such lending, the proportion of assets invested in C&I loans tends to decline with increasing institution size. Thrifts operating primarily in rural markets tend to be more heavily involved in C&I lending than those operating primarily in urban markets.

Perhaps our most interesting finding is that higher levels of market concentration are associated with greater thrift involvement in C&I lending. This finding has potential implications for antitrust policy. It suggests that a merger that substantially increases concentration in a local banking market may lead to greater C&I lending activity by thrifts operating in that market, thereby mitigating, to some degree, the potential competitive harm (to business customers) resulting from the merger. The effect may be particularly important if the market and the thrifts operating in it have other characteristics associated with greater thrift involvement in C&I lending.

Charter type and ownership status also influence the growth of C&I lending activity over time: Conversion from a thrift charter to a bank charter is associated with a large, statistically significant increase in C&I lending relative to institutions that retain their thrift charters. Among thrifts that retained their thrift charters, those that changed from independent status to bank holding company ownership during the study period and those that were under bank holding company ownership throughout the period showed significantly greater growth in C&I lending activity than did thrifts that were independent or were under thrift holding company ownership at the end of the period.

Our findings indicate that thrift institutions in general are far less involved in commercial and industrial lending than commercial banks but that the extent of involvement varies considerably and systematically with characteristics of the thrift institution and the market(s) it serves. If thrift involvement in C&I lending is taken to be a reasonable indicator of the extent to which thrifts should be treated as equal competitors of commercial banks for purposes of antitrust analysis, our findings support an approach to merger analysis that generally gives reduced weight to thrifts as competitors but allows the weight to be increased for thrift institutions that are unusually active in C&I lending.

APPENDIX: REGRESSION ANALYSIS

In addition to the univariate analysis presented in tables 1–6, we ran ordinary least squares (OLS) regressions to further examine the relationship between commercial and industrial lending by thrift institutions and various market and firm characteristics. Regression analysis makes it possible to determine whether the relationships observed in the univariate analysis persist when the influence of other co-varying factors is taken into account. The regression equation was estimated for two groups—the 1,755 thrift institutions that reported both branch (Summary of Deposits or Branch Office Survey) and financial (Call Report or Thrift Financial Report) data in 1997 and the 1,217 thrifts in that group that had some assets in C&I loans. Variables were measured as of June 30, 1997, and correspond to those examined in the univariate analysis.

The results of the regression analysis (table A.1) are generally consistent with those of the univariate analysis. In every instance but one, the sign of the coefficient estimate indicates a relationship between the variable and C&I lending similar to that indicated by the univariate analysis. The exception is that regression analysis yields a positive (but statistically insignificant) coefficient on the urban market variable, indicating that thrifts operating primarily in urban areas are more involved in C&I lending than those operating primarily in rural areas, whereas univariate analysis (table 6) indicates the opposite. This discrepancy may be due to the fact that regression analysis controls for other factors that are typically higher in rural markets than in urban markets and are positively related to the extent of C&I lending by thrifts, such as market concentration and the thrift's share of deposits in the market(s) in which it operates (tables 5 and 6). Therefore, the differences between thrift C&I lending in urban and rural areas shown in table 6 may be largely attributable to thrifts in rural markets having larger market shares and

A.1. Estimated coefficients from regression equation explaining ratio of C&I loans to assets for thrift institutions, 1997

Variable	All thrifts	Thrifts with some assets in C&I loans
Intercept	−.004 (.01)	2.874*** (2.94)
Institution characteristics		
Savings bank[1]	.935*** (6.59)	.924*** (4.50)
Size[2]	.037 (.67)	−.186** (2.46)
Ownership status		
Thrift holding company[3]	.282 (1.37)	.362 (1.38)
Bank holding company[4]	1.763*** (6.87)	1.542*** (5.05)
Market share[5]	.043*** (3.58)	.034** (2.26)
Geographic location[6]		
Middle Atlantic	−.725*** (2.96)	−.488 (1.55)
South Atlantic	−.292 (1.14)	.049 (.15)
East North Central	−.620** (2.57)	−.340** (1.10)
East South Central	−.257 (.76)	−.083 (.19)
West North Central	.264 (.85)	.679* (1.71)
West South Central	.004 (.01)	.123 (.30)
Mountain	−.570 (1.30)	−.408 (.72)
Pacific	−1.069*** (3.24)	−.766* (1.74)
Market characteristics		
Market concentration[7]	2.02×10^{-4}*** (2.99)	2.47×10^{-4}*** (2.84)
Urban market[8]	.186 (.84)	.313 (1.03)
Adjusted R-square	.119	.083
Number of observations	1,755	1,217

NOTE. Numbers in parentheses are *t* statistics.

1. Dummy variable equal to 1 if the thrift is a savings bank, and 0 if it is a savings and loan association.
2. As measured by the natural log of total assets held by the thrift.
3. Dummy variable equal to 1 if the thrift is owned by a thrift holding company, and 0 otherwise.
4. Dummy variable equal to 1 if the thrift is owned by a bank holding company, and 0 otherwise.
5. Deposit-weighted average of the thrift's market share in the market(s) in which it operates.
6. Dummy variable equal to 1 if the thrift is headquartered in the named region (based on divisions used by the Bureau of the Census), and 0 otherwise. New England is the omitted region.
7. Deposit-weighted average of the bank-only deposit-based Herfindahl-Hirschman index in the market(s) in which the thrift operates.
8. Share of thrift's total deposits held in banks located in metropolitan statistical areas.

*, **, *** Significantly different from zero at the 0.10, 0.05, and 0.01 levels.

operating in more concentrated markets than thrifts in urban areas.

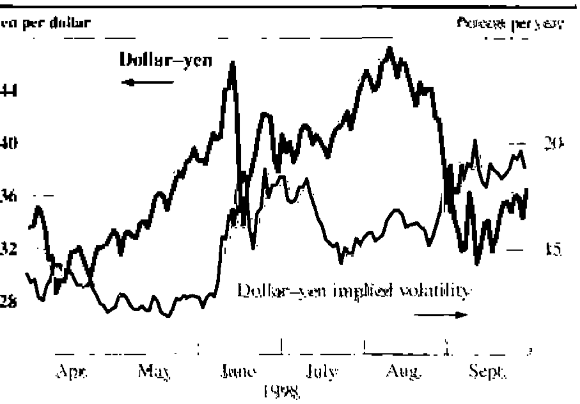
Interestingly, the estimated coefficient on the thrift size variable is positive (but statistically insignificant) for the full sample and negative for the sample of thrifts having at least some assets in C&I loans. These findings are consistent with the univariate analysis, which found that participation in C&I lending increases with size but that for those thrifts engaged in C&I lending, the extent of involvement, as measured by the ratio of C&I loans to assets, declines with size. ∎

Treasury and Federal Reserve Foreign Exchange Operations

This quarterly report describes U.S. Treasury and System foreign exchange operations for the period from July through September 1998. It was presented by Peter R. Fisher, Executive Vice President, Federal Reserve Bank of New York, and Manager, System Open Market Account. Jason J. Bonança was primarily responsible for preparation of the report.

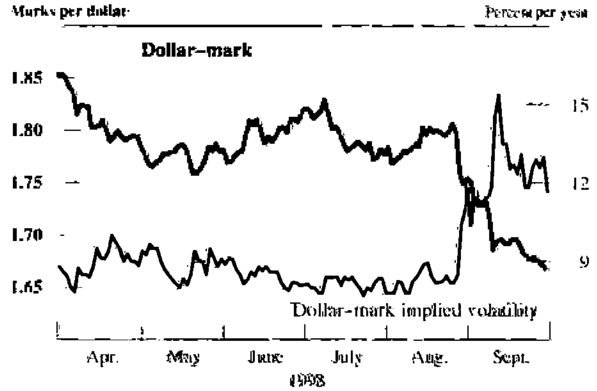
During the third quarter of 1998, the dollar depreciated 1.7 percent against the Japanese yen and 7.8 percent against the German mark (charts 1 and 2). Against the mark, the dollar continued to trade in relatively narrow ranges during the first half of the period. Subsequently, however, the dollar dropped sharply amid increasing turmoil in global financial markets and shifting expectations for economic growth and interest rate policy. Against the yen, the dollar steadily appreciated throughout the first half of the quarter, reaching new eight-year highs, as market participants reacted pessimistically to political uncertainty and financial-sector difficulties in Japan. Later in the period, the dollar's gains were more than reversed as market participants unwound short yen positions in an environment of increasing risk aversion. The U.S. monetary authorities did not intervene in the foreign exchange markets during the quarter.

1. Spot exchange rate of the dollar against the Japanese yen and volatility implied by one-month option prices, 1998:Q2–Q3



NOTE. Data in this chart and those that follow are daily.
SOURCES. J.P. Morgan; Bloomberg L.P.

2. Spot exchange rate of the dollar against the German mark and volatility implied by one-month option prices, 1998:Q2–Q3



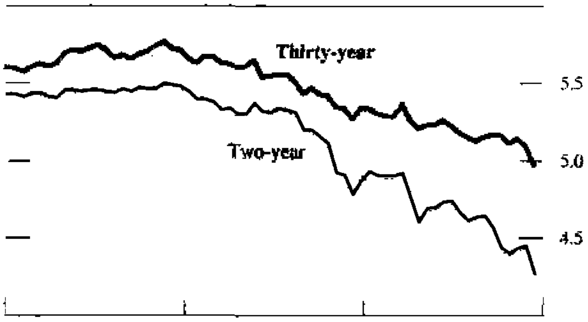
SOURCES. J.P. Morgan; Bloomberg L.P.

Heightened Risk Aversion Resulting from Turmoil in Emerging Markets

During the first half of the quarter, market participants expected that near-term U.S. interest rate policy would remain unchanged. The economic slowdown in Asia was expected to counterbalance ongoing, if moderating, strength in U.S. domestic demand. However, continued financial and economic weakness in Japan and developments in emerging markets—particularly the deteriorating financial situation in Russia—helped to support U.S. Treasury prices during the first weeks in the quarter. Until the middle of August, the thirty-year Treasury bond yield traded consistently below 5.80 percent, near the bottom of its 1998 range (chart 3).

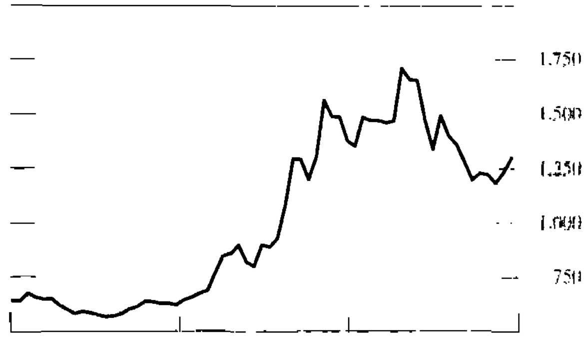
Investor aversion to risk intensified sharply after Russia's declaration of a debt moratorium and an effective devaluation of the ruble on August 17. Losses in Russian markets and a dramatic widening of risk premiums led to successive waves of selling in emerging-market assets. Dollar-denominated, emerging-market yield spreads over Treasuries rose to their highest levels since early 1995, and sales of emerging-market currencies ensued as investors shed positions in local markets. These outflows led

3. U.S. Treasury yields, 1998:Q3



SOURCE. Bloomberg L.P.

4. J.P. Morgan Emerging Markets Bond Index, 1998:Q3



NOTE. Data are the stripped sovereign spread over Treasuries.
SOURCE. J.P. Morgan.

to increasing pressures on other markets, particularly those with fixed exchange rate regimes. Mounting strains on the Hong Kong dollar led to speculation regarding another series of currency devaluations in Asia. Meanwhile, increasing capital outflows from Brazil, as well as devaluations in Colombia and Ecuador, raised concerns about stability in Latin America. Sensitivity to the risk of sovereign events was exacerbated by Malaysia's announcement of capital controls and a new fixed exchange rate regime on September 1, as well as Hong Kong's decision to intervene in its equity market. In this environment, demand for U.S. Treasuries soared, with the thirty-year bond yield declining, to as low as 4.96, on September 30. Meanwhile, U.S. equities began to post sharp declines, responding to mounting turmoil in emerging markets and weaker-than-expected corporate earnings. European shares also weakened; the German DAX declined 24.2 percent over the period.

The sharp downward adjustment in asset prices in emerging markets accelerated as leveraged investors were forced to liquidate positions to meet margin calls. Risk aversion grew, as market participants anticipated that rapidly accruing losses might lead to a contraction of credit within the investment community. Further, the speed of the declines led to substantially illiquid trading conditions, which exacerbated volatility in already unsteady markets. Anxiety over the health of the financial sector intensified as market participants began to speculate that Long-Term Capital Management, a major hedge fund, had incurred large losses.

During the final weeks of the period, tension in global financial markets eased somewhat in response to growing expectations for official policy responses (chart 4). The September 14 statement by the Group of Seven (G-7) Finance Ministers and Central Bank Governors, in addition to President Clinton's speech to the Council on Foreign Relations, prompted increased market talk about plans for international financial stabilization and possible coordinated interest rate cuts. On September 29, the Federal Open Market Committee (FOMC) cut its federal funds rate target 25 basis points, to 5.25 percent.

DECLINE OF THE DOLLAR AGAINST THE MARK

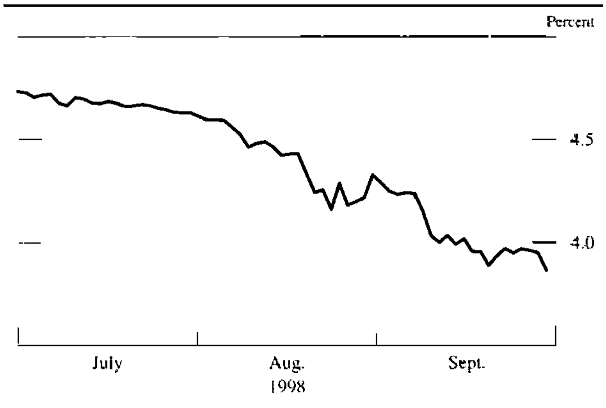
Early in the period, the dollar traded in its year-to-date range of DM 1.75–1.85, guided by stable expectations for gradual but steady growth in both the United States and Germany. Market expectations regarding monetary policy in the two countries reflected anticipation of steady policy in the United States and the possibility of a rate increase in Germany before the beginning of the European Economic and Monetary Union (EMU) in January 1999. After the events of mid-August, however, market participants became increasingly persuaded that the turmoil in emerging markets and ongoing weakness in Asia would have a more significant effect on the U.S. economic outlook than had previously been expected. The concomitant tumble in U.S. equity prices served as an initial catalyst for dollar sales against marks; between August 26 and 31, the dollar declined from DM 1.8068 to DM 1.7547 against the mark as the Dow Jones Industrial Average fell 11.6 percent.

The dollar's decline coincided with the emergence of expectations that the Federal Reserve would ease monetary policy in an effort to address the possible consequences for U.S. growth prospects posed by the strain on financial markets. In an address on September 4, Chairman Greenspan said, ". . . it is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress." Many market participants interpreted the Chairman's speech as a signal that the FOMC had abandoned its bias toward a tightening and was leaning toward an ease as its next move. Over the following week the implied rate on the October federal funds contract declined 17 basis points and subsequently reached a period low on September 25, of 5.15 percent.

During the period, the increasing scope of global financial stress helped to reduce expectations that the Bundesbank would raise rates as part of the process of European convergence; the implied yield on the December 1998 Euromark contract declined 37 basis points, to 3.55 percent. However, market participants appeared increasingly convinced that the Bundesbank was relatively less likely to ease policy than the Federal Reserve. Continued signs of European growth, the Bundesbank's call for the gradual convergence of European interest rates, and perceptions that the European economy was relatively insulated from weakness in Latin America all contributed to this belief. The implied yield spread between the December Eurodollar and Euromark contracts narrowed from a high of 195 basis points to a low of 146 basis points, illustrating the degree to which interest rate expectations had shifted against the dollar; during the same period, the dollar declined more than 12 pfennigs against the mark, falling from DM 1.7993 to DM 1.6718 (chart 5).

Throughout the period, the dollar–mark exchange rate also reflected steady demand for selected European financial assets stemming from expectations for low regional inflation and confidence in the EMU.

6. German government ten-year benchmark bond yield, 1998:Q3

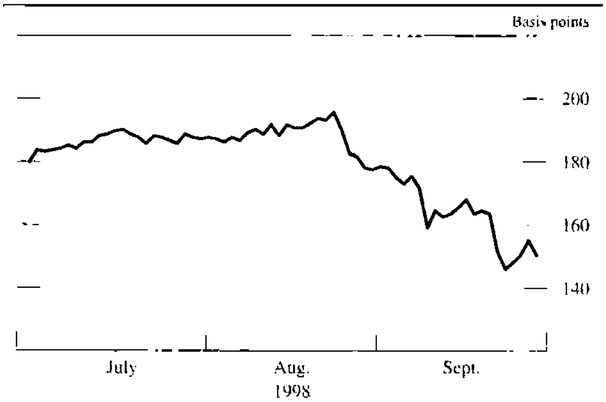


SOURCE. Bloomberg L.P.

These flows helped to push the benchmark German bond yield to a record low on September 30, of 3.87 percent (chart 6). In addition, anxiety among some market participants regarding prospects for impeachment proceedings against President Clinton appeared to weigh on the dollar.

During the final weeks of the period, the pace of the dollar's depreciation subsided amid mounting anticipation of G-7 aid to Latin America and increasing evidence that expectations for a Federal Reserve rate cut had become largely discounted by market participants. These factors partially fueled a rally in U.S. share prices: The Dow Jones Industrial Average rose 4.0 percent from a low of 7539.07 to finish the period at 7842.62, helping to reinforce improved sentiment toward the dollar (chart 7).

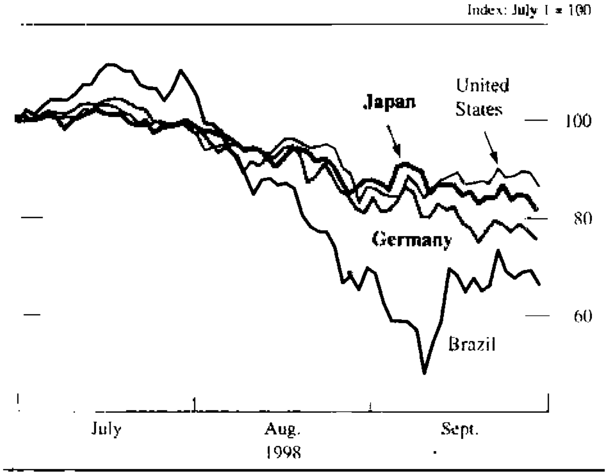
5. Implied yield spread between December Eurodollar and Euromark futures, 1998:Q3



NOTE. Data are the Eurodollar implied yield minus the Euromark implied yield.

SOURCE. Bloomberg L.P.

7. Global benchmark equity indexes, 1998:Q3



SOURCE. Bloomberg L.P.

Retreat of the Dollar from Eight-Year Highs against the Yen

Despite reaching fresh eight-year highs against the yen on August 11, the dollar declined more than 2 yen against the Japanese currency during the quarter. Over the same period, one-month volatility implied by option prices rose from 18 to 18.85 percent. Initially, market participants sold yen on doubts that a new financial reform package introduced on July 2 would be sufficient in scope or timeliness to deal with Japan's banking crisis. The lack of any further fiscal stimulus measures also weighed on the yen. Moreover, the defeat of Japan's ruling party in parliamentary elections on July 12 and the subsequent uncertainty regarding the direction of Japanese economic and foreign exchange policy deflated hopes for an early resolution of Japan's problems. Lastly, Japanese economic data that were weaker than expected contributed to negative sentiment throughout the period; second-quarter gross domestic product declined 1.6 percent year-over-year.

In the aftermath of the Russian devaluation, however, investors increasingly took profits on long dollar positions against the yen in a bid to offset losses in emerging markets or simply to reduce risk in an increasingly volatile financial environment. Many believed that the climb in volatility had led to a slower pace of capital outflows from Japan than had been expected previously, a development that lent further support to the yen. This trend was reinforced by perceptions of Japanese investor repatriation flows before the September 30 end of the fiscal half-year in Japan. Finally, growing anticipation that the Federal Reserve would ease policy also contributed to the dollar's decline. The dollar reached a low of ¥130.65 on September 11, after having fallen 11.1 percent from its intraperiod high of ¥147.33.

In the final weeks of the period, the dollar partially retraced its losses, rising to finish the quarter at ¥136.50. Market pessimism regarding Japan's economic and financial prospects remained in place after the September 4 meeting in San Francisco between Treasury Secretary Rubin and Japanese Finance Minister Miyazawa. The Bank of Japan's September 9 announcement of a monetary ease and renewed uncertainty regarding the prospects for banking reform in Japan also contributed to yen softness.

Treasury and Federal Reserve Foreign Exchange Reserves

The U.S. monetary authorities did not undertake any intervention operations during this quarter. At the end of the quarter, the current values of the German mark and Japanese yen reserve holdings totaled $18.4 billion for the Federal Reserve System and $14.6 billion for the Exchange Stabilization Fund. The U.S. monetary authorities invest all of their foreign currency balances in a variety of instruments that yield market-related rates of return and that have a high degree of liquidity and credit quality. A significant portion of these balances is invested in German and Japanese government securities held directly or under repurchase agreement. As of September 30, outright holdings of government securities by U.S. monetary authorities totaled $7.3 billion.

Japanese and German government securities held under repurchase agreement are arranged either through transactions executed directly in the market or through agreements with official institutions. Government securities held under repurchase agreement by the U.S. monetary authorities totaled $11.7 billion at the end of the quarter. Foreign currency reserves are also invested in deposits at the Bank for International Settlements and in facilities at other official institutions. □

1. Foreign exchange holdings of U.S. monetary authorities based on current exchange rates, 1998:Q3

Millions of dollars

Item	Balance, June 30, 1998	Quarterly changes in balances by source: Net purchases and sales[1]	Impact of sales[2]	Investment income	Currency valuation adjustments[3]	Interest accrual (net) and other	Balance, Sept. 30, 1998
FEDERAL RESERVE							
Deutsche marks	11,652.0	0	0	102.2	934.4	0	12,688.6
Japanese yen	5,589.8	0	0	4.2	69.8	0	5,663.8
Interest receivables[4]	80.5	...	...	...	...	14.6	95.1
Other cash flow from investments[5]	10.5	...	...	...	...	−10.5	...
Total	**17,332.8**	...	...	**106.4**	**1,004.2**	**4.1**	**18,447.5**
U.S. TREASURY EXCHANGE STABILIZATION FUND							
Deutsche marks	5,898.2	0	0	52.3	472.9	0	6,423.4
Japanese yen	8,000.1	0	0	5.7	100.2	0	8,106.0
Interest receivables[4]	42.0	...	...	...	...	6.6	48.6
Other cash flow from investments[5]	17.9	...	...	...	...	−17.9	...
Total	**13,958.2**	...	...	**58.0**	**573.1**	**−11.3**	**14,578.0**

1. Purchases and sales include foreign currency sales and purchases related to official activity, swap drawings and repayments, and warehousing.

2. Calculated using marked-to-market exchange rates; represents the difference between the sale exchange rate and the most recent revaluation exchange rate. Realized profits and losses on sales of foreign currencies computed as the difference between the historic cost-of-acquisition exchange rate and the sale exchange rate are shown in table 2.

3. Foreign currency balances are marked to market monthly at month-end exchange rates.

4. Interest receivables for the ESF are revalued at month-end exchange rates. Interest receivables for the Federal Reserve System are carried at average cost of acquisition and are not marked to market until interest is paid.

5. Cash flow differences from payment and collection of funds between quarters.

2. Net profits or losses (−) on U.S. Treasury and Federal Reserve foreign exchange operations, based on historical cost-of-acquisition exchange rates, 1998:Q3

Millions of dollars

Period and item	Federal Reserve	U.S. Treasury Exchange Stabilization Fund
Valuation profits and losses on outstanding assets and liabilities, June 30, 1998		
Deutsche marks	39.9	−388.6
Japanese yen	−18.2	−20.2
Total	**21.7**	**−408.8**
Realized profits and losses from foreign currency sales, June 30, 1998–Sept. 30, 1998		
Deutsche marks	.0	.0
Japanese yen	.0	.0
Total	**.0**	**.0**
Valuation profits and losses on outstanding assets and liabilities, Sept. 30, 1998		
Deutsche marks	974.3	84.3
Japanese yen	51.7	80.0
Total	**1,026.0**	**164.3**

3. Currency arrangements, September 30, 1998

Millions of dollars

Institution	Amount of facility	Outstanding, Sept. 30, 1998
	Federal Reserve Reciprocal Currency Arrangements	
Austrian National Bank	250	0
National Bank of Belgium	1,000	
Bank of Canada	2,000	
National Bank of Denmark	250	
Bank of England	3,000	
Bank of France	2,000	
Deutsche Bundesbank	6,000	
Bank of Italy	3,000	
Bank of Japan	5,000	
Bank of Mexico	3,000	
Netherlands Bank	500	
Bank of Norway	250	
Bank of Sweden	300	
Swiss National Bank	4,000	
Bank for International Settlements		
Dollars against Swiss francs	600	
Dollars against other authorized European currencies	1,250	
Total	**32,400**	**0**
	U.S. Treasury Exchange Stabilization Fund Currency Arrangements	
Deutsche Bundesbank	1,000	0
Bank of Mexico	3,000	0

Industrial Production and Capacity Utilization for October 1998

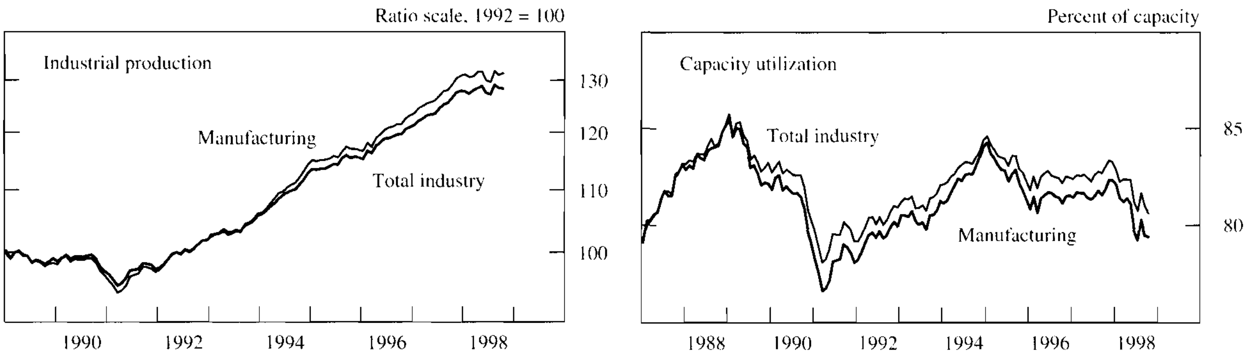
Released for publication November 16

Industrial production edged down 0.1 percent in October, held down by a 3.4 percent drop in the output of utilities. Utility output, which had been at elevated levels over the summer, fell back as temperatures returned to more normal levels. Manufacturing output bounced back 0.3 percent, regaining only some of September's 0.6 percent loss. At 128.3 percent of its 1992 average, industrial production in October was 1.4 percent higher than it was in October 1997. Capacity utilization fell 0.4 percentage point, to 80.6 percent, 1½ percentage points below its 1967–97 average.

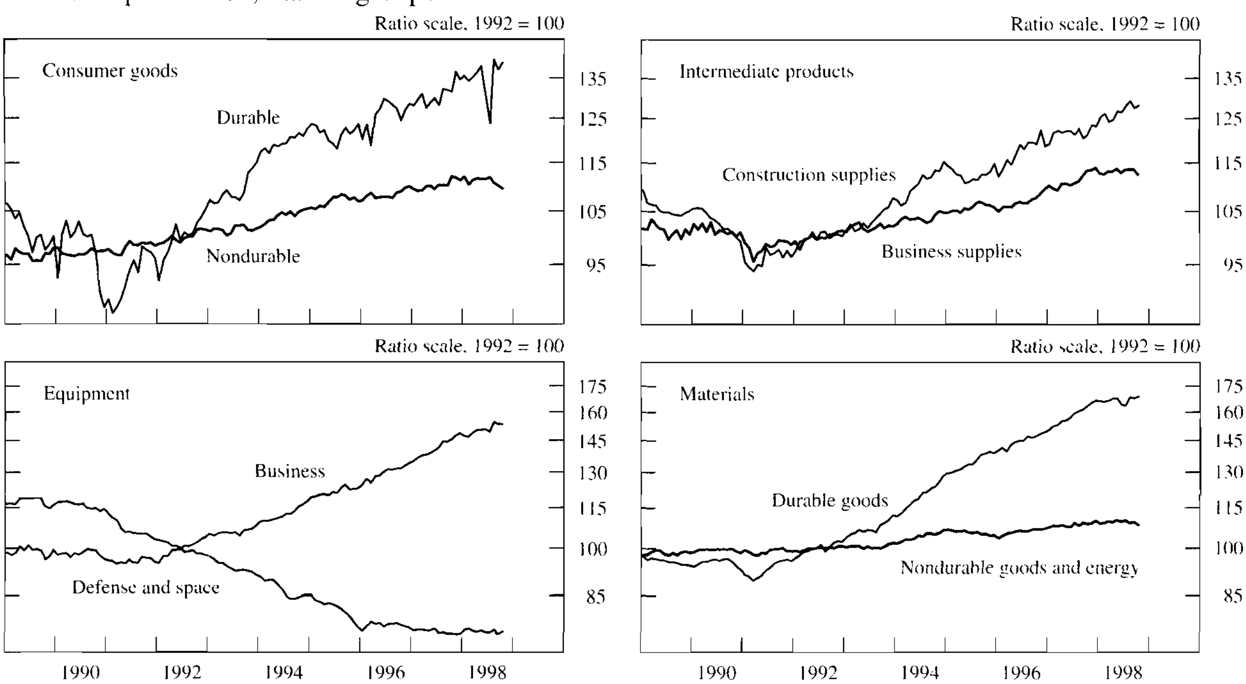
Market Groups

The output of consumer goods edged down 0.1 percent in October after having dropped a downward-

Industrial production and capacity utilization



Industrial production, market groups



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

Industrial production and capacity utilization, October 1998

Category	Industrial production, index, 1992 = 100								
	1998				Percentage change				
					1998[1]				Oct. 1997 to Oct. 1998
	July[r]	Aug.[r]	Sept.[r]	Oct.[p]	July[r]	Aug.[r]	Sept.[r]	Oct.[p]	
Total	**127.2**	**129.1**	**128.4**	**128.3**	**–.2**	**1.5**	**–.5**	**–.1**	**1.4**
Previous estimate	127.0	129.0	128.7		–.4	1.6	–.3		
Major market groups									
Products, total[2]	120.7	122.7	121.8	121.6	–.4	1.7	–.8	–.2	1.2
Consumer goods	114.4	116.3	115.4	115.2	–.8	1.7	–.8	–.1	–.6
Business equipment	149.3	154.5	153.3	153.6	–.9	3.5	–.8	.2	5.5
Construction supplies	128.0	129.1	127.5	128.0	1.2	.9	–1.2	.4	5.6
Materials	137.6	139.2	139.1	139.0	.0	1.2	–.1	.0	1.7
Major industry groups									
Manufacturing	129.6	131.8	131.0	131.4	–.3	1.7	–.6	.3	1.8
Durable	146.4	152.3	150.9	151.8	–.8	4.0	–.9	.6	4.3
Nondurable	112.3	111.3	110.9	110.9	.3	–.9	–.3	–.1	–1.2
Mining	106.3	105.9	104.8	103.6	.2	–.4	–1.0	–1.1	–2.1
Utilities	118.5	118.9	120.7	116.6	–.1	.4	1.5	–3.4	–.2

Category	Capacity utilization, percent								Memo Capacity, percentage change, Oct. 1997 to Oct. 1998
	Average, 1967–97	Low, 1982	High, 1988–89	1997	1998				
				Oct.	July[r]	Aug.[r]	Sept.[r]	Oct.[p]	
Total	**82.1**	**71.1**	**85.4**	**83.0**	**80.7**	**81.7**	**81.0**	**80.6**	**4.4**
Previous estimate				.	80.6	81.6	81.1	.	
Manufacturing	81.1	69.0	85.7	81.9	79.2	80.3	79.5	79.4	5.0
Advanced processing	80.5	70.4	84.2	80.2	77.0	78.7	77.9	77.9	5.8
Primary processing	82.4	66.2	88.9	85.7	84.3	83.9	83.0	82.8	3.1
Mining	87.5	80.3	88.0	89.6	89.5	89.0	88.0	86.9	9
Utilities	87.3	75.9	92.6	92.0	92.6	92.9	94.2	90.9	1.0

NOTE. Data seasonally adjusted or calculated from seasonally adjusted monthly data.
1. Change from preceding month.
2. Contains components in addition to those shown.
r Revised.
p Preliminary.

revised 0.8 percent in September. The production of durable consumer goods in October was buoyed by a 2.9 percent increase in automotive products as well as an increase in appliances that recovered a bit of September's 7 percent loss. The output of nondurable goods (excluding energy for consumers) was unchanged in October; consumer energy products fell 3.7 percent, a drop that reflected lower residential demand for electricity.

The production of business equipment edged up in October, with another drop in the output of industrial equipment offset by increases in information processing equipment and motor vehicles. The production of farm equipment fell again and is down almost 6 percent from a year ago. Commercial aircraft production, which had been nearly flat at a high level during the first part of the year, rose again last month.

The output of construction supplies increased 0.4 percent, regaining some of its September loss. Production in this category had climbed rapidly between December of last year and August, buoyed by the strength in homebuilding activity. The production of materials has been nearly flat over the past two months. The production of basic metals fell again after having dropped nearly 3 percent in September; iron and steel production has tumbled more than 8 percent over the past two months. In contrast, production of semiconductors and other electronic components picked up noticeably in October; semiconductor output had decelerated earlier this year, and October's increase is the largest since January.

INDUSTRY GROUPS

Manufacturing output increased 0.3 percent in October after having dropped 0.6 percent in September. An increase in motor vehicle assemblies from 12.7 million units (annual rate) in September to 13 million units (annual rate) in October accounted for part of the gain. But increases were fairly widespread within other durable goods industries, especially furniture, fabricated metal products, computers, and semiconductors. A notable exception was the iron and steel industry in which output fell again in October after having contracted sharply in September. The recent weakness in nondurables—production has fallen almost 1½ percent in the past three months—has been widespread, including the apparel, chemical, paper, and petroleum industries. In October, mining production declined for the third straight month, pulled down by decreased oil and gas drilling and extraction resulting from weak crude oil prices.

The factory operating rate fell 0.1 percentage point in October, to 79.4 percent—more than 2½ percentage points below the level it had reached in January. Utilization rates for both primary- and advanced-processing industries have fallen this year. Industries that have experienced especially large declines include primary metals, petroleum products, and mining.

Revision of Industrial Production and Capacity Utilization

On November 24, the Federal Reserve will publish revisions to its measures of industrial production (IP), capacity, capacity utilization, and industrial use of electric power. The revisions will begin with 1992 and will incorporate updated source data for more recent years.

This regular updating of source data for IP will include annual data from the Bureau of the Census's *1996 Annual Survey of Manufactures* and from selected editions of its *1997 Current Industrial Reports.* Annual data from the Department of the Interior on metallic and nonmetallic minerals (except fuels) for 1996 and 1997 will also be introduced. The updating will also include revisions to the monthly indicators for each industry (physical product data, production-worker hours, or electric power usage) and revised seasonal factors. In addition, the revision will introduce improved measures of production for semiconductors, coal, lawn and garden equipment, and aircraft.

Capacity and capacity utilization will be revised to incorporate preliminary data from the Census Bureau's *1997 Survey of Plant Capacity.* The statistics on the industrial use of electric power will incorporate more complete reports received from utilities for the past few years as well as data from the *1996 Annual Survey of Manufactures.*

Once the revision is published, the revised data will be available on the Board's web site, http://www.federalreserve.gov/releases/g17, and on diskettes from Publications Services (telephone 202-452-3245). The revised data will also be available through the Economic Bulletin Board of the Department of Commerce; for information about the Bulletin Board, call 202-482-1986. Further information on these revisions is available from the Board's Industrial Output Section (telephone 202-452-3197). □

Statements to the Congress

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking and Financial Services, U.S. House of Representatives, October 1, 1998

I thank you for this opportunity to report on the Federal Reserve's role in facilitating the private-sector refinancing of the large hedge fund, Long-Term Capital Management (LTCM). In my remarks this morning, I will attempt to put into some perspective the events of the past few weeks and discuss some questions of importance to public policymakers that they raise.

The Federal Reserve Bank of New York's efforts were designed solely to enhance the probability of an orderly private-sector adjustment, not to dictate the path that adjustment would take. As President McDonough just related, no Federal Reserve funds were put at risk, no promises were made by the Federal Reserve, and no individual firms were pressured to participate. Officials of the Federal Reserve Bank of New York facilitated discussions in which the private parties arrived at an agreement that both served their mutual self-interest and avoided possible serious market dislocations. Financial market participants were already unsettled by recent global events. Had the failure of LTCM triggered the seizing up of markets, substantial damage could have been inflicted on many market participants, including some not directly involved with the firm, and could have potentially impaired the economies of many nations, including our own. With credit spreads already elevated and the market prices of risky assets under considerable downward pressure, Federal Reserve officials moved more quickly to provide their good offices to help resolve the affairs of LTCM than would have been the case in more normal times. In effect, the threshold of action was lowered by the knowledge that markets had recently become fragile. Moreover, our sense was that the consequences of a fire sale triggered by cross-default clauses, should LTCM fail on some of its obligations, risked a severe drying up of market liquidity. The plight of LTCM might scarcely have caused a ripple in financial markets or among federal regulators eighteen months ago—but in current circumstances it was judged to warrant attention.

What is remarkable is not this episode but the relative absence of such examples over the past five years. Dynamic markets periodically engender large defaults.

Events of the Past Few Weeks

LTCM is a hedge fund, or a mutual fund that is structured to avoid regulation by limiting its clientele to a small number of highly sophisticated, very wealthy individuals and that seeks high rates of return by investing and trading in a variety of financial instruments. Since its founding in 1994, LTCM has had a prominent position in the community of hedge funds, in part because of its assemblage of talent in pricing and trading financial instruments as well as its large initial capital stake. In its first few years of business, it earned an enviable reputation by racking up a string of above-normal returns for its investors.

LTCM appears principally to have garnered those returns by making judgments on interest rate spreads and the volatilities of market prices. In its search for high return, LTCM levered its capital through securities repurchase contracts and derivatives transactions, relying on sophisticated mathematical models of behavior to guide those transactions. As long as the configuration of returns generally mimicked their historical patterns, LTCM's mathematical models of asset pricing could be used to ferret out temporary market price anomalies. Their trading both closed such price gaps and earned an extra bit of return on capital for them. But it is the nature of the competitive process driving financial innovation that such techniques would be emulated, making it ever more difficult to find market anomalies that provided shareholders with a high return. Indeed, the very efficiencies that LTCM and its competitors brought to the overall financial system gradually reduced the opportunities for above-normal profits. Indeed, LTCM acknowledged this when returning $2¾ billion of capital to investors at the end of 1997. To counter these diminishing opportunities, LTCM apparently reached further for return over time by employing more leverage and increasing its exposure to risk, a strategy that was destined to fail. Unfortunately for its shareholders, LTCM chose this exposure just as financial market uncertainty and investor risk-aversion began to rise rapidly around the world.

In that environment—so at variance with the experience built into its models—LTCM's embrace of risk on a large scale produced stunning losses. As we now know, by the end of August the firm had lost half its capital base. And as September unfolded, the bleeding continued. The firm, however, apparently did not unwind its positions significantly.

In our dynamic market economy, investors and traders, at times, make misjudgments. When market prices and interest rates adjust promptly to evidence of such mistakes, their consequences are generally felt mostly by the perpetrators and, thus, rarely cumulate to pose significant problems for the financial system as a whole. Indeed, the operation of an effective market economy necessitates that investment funds committed to capital projects that do not accurately reflect consumer and business preferences should incur losses and ultimately be liquidated. What value is left needs to be redirected to profitable uses—those that more accurately reflect market preferences. By such winnowing of inefficiencies, productivity is enhanced and standards of living expand over time.

Financial markets operate efficiently only when participants can commit to transactions with reasonable confidence that the risk of nonpayment can be rationally judged and compensated for. Effective and seasoned markets pass this test *almost* all of the time. On rare occasions, they do not. Fear, whether irrational or otherwise, grips participants, and they unthinkingly disengage from risky assets in favor of those providing safety and liquidity. The subtle distinctions that investors make, so critical to the effective operation of financial markets, are abandoned. Assets, good and bad, are dumped indiscriminately in circumstances of high uncertainty and fear that are not conducive to planning and investment. Such circumstances, were they generalized and persistent, would be wholly inconsistent with the functioning of sophisticated economies supported by long-term capital investment.

Quickly unwinding a complicated portfolio that contains exposure to all manner of risks, such as that of LTCM, in such market conditions amounts to conducting a fire sale. The prices received in a time of stress do not reflect longer-run potential, adding to the losses incurred. Of course, a fire sale that transfers wealth from one set of sophisticated market players to another, without any impact on the financial system overall, should not be a concern for the central bank. Moreover, creditors should reasonably be expected to put some weight on the possibility of a large market swing when making their risk assessments. Indeed, when we examine banks we expect them to have systems in place that take account of outsized market moves. However, a fire sale may be sufficiently intense and widespread that it seriously distorts markets and elevates uncertainty enough to impair the overall functioning of the economy. Sophisticated economic systems cannot thrive in such an atmosphere.[1]

The scale and scope of LTCM's operations, which encompassed many markets, maturities, and currencies and often relied on instruments that were thinly traded and had prices that were not continuously quoted, made it exceptionally difficult to predict the broader ramifications of attempting to close out its positions precipitately. That its mistakes should be unwound and losses incurred was never open to question. How they should be unwound and when those losses incurred so as to foster the continued smooth operation of financial markets was much more difficult to assess. The price gyrations that would have evolved from a fire sale would have reflected fear-driven judgments that could only impair effective market functioning and generate losses for innocent bystanders.

While the principle that fire sales undermine the effective functioning of markets may be clear, deciding when a potential market disruption rises to a level of seriousness warranting central bank involvement is among the most difficult judgments that ever confronts a central banker. In situations like this, there is no reason for central bank involvement unless there is a substantial probability that a fire sale would result in severe, widespread, and prolonged disruptions to financial market activity.

It was the judgment of officials at the Federal Reserve Bank of New York (FRBNY), who were monitoring the situation on an ongoing basis, that the act of unwinding LTCM's portfolio in a forced liquidation would not only have a significant distorting impact on market prices but also in the process could produce large losses, or worse, for a number of creditors and counterparties, and for other market participants who were not directly involved with LTCM. In that environment, it was the FRBNY's judgment that it was to the advantage of all parties—including the creditors and other market participants—to engender if at all possible an orderly

1. At the same time, not all fire sales are without merit. The Resolution Trust Corporation earlier this decade chose to offer commercial real estate in what might be termed a fire sale because it was the only way an otherwise seized-up market could be galvanized. Some level of market prices had to be established—even if below "intrinsic" or longer-run value in order to reestablish a two-way market. This was a special case.

resolution rather than let the firm go into disorderly fire-sale liquidation after a set of cascading cross defaults.

As President McDonough has detailed, officers of the Federal Reserve Bank of New York contacted a number of creditors and asked if there were alternatives to forcing the firm into bankruptcy. At the same time, FRBNY officers informed some of their colleagues at the Federal Reserve Board, the Treasury, and other financial regulators of their ongoing activities. The troubles of LTCM were not a complete surprise to its counterparties. After all, LTCM's earlier statements regarding its August losses were well known, and sophisticated counterparties understood the difficulties in closing out large losing positions. In addition, the commercial banks among its creditors had already begun taking normal precautionary measures associated with exposure to counterparties whose condition is deteriorating. Still, creditors as a whole most likely underestimated the size and scope of the market bets that LTCM was undertaking, an issue that is currently under review.

On September 23, the private-sector parties arrived at an agreement providing a capital infusion of about $3½ billion in return for substantially diluting existing shareholders' stake in LTCM. Control of the firm passed from the current management to a committee determined from the outside by the new investors. Those investors intend to shrink LTCM's portfolio so as to reduce risk of loss and return the remaining capital to the investors as soon as practicable. I do not rule out the possibility that the new owners of what is left of LTCM may decide to keep part of it in business. That is their judgment to make.

This agreement was not a government bailout in that Federal Reserve funds were neither provided nor ever even suggested. Agreements were not forced upon unwilling market participants. Creditors and counterparties calculated that LTCM and, accordingly, their claims, would be worth more over time if the liquidation of LTCM's portfolio was orderly as opposed to being subject to a fire sale. And with markets currently volatile and investors skittish, putting a special premium on the timely resolution of LTCM's problems seemed entirely appropriate as a matter of public policy.

Of course, any time that there is public involvement that softens the blow of private-sector losses—even as obliquely as in this episode—the issue of moral hazard arises. Any action by the government that prevents some of the negative consequences to the private sector of the mistakes it makes raises the threshold of risks market participants will presumably subsequently choose to take. Over time, economic efficiency will be impaired as some uneconomic investments are undertaken under the implicit assumption that possible losses may be borne by the government.

But is much moral hazard created by aborting fire sales? To be sure, investors wiped out in a fire sale will clearly be less risk prone than if their mistakes were unwound in a more orderly fashion. But is the broader market well served if the resulting fear and other irrational judgments govern the degree of risk participants are subsequently willing to incur? Risk-taking is a necessary condition for wealth creation. The optimum degree of risk aversion should be governed by rational judgments about the market place, not the fear flowing from fire sales.

The Federal Reserve provided its good offices to LTCM's creditors, not to protect LTCM's investors, creditors, or managers from loss but to avoid the distortions to market processes caused by a fire-sale liquidation and the consequent spreading of those distortions through contagion. To be sure, this may well work to reduce the ultimate losses to the original owners of LTCM, but that was a byproduct, perhaps unfortunate, of the process.

I should add that, in order to keep incentives working in their favor, the creditors of LTCM apparently also understood the importance of some cushioning of the losses to the owners and managers of the firm. The private creditors and counterparties in the rescue package chose to preserve a sliver of equity for the original owners—one-tenth—so that some of the management would have an incentive to stay with the firm to assist in the liquidation of the portfolio. Regrettably, the creditors felt that, given the complexity of market bets woven into a bewildering arrray of financial contracts, working with the existing management would be far easier than starting from scratch.

SOME QUESTIONS FOR POLICYMAKERS

Without doubt, extensive study will be required to put the events of the past few weeks into proper perspective. As a member of the President's Working Group on Financial Markets, I support Secretary Rubin's call for a special study on the public policy implications of hedge funds. While the affairs of LTCM are by no means settled, I would like to pose some tentative questions that may have to be addressed.

First, how much dependence should be placed on financial modeling, which, for all its sophistication, can get too far ahead of human judgment? This decade is strewn with examples of bright people who thought they had built a better mousetrap that could consistently extract an abnormal return from financial markets. Some succeed for a time. But while there may occasionally be misconfigurations among market prices that allow abnormal returns, they do not persist. Indeed, efforts to take advantage of such misalignments force prices into better alignment and are soon emulated by competitors, further narrowing, or eliminating, any gaps. No matter how skillful the trading scheme, over the long haul, abnormal returns are sustained only through abnormal exposure to risk.

Second, what steps could counterparties have taken to ensure that they had properly estimated their exposure, particularly in markets that are volatile? To an important degree, the creditors of LTCM were induced to infuse capital into the firm because they failed to stress test their counterparty exposures adequately and therefore underestimated the size of the uncollateralized exposure that they could face in volatile and illiquid markets. In part, this also reflected an underappreciation of the volume and nature of the risks LTCM had undertaken and its relative size in the overall market. By failing to make those determinations, its fellow market participants failed to put an adequate brake on LTCM's use of leverage. To be sure, sometimes decisions are based on judgments about the soundness of borrowers that are accepted from third parties or, possibly in this case, that are founded on the impressive qualifications of LTCM's principals. In some cases, such truncated risk appraisals may be accurate, but they are not a substitute for a rigorous analysis by the lender of the borrower's overall creditworthiness and risk profile.

Third, in this regard what lessons are there for bank regulators? Domestic commercial bank exposure to LTCM included both direct lending and acting as counterparties to the firm in derivatives contracts. A preliminary review of bank dealings with LTCM suggests that the banks have collateral adequate to cover most of their current mark-to-market exposures with LTCM. The unexpected surge in risk aversion and the dramatic opening up of interest rate spreads in August obviously caught LTCM wrong footed. Counterparties, including banks, continued to collect collateral for marks to market. What they were not collateralized against was the losses that might have occurred when prices moved even further and market liquidity dried up in a fire sale.

Supervisors of banks and security firms must assess whether current procedures regarding stress testing and counterparty assessment could have been improved to enable counterparties to take steps to insulate themselves better from LTCM's debacle. More important will be the assessment of whether those procedures are adequate for the future. But this is an area in which much work has been ongoing. During the fourth quarter of 1997 and the first quarter of 1998, supervisory staff of the Federal Reserve Bank of New York and the Board met with managers at several major New York banking institutions to discuss their current relationships with hedge funds, updating a similar study conducted three and one-half years earlier.

Fourth, does the fact that investors have lost most of their capital and creditors may take some losses on their exposure to LTCM call for direct regulation of hedge funds? It is questionable whether hedge funds can effectively be directly regulated in the United States alone. While their financial clout may be large, hedge funds' physical presence is small. Given the amazing communication capabilities available virtually around the globe, trades can be initiated from almost any location. Indeed, most hedge funds are only a short step from cyberspace. Any direct U.S. regulations restricting their flexibility will doubtless induce the more aggressive funds to emigrate from under our jurisdiction. The best we can do in my judgment is what we do today: Regulate them indirectly through the regulation of the sources of their funds. We are thus able to monitor far better hedge funds' activity, especially as they influence U.S financial markets. If the funds move abroad, our oversight will diminish.

In the first line of risk defense, if I may put it that way, are hedge funds' lenders and counterparties. Commercial and investment banks especially have the analytic skills to judge the degree of risk to which the funds are exposed. Their self-interest has, with few exceptions but including the one we are discussing today, controlled the risk posed by hedge funds. Banking supervisors are the second line of risk defense in their examination of lending procedures for safety and soundness. We neither try, nor should we endeavor, to micromanage bank lending activity. We have nonetheless built up significant capabilities in evaluating the complex lending practices in over-the-counter derivatives markets and hedge funds. If, somehow, hedge funds were barred worldwide, the American financial system would lose the benefits conveyed by their efforts, including arbitraging price differentials away. The resulting loss in efficiency and contribution to financial value added and the nation's standard of living would be a high price to pay—to my mind, too high a price.

Fifth, how much weight should concerns about moral hazard be given when designing mechanisms for governmental regulation of markets? By way of example, we should note that were banks required by the market, or their regulator, to hold 40 percent capital against assets as they did after the Civil War, there would, of course, be far less moral hazard and far fewer instances of fire-sale market disruptions. At the same time, far fewer banks would be profitable, the degree of financial intermediation would be less, capital would be more costly, and the level of output and standards of living would be decidely lower. Our current economy, with its wide financial safety net, fiat money, and highly leveraged financial institutions, has been a conscious choice of the American people since the 1930s. We do not have the choice of accepting the benefits of the current system without its costs.

CONCLUSION

For so long as there have been financial markets, participants have had on occasion to weigh the costs and, especially, the externalities associated with fire-sale liquidations of troubled entities against short-term assistance to tide the firms over for a time. It was such a balancing of near-term costs and longer-term benefits that presumably led J.P. Morgan to convene the leading bankers of his age—both commercial and investment—in his library in 1907 to address the severe panic of that year. Such episodes were recognized as among those rare occasions when otherwise highly effective markets seize up and temporary ad hoc responses were required. The convening of LTCM investors and lenders last week at the Federal Reserve Bank of New York could be viewed in that long tradition. It should similarly be viewed as a rare occasion, warranted because of the potential for serious disruptions to markets. We must also remain mindful of where to draw the line at which public-sector involvement ends. The efforts last week were limited to facilitating a private-sector agreement and had no implications for Federal Reserve resources or policies.

Statement by William J. McDonough, President, Federal Reserve Bank of New York, before the Committee on Banking and Financial Services, U.S. House of Representatives, October 1, 1998

I am pleased to appear before you today to describe the Federal Reserve Bank of New York's role in the events leading up to the recent private-sector recapitalization of Long-Term Capital Management and its fund, Long-Term Capital Portfolio.

I will cover four points. First, I will provide some background on Long-Term Capital's financial problems. Second, I will explain our judgment that an abrupt and disorderly closeout of Long-Term Capital's positions would have posed unacceptable risks to the U.S. economy. Third, I will explain the limited role we played in facilitating the private-sector resolution to this private-sector problem. Fourth, I will identify some of the issues that should concern us as we begin to understand the lessons of this experience.

BACKGROUND

Long-Term Capital is an investment partnership that was started in 1994. It has many of the characteristics of a "hedge fund" in that it borrows money to leverage its capital and is available only to wealthy investors. The strategy of Long-Term Capital was to use complex mathematical formulas to identify temporary price discrepancies between different interest rates. For example, the firm might notice that the yield on corporate bonds relative to Treasury yields was higher than the range observed in recent years. If Long-Term Capital believed the former relationship would reassert itself, it would buy corporate bonds and sell short Treasury bonds. If the spread narrowed as expected, the firm would profit. If, however, the spread continued to widen, the firm would incur losses. This basic strategy and many complex variations were followed across many interest rate products in the United States and many overseas markets as well. The firm was active both in traditional securities markets and, perhaps more important, in derivative product markets such as futures, swaps, and options. Anticipating that some positions would move in their favor and some would move against them, the firm relied on diversification across a large number of product and geographic markets. Long-Term Capital proved quite successful at this strategy, generating returns in excess of 40 percent in 1995 and 1996, though somewhat less in 1997.

Perhaps their success went to their heads. Long-Term Capital took on larger and larger positions. They also leveraged their investments at higher levels, returning capital to their investors but not, apparently, reducing risks. We now also know that they took on significant positions in equity markets, through both swap and options contracts. The reputations of the Long-Term Capital partners, as traders and economists, and their initial success appear to have contributed to so many counterparties' willingness to deal with them.

While hubris may have set them up for a fall, it was the extraordinary events of August in global markets that appear to have tripped them.

On August 17, the Russian government announced an effective devaluation of the ruble and declared a debt moratorium, shocking investor confidence all over the world. Over subsequent days and weeks, equity and debt markets the world over became increasingly volatile, with U.S. equity markets falling and the spreads between U.S. Treasury securities and higher-yielding debt instruments widening sharply. The correction of stock prices was not of exceptional size or concern and, indeed, had been anticipated by a number of astute market observers. However, the abrupt and simultaneous widening of credit spreads globally, for both corporate and emerging-market sovereign debt, was an extraordinary event beyond the expectations of investors and financial intermediaries.

The unusual widening of credit spreads also caused significant losses at Long-Term Capital. As markets around the world moved in the same direction at the same time, the diversification on which Long-Term had previously relied failed them utterly. Instead of offsetting positions, their losses were compounded. At the same time, the volatility in equity markets caused further losses. On September 2, the partners of Long-Term Capital sent their investors a letter acknowledging 52 percent losses on the year through August 31 and that they were seeking an injection of capital to sustain the firm. The existence of this letter became widely known and reported within a few days.

Because of this, during the first two weeks of September, concern about Long-Term Capital was a widespread topic of conversation in financial markets. It is a traditional and essential role for the President and senior officers of the Federal Reserve Bank of New York to be talking to, and receiving calls from, market participants regarding significant developments and potential dislocations. In fact, the partners at Long-Term Capital called me early in September to notify me of their difficulties and their discussion with investment houses about plans to raise new capital.

By Friday, September 18, with the efforts to raise new capital still unsuccessful—and with an increasing number of people now aware of Long-Term's plight because of the efforts to bring in new investors—events seemed to come to a head. With market conditions particularly unsettled that day, I made a series of calls to senior Wall Street officials to discuss overall market conditions. Let me take a moment to put those calls in context. One important objective of the Federal Reserve is to ensure financial stability. Particularly in times of stress, it is essential that the Federal Reserve continue to take the pulse of the market. One way to do that is through candid and open communication with key market participants. Everyone I spoke to that day volunteered concern about the serious effect the deteriorating situation of Long-Term could have on world markets.

Also on September 18, one of the firms that had been working with Long-Term to raise new capital asked the Long-Term Capital partners if the firm could share the information it had with us. The partners at Long-Term Capital responded that they would prefer to present the information themselves and called me to arrange such a presentation.

After conferring with Chairman Greenspan and Secretary Rubin, we agreed that a visit to Long-Term Capital's offices was needed. A team from the New York Fed, led by Peter Fisher, the head of our Markets Group, and joined by Treasury Assistant Secretary Gary Gensler, met with the Long-Term Capital partners at their offices on Sunday, September 20. During this meeting, we learned the broad outlines of Long-Term Capital's major positions in credit and equity markets, the difficulties they were having in trying to reduce these positions in thin market conditions, their deteriorating funding positions, and an estimate of their largest counterparty exposures. The team also came to understand the impact that Long-Term Capital's positions were already having on markets around the world and that the size of these positions was much greater than market participants imagined.

The New York Fed's Judgments

I would like now to turn to my second point and focus explicitly on the question of our judgment that the abrupt and disorderly closeout of Long-Term Capital's positions would pose unacceptable risks to the U.S. economy.

There are several ways that the problems of Long-Term Capital could have been transmitted to cause more widespread financial troubles. Had Long-Term Capital been suddenly put into default, its counterparties would have immediately "closed out" their positions. If counterparties would have been able to close out their positions at existing market prices, losses, if any, would have been minimal. However, if many firms had rushed to close out hundreds of billions of dollars in transactions simultaneously, they would have been unable to liquidate collateral or establish offsetting positions at the previously existing prices. Markets would have moved sharply, and losses would have been exaggerated. Several billion dollars of losses might have been experienced by some of Long-Term Capital's more than seventy-five counterparties.

These direct effects on Long-Term Capital's counterparties were not our principal concern. While these losses would have been considerable, and would certainly have adversely affected the firms experiencing them, this was not, in itself, a sufficient reason for us to become involved.

Two factors influenced our involvement. First, in the rush of Long-Term Capital's counterparties to close out their positions, other market participants—investors who had no dealings with Long-Term Capital—would have been affected as well. Second, as losses spread to other market participants and Long-Term Capital's counterparties, this would lead to tremendous uncertainty about how far prices would move. Under these circumstances, there was a likelihood that a number of credit and interest rate markets would experience extreme price moves and possibly cease to function for a period of one or more days and maybe longer. This would have caused a vicious cycle: a loss of investor confidence, leading to a rush out of private credits, leading to a further widening of credit spreads, leading to further liquidations of positions, and so on. Most important, this would have led to further increases in the cost of capital to U.S. businesses.

Let me be clear: Had we not just experienced in August precisely this type of shock to our credit markets, had we not just seen a sudden, worldwide straining of investor confidence, had there not already been under way a flight of capital away from private credit and into Treasury securities, were much of the world not experiencing financial strain, then our judgments about the risks to the U.S. economy of an abrupt and disorderly closeout of Long-Term Capital may well have been different. But, in the circumstances that did in fact exist, it was my judgment that the American people, whom we are pledged to serve, could have been seriously hurt if credit dried up in a general effort by banks and other intermediaries to avoid greater risk.

In light of these risks, the responsible public policy objective was to get together those with a direct financial interest in an orderly rescue of Long-Term Capital, to discuss its problems openly and objectively, to provide a sounding board for solutions, and if necessary, a calming influence. In my view, we achieved this objective.

WHAT DID THE NEW YORK FED DO?

Because events were moving swiftly, and with my approval and support, my colleague Mr. Fisher invited representatives of the three firms that we felt had the greatest knowledge of the situation at Long-Term Capital and a strong interest in seeking a solution to an early morning meeting on September 22. The three firms were Goldman Sachs, Merrill Lynch, and J.P. Morgan.

Continuing discussions that commenced the day before, Mr. Fisher explained our interest in being aware of developments and in reducing the risk of an abrupt and chaotic closeout of Long-Term Capital. The firms present stated that they were not aware of any other initiatives then being actively pursued to resolve Long-Term Capital's problems. They voiced their own concerns about the risks to the markets of a close-out scenario. They discussed various approaches to stabilizing Long-Term Capital, including the concept of a "collective industry" or consortium approach. However, they all agreed that work on a collective option should not preclude parallel efforts by anyone; indeed, that if any firm or group of firms wished to step forward and take Long-Term Capital itself or Long-Term Capital's positions onto their balance sheets that this would be the most desirable outcome. In the absence of any other solutions, the firms dispatched two working groups to Long-Term Capital's offices in Connecticut to consider the feasibility of "lifting" the fixed-income and the equity positions out of Long-Term Capital. A third working group met at one of the firm's offices downtown to develop the idea of a consortium approach. By mutual agreement another firm, UBS, a Swiss bank, was added to this core group and to each of the three working groups. However, no one from the New York Fed participated in any of the working groups.

At no point in this early morning meeting, nor at any stage last week, was there discussion of the use of public monies—Federal Reserve or otherwise. No Federal Reserve or government guarantees, actual or implied, were offered, discussed, or solicited.

Later that afternoon, we participated in a conference call to review the progress of the working groups. Two of the working groups concluded that a "lifting" of the fixed-income and equity positions was not feasible. The third group developed a consortium approach, which was deemed feasible. Everyone agreed that the consortium approach should be "last ditch," and that parallel solutions should still be encouraged.

The four firms met at the Federal Reserve at 7:00 p.m. A draft term sheet was reviewed that provided detail with respect to the consortium approach. The terms and conditions were debated, altered in some places, and ultimately refined so that the four firms could present it to a wider group. Although Federal Reserve officials were present at the meeting, we did not participate in the discussion about terms and conditions.

At about 8:30 p.m., a meeting of a wider group involving thirteen firms began. Meanwhile, some representatives of the core group called Long-Term Capital to discuss the terms and conditions of the consortium approach. Federal Reserve officials did not participate in any conversations with Long-Term Capital regarding the terms and conditions. In the meeting with the wider group, Peter Fisher explained the importance of avoiding a disorderly closeout of Long-Term Capital's positions. He also underscored the desirability of parallel efforts to resolve the problem. It was agreed that the group would reconvene at 10:00 a.m. the following day. It was clear to everyone that time was of the essence.

I returned to New York from London around midnight. During the early morning hours, I called various foreign central bank officials to inform them of the situation. At about 9:30 a.m. my colleagues and I met with the core group to review the status of the situation. A few minutes before the start of the scheduled 10:00 a.m. meeting, one of the core group firms told me that an investor group would make an offer to acquire the Long-Term portfolio. I called one of the representatives of the investor group to confirm this development. The offer was subsequently conveyed to Long-Term Capital by that investor group, and a response was requested by 12:30 p.m.

After a brief consultation with the core group, I decided that the effort to proceed with the consortium approach needed to be suspended for a short time until the alternative offer could be considered. As noted earlier, the consortium approach was seen as a "last resort." Consequently, the meeting about the consortium approach was adjourned at about 10:50 a.m., to reconvene at 1:00 p.m.

At 12:30 p.m., I learned that the alternative offer had not been accepted and would not be extended. Shortly after 1:00 p.m., the meeting about the consortium approach resumed. This was now the only solution being pursued. During the next five hours, the private-sector participants discussed every aspect of the terms and conditions. At the end of that discussion, fourteen banks and securities firms agreed to participate in the recapitalization, with three firms contributing smaller amounts than the other eleven. Two firms declined to participate.

I want to emphasize a few points. First, this was a private-sector solution to a private-sector problem, involving an investment of new equity by Long-Term Capital's creditors and counterparties. Second, although some have characterized this as a "bailout," control of the Long-Term portfolio passed over to this fourteen firm creditor group, and the original equity holders have taken a severe hit. Finally, no Federal Reserve official pressured anyone, and no promises were made. Not one penny of public money was spent or committed.

Issues That Should Concern Us

It is far too early to state categorically the lessons to be learned from Long-Term Capital. What I can say is that we are focused on three specific issues, all relating to leverage and how we are able to observe it through the eyes of our bank examiners. Let me emphasize, yet again, that the Federal Reserve has no regulatory authority over hedge funds and no regulatory authority over Long-Term Capital.

The first issue relates to credit analysis. Our supervisory guidance generally, and with respect to hedge funds specifically, stresses the importance of knowing the borrower and the business purpose of the borrower's transactions. In 1994, the Federal Reserve issued a supervisory letter emphasizing the importance of financial analysis of counterparties, including hedge funds, which can quickly adjust their risk profile. There is a question whether adequate credit analysis was performed by creditors of Long-Term Capital, which needs to be examined carefully during the next few weeks. If credit analysis was deficient, we need to learn how and why before we can make pronouncements that will avoid repetition of our Long-Term Capital experience.

The second issue relates to derivatives activities and a concept called future potential exposure, which is a measure of the likely price movements based on recent years' experience. With respect to derivatives, the current market value is captured by financial statements prepared in accordance with generally accepted accounting principles, but not the potential future exposure. To fully understand the degree and effect of leverage in Long-Term Capital's derivatives-related strategies, it would have been necessary to measure the potential future exposure in a rigorous and conservative manner. Whether sufficient information was made available to Long-Term Capital's counterparties, including its banks, and adequately analyzed by those counterparties remains to be seen.

A third question concerns stress-testing in the credit analysis of hedge funds and the structuring of margin agreements. Stress-testing simulates the effects on a portfolio if many asset relationships simultaneously move adversely far beyond historical observation. We recognize that stress-testing is a developing discipline, but it is clear that adequate testing was not done with respect to the financial conditions that precipitated Long-Term Capital's problems. In a recent supervisory letter on credit underwriting generally, we emphasized the importance of stress-testing. Effective risk management in a financial institution requires not only modeling but models that can test the full range of financial transactions across all kinds of adverse market developments. Whether such models existed and, if so, whether they were effective are issues that we need to address.

In the aftermath of Long-Term Capital, we need to pursue these leverage-related issues, and others, in conjunction with our colleagues at the Federal Financial Institutions Examination Council. The insights that we gain should be of value to bank supervisors and for the study of the Long-Term Capital matter that is to be done by the President's Working Group on Financial Markets, announced by Secretary Rubin last Friday.

Statement by Theodore E. Allison, Assistant to the Board, Board of Governors of the Federal Reserve System, before the Subcommittee on Domestic and International Monetary Policy, Committee on Banking and Financial Services, U.S. House of Representatives, October 8, 1998.

Thank you for the opportunity to comment on the implications for the demand for Federal Reserve notes that are likely to follow from the issuance of euro bank notes, which will—early in the next decade—replace the national currency notes of eleven participating nations in Europe.[1] You have asked the Federal Reserve to address both the overall impact of euro bank notes on the demand for U.S. currency and, in particular, what impact the issuance of higher-denomination euro notes might have.

PLANS FOR THE EURO

Eleven member countries of the European Union are planning to adopt the *euro* as a single currency, which will be issued in eight coin denominations—2, 5, 10, 20, and 50 euro cents, 1 euro, and 2 euros—and seven-note denominations—5, 10, 20, 50, 100, 200, and 500 euros. The value of the euro in relation to other currencies, including the dollar, will not be known until January 1, 1999, but it is likely to be near the value of the European currency unit (ECU), which is now about $1.20. (The ECU is a currency basket whose value is based on the currencies of the eleven euro participants, as well as the Danish krone, the Greek drachma, and the British pound sterling, whose issuers will not initially be among the euro group.) Thus, the value of the two highest euro notes—200 and 500—will be about $240 and $600 respectively.

Euro notes and coins will be introduced on January 1, 2002, and will be exchanged for the bank notes of the individual countries during the following six months. Bank notes denominated in German marks, French francs, and the like will cease to be legal tender on July 1, 2002.[2]

THE USE OF U.S. CURRENCY OUTSIDE THE UNITED STATES AND ASSOCIATED BENEFITS

For most of this century, U.S. currency has been used outside this country as a store of value by people facing economic and political uncertainty. The Board's staff estimates, for example, that, as far back as 1960, a bit less than half of all U.S. currency in circulation was held abroad. That proportion has grown steadily over the past four decades and has accelerated during the 1990s. We believe that as many as two-thirds of all Federal Reserve notes in circulation—perhaps $250 billion to $300 billion—are now held abroad.[3]

The main force behind the recent increase in the holding and use of U.S. currency abroad has been the opening up and privatizing of previously state-dominated economic systems—chiefly in the former Soviet bloc but also in Latin America and numerous Asian countries. In many of these transition econo-

1. The eleven participating countries are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

2. More information on the euro can be found at the Internet site http://europa.eu.int/euro/html/entry.html maintained by the European Commission.

3. The U.S. dollar is not the only currency that circulates internationally. The German mark, for example, is held fairly widely outside Germany.

mies, citizens and small businesses still face unstable local currencies and underdeveloped banking and payment systems. Under these conditions, it becomes difficult to save, to make business-to-business transactions, and to buy and sell a range of consumer goods. As a result, many residents of transition economies have chosen to carry out critical and large saving and transaction functions in a "hard" currency, very often U.S. dollars.

The availability of U.S. currency in these economies is of value to the people there, as demonstrated by the large quantity used. The functions of saving and making business transactions efficiently are essential to the improvement of economic conditions and living standards.

The United States also benefits from the use of its currency outside the country. The ease with which dollars can be spent in many places around the globe, for example, is a convenience for U.S. travelers. Moreover, the U.S. Treasury earns income on all of the currency in circulation—including that which is held outside the country—in the form of interest on assets that are held by the Federal Reserve as a consequence of the currency having been issued. The $250 billion to $300 billion of Federal Reserve notes that appear to be in use outside the United States earn the Treasury and the U.S. taxpayers about $12 billion to $15 billion per year.

The History of Large-Denomination Notes in the United States

Notes of $500, $1,000, $5,000, and $10,000 were first authorized in 1918, primarily for interbank transactions. In 1946, with demand for the notes declining, printing of new notes of these denominations was discontinued, and in 1969, the Treasury Department and the Federal Reserve decided to discontinue their issuance as well.

Since 1969, all high-denomination notes that have been deposited at the Federal Reserve have been destroyed. The Secretary of the Treasury, however, retains the authority to have printed, and the Federal Reserve the authority to issue, notes in all four high denominations.

Implications of the Euro for the Demand for Federal Reserve Notes

The availability of euro notes *will* reduce the use of dollars outside the United States, to some extent, for a variety of good reasons. Some U.S. currency is used *within* the euro area to facilitate travel to other countries. For example, a Finnish family headed for a vacation on the Costa del Sol might convert some Finnish markkas into dollars before leaving home, both because the dollars are more likely to be accepted in Spain, without having to be converted, than would be markkas and because, when the dollars are converted to pesetas, the exchange transactions involved—markkas to dollars and then dollars to pesetas—may involve a lower cost overall than a single markkas-to-pesetas transaction conducted in either Finland or Spain. Beginning in 2002, the Finnish family will, of course, find its local currency—the euro—used in Spain as well. That development will improve efficiency, and we should be glad to see it, even though the United States will experience some reduction in income as a result. Outside the euro area, some substitution of euros for dollars may take place, especially in eastern Europe, if the cost to banks and currency exchanges of acquiring euros is lower than the cost of acquiring dollars and if the cost advantage is reflected in better exchange rates to citizens and business firms.

In general, however, dollar currency has a lot going for it as a store of value in areas with unstable political or economic environments. It is accepted and readily available in most parts of the world. The United States has never recalled any outstanding notes, so holders are confident that their dollars will always be accepted. The United States has a strong history of political stability, and the dollar has held its value reasonably well over a long period. Our financial institutions and markets are highly regarded. As a consequence, the worldwide demand for dollar notes is based on an unusually favorable combination of wide acceptability, political and financial continuity, and esteem.

The euro may in time earn a similar kind of status. It seems likely, however, that any major substitution of euros for dollars as a trusted store of value would take place fairly gradually.

Nevertheless, there are two aspects of the foreign demand for hard currency notes that could hasten somewhat a substitution of euro notes for dollars. The first would be the availability of higher-denomination euro notes, which could make euros more convenient and efficient than dollars for some transactions. The second would be a public perception that dollar notes are significantly less secure against counterfeiting.

The Role of High-Denomination Notes

If the $100 note remains our highest denomination, it does seem plausible that some users would find the high-denomination euro notes more efficient and would shift some currency holdings from $100 notes to 200 and 500 euro notes. The magnitude is impossible to predict, but the heavy concentration of U.S. currency in $100 notes, as shown in table 1, suggests that there may be some unmet demand for a more efficient and convenient higher denomination.[4]

The efficiency with which U.S. currency could be shipped and stored would be increased fivefold to the extent that $500 notes were used in place of $100 notes. Likewise, the availability of a $500 note would reduce transaction times in the substantial number of large-value transactions that are conducted in $100 bills in many "dollarized" economies—most notably sales of real estate and consumer durable goods such as automobiles. And some households would find higher-denomination U.S. currency more efficient for saving.

The United States does not issue currency to generate revenue (but rather to meet the convenience and needs of the public), and it neither *promotes* the use of dollars internationally nor *competes* with other issuers in this regard. Nonetheless, the demand for dollars from abroad does provide significant benefits to the United States, and if making the use of U.S. currency more efficient and convenient for foreign users by reissuing the $500 note could help preserve those benefits, that would be an argument for doing so.

We doubt that $500 notes and $1,000 notes would improve convenience or efficiency to any significant degree *within* the United States. Research at the Federal Reserve suggests that, with the availability of a $500 note, domestic cash holdings might rise somewhat, with an attendant increase in Treasury revenue, but any such effect is likely to be small.

4. The attachment to this statement is available from Publications Services, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551, and on the Board's site on the World Wide Web (http://federalreserve.gov).

There are public policy arguments *against* reissuing the $500 note, particularly because any efficiency gains, such as lower shipment and storage costs, would accrue not only to legitimate users of dollar notes but also to money launderers, tax evaders, and a variety of other lawbreakers who use currency in their criminal activity. While it is not at all clear that the volume of illegal drugs sold or the amount of tax evasion would necessarily increase just as a consequence of the availability of a larger-denomination bill, it no doubt is the case that, if wrongdoers were provided with an easier mechanism to launder their funds and hide their profits, enforcement authorities could have a harder time detecting certain illicit transactions occurring in cash. Consequently, we believe that the law enforcement community should be consulted in any final decision about reissuing $500 notes.

THE PERCEPTION OF SECURITY AGAINST COUNTERFEITING

A second, and potentially important, consideration for people around the globe who now keep their savings and business working capital in U.S. currency, and who might consider using an alternative, is likely to be their *perception* of the relative security of notes against counterfeiting. The fear of taking a possible loss on a $100 bill could be an inducement to use an alternative currency if the alternative were *perceived* as being less susceptible to counterfeiting.

This is not the subject of your hearing, and I won't spend more time on it except to note that (a) the interagency committee on Advanced Counterfeit Deterrence is seriously studying further possible design improvements, especially for the $100 note and $50 note, and (b) if the $500 note were issued again, it would have to be seen as highly secure in order to be accepted. □

Announcements

REDUCTION IN THE DISCOUNT RATE

The Federal Reserve on October 15, 1998, announced the following set of policy actions:

- The Board of Governors approved a reduction in the discount rate by 25 basis points from 5 percent to 4¾ percent.
- The federal funds rate is expected to fall 25 basis points from around 5¼ percent to around 5 percent.

Growing caution by lenders and unsettled conditions in financial markets more generally are likely to be restraining aggregate demand in the future. Against this backdrop, further easing of the stance of monetary policy was judged to be warranted to sustain economic growth in the context of contained inflation.

In taking the discount rate action, the Board approved requests submitted by the Boards of Directors of the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco. Subsequently, the Board approved actions by the Boards of Directors of the Federal Reserve Bank of Boston, also effective October 15, and by the Boards of Directors of the Federal Reserve Banks of Cleveland, Richmond, and Dallas, effective October 16. The discount rate is the interest rate that is charged depository institutions when they borrow from their District Federal Reserve Banks.

APPOINTMENTS OF CHAIRMEN AND DEPUTY CHAIRMEN OF THE TWELVE FEDERAL RESERVE BANKS

The Federal Reserve Board on October 19, 1998, announced the appointments of chairmen and deputy chairmen of the twelve Federal Reserve Banks for 1999.

Each Reserve Bank has a board of directors of nine members. The Board of Governors in Washington appoints three of these directors and designates one of its appointees as chairman and a second as deputy chairman.

Following are the names of the chairmen and deputy chairmen appointed by the Board for 1999:

Boston

William C. Brainard, Professor, Department of Economics, Yale University, New Haven, Conn., renamed Chairman.

William O. Taylor, Chairman and Chief Executive Officer, Globe Newspaper Company, Boston, Mass., renamed Deputy Chairman.

New York

John C. Whitehead, Former Chairman, Goldman Sachs & Co., New York, N.Y., renamed Chairman.

Deputy Chairman—To be announced.

Philadelphia

Joan Carter, President and Chief Operating Officer, UM Holdings Ltd., Haddonfield, N.J., renamed Chairman.

Charisse R. Lillie, Partner, Ballard Spahr Andrews & Ingersoll, Philadelphia, Pa., renamed Deputy Chairman.

Cleveland

G. Watts Humphrey, Jr., President, GWH Holdings, Inc., Pittsburgh, Pa., renamed Chairman.

David H. Hoag, Chairman and Chief Executive Officer, The LTV Corporation, Cleveland, Ohio, renamed Deputy Chairman.

Richmond

Claudine B. Malone, President, Financial & Management Consulting, Inc., McLean, Va., renamed Chairman.

Jeremiah J. Sheehan, Chairman and Chief Executive Officer, Reynolds Metals Company, Richmond, Va., named Deputy Chairman.

Atlanta

John F. Wieland, President, John Wieland Homes, Inc., Atlanta, Ga., named Chairman.

Paula Lovell, President, Lovell Communications, Inc., Nashville, Tenn., named Deputy Chairman.

Chicago

Lester H. McKeever, Jr., Managing Partner, Washington, Pittman & McKeever, Chicago, Ill., renamed Chairman.

Arthur C. Martinez, Chairman and Chief Executive Officer, Sears, Roebuck and Co., Hoffman Estates, Ill., renamed Deputy Chairman.

St. Louis

Susan S. Elliott, Chairman and Chief Executive Officer, Systems Service Enterprises, Inc., St. Louis, Mo., named Chairman.

Charles W. Mueller, Chairman, President, and Chief Executive Officer, Ameren Corporation, St. Louis, Mo., named Deputy Chairman.

Minneapolis

David A. Koch, Chairman, Graco Inc., Plymouth, Minn., renamed Chairman.

James J. Howard, Chairman, President, and Chief Executive Officer, Northern States Power Company, Minneapolis, Minn., renamed Deputy Chairman.

Kansas City

Jo Marie Dancik, Area Managing Partner, Ernst & Young LLP, Minneapolis, Minn., renamed Chairman.

Terrence P. Dunn, President and Chief Executive Officer, J.E. Dunn Construction Company, Kansas City, Mo., renamed Deputy Chairman.

Dallas

Roger R. Hemminghaus, Chairman and Chief Executive Officer, Ultramar Diamond Shamrock Corp., San Antonio, Tex., renamed Chairman.

James A. Martin, General Vice President, International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers, Austin, Tex., renamed Deputy Chairman.

San Francisco

Gary G. Michael, Chairman and Chief Executive Officer, Albertson's, Inc., Boise, Ida., renamed Chairman.

Nelson C. Rising, President and Chief Executive Officer, Catellus Development Corporation, San Francisco, Calif., named Deputy Chairman.

Designation of a Primary Dealer Controlled by a Dutch Firm

Under the Primary Dealers Act of 1988, the Federal Reserve may not designate, or permit the continuation of the designation as, a primary dealer of any person of a foreign country if that person's home country does not grant to U.S. companies the same competitive opportunities in the underwriting and distribution of government debt instruments issued by such country as such country accords to its domestic companies. A "person of a foreign country" includes any foreign individual or company that directly or indirectly controls a primary dealer. Accordingly, in connection with a Dutch company's recent acquisition of a U.S. company for which it sought primary dealer status, the Federal Reserve Board and the Federal Reserve Bank of New York determined that U.S. companies are accorded national treatment in their access to the government securities market of the Netherlands. This determination was made after staff members of the Federal Reserve Board and of the Federal Reserve Bank of New York conducted a comprehensive study of the characteristics of the Dutch government securities market.

The Federal Reserve previously completed comprehensive studies of the characteristics of five other government securities markets—in the United Kingdom, Japan, Switzerland, Germany, and France. Favorable determinations were made by the Federal Reserve under the Primary Dealers Act for the United Kingdom and Japan in August 1989, for Switzerland in December 1989, for Germany in December 1990, and for France in September 1992.

The Federal Reserve will continue to monitor developments in these markets on an ongoing basis to ensure that the requirements of the Primary Dealers Act continue to be met as the markets change over time.

Copies of the report on the Dutch government securities market are available from Publications Services, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington DC 20551.

Development of Procedures for Managing Changes to Federal Reserve Information Systems in 1999 and the First Quarter of 2000

The Federal Reserve Board on October 13, 1998, announced procedures to manage changes to its information systems in 1999 and the first quarter of 2000. The procedures for change management were developed in conjunction with the Federal Reserve's Century Date Change Project. The procedures establish guidelines to limit Federal Reserve policy and operational changes as well as internal hardware and software changes during late 1999 and early 2000.

The Federal Reserve plans to complete renovation and testing of its critical information systems by year-end 1998. Subsequent changes to Federal Reserve policies, rules, regulations, and services could impair the Year 2000 readiness of critical information systems. The procedures are designed to balance the need to support changes to critical business processes with the need to limit changes to information systems during this critical period.

Governor Edward W. Kelley, Jr., Chairman of the Federal Reserve Board's Committee on Federal Reserve Bank Affairs, stated the following:

By limiting these changes to its systems, the Federal Reserve will also minimize changes that its customers could be required to make to their applications that interface with Federal Reserve System software. In addition, we intend to coordinate our activities with other institutions that typically generate policy and operational changes in the financial industry.

In that spirit, the Federal Reserve will disseminate its guidelines to assist other organizations that establish rules, regulations, and standards for the financial services industry.

A summary of the change management procedures is available from Publications Services, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551.

Issuance of an Interpretation of the Basle Framework for Capital Adequacy

The Basle Committee on Banking Supervision (Basle Committee) on October 27, 1998, issued an interpretation of the Basle framework for capital adequacy (Basle Accord) regarding instruments eligible for inclusion in tier 1 capital.

The committee noted that the interpretation will be subject to review as part of a broader effort already under way to reassess the present framework for evaluating banks' capital adequacy.

The governors of the central banks of the Group of Ten countries endorsed the Basle Accord, which applies to internationally active banks, in 1988.

The interpretation reaffirms that the common shareholders' equity is the key element of capital and should be the predominant form of a bank's tier 1 capital under the Basle Accord. The interpretation emphasizes the important role public disclosure plays in ensuring that the integrity of capital is maintained.

In this regard, the committee notes the need for banks to publicly disclose each component of tier 1 capital and its main features. Such disclosure is consistent with a report entitled *Enhancing Bank Transparency*, which the Basle Committee released in September 1998.

The interpretation states that the committee has determined that minority interest in equity accounts of consolidated subsidiaries that take the form of special purpose vehicles may be included in tier 1 provided they meet certain minimum criteria. These criteria include permanence, deferrability of distributions on a noncumulative basis, and ability to absorb losses within the bank on a going-concern basis.

Further, the committee has determined that moderate step-ups after a minimum of ten years are an acceptable feature in a tier 1 instrument. Issuances of instruments with such a feature, however, are limited to 15 percent of tier 1 capital to avoid undue reliance on innovative noncommon instruments in tier 1.

The Federal Reserve will make a determination as to how to implement the Basle interpretation with regard to U.S. banks after consulting with the other regulatory agencies for federal financial institutions.

With regard to bank holding companies, the Federal Reserve notes that by its terms, the Basle Accord applies to internationally active banks but states that ownership structures should not be allowed to weaken capital positions of banks.

Since the inception of the Basle Accord, U.S. bank holding companies, entities that are legally separate from banks, have been subject to a risk-based capital regime that is identical to the Basle Accord, with the exception that holding companies are allowed to include cumulative preferred stock in tier 1 on a limited basis.

Consistent with the principles that common equity should be the predominant component of tier 1 capital and that ownership structures should not weaken bank capital positions, state member banks and bank holding companies generally have been expected to maintain risk-based capital ratios above Basle minimums, without reliance on preferred stock.

State member banks and bank holding companies disclose the components of their capital positions in sufficient detail to allow analysts and supervisors to calculate capital ratios on many different bases, including the Basle capital standard. The Federal Reserve has no plans to change these policies and practices.

The Basle Committee's press release and its report on *Enhancing Bank Transparency*, can be obtained from the Internet (http://www.bis.org) or from the Basle Committee Secretariat at the Bank for International Settlements.

Issuance of a Policy Paper by the Basle Committee

As part of its ongoing work to improve the transparency of banking organizations, the Basle Committee on Banking Supervision (Basle Committee) has issued a policy paper entitled *Sound Practices for Loan Accounting, Credit Risk Disclosure and Related Matters*. Once finalized, the Basle Committee policy paper will represent the first comprehensive international supervisory guidance on sound practices for loan-loss allowances, accounting for troubled loans, and related credit risk disclosures of banking organizations.

The policy paper presents guidance on sound practices through the discussion of twenty-five principles. The paper provides guidance on sound practices with respect to key loan accounting issues, such as the initial recognition and measurement of loans, subsequent measurement of impaired loans, the establishment of loan-loss allowances, income recognition, and issues relating to troubled debt restructurings. Moreover, the paper presents sound disclosure practices for loan portfolios, troubled loans, loan-loss allowances, and related credit risk management practices. The paper concludes with a brief discussion of the role of supervisors in assessing a bank's management of asset quality and the adequacy of loan-loss allowances.

The paper has been issued by the Basle Committee as a proposal for public comment, with comments requested by March 15, 1999. The Basle Committee's press release and paper can be obtained from the Internet (http://www.bis.org) or from the Basle Committee Secretariat at the Bank for International Settlements.

ENFORCEMENT ACTIONS

The Federal Reserve Board on October 15, 1998, announced the issuance of an Order of Prohibition against Jerome C. Bechstein, the former President, Chief Executive Officer, and a Director of the former Towne Bank, Perrysburg, Ohio, and the bank's former bank holding company, Towne Bancorp, Inc.

Mr. Bechstein, without admitting to any allegations, consented to the issuance of the Order due to his alleged participation in violations of law and unsafe or unsound practices regarding the lending function at the Towne Bank.

On October 15, 1998, the Federal Reserve Board announced the issuance of an Order of Prohibition against Lois A. Brigham, the former Senior Vice President and a Director of the former Towne Bank, Perrysburg, Ohio, and the bank's former bank holding company, Towne Bancorp, Inc.

Ms. Brigham, without admitting to any allegations, consented to the issuance of the Order due to her alleged participation in violations of law and unsafe or unsound practices regarding the lending function at the Towne Bank.

AVAILABILITY OF REVISED LISTS OF OVER-THE-COUNTER STOCKS AND OF FOREIGN STOCKS SUBJECT TO MARGIN REGULATIONS

The Federal Reserve Board published on October 23, 1998, a revised list of over-the-counter (OTC) market stocks that meet the margin criteria in Regulation T (Credit by Brokers and Dealers). Also published was a complete edition of the list of foreign equity securities that meet the margin criteria in Regulation T. The lists were effective November 9, 1998, and supersede the previous lists published effective August 10, 1998.

The changes that have been made to the revised OTC List, which now contains 4,745 OTC stocks, are as follows:

- Ninety-three stocks have been included for the first time, seventy-five under National Market System (NMS) designation
- Seventy-three stocks previously on the list have been removed for substantially failing to meet the requirements for continued listing
- One hundred fourteen stocks have been removed for reasons such as listing on a national securities exchange or involvement in an acquisition.

The OTC list will expire on January 1, 1999. After January 1, 1999, all stocks trading in the NASDAQ Stock Market will be marginable at brokers and dealers.

The foreign list is composed of those foreign equity securities that have been found to meet the criteria in section 220.11 of Regulation T. Effective April 1, 1998, foreign stocks that have a "ready market" for purposes of the Securities and Exchange Commission's (SEC) net capital rule are also eligible for margin treatment at broker–dealers. The SEC effectively treats all stocks included on the Financial Times/Standard & Poor's Actuaries World Indices as having a "ready market" for capital purposes. The revised foreign list now contains ninety-one stocks displayed in order of country. There were three deletions from the list, and there were no additions.

It is unlawful for any person to cause any representation to be made that inclusion of a stock on the OTC list or the foreign list indicates that the Board or the SEC has in any way passed upon the merits of any such stock or transaction therein. Any references to the Board in connection with these lists or any stocks thereon in any advertisement or similar communication is unlawful.

AVAILABILITY OF A VIDEOTAPE ON RESOURCES FOR BUSINESSES OWNED BY WOMEN

The Federal Reserve announced on November 2, 1998, the production of a videotape designed to heighten awareness among lenders about the business opportunities available to them in lending to businesses owned by women.

Businesses owned by women represent one of the fastest-growing sectors of the nation's economy. Between 1987 and 1996, the number of women-owned businesses grew 78 percent nationwide, outpacing overall business growth by nearly two to one.

Through testimonials, the videotape entitled *To Their Credit: Women-Owned Businesses* features successful women business owners describing their experiences in obtaining bank credit. To potential entrepreneurs, the tape stresses the need for future commercial borrowers to build a relationship with the lender and to have a comprehensive business plan prepared before approaching a lender. To potential lenders, the tape focuses on the profitability that this fast-growing segment of the economy offers financial institutions.

During the thirty-minute program, future women entrepreneurs should recognize the many informational resources available to help them including the following:

- Women's Business Development Centers
- Small Business Administration Women's Business Centers
- Community Affairs Offices at Federal Reserve Banks.

The videotape is available through FVS Media for a nominal fee. To order a copy by telephone, the number is 800-555-5471.

CHANGE IN BOARD STAFF

The Federal Reserve Board announced the retirement, after thirty-three years of service, of Peter A. Tinsley, Deputy Associate Director in the Division of Research and Statistics, effective in September. □

Minutes of the Federal Open Market Committee Meeting Held on August 18, 1998

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, August 18, 1998, at 9:00 a.m.

Present:

Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Ferguson
Mr. Gramlich
Mr. Hoenig
Mr. Jordan
Mr. Kelley
Mr. Meyer
Ms. Minehan
Mr. Poole
Ms. Rivlin

Messrs. Boehne, McTeer, Moskow, and Stern, Alternate Members of the Federal Open Market Committee

Messrs. Guynn and Parry, Presidents of the Federal Reserve Banks of Atlanta and San Francisco respectively

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

Messrs. Cecchetti, Dewald, Hakkio, Lindsey, Simpson, Sniderman, and Stockton, Associate Economists

Mr. Fisher, Manager, System Open Market Account

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors

Messrs. Madigan and Slifman, Associate Directors, Divisions of Monetary Affairs and Research and Statistics respectively, Board of Governors

Mr. Hooper and Ms. Johnson, Associate Directors, Division of International Finance, Board of Governors

Mr. Reinhart, Deputy Associate Director, Division of Monetary Affairs, Board of Governors

Mr. Struckmeyer, Assistant Director, Division of Research and Statistics, Board of Governors

Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Ms. Strand and Mr. Varvel, First Vice Presidents, Federal Reserve Banks of Minneapolis and Richmond respectively

Messrs. Beebe, Goodfriend, and Rosenblum, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Richmond, and Dallas respectively

Messrs. Bolwell, King, Kopcke, Meyer, and Sullivan, Vice Presidents, Federal Reserve Banks of New York, Atlanta, Boston, Philadelphia, and Chicago respectively

Mr. Weber, Senior Research Officer, Federal Reserve Bank of Minneapolis

By unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 30–July 1, 1998, were approved.

The Manager of the System Open Market Account reported on developments in foreign exchange markets during the period since the previous meeting. There were no open market operations in foreign currencies for the System's account during this period, and thus no vote was required of the Committee.

The Manager also reported on developments in domestic financial markets and on System open market transactions in government securities and federal agency obligations during the period July 1, 1998, through August 17, 1998. By unanimous vote, the Committee ratified these transactions.

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

The information reviewed at this meeting suggested that domestic final demand continued to expand at a robust pace. However, increases in consumer spending and business investment seemed to be moderating somewhat after very large gains earlier in the year, and inventory investment had slowed markedly. Net exports remained weak as a result of the persisting turmoil in Asian economies. The strike at General Motors had damped overall economic activity temporarily, but total payroll employment continued to trend upward, and labor markets remained extremely tight. Despite the pressures on labor resources, trends in wages and prices had remained stable in recent months.

Nonfarm payroll employment expanded further in July even though manufacturing payrolls plunged in association with the General Motors strike; job growth remained strong in most nonmanufacturing sectors. Construction employment continued to increase at about the brisk pace recorded over the first half of the year, and hiring in retail trade surged. The expansion of jobs in the services industry slowed considerably in July, but this partly reflected a decline in temporary help jobs related to the GM strike. The civilian unemployment rate was unchanged in July at 4.5 percent.

Industrial production declined considerably in June and July. Abstracting from the effects of the GM strike, manufacturing output fell slightly over the June–July period after having recorded moderate gains on average in earlier months of the year; production of business equipment expanded briskly in June and July, while the output of consumer goods and materials weakened. The rate of utilization of manufacturing capacity was down appreciably in June and July, mostly reflecting the effects of the GM strike.

Total nominal retail sales fell in July after having risen at a rapid pace in the first half of the year. A sharp contraction in spending for motor vehicles, reflecting the termination at midyear of sales incentives offered by the Big Three automakers and shrinking inventories at GM dealers, more than accounted for the drop in July. Non-auto-related outlays continued on a robust upward trend, with gains evident in all major categories. Sales increases were particularly large at furniture and appliance stores and apparel outlets. In the housing sector, both demand and construction activity remained strong. Starts of single-family units edged down in May but rebounded in June. Sales of new homes were at an all-time high in June, and sales of existing homes were only a little below the record level reached in March of this year. With sales robust, the inventory of unsold new homes remained low.

Growth of business fixed investment slowed in the second quarter as the pace of business spending for durable equipment moderated considerably from the exceptionally strong rate of earlier in the year. Nonetheless, outlays for computer and communications equipment continued to expand rapidly in the second quarter, and purchases of other capital goods rose briskly. Available information suggested that growth in business spending on capital goods likely would slow further in the months ahead. In contrast to the strength in equipment spending, expenditures on nonresidential building declined further in the second quarter, and available indicators pointed to a mixed outlook for this sector in coming months.

Business inventory investment slowed sharply in the second quarter, owing in substantial measure to a runoff of motor vehicle inventories at the wholesale and retail levels. In manufacturing, stockbuilding slowed somewhat in the second quarter, and the stock–shipments ratio at the end of the quarter remained close to the low level that had prevailed over the past year. Wholesale inventories changed little on balance in the second quarter as a sizable decline in motor vehicle stocks offset a buildup of non-auto durable goods; in June, the aggregate inventory–sales ratio for this sector was at the upper end of its narrow range for the past year. At the retail level, a drop in inventories of motor vehicles in the second quarter more than offset a small increase in stocks at non-auto retailers, and the aggregate inventory–sales ratio in June was a little below the lower end of its range for the past year.

The nominal deficit on U.S. trade in goods and services widened substantially further in the second quarter; the value of exports of goods and services declined for a second straight quarter, while the value of imports continued to rise, though at a somewhat reduced pace. Much of the decline in exports in the second quarter was in capital goods, but there also were noticeable decreases in most other major trade categories. The increase in imports was concentrated in imported consumer goods, aircraft, and steel. Economic activity in most of the major foreign industrial countries continued to expand, though at a slower rate, in the second quarter. In Japan, however, economic activity appeared to have contracted sharply further in the second quarter. In most other Asian economies, currencies and equity prices were under downward pressure, and in Russia, asset values plummeted in often disorderly markets. Risk spreads on dollar-denominated debt widened substantially, not only in Russia but for Latin American issuers as well.

Price and wage inflation had remained relatively stable in recent months. Both the overall CPI and the CPI excluding food and energy items rose slightly on balance in June and July; a small rise in food prices offset a noticeable decline in energy prices over the two-month period. For the twelve months ended in July, the core CPI registered a slightly smaller increase than it had in the year-earlier period, partly reflecting lower prices for new motor vehicles. Producer prices of finished goods changed little on balance in June and July; a sizable drop in the prices of energy products over the June–July period more than offset a modest rise in core producer prices. For the year ended in July, core producer prices rose somewhat more than in the year-earlier period, reflecting larger increases in the prices of finished consumer goods. Hourly compensation of private industry workers rose in the second quarter at about the average rate for the previous two quarters. For the year ended in June, however, hourly compensation picked up significantly from the year-earlier period; the acceleration in compensation was evident in wages and salaries and in benefits.

At its meeting on June 30–July 1, 1998, the Committee adopted a directive that called for maintaining conditions in reserve markets that would be consistent with the federal funds rate continuing to average around 5½ percent. With the balance of risks still pointing to the possibility of rising inflation over time, the Committee chose to retain an asymmetric directive tilted toward a possible firming of reserve conditions and a higher federal funds rate. The reserve conditions associated with this directive were expected to be consistent with moderate growth in M2 and M3 over the months ahead.

Open market operations were directed throughout the period since the meeting on June 30–July 1 toward maintaining the existing degree of pressure on reserve positions, and the federal funds rate averaged a little above the intended level of 5½ percent. Most other interest rates fell slightly on balance over the intermeeting period in response to market assessments that worsening conditions in Asia, Latin America, and Russia portended slower growth in U.S. output and inflation over an extended period ahead. Declines in Treasury yields also reflected a continuing flight toward safety and quality from the persisting turbulence in foreign markets. In an atmosphere of increasing concerns about the prospects for corporate earnings, share prices in U.S. equity markets remained volatile and major indexes declined appreciably on balance over the intermeeting period.

In foreign exchange markets, the trade-weighted value of the dollar rose somewhat further over the intermeeting period in relation to other major currencies. The dollar changed little against the continental European currencies, but it moved up strongly against the Japanese yen and, to a lesser extent, the Canadian dollar. The dollar's rise in terms of the yen reflected spreading pessimism regarding the Japanese government's ability to redress the problems of its troubled banking system and provide fiscal stimulus adequate to turn its economy around. The dollar's advance against the Canadian dollar occurred in the context of continuing weakness in global commodity prices that was weighing down that currency. The dollar also appreciated slightly in terms of an index of the currencies of the developing countries of Latin America and Asia that are important trading partners of the United States.

After having expanded briskly in the second quarter, M2 grew at a somewhat more moderate rate in July, and M3 changed little. The deceleration in M2 reflected reduced inflows to retail money market funds. The halt in the growth of M3 was associated with a sharp runoff of large time deposits and outflows from institution-only money market funds triggered by a temporary spike in interest rates on market instruments around quarter-end. For the year through July, both aggregates rose at rates well above the Committee's ranges for the year. Expansion of total domestic nonfinancial debt appeared to have moderated somewhat in recent months after a pickup earlier in the year.

The staff forecast prepared for this meeting indicated that economic activity would expand through 1999 at a pace somewhat below the estimated growth of the economy's potential. Reduced growth of foreign economic activity and the lagged effects of the sizable earlier rise in the foreign exchange value of the dollar were anticipated to place substantial restraint on the demand for U.S. exports and to lead to further substitution of imports for domestic products. Moreover, additional moderation in business inventory investment would damp domestic production as inventory accumulation was brought into better balance with the forecast of a more moderate trajectory of final sales. The staff analysis suggested that the prospective gains in income coupled with the earlier run-up in household wealth would support further brisk, though gradually diminishing, gains in consumer spending. Housing demand was expected to remain relatively strong in the context of the persisting favorable cash flow affordability of home ownership, though the slower income growth anticipated over the projection period would damp homebuilding somewhat. Growth in business fixed investment would gradually moderate from the vigorous pace of the first half of the year in response to smaller increases in business sales and profits. Pressures on labor resources were likely to diminish somewhat as the expansion of economic activity slowed, but inflation was expected to pick up gradually as a result of an anticipated reversal of some of the decline in energy prices this year.

In the Committee's discussion of current and prospective economic conditions, members focused on the disparate forces that continued to shape trends in economic activity, notably the persistence of considerable strength in private domestic spending and the damping influences stemming from foreign economic developments. The latter seemed likely to be larger than previously anticipated as financial turmoil in some foreign economies had deepened and spread and currently showed few signs of stabilizing. Moreover, equity prices and risk spreads in U.S. financial markets were beginning to be adversely affected, potentially slowing domestic demand. The members generally anticipated somewhat more moderate growth than they had in their previous forecasts, with prospective expansion at a pace near or somewhat below the growth of the economy's potential. Nonetheless, they remained concerned about the potential for higher inflation, given the widespread tightness in labor markets and an upward tilt in the rise of labor compensation. For the present, however, inflation remained subdued, and it was likely to remain relatively low for some time in light of the weakness in commodity and other import prices and the tendency for low current inflation to hold down expected price increases.

Among the factors bearing on the outlook for domestic economic activity, the members viewed the external sector as a major source of uncertainty. The continued rapid decline in net exports during the first half of the year largely seemed to reflect the further financial unsettlement and a deeper contraction in Asian economies than had been anticipated earlier, and several members commented that they saw little evidence that financial and economic conditions in Asia were stabilizing. Indeed, such conditions appeared to be worsening further in some Asian nations, and other countries had been affected by the associated weakening in the demand for commodities and the more risk-averse attitudes of investors. Anecdotal reports at this meeting suggested that the impact on the domestic economy was being felt by manufacturing firms in several industries, although some firms also reported that declining exports to Asia were being offset at least in part by rising exports to other areas of the world. Looking ahead, the members agreed that the duration and extent of disruptions in Asian and other economies could not be anticipated with any degree of confidence; while net exports were not expected to decline as rapidly as they had in the first half of the year, even more serious disruptions in Asia could not be ruled out and would have important implications for the U.S. economy.

In their review of developments in key expenditure sectors of the domestic economy, members observed that over the first half of the year the strength in domestic final demand, notably in the consumer and business investment sectors, had more than offset the negative effects of developments in the foreign sector and other factors. In the consumer sector, the outlook for further sizable increases in spending was buttressed by unusually favorable underlying factors, including solid ongoing gains in employment and incomes and substantial further increases in household net worth this year. A pause in the robust gains in retail sales in early summer was accounted for in part by limited inventories of new motor vehicles associated with the now-settled GM strike. While a variety of factors pointed to sustained growth in consumer spending, a less ebullient stock market, should it persist, would foster more moderate expansion in consumer spending, perhaps at a pace more in line with the rise in consumer incomes, or at an even slower pace if consumer confidence were adversely affected by developments in financial markets.

Business fixed investment also seemed to be on a solid upward trajectory, though some slowing in the growth of business investment spending was anticipated in response to a projected deceleration in overall business output and weaker business profits. Members continued to cite anecdotal evidence of very strong construction activity in many parts of the country, including indications that building projects were being delayed because of shortages of labor and some construction materials. In other parts of the country, building activity remained at a high level but seemed to have moderated somewhat. Business spending for various types of high-tech equipment had surged to an undoubtedly unsustainable pace in the first half of the year. Against this background, several members referred to emerging signs of slightly more cautious attitudes among their business contacts, in many cases the result of concerns about developments in Asia. On balance, diminishing momentum in business investment appeared to be a likely prospect, but the ample availability of financing on favorable terms would continue to support this sector.

In the housing sector, construction activity remained at a high level in most parts of the nation and, as was the case for construction activity more generally, homebuilding continued to be restrained in a number of areas by limits on the availability of labor and other inputs. The housing market clearly was benefiting from strong gains in household incomes, high levels of household wealth, and very attractive financing costs. There were few indications of any moderation in this sector of the economy. Even so, some slowing was anticipated, at least after current construction backlogs were satisfied, in response to the projected slowing in employment growth and the high level of the housing stock.

Currently available data indicated that the pace of inventory accumulation had moderated substantially in the second quarter. Nonetheless, the rate of non-auto inventory investment in the spring still appeared to have exceeded a pace that was consistent with sustainable growth in sales. Anecdotal reports at this meeting pointed to a somewhat mixed picture with regard to desired inventory levels, including examples of both overstocking and shortages. Looking ahead and apart from short-run fluctuations, inventories were not expected to add to demand over coming quarters, at least after the restocking of motor vehicles by General Motors was completed.

In the Committee's discussion of the outlook for wages and prices, members commented that the rate of inflation in consumer prices was difficult to characterize with precision because alternative price indexes provided different measurement results; in particular, chain price indexes for consumption expenditures showed substantially less inflation than the CPI. Even so, it was clear on the basis of any measure that consumer prices and inflation more generally had remained remarkably subdued in the context of very tight labor markets and upward pressure on labor compensation. And whatever the explanation, it seemed that the economy had been less prone to rising inflation than it had been historically under similarly tight labor market conditions. The members acknowledged that a number of special factors were contributing to the relatively benign inflation climate. Those factors included the appreciation of the dollar; declines in many commodity prices, notably that of oil; ample industrial capacity; and evidently diminished inflation expectations. Moreover, substantial gains in productivity were muting the effects of rising labor compensation on unit costs, and vigorous competition in numerous markets was continuing to make it very difficult or impossible for business firms to raise their prices to cover rising costs or enhance profit margins. Against this backdrop, members remained persuaded that a significant rise in price inflation was not likely to occur in the nearer term.

Looking further ahead, however, the members generally agreed that rising price inflation remained an important threat. Significant additional tightening in labor markets would, of course, exacerbate that risk, but even at current levels these markets were tight and at some point labor costs could increase more rapidly, pressing on prices. Moreover, the effects of some of the factors holding down inflation seemed likely to wane, and possibly to reverse, over time. The latter included the effects of the dollar's appreciation on the prices of imports and competing domestic products, a possible upturn in energy prices and perhaps other commodity prices as foreign economies stabilized, and faster increases in the costs of worker benefits, notably those related to health care. The apparently greater willingness of labor unions to press for higher wages and other benefits in very tight labor markets might also intensify upward pressures on labor costs. On balance, while the risks of an overheating economy and rising price inflation might have faded to some degree, many of the members continued to emphasize that the Committee could not ignore those risks in its policy formulation.

In the Committee's discussion of policy for the intermeeting period ahead, all but one of the members agreed on the desirability of maintaining a steady policy stance. The overall performance of the economy remained highly satisfactory. While inflation risks were still a concern, given the high level of output and strong domestic demand, the uncertainties bearing on the economic outlook remained substantial, and indeed the risks on the downside seemed to have increased appreciably further. On balance, domestic economic and financial conditions had not changed sufficiently during the intermeeting period to warrant an adjustment to policy. With regard to the current uncertainties in the economic outlook, members emphasized that the extent and ultimate effects of the apparently spreading fragility in foreign financial markets and economies on U.S. financial and economic conditions were unknown. In these circumstances, nearly all the members believed that a cautious wait-and-see approach to policy seemed appropriate to allow the Committee time to assess the course of events and the interplay of the divergent forces bearing on the performance of the economy. In this regard it was noted that while domestic financial conditions remained generally accommodative, recent developments in foreign exchange and domestic financial markets had tended on balance to decrease some of the stimulative effects of financial conditions on aggregate demand in the United States by shifting demand overseas, increasing somewhat the cost of raising capital, and reducing the financial wealth of households. However, a few members expressed concern about the potentially inflationary implications of relatively rapid growth in key monetary aggregates over the past year, though such growth appeared to have moderated recently. And in the view of one of these members, the trend in monetary growth along with indications of rising speculative imbalances and excesses in various markets for financial and nonfinancial assets called for a prompt firming of monetary policy.

While overall economic conditions had not changed enough in recent weeks to warrant an adjustment in policy, a majority of the members agreed that the risks to the economic outlook were now more balanced and called for a shift from asymmetry to symmetry in the Committee's directive. Such a directive would better represent their view that the Committee's next policy move could be in either direction depending on developments abroad and their interaction with a domestic economy that had remained quite strong. Greater difficulties abroad and associated downward pressures on demand and prices had substantially diminished the chances of a strengthening of inflation pressures over coming months and quarters that would require a near-term tightening of policy. Other members continued to believe that the risks were still tilted to some degree toward rising inflation, though to a lesser extent than earlier. Labor market developments continued to suggest that the economy could well be producing beyond its sustainable potential and concrete signs that inflation pressures would abate had yet to emerge. Accordingly, they still preferred an asymmetrical directive but could accept symmetry in light of the prevailing uncertainties in the economic outlook and the expectation, shared by the other members, that policy would not need to be changed during the intermeeting period ahead.

At the conclusion of the Committee's discussion, all but one of the members were in favor of retaining a directive that called for maintaining conditions in reserve markets that were consistent with an unchanged federal funds rate of about 5½ percent. Most also indicated that they could support a shift to a directive that did not include a presumption about the likely direction of any adjustments to policy during the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, the Committee decided that slightly greater or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with moderate growth in M2 and M3 over coming months.

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

The information reviewed at this meeting suggests that domestic final demand has continued to expand at a robust pace, but overall economic activity has been adversely affected by the strike at General Motors and developments in Asia. Nonfarm payroll employment continued to expand through July and the civilian unemployment rate was unchanged at 4.5 percent. Industrial production declined considerably in June and July; most of the drop over the two months reflected the GM strike. A decline in total retail sales in July was more than accounted for by a sharp contraction in spending for motor vehicles. Residential sales and construction have remained exceptionally strong in recent months. Available indicators point to continued growth in business capital spending, although apparently at a more moderate pace than earlier in the year. Business inventory accumulation slowed sharply in the spring. The nominal deficit on U.S. trade in goods and services widened substantially further in the second quarter. Trends in wages and prices have remained stable in recent months.

Most interest rates have fallen slightly on balance since the meeting on June 30–July 1. Share prices in U.S. equity markets have remained volatile and major indexes have declined appreciably on balance over the intermeeting period. In foreign exchange markets, the trade-weighted value of the dollar rose somewhat further over the intermeeting period in relation to other major currencies; in addition, it was up slightly in terms of an index of the currencies of the developing countries of Latin America and Asia that are important trading partners of the United States.

After robust growth in the second quarter, M2 decelerated somewhat and M3 was about unchanged in July. For the year through July, both aggregates rose at rates well above the Committee's ranges for the year. Expansion of total domestic nonfinancial debt appears to have moderated somewhat in recent months after a pickup earlier in the year.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee reaffirmed at its meeting on June 30–July 1 the ranges it had established in February for growth of M2 and M3 of 1 to 5 percent and 2 to 6 percent respectively, measured from the fourth quarter of 1997 to the fourth quarter of 1998. The range for growth of total domestic nonfinancial debt was maintained at 3 to 7 percent for the year. For 1999, the Committee agreed on a tentative basis to set the same ranges for growth of the monetary aggregates and debt, measured from the fourth quarter of 1998 to the fourth quarter of 1999. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks conditions in reserve markets consistent with maintaining the federal funds rate at an average of around 5½ percent. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, a slightly higher federal funds rate or a slightly lower federal funds rate would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with moderate growth in M2 and M3 over coming months.

Votes for this action: Messrs. Greenspan, McDonough, Ferguson, Gramlich, Hoenig, Kelley, Meyer, Ms. Minehan, Mr. Poole, and Ms. Rivlin. Vote against this action: Mr. Jordan.

Mr. Jordan dissented because he believed that the underlying strength of aggregate demand in the U.S. economy would remain fundamentally intact, despite economic problems abroad. The problems in Asia provide a channel for economic imbalances to develop. Exports from some U.S. manufacturing industries will decline due to softer foreign markets and import competition. At the same time, domestic demand for imports, housing, and consumer durables will increase due to favorable interest rate trends. Though U.S. production of goods and services might slow during the period ahead, it is not yet clear that total demand will diminish at a comparable pace. At the same time, ample credit provision encourages speculative lending and excessive consumption. Consequently, continued rapid growth in the money supply creates the risk that inflation will accelerate and economic imbalances will become protracted.

Telephone Conference

On September 21 the Committee held a telephone conference to discuss recent developments in domestic and international financial markets and their implications for the U.S. economy. The consultation was held as background for Chairman Greenspan's testimony on September 23 before the Senate Budget Committee.

It was agreed that the next meeting of the Committee would be held on Tuesday, September 29, 1998.

The meeting adjourned at 12:45 p.m.

Donald L. Kohn
Secretary

Legal Developments

FINAL RULE—AMENDMENT TO REGULATION A

The Board of Governors is amending 12 C.F.R. Part 201, its Regulation A (Extensions of Credit by Federal Reserve Banks; Change in Discount Rate), to reflect its approval of a decrease in the basic discount rate at each Federal Reserve Bank. The Board acted on requests submitted by the Boards of Directors of the twelve Federal Reserve Banks.

The amendments to 12 C.F.R. Part 201 were effective on October 15, 1998. The rate changes for adjustment credit were effective on the dates specified in 12 C.F.R. 201.51.

Part 201—Extensions of Credit by Federal Reserve Banks (Regulation A)

1. The authority citation for 12 C.F.R. Part 201 continues to read as follows:

Authority: 12 U.S.C. 343 *et seq.*, 347a, 347b, 347c, 347d, 348 *et seq.*, 357, 374, 374a and 461.

2. Section 201.51 is revised to read as follows:

Section 201.51—Adjustment credit for depository institutions.

The rates for adjustment credit provided to depository institutions under section 201.3(a) are:

Federal Reserve Bank	Rate	Effective
Boston	4.75	October 15, 1998
New York	4.75	October 15, 1998
Philadelphia	4.75	October 15, 1998
Cleveland	4.75	October 16, 1998
Richmond	4.75	October 16, 1998
Atlanta	4.75	October 15, 1998
Chicago	4.75	October 15, 1998
St. Louis	4.75	October 15, 1998
Minneapolis	4.75	October 15, 1998
Kansas City	4.75	October 15, 1998
Dallas	4.75	October 16, 1998
San Francisco	4.75	October 15, 1998

FINAL RULE—AMENDMENTS TO REGULATIONS T AND X

The Board of Governors is amending 12 C.F.R. Parts 220 and 224, its Regulations T and X (Securities Credit Transactions; List of Marginable OTC Stocks; List of Foreign Margin Stocks). The List of Marginable OTC Stocks (OTC List) is composed of stocks traded over-the-counter (OTC) in the United States that qualify as margin securities under Regulation T, Credit by Brokers and Dealers. The List of Foreign Margin Stocks (Foreign List) is composed of certain foreign equity securities that qualify as *margin securities* under Regulation T. The OTC List and the Foreign List have been published four times a year by the Board, and the Foreign List will continue to be published four times a year by the Board. The OTC List will be discontinued after January 1, 1999. This document sets forth additions to and deletions from the previous OTC List and deletions from the Foreign List.

Effective November 9, 1998, 12 C.F.R. Parts 220 and 224 are amended as follows. Accordingly, pursuant to the authority of sections 7 and 23 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78g and 78w), and in accordance with 12 C.F.R. Parts 220.2 and 220.11, there is set forth below a listing of deletions from and additions to the OTC List and deletions from the Foreign List.

Deletions From The List Of Marginable OTC Stocks

Stocks Removed For Failing Continued Listing Requirements

ABC Dispensing Technologies, Inc.: $.01 par common
ACCOM, Inc.: $.001 par common
Amedisys, Inc.: $.001 par common
American Claims Evaluation, Inc.: $.01 par common
Appliance Recycling Centers of America, Inc.: No par common

Bontex, Inc.: $.10 par common
BPI Packaging Technologies, Inc.: $.01 par common
Brothers Gourmet Coffees, Inc.: $.0001 par common
Building One Services Corporation: $.001 par common

Carver Corporation: $.01 par common
Casmyn Corporation: $.04 par common
Catalyst Semiconductor, Inc.: No par common
Coffee People, Inc.: No par common
Creative Bakeries, Inc.: $.001 par common
Crown Books Corporation: $.01 par common
CSI Computer Specialists, Inc.: Class A, $.001 par common
Cyclo PSS Corporation: $.001 par common

Dakotah, Incorporated: $.01 par common
DSI Toys, Inc.: $.01 par common
Cynagen, Inc.: $.01 par common

Eastwind Group, Inc.: $.10 par common
Electro-Sensors, Inc.: $.10 par common

Electronic Tele-Communications, Inc.: Class A, $.01 par common
Electroscope, Inc.: No par common
Elron Electronic Industries, Ltd.: Warrants (expire 09-01-1998)
Equus Gaming Company, L.P.: Class A, units representing beneficial ownership
Erly Industries, Inc.: $1.00 par common
Ezcony Interamerca Inc.: No par common

First City Financial Corporation: $.01 par special B preferred
Florida Gaming Corporation: $.10 par common
FPA Medical Management, Inc.: $.001 par common

Gatefield Corporation: $.10 par common
Global Telecommunications Solutions, Inc.: $.01 par common
Golden Bear Golf, Inc.: Class A, $.01 par common
Grandetel Technologies, Inc.: No par common
Granite Broadcasting Corporation: $.01 par cumulative convertible exchangeable preferred
Great Lakes Aviation, Ltd. $.01 par common
GT Bicycles, Inc.: $.001 par common

Harvest Restaurant Group, Inc.: $.01 par common
Hayes Corporation: $.01 par common

Iatros Health Network, Inc.: $.001 par common
Insilco Holding Company: $.001 par common

JPE, Inc.: No par common

Life Medical Sciences, Inc.: $.001 par common

National Home Centers, Inc.: $.01 par common
Norland Medical Systems, Inc.: $.0005 par common
NView Corporation: No par common

Pacificare Health Systems, Inc.: Series A, $1.00 par cumulative convertible preferred
Pages, Inc.: No par common
PCA International, Inc.: $.20 par common
Personnel Mangement, Inc.: No par common
Phoenix Gold International, Inc.: No par common
Premis Corporation: $.01 par common

Ross Technology, Inc.: $.01 par common
RPM, Inc.: Liquid yield option notes due 2012

Seer Technologies, Inc.: $.01 par common
Seiler Pollution Control Systems, Inc.: $.0001 par common
Showscan Entertainment Inc.: $.001 par common
Softquad International, Inc.: No par common
Sonics & Materials, Inc.: Warrants (expire 02-27-2001)
Southwest Bancorp, Inc. (Oklahoma): Series A, redeemable, cumulative preferred
Steven Madden, Ltd.: Class B, Warrants (expire 12-10-1998)
Stuart Entertainment, Inc.: $.01 par common

TCI Pacific Communications, Inc.: Class A, Senior cumulative exchangeable preferred
Telepanel Systems, Inc.: No par common
Thinking Tools, Inc.: $.001 par common
Tramford International, Ltd., $.01 par common
Tricord Systems, Inc.: $.01 par common

Uromed Corporation: No par common

Versatility, Inc.: $.01 par common
Voxel: No par common

Washington Mutual, Inc.: Series E, No par non-cumulative perpetual preferred
West Coast Entertainment Corporation: $.01 par common
Woodroast Systems, Inc.: $.005 par common

Stocks Removed for Listing on a National Securities Exchange Or Being Involved in an Acquisition

Affiliated Community Bancorp: $.01 par common
Allied Life Financial Corporation: No par common
Ambanc Corporation: $10.00 par common
Ambassador Bank of the Commonwealth: $4.00 par common
Amcol International Corporation: $1.00 par common
American Materials & Technologies Corp: $.01 par common
Arakis Energy Corporation: No par common
Arch Petroleum, Inc.: $.01 par common
ATL Products, Inc.: Class A, $.0001 par common
ATL Ultrasound, Inc.: $.01 par common
Atria Communities, Inc.: $.10 par common
Award Software International, Inc.: No par common

Bacon USA, Inc.: $.01 par common
Bell Sports Corp.: $.01 par common
Benchmarq Microelectronics, Inc.: $.001 par common
Bertucci's Inc.: $.005 par common
Biomatrix, Inc.: $.0001 par common
Broderbund Software, Inc.: $.01 par common
Buttrey Food and Drug Stores Company: $.01 par common

Carnegie Bancorp (New Jersey): No par common
Ceanic Corporation: No par common
Claremont Technology Group, Inc.: No par common
Coherent Communications Systems Corporation: $.01 par common
Community Financial Holding Corporation: $5.00 par common
CorporateFamily Solutions, Inc.: No par common
Cybermedia, Inc.: $.01 par common

Dawson Production Services, Inc.: $.01 par common
Decrane Aircraft Holdings, Inc.: $.01 par common
Deeptech International, Inc.: $.01 par common
Dime Financial Corp.: $1.00 par common
Dr. Solomon's Group, PLC: American Depositary Receipts
DSC Communications Corp.: $.01 par common

Essex County Gas Company: $2.50 par common

Fed One Bancorp, Inc.: $.10 par common
First Colorado Bancorp, Inc.: $1.00 par common
First Commercial Corporation: $3.00 par common
First Home Bancorp, Inc. (New Jersey): $1.00 par common
FTP Software Inc.: $.01 par common

Gartner Group, Inc.: Class A, $.001 par common
GNI Group, Inc.: $.01 par common
Goodmark Foods, Inc.: $.01 par common
Group I Software, Inc.: $.01 par common

Haverty Furniture Companies, Inc.: $1.00 par common; Class A, $1.00 par common
Hearst-Argyle Television, Inc.: Class A, $.01 par common
HFNC Financial Corporation: $.01 par common
Hyperion Software Corporation: $.01 par common

IBS Financial Corporation: $.01 par common
Incontrol, Inc.: $.01 par common
Innoserve Technologies, Inc.: $.01 par common
Innova Corporation: No par common
Innovative Tech Systems, Inc.: $.001 par common
Intersolv, Inc.: $.01 par common
IQ Software Corporation: $.00033 par common
IWL Communications Incorporated: $.01 par common

Katz Digital Technologies, Inc.: $.001 par common
Liberty Technologies, Inc.: $.01 par common
Long Island Bancorp, Inc. (New York): $.01 par common
Lukens Medical Corporation: Class A, $.01 par common

Marine Drilling Co.: $.01 par common
Mariner Health Group, Inc.: $.01 par common
Maryland Federal Bancorp, Inc.: $.01 par common
May & Speh, Inc.: $.01 par common
MCI Communications Corporation: $.10 par common
Medcath Incorporated: $.01 par common
Medicis Pharmaceutical Corporation: Class A, $.001 par common
Microprose, Inc.: $.001 par common
Mid-Am, Inc. (Ohio): $5.00 par common
Molecular Dynamics, Inc.: $.01 par common
Mountbatten, Inc.: $.001 par common

National Surgery Centers, Inc.: $.01 par common
NCI Building Systems, Inc.: $.01 par common
Netvantage, Inc.: Class A, $.001 par common
Neurex Corporation: $.01 par common
Nimbus CD International, Inc.: $.01 par common

Penederm Inc.: No par common
Penn-America Group, Inc.: $.01 par common
Pete's Brewing Company: No par common
Petrocorp Incorporated: $.01 par common
Physio-Control International Corporation: $.01 par common
Plenum Publishing Corporation: $.10 par common
PMT Services, Inc.: $.01 par common
Pollo Tropical, Inc.: $.01 par common
Positron Fiber Systems Corporation: No par common
Progressive Bank, Inc. (New York): $1.00 par common
PST Vans, Inc.: $.001 par common

Regent Bancshares Corp. (Pennsylvania): $.10 par common
Rent-Way, Inc.: No par common
Republic Engineered Steels, Inc.: $.01 par common
Resource Bankshares Corporation (California): $3.00 par common

SLH Corporation: $.01 par common
Somerset Savings Bank (Massachusetts): $1.00 par common
Sumitomo Bank of California, The: $5.00 par common
Summit Holding Southeast, Inc.: $.01 par common

Tappan Zee Financial, Inc.: $.01 par common
Telemundo Group, Inc.: Warrants (expire 12–29–1999); Series A, $.01 par common
Teleport CommuGroup, Inc.: Class A, $.01 par common
Theragenics Corporation: $.01 par common
Timber Lodge Steakhouse, Inc.: $1.00 par common
Trans Financial Inc.: No par common
Triangle Pacific Corporation: $.01 par common
Trio-Tech International: No par common

United Dental Care, Inc.: $.10 par common
United Federal Savings Bank (North Carolina): $.01 par common
Universal International, Inc.: $.05 par common
Upper Peninsula Energy Corporation: No par common
US Servis, Inc.: $.01 par common

Viking Office Products, Inc.: No par common
Virus Research Institute, Inc.: $.01 par common

Wandel & Goltermann Technologies, Inc.: $.01 par common

Xcellenet, Inc.: $.01 par common

ZAG Industries Limited: Ordinary shares (NIS .01)

Additions to the List of Marginable OTC Stocks

24/7 Media, Inc.: $.01 par common

Actuate Software Corporation: $.001 par common
Admiralty Bancorp, Inc.: Class B, common stock
Advanced Aerodynamics & Structures, Inc.: Units
Advanced Technical Products, Inc.: $.25 par common
American Pacific Bancorp: Class B, common stock
Aristotle Corporation, The: $.001 par common
Atlantic Gulf Communities Corporation: Series B, 20% preferred stock

Bankfirst Corporation: $2.50 par common
Bindview Development Corporation: No par common
Biper S.A. de C.F.: American Depositary Shares
Broadcast.com. Inc.: $.01 par common

BWC Financial Corporation: No par common

Captrock Communications Corporation: $.01 par common
Carrier Access Corporation: $.001 par common
CBES Bancorp, Inc.: $.01 par common
CD Warehouse, Inc.: $.01 par common
CFS Bancorp, Inc.: $.01 par common
Clark/Bardes Holdings, Inc.: $.01 par common
CNY Financial Corporation: $.01 par common
Cohesion Technologies, Inc.: $.001 par common
Commonwealth Telephone Enterprises, Inc.: Rights (expire 10–23–1998)
Corecomm Limited: $.01 par common
Cost-U-Less, Inc.: $.001 par common
Creditrust Corporation: $13.00 par common
Crown Castle International Corporation: $.01 par common
Crusader Holding Corporation: $.01 par common
Cyberian Outpost, Inc.: $.01 par common

Dearborn Bancorp, Inc.: No par common
Decora Industries, Inc.: $.01 par common
Delphi International, Ltd.: $.01 par common
Digital River, Inc.: $.01 par common
Dset Corporation: No par common

EBay Inc.: $.001 par common
Echelon Corporation: $.01 par common
Eclipsys Corporation: $.01 par common
Electronics Boutique Holdings Corporation: $.01 par common
Entrust Technologies, Inc.: $.01 par common
Eufaula Banccorp, Inc.: $1.00 par common
Exco Resources, Inc.: $.01 par common

FCNB Capital Trust: No par trust preferred
First Busey Corporation: Class A, No par common
Florida Banks, Inc.: $.01 par common
Fundtech, Ltd.: Ordinary shares

Geocities: $.001 par common
GIGA Information Group, Inc.: $.001 par common
Global Crossing, Ltd.: 9–5/8% senior notes due 2008
Golden State Vintners, Inc.: Class B, $.01 par common
Grand Union Company, The: $.01 par common

Heritage Commerce Corporation: No par common
Hometown Auto Retailers, Inc.: Class A, $.001 par common

ICO Global Communications (Holdings) Limited: $.01 par common
IDG Books Worldwide, Inc.: $.001 par common
Independent Energy Holdings, PLC: American Depositary Shares (NIS 1)
Interactive Magic, Inc.: $.10 par common
Intercorp Excelle, Inc.: No par common
Intervest Bancshares Corporation: Class A, common shares
Ixos Software Aktiengesellschaft: American Depositary Shares

Jewett-Cameron Trading Company, Ltd.: No par common

Kasper A.S.L., Ltd.: $.01 par common

Landair Corporation: $.01 par common
Leap Wireless International, Inc.: $.0001 par common

Maxtor Corporation: $.01 par common
MDC Communications Corporation: Class A, subordinate voting shares
Merrill Merchants Bancshares, Inc.: $1.00 par common

Natrol, Inc.: $.01 par common
Northeast Optic Network, Inc.: $.01 par common

Pathfinder Bancorp, Inc.: $.10 par common
Penwest Pharmaceuticals Company: $.001 par common
Pilot Network Services, Inc.: $.001 par common
Price Enterprises, Inc.: Class A, $.0001 par preferred
PSB Bancorp, Inc.: $.01 par common

R&G Financial Corporation: Series A, 7.40% noncumulative monthly income preferred stock
Railwords Corporation: $.01 par common
Republic Bancorp, Inc.: Class A, No par common

Sequent Computer Systems, Inc.: $.01 par common
Siebert Financial Corporation: $.01 par common
SMED International, Inc.: No par common
Softworks, Inc.: $.001 par common
Sound Federal Bancorp: $.10 par common
Sunrise Technologies International, Inc.: $.001 par common
Syntroleum Corporation: $.01 par common

Taragon Realty Investors, Inc.: $.01 par common
Telebanc Financial Corporation: $.01 par common; Series A, 9% beneficial unsecured securities
Terayon Communication Systems: $.001 par common
Thistle Group Holdings: $.01 par common
Towne Services, Inc.: No par common
Tweeter Home Entertainment Group, Inc.: No par common

Unity Bancorp, Inc.: No par common

West Essex Bancorp, Inc.: $.01 par common
Wintrust Financial Corporation: Cumulative trust preferred
WRP Corporation: $.01 par common

Deletions from the Foreign Margin Stock List

Tokyo

Furukawa Co., Ltd.: ¥50 par common
Meidensha Corporation: ¥50 par common
NOF Corporation: ¥50 par common

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

U.S. Bancorp
Minneapolis, Minnesota

Order Approving the Acquisition of a Bank Holding Company

U.S. Bancorp ("Applicant"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire Northwest Bancshares, Inc. ("Northwest"), and its wholly owned subsidiary bank, Northwest National Bank ("NNB"), both of Vancouver, Washington.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 27,286 (1998)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Applicant, with total consolidated assets of approximately $70.9 billion, is the 17th largest commercial banking organization in the United States, controlling approximately 1.4 percent of total banking assets of insured commercial banks in the United States ("total banking assets").[1] Applicant operates subsidiary banks in 17 states and engages in a broad range of permissible nonbanking activities. Applicant also is the second largest commercial banking organization in the state of Washington, controlling approximately $6.4 billion in deposits, representing approximately 17.6 percent of total deposits in commercial banking organizations in the state ("state deposits").

Northwest is the tenth largest commercial banking organization in Washington, controlling deposits of approximately $321 million in deposits, representing less than 1 percent of state deposits. On consummation of the proposal, and accounting for the proposed divestiture, Applicant would continue to be the second largest commercial banking organization in Washington, controlling approximately $6.7 billion in deposits in the state of Washington, representing approximately 18.5 percent of state deposits.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.[2] For purposes of the BHC Act, the home state of Applicant is Minnesota, and Applicant proposes to acquire a bank in Washington. All of the conditions for an interstate acquisition enumerated in section 3(d) are met in this case.[3] In view of the facts of record, the Board is permitted to approve this proposal under section 3(d) of the BHC Act.

Competitive Considerations

The BHC Act prohibits the Board from approving an application under section 3 of the BHC Act if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking. The BHC Act also prohibits the Board from approving a proposed combination that would substantially lessen competition or tend to create a monopoly in any relevant banking market, unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[4]

Applicant and Northwest compete directly in the Portland, Oregon, banking market ("Portland banking market").[5] Applicant is the largest depository institution in the Portland banking market, controlling deposits of $6.6 billion, representing 46 percent of the total deposits in commercial banks in the market ("market deposits").[6] Northwest is the eighth largest depository institution in the market, controlling $321 million of deposits, representing 2.2 percent of total market deposits.[7]

To mitigate the potential anticompetitive effects of the proposal, Applicant has committed to divest one branch, which accounts for approximately $35 million in deposits

1. Asset, ranking, and deposit data are as of June 30, 1997.

2. A bank holding company's home state is that state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1996, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

3. 12 U.S.C. §§ 1842(d)(1)(A) & (B) and 1842(d)(2)(A) & (B). Applicant is adequately capitalized and adequately managed, as defined by applicable law. On consummation of the proposal, Applicant and its affiliates would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States, and less than 30 percent of the total amount of deposits in Washington. In addition, Northwest's subsidiary bank, NNB, has been in existence and has operated continuously for at least five years. All other requirements of section 3(d) of the BHC Act also would be met on consummation of the proposal.

4. 12 U.S.C. § 1842(c)(1)(B).

5. The Portland banking market is defined as the Portland Ranally Metro Area ("RMA") and the remainder of Clark County in Washington, and the city of Mount Angel in Marion County, Oregon, and the cities of Saint Helens, Scappoose, and Vernonia in Columbia County, Oregon.

6. Market share data are based on calculations that include the deposits of thrift institutions at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See, Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. *See, e.g., First Hawaiian Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

7. Northwest operates solely in the portion of the Portland banking market that is located in Washington State.

and represents approximately 10.9 percent of the total deposits controlled by Northwest in the Portland banking market. Applicant has committed to make this divestiture to an organization that is competitively suitable to the Board.[8] After accounting for the proposed divestiture, consummation of the proposal would be consistent with the market index thresholds applied under the Department of Justice Merger Guidelines ("DOJ Guidelines").[9] In this case, after accounting for the proposed divestiture, the HHI would increase by not more than 186 points to not more than 2761.

At least 27 competitors would remain in the market after consummation of the proposal. These competitors include several large national and regional banking organizations that have significant market shares and extensive branch networks in the market.

Portland is the largest banking market in Oregon and the 27th largest Metropolitan Statistical Area ("MSA") in the country. The population of the Portland MSA increased 17.3 percent from 1990 to 1997, more than any of the other MSAs in Oregon. That portion of the Portland MSA located in Washington State, in which Northwest is located, increased by more than 30 percent over the same period, more than any MSA in Washington. In addition, among the 11 MSAs in Washington and Oregon, Portland ranks second in terms of percentage of households with incomes more than $55,000, and second in median household income. Since 1994, ten new competitors have entered the market; nine commercial banks have entered the market *de novo*, and one commercial bank entered the market by acquiring branches that were divested by Applicant in a previous acquisition.[10]

The Department of Justice conducted a detailed review of the proposal and advised the Board that, with the proposed divestiture, consummation of the proposal would not be likely to have a significantly adverse effect on competition in any relevant market.[11] The Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation also have not objected to consummation of the proposal.

The Board believes that this is a very close case and that the mitigating factors in this case only slightly outweigh the potential for significantly adverse competitive effects in this market. Applicant is the largest competitor in this market, with more than a 45-percent market share before the proposed acquisition. This market share is more than three times the market share of the second largest banking organization in the market. Although the increase in market share represented by this acquisition would be relatively small, this transaction would remove a vigorous competitor in a strategic location in the market. Moreover, apart from Applicant and two other competitors, this market is comprised of many relatively small banking organizations, and the Board is concerned that a strict reliance on an HHI analysis would permit a significant number of these institutions to be acquired by the largest banking organizations in the market without recognizing the potentially adverse effects that these acquisitions could have on competition in the market.

In approving this case, the Board has placed significant reliance on the divestiture proposal, which was a major factor in the determination by the Department of Justice that the transaction would not likely violate the federal antitrust laws. The Board also has considered the mitigating factors noted above, and the fact that Applicant has increased its market share recently as a result largely of effective competition in the market rather than through one or more acquisitions.[12]

Based on all the facts of record, and for the reasons discussed above, the Board has determined that competitive factors are consistent with approval of the proposal. The Board will view any further acquisitions in this market very critically and believes that the effects of any proposed acquisition by Applicant in this market would require compelling evidence that the transaction would not be likely to result in anticompetitive effects.

Other Factors Under the BHC Act

The BHC Act also requires the Board, in acting on an application, to consider the financial and managerial resources and future prospects of the companies and banks involved in a proposal, the convenience and needs of the community to be served, and certain other supervisory factors.

8. Applicant has committed to execute a sales agreement for the proposed divestiture with a purchaser determined by the Board to be competitively suitable prior to consummation of the proposal, and to complete the divestiture within 180 days of consummation. Applicant also has committed that, in the event it is unsuccessful in completing the divestiture within 180 days of consummation, it will transfer the unsold branch to an independent trustee that is acceptable to the Board and will instruct the trustee to sell the branch promptly to one or more alternative purchasers acceptable to the Board. *See BankAmerica Corporation*, 78 *Federal Reserve Bulletin* 338 (1992); *United New Mexico Financial Corporation*, 77 *Federal Reserve Bulletin* 484 (1991).

9. Under DOJ Guidelines, 49 *Federal Register* 26,823 (1984), a market in which the post-merger HHI is more than 1800 is considered highly concentrated. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other nondepository financial institutions.

10. *See U.S. Bancorp*, 82 *Federal Reserve Bulletin* 177 (1996).

11. The Department of Justice focused its analysis on the effect of the proposal on small business lending in Clarke County, Washington. As explained above, the Board has analyzed the effect of the transaction on competition in the market for the cluster of banking products and services in the Portland banking market.

12. The Board also notes that pricing and profitability data for the Portland market are inconclusive on whether current conditions have resulted in significant adverse anticompetitive effects or performance.

A. Financial, Managerial, and Other Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of Applicant and Northwest, and their respective subsidiary banks, and other supervisory factors in light of all the facts of record. As part of this consideration, the Board has reviewed relevant reports of examination and other supervisory information prepared by the Reserve Banks and other federal agencies. The Board notes that the bank holding companies and their subsidiary banks are currently well capitalized and are expected to remain so after consummation of the proposal.

The Board also has considered other aspects of the financial condition and resources of the two organizations, the structure of the proposed transaction, and the managerial resources of each of the entities and the combined organization. Based on these and other facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Applicant, Northwest, and their respective subsidiaries are consistent with approval of the proposal, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.

B. Convenience and Needs Considerations

The Board has carefully considered the effect of the proposed acquisition on the convenience and needs of the community to be served in light of all the facts of record. Based on all the facts of record, including the performance records of the subsidiary banks of Applicant and Northwest under the Community Reinvestment Act ("CRA") (12 U.S.C. § 2901 *et seq.*), the Board concludes that convenience and needs considerations are consistent with approval of the proposal.[13]

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. Approval of the application is specifically conditioned on compliance by Applicant with all the commitments made in connection with the proposal and with the conditions stated or referred to in this order, including Applicant's divestiture commitment. For purposes of this transaction, the commitments and conditions referred to in this order shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

13. All of Applicant's subsidiary banks have received "outstanding" or "satisfactory" ratings for their appropriate federal supervisors at the most recent examinations of their CRA performance. Applicant's lead bank, U.S. Bank National Association, Minneapolis, Minnesota, received a "satisfactory" performance rating from its appropriate federal supervisor, the OCC. In addition, NNB received a "satisfactory" performance rating from the OCC.

The acquisition shall not be consummated before the fifteenth calendar day following the effective date of this order, and the proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Minneapolis, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 26, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Meyer, Ferguson, and Gramlich.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

KeyCorp
Cleveland, Ohio

Order Approving Notice to Engage in Nonbanking Activities

KeyCorp, Cleveland, Ohio, a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to merge with McDonald & Company Investments, Inc., Cleveland, Ohio ("McDonald"), and thereby acquire control of its subsidiaries, including McDonald & Company Securities, Inc. ("Company").[1] KeyCorp would thereby engage in the following nonbanking activities:

(1) Extending credit and servicing loans, pursuant to section 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1));
(2) Engaging in activities related to extending credit, pursuant to section 225.28(b)(2)(ii), (vi) and (vii) of Regulation Y (12 C.F.R. 225.28(b)(2)(ii), (vi) and (vii));
(3) Providing leasing services, pursuant to section 225.28(b)(3) of Regulation Y (12 C.F.R. 225.28(b)(3));
(4) Performing functions or activities that may be performed by a trust company, pursuant to section 225.28(b)(5) of Regulation Y (12 C.F.R. 225.28(b)(5));
(5) Providing financial and investment advisory services, pursuant to section 225.28(b)(6) of Regulation Y (12 C.F.R. 225.28(b)(6));
(6) Providing securities brokerage, riskless principal, private placement, futures commission mer-

1. KeyCorp also has requested the Board's approval to hold and exercise an option to acquire up to 19.9 percent of the voting shares of McDonald if certain events occur. The option would expire on consummation of the proposal.

chant, and other agency transactional services, pursuant to section 225.28(b)(7) of Regulation Y (12 C.F.R. 225.28(b)(7));

(7) Underwriting and dealing in government obligations and money market instruments in which state member banks may underwrite and deal under 12 U.S.C. §§ 335 and 24(7) ("bank-eligible securities"), engaging in investing and trading activities, and buying and selling bullion and related activities, pursuant to section 225.28(b)(8) of Regulation Y (12 C.F.R. 225.28(b)(8));

(8) Providing management consulting and employee benefit consulting services, pursuant to section 225.28(b)(9) of Regulation Y (12 C.F.R. 225.28(b)(9));

(9) Underwriting and dealing in, to a limited extent, all types of debt and equity securities other than interests in open-end investment companies ("bank-ineligible securities");

(10) Providing administrative and other services to open-end investment companies ("mutual funds");[2] and

(11) Acting as the general partner of private investment limited partnerships that invest in assets in which a bank holding company is permitted to invest.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 48,509 (1998)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

KeyCorp, with total consolidated assets of approximately $76 billion, is the 15th largest banking organization in the United States.[3] KeyCorp operates subsidiary banks in 13 states, and engages through other subsidiaries in a broad range of permissible nonbanking activities. McDonald, with total consolidated assets of $987 million, engages in a broad range of securities underwriting and dealing, brokerage, investment advisory, and other activities.[4]

KeyCorp proposes to merge its wholly owned subsidiary, Key Capital Markets, Inc., Cleveland, Ohio ("KCMI"), with and into Company.[5] After consummation of the proposal, Company would be renamed McDonald Key Investments, Inc. Company is, and after consummation of the proposal will continue to be, registered as a broker-dealer with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et seq.*), registered as an investment adviser with the SEC under the Investment Advisers Act of 1940 (15 U.S.C. § 80b-1 *et seq.*), a member of the National Association of Securities Dealers, Inc. ("NASD"), and registered as a futures commission merchant with the Commodity Futures Trading Commission ("CFTC") under the Commodity Exchange Act (7 U.S.C. § 2 *et seq.*). Accordingly, Company is, and will continue to be, subject to the record-keeping and reporting obligations, fiduciary standards, and other requirements of the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Commodity Exchange Act, the SEC, the CFTC, and the NASD.

Underwriting and Dealing in Bank-Ineligible Securities

The Board has determined that, subject to the framework of prudential limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices, or other adverse effects, underwriting and dealing in bank-ineligible securities 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.[6] The Board also has determined that underwriting and dealing in bank-ineligible securities is consistent with section 20 of the Glass–Steagall Act (12 U.S.C. § 377), provided that the company engaged in the activity derives no more than 25 percent of its gross revenues from underwriting and dealing in bank-ineligible securities.[7]

2. A list of the administrative services that KeyCorp would provide to mutual funds is included in the Appendix.

3. Asset and ranking data are as of June 30, 1998.

4. McDonald currently engages in certain insurance and real estate activities and has, and controls certain limited partnerships and corporations that have, investments that are not permissible for bank holding companies. KeyCorp has committed to conform the activities, investments, and relationships of McDonald to those permissible for bank holding companies within two years of acquiring McDonald.

5. KCMI currently engages in limited underwriting and dealing in bank-ineligible securities, as permitted under section 20 of the Glass–Steagall Act (12 U.S.C. § 377). *See KeyCorp*, 83 *Federal Reserve Bulletin* 921 (1997). KCMI also is authorized to engage in a variety of other nonbanking activities. *See id.*

6. *See J.P. Morgan & Co. Inc., et al.*, 75 *Federal Reserve Bulletin* 192 (1989), *aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 900 F.2d 360 (D.C. Cir. 1990); *Citicorp*, 73 *Federal Reserve Bulletin* 473 (1987), *aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir.), *cert. denied*, 486 U.S. 1059 (1988), as modified by *Review of Restrictions on Director, Officer and Employee Interlocks, Cross-Marketing Activities, and the Purchase and Sale of Financial Assets Between a Section 20 Subsidiary and an Affiliated Bank or Thrift*, 61 *Federal Register* 57,679 (1996); *Amendments to Restrictions in the Board's Section 20 Orders*, 62 *Federal Register* 45,295 (1997); and *Clarification to the Board's Section 20 Orders*, 63 *Federal Register* 14,803 (1998) (collectively, "Section 20 Orders").

7. Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the *Order Approving Modifications to the Section 20 Orders*, 75 *Federal Reserve Bulletin* 751 (1989); *10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 48,953 (1996); and *Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities*, 61 *Federal Register* 68,750 (1996) (collectively, "Modification Orders"). In light of the fact that KeyCorp proposes to acquire a going concern, the Board believes that allowing Company to calculate compliance with the revenue limitation on an annualized basis during the first year after consummation of

KeyCorp has committed that Company will conduct its underwriting and dealing activities using the methods and procedures and subject to the prudential limitations established by the Board in the Section 20 Orders. KeyCorp also has committed that Company will conduct its bank-ineligible securities underwriting and dealing activities subject to the Board's revenue restriction.[8] As a condition of this order, KeyCorp is required to conduct its bank-ineligible securities activities subject to the revenue restrictions and Operating Standards established for section 20 subsidiaries ("Operating Standards").[9]

Mutual Fund Activities

KeyCorp proposes, through Company, to provide to mutual funds ("funds") investment advisory, administrative, and other services that previously have been approved by the Board.[10] KeyCorp has committed that the proposed activities will be conducted in compliance with Regulation Y and Board orders governing these activities and subject to the prudential and other limitations established by the Board.[11]

KeyCorp proposes to have certain director and officer interlocks with the funds. In particular, KeyCorp proposes that up to 25 percent of the directors of a mutual fund would be employees, officers, or directors of KeyCorp or one of its subsidiaries, including Company. KeyCorp proposes that one of these directors may serve as chairman of the board of the fund. In addition, KeyCorp seeks to have up to three directors, officers, or employees of KeyCorp or its subsidiaries, including Company, serve as senior officers of the fund and have other KeyCorp personnel serve as junior-level officers of the fund.[12]

The Board previously has authorized a bank holding company and its nonbank subsidiaries to have limited director and officer interlocks with mutual funds that the bank holding company advises and administers.[13] The Board noted that the independent directors of the funds would be responsible for the selection and review of the investment adviser, the underwriter, and the other major service contractors of the fund.[14]

In this case, KeyCorp's personnel would not comprise more than 25 percent of any fund's board of directors. Accordingly, all the funds to which KeyCorp would provide advisory and administrative services would have boards of directors in which 75 percent of the directors are unaffiliated with KeyCorp. In addition, any director of a fund who also serves as a director, officer, or employee of KeyCorp would be an "interested person" under the 1940 Act and, therefore, would be required to abstain from voting on investment advisory and other major contracts of the fund.

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the acquisition and thereafter on a rolling quarterly average basis would be consistent with the Section 20 Orders. *See U.S. Bancorp*, 84 *Federal Reserve Bulletin* 483 (1998); *Dauphin Deposit Corporation*, 77 *Federal Reserve Bulletin* 672 (1991).

8. KeyCorp intends to merge KCMI with and into Company within a few weeks of the consummation of the KeyCorp/McDonald merger. Until the merger of KCMI and Company occurs, KeyCorp will operate Company as a separate corporate entity and both KCMI and Company will be independently subject to the 25-percent revenue limitation on underwriting and dealing in bank-ineligible securities. *See Citicorp*, 73 *Federal Reserve Bulletin* 473, 486 n.45 (1987), *aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 839 F.2d 47 (2d Cir.), *cert. denied*, 486 U.S. 1059 (1988). In view of the fact that Company is significantly larger than KCMI and will survive the merger with KCMI, the management structure of the proposed merged company, the activities of the merging companies and the proposed merged company, and the other aspects of this case, the Board believes the merger would not disqualify Company from calculating compliance with the revenue test in conformance with the annualized treatment described in this order.

9. 12 C.F.R. 225.200. Company may provide services that are necessary incidents to the proposed underwriting and dealing activities. Unless Company receives specific approval under section 4(c)(8) of the BHC Act to conduct the activities independently, any revenues from the incidental activities must be treated as ineligible revenues subject to the Board's revenue limitation.

10. The Board previously has determined that providing administrative services to mutual funds is closely related to banking within the meaning of section 4(c)(8) of the BHC Act. *See, e.g., Bankers Trust New York Corporation*, 83 *Federal Reserve Bulletin* 780 (1997) (*"BTNY"*); *Commerzbank AG*, 83 *Federal Reserve Bulletin* 679 (1997). In addition, the Board previously has determined that the Glass–Steagall Act does not prohibit a bank holding company from providing advisory and administrative services to a mutual fund. *See* 12 C.F.R. 225.125.

11. *See, e.g., BTNY*. The administrative services that KeyCorp would provide to mutual funds through Company include computing the funds' financial data, maintaining and preserving the records of the funds, providing office facilities and clerical support for the funds, and preparing and filing tax returns for the funds. The services are listed in the Appendix.

KeyCorp has committed that, on consummation of the acquisition of Company, Company will cease serving as a distributor for mutual funds and distribution activities of mutual funds would be the responsibility of an independent distributor, which would enter into contractual agreements with the mutual funds to serve as "principal underwriter." As defined in the Investment Company Act of 1940 ("1940 Act"), a principal underwriter is any underwriter who, as principal, purchases from a mutual fund any security for distribution, or who as agent for such fund sells or has the right to sell the fund's securities to a dealer and/or to the public. 15 U.S.C. § 80a-2(a)(29). The independent distributor also would be responsible for supervising sales as the principal underwriter for purposes of the federal securities laws. An independent distributor would enter into any sales agreements with brokers or other financial intermediaries to sell shares of mutual funds. The independent distributor would have legal responsibility under the rules of the NASD for the form and use of all advertising and sales literature and would be responsible for filing these materials with the NASD or the SEC.

12. Senior officers include the president, secretary, treasurer, and vice presidents with policy-making functions. Junior officers include assistant secretaries, assistant treasurers, or assistant vice presidents of the funds. Junior officers are fund employees who have no authority or responsibility to make policy.

13. *See, e.g., BTNY; Lloyds TSB Group plc*, 84 *Federal Reserve Bulletin* 116 (1998); *BankAmerica Corporation*, 83 *Federal Reserve Bulletin* 913 (1997); *The Governor and Company of the Bank of Ireland*, 82 *Federal Reserve Bulletin* 1129 (1996).

14. Under the 1940 Act, at least 40 percent of the board of directors of a mutual fund must be individuals who are not affiliated with the mutual fund, investment adviser, or any other major contractor to the fund. The 1940 Act and related regulatory provisions require that independent directors annually review and approve the mutual fund's investment advisory contract and any plan of distribution or related agreement.

The director and officer interlocks proposed by KeyCorp would not appear to affect the independence of the other directors of the funds. The independent members of the boards of directors would continue to have authority to review brokerage, advisory, administrative, and other major contracts and would retain authority to change the distributor of fund shares. Based on the foregoing, the Board concludes that the proposed director and officer interlocks would not compromise the independence of the boards of the funds or permit KeyCorp to control the funds for purposes of the BHC Act or Glass–Steagall Act.

Other Activities Approved by Regulation or Order

The Board previously has determined that credit and credit-related activities; leasing activities; trust company activities; financial and investment advisory activities; securities brokerage, riskless principal, private placement, futures commission merchant, and other agency transactional activities; bank-eligible securities underwriting and dealing; investing and trading activities; buying and selling bullion and related activities; and management consulting and employee benefits consulting services are closely related to banking within the meaning of section 4(c)(8) of the BHC Act.[15] In addition, the Board previously has determined by order that the proposed private investment limited partnership activities are permissible for bank holding companies.[16] KeyCorp has committed that it will conduct these activities in accordance with the provisions and limitations set forth in Regulation Y and the Board's orders and interpretations relating to each of the activities.

Other Considerations

In order to approve this notice, the Board also must determine that the proposed activities "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[17] As part of its review of these factors, the Board considers the financial and managerial resources of the notificant and its subsidiaries and the effect the transaction would have on such resources.[18]

In considering the financial resources of the notificant, the Board has reviewed the capitalization of KeyCorp and Company in accordance with the standards set forth in the Section 20 Orders and finds the capitalization of each to be consistent with approval. This determination is based on all the facts of record, including KeyCorp's projections of the volume of Company's underwriting and dealing activities in bank-ineligible securities.

The Board also has reviewed the managerial resources of each of the entities involved in this proposal in light of examination reports and other supervisory information. In connection with the proposal, the Federal Reserve Bank of Cleveland ("Reserve Bank") has reviewed the policies and procedures of Company to ensure compliance with this order and the Section 20 Orders, including Company's operational and managerial infrastructure, computer, audit, and accounting systems and internal risk management procedures and controls. On the basis of the Reserve Bank's review and all other facts of record, including the commitments provided in this case and the proposed managerial and risk management systems of Company, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board has carefully considered the competitive effects of the proposal. KeyCorp represents that KCMI and Company offer largely complementary services with few significant overlaps. KeyCorp has indicated that KCMI has not developed the type of equity underwriting and other equity-based capital markets products, private client brokerage, and high-yield debt underwriting services offered by Company. To the extent that KCMI and Company offer different types of products and services, the proposed acquisition would result in no loss of competition. In those markets where the product offerings of KeyCorp's nonbanking subsidiaries and McDonald overlap, such as securities brokerage, investment advisory, trust, and insurance agency activities, there are numerous existing and potential competitors. Consummation of the proposal, therefore, would have a *de minimis* effect on competition in the market for these services, and the Board has concluded that the proposal would not have significantly adverse competitive effects in any relevant market.

In order to approve the proposal, the Board also must find that the performance of the proposed activities by KeyCorp can reasonably be expected to produce benefits that would outweigh possible adverse effects under the proper incident to banking standard of section 4(c)(8) of the BHC Act. Under the framework established in this and prior decisions, consummation of the proposal is not likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices that outweigh the public benefits of the proposal.

The Board expects that consummation of the proposal would provide added convenience to the customers of KeyCorp and McDonald. KeyCorp has indicated that consummation of the proposal would expand the range of products and services available to its customers and those of McDonald. KeyCorp also has stated that the acquisition would permit it to improve the operating efficiency of KCMI and further diversify its nonbanking operations, thereby making it less vulnerable to economic fluctuations in individual business lines.

Based on all the facts of record, the Board has determined that performance of the proposed activities by KeyCorp can reasonably be expected to produce public benefits that outweigh any adverse effects of the proposal.

15. *See* 12 C.F.R. 225.28(b)(1), (2), (3), (5), (6), (7), (8), and (9).

16. *See Dresdner Bank AG*, 84 *Federal Reserve Bulletin* 361 (1998); *Meridian Bancorp, Inc.*, 80 *Federal Reserve Bulletin* 736 (1994).

17. 12 U.S.C. § 1843(c)(8).

18. *See* 12 C.F.R. 225.26.

Accordingly, the Board has determined that the performance of the proposed activities by KeyCorp is a proper incident to banking for purposes of section 4(c)(8) of the BHC Act.

Conclusion

On the basis of all the facts of record, the Board has determined that the notice should be, and hereby is, approved, subject to all the terms and conditions described in this order. The Board's approval of the proposal extends only to activities conducted within the limitations of this order, including the Board's reservation of authority to establish additional limitations to ensure that Company's activities are consistent with safety and soundness, avoidance of conflicts of interests, and other relevant considerations under the BHC Act. Underwriting and dealing in any manner other than as approved in this order is not within the scope of the Board's approval and is not authorized for Company.

The Board's determination also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. The Board's decision is specifically conditioned on compliance with all the commitments made in connection with this notice, including the commitments discussed in this order and the conditions set forth in this order and the Board regulations and orders noted above. The commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

This proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 21, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley and Meyer. Absent and not voting: Governors Ferguson and Gramlich.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Appendix

List of Administrative Services

(1) Maintaining and preserving certain records of the funds, including financial and corporate records;
(2) Computing net asset value, dividends, performance data and financial information regarding the funds;
(3) Furnishing statistical and research data to the funds;
(4) Preparing and filing with the SEC and state securities regulators registration statements, notices, reports, and other materials required to be filed under applicable laws;
(5) Preparing reports and other informational materials regarding the funds, including prospectuses, proxies, and other shareholder communications;
(6) Providing legal and other regulatory advice to the funds in connection with their other administrative functions;
(7) Providing office facilities and clerical support for the funds;
(8) Developing and implementing procedures for monitoring compliance with regulatory requirements and compliance with the funds' investment objectives, policies, and restrictions as established by the boards of directors of the funds;
(9) Providing routine fund accounting services to the funds and liaison with outside auditors;
(10) Preparing and filing tax returns, and monitoring tax compliance;
(11) Reviewing and arranging for payment of fund expenses;
(12) Providing communication and coordination services with regard to the funds' investment advisors, transfer agent, custodian, distributor, and other service organizations that render distribution, recordkeeping, or shareholder communication services;
(13) Reviewing and providing advice to the distributor, the funds, and the investment advisors regarding sales literature and marketing plans for the funds;
(14) Providing information to the distributor's personnel concerning performance and administration of the funds;
(15) Providing marketing support with respect to sales of the funds through financial intermediaries, including participating in seminars, meetings, and conferences designed to present information concerning the funds;
(16) Assisting in the development of additional funds;
(17) Providing reports to the boards of directors of the funds with regard to the activities of the funds; and
(18) Providing telephone shareholder services through a toll-free number.

Orders Issued Under Sections 3 and 4 of the Bank Holding Company Act

Charter One Financial, Inc. Cleveland, Ohio

Order Approving the Formation of Bank Holding Companies

Charter One Financial, Inc., and its wholly owned subsidiary, Charter-Michigan Bancorp, Inc. ("CMB") (collectively "Charter One"), savings and loan holding companies within the meaning of the Home Owners Loan Act (12 U.S.C. § 1461 *et seq.*),[1] have requested the Board's approval under section 3 of the Bank Holding Company Act (12 U.S.C. § 1842) ("BHC Act") to become bank holding companies by acquiring ALBANK Financial Corporation ("ALBANK") and its subsidiary bank, ALBANK Commercial, both of Albany, New York.[2] Charter One also has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to acquire the nonbanking subsidiaries of ALBANK, including ALBANK's subsidiary savings association, ALBANK, F.S.B., Albany, New York ("ALBANK Savings"), to retain some of Charter One's nonbanking subsidiaries, and thereby to engage in the following nonbanking activities:

(1) Extending credit and servicing loans in accordance withsection 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1);
(2) Providing real estate appraisal services in accordance with section 225.28(b)(2)(i) of Regulation Y (12 C.F.R. 225.28(b)(2)(i));
(3) Providing asset management services in accordance with section 225.28(b)(2)(vi) of Regulation Y (12 C.F.R. 225.28(b)(2)(vi));
(4) Engaging in leasing personal or real property in accordance with section 225.28(b)(3) of Regulation Y (12 C.F.R. 225.28(b)(3));
(5) Operating a savings association in accordance with section 225.28(b)(4)(ii) of Regulation Y (12 C.F.R. 225.28(b)(4)(ii));
(6) Providing securities brokerage services in accordance with section 225.28(b)(7)(i) of Regulation Y (12 C.F.R. 225.28(b)(7)(i));
(7) Engaging in credit insurance activities in accordance with section 225.28(b)(11)(i) of Regulation Y (12 C.F.R. 225.28(b)(11)(i));
(8) Engaging in community development activities in accordance with section 225.28(b)(12) of Regulation Y (12 C.F.R. 225.28(b)(12)); and
(9) Providing data processing services in accordance with section 225.28(b)(14) of Regulation Y (12 C.F.R. 225.28(b)(14)).

In connection with this application, Charter One also has requested the Board's approval to retain ownership of 9.95 percent of the voting shares of Gateway American Bank of Florida, Fort Lauderdale, Florida ("Gateway"), that Charter One currently owns. Charter One stated that it does not intend to control Gateway and has made a number of commitments designed to ensure that Charter One will not exercise a controlling influence over Gateway.[3]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 47,499 (1998)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

Charter One, with total consolidated assets of approximately $20.2 billion, is the seventh largest depository organization in Ohio, controlling approximately 3.1 percent of the total deposits of insured depository institutions in the state ("total deposits").[4] Charter One Savings currently operates branches in Michigan, New York, and Ohio and Charter One engages in a number of nonbanking activities. Charter One is the 22nd largest depository organization in New York, controlling less than 1 percent of the total deposits.

ALBANK, with total consolidated assets of approximately $4.1 billion, is the 21st largest commercial banking organization in New York, controlling less than 1 percent of total banking deposits in the state ("total banking deposits"). After consummation of the proposal, Charter One would become the 14th largest commercial banking organization in New York, controlling approximately 1.4 percent of total banking deposits.

Competitive, Financial, and Managerial Factors

Section 3 of the BHC Act prohibits the Board from approving an application if the proposal would result in a monopoly or would substantially lessen competition in any relevant banking market unless, in the latter case, the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[5] Charter One, ALBANK and Gateway do not compete directly in any relevant banking market. Based on all the facts of record, the Board concludes that consummation of the proposal would not result in a monopoly or in any significantly adverse effects on competition or on the concentration of banking resources in any relevant banking market.

The BHC Act also requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal, the convenience and needs of the communities to be served, and certain other supervisory factors. The Board has carefully considered the financial and managerial resources and future prospects of Charter One, ALBANK, and their respective insured depository institutions and other supervi-

1. CMB controls Charter One Bank, F.S.B. ("Charter One Savings"), Cleveland, Ohio.

2. Pursuant to the merger agreement between Charter One and ALBANK, ALBANK would be merged with and into CMB. ALBANK also has granted Charter One an option to acquire up to 9.9 percent of ALBANK's outstanding common stock. The option would expire on consummation of the merger.

3. The Board has relied on similar commitments in other cases to determine that an investing bank holding company would not be able to exercise a controlling influence over another bank holding company or bank for purposes of the BHC Act. A complete list of these commitments is set forth in the Appendix.

4. Asset, deposit, and ranking data are as of June 30, 1997.

5. 12 U.S.C. § 1842(c)(1).

sory factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of the organizations and confidential financial information provided by Charter One. Based on these and all the other facts of record, the Board concludes that the financial and managerial resources and future prospects of Charter One, ALBANK, and their subsidiary insured depository institutions are consistent with approval, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.

Convenience and Needs Factor

The Board also has considered carefully the effect of the proposed acquisition on the convenience and needs of the community to be served, in light of all the facts of record. Charter One Savings, which is the insured depository institution controlled by the applicant in this case, received a "satisfactory" rating in its most recent evaluation by the Office of Thrift Supervision ("OTS") pursuant to the Community Reinvestment Act ("CRA") (12 U.S.C. § 2901 *et seq.*). ALBANK Savings F.S.B. ("ALBANK Savings"), a wholly owned savings association subsidiary of the company proposed to be acquired in this case, received a "needs to improve" rating in its most recent CRA evaluation by the OTS.[6] The Board also notes that ALBANK and ALBANK Savings have entered into a consent decree with the Department of Justice regarding compliance with the Fair Housing Act and the Equal Credit Opportunity Act ("fair lending laws").

The Board has consulted with the OTS and the Department of Justice on the steps initiated by ALBANK to address these matters. The Board also has reviewed relevant supervisory information indicating that ALBANK's initiatives have generated successful results. In addition, the Board notes that Charter One intends to merge ALBANK Savings with and into Charter One Savings, with the community reinvestment activities of the resulting institution under the direction of current Charter One management. Charter One also has committed that it will ensure full compliance with the consent decree after consummation of the proposed transaction.

Based on all the facts of record, including in particular the performance record of Charter One and the measures taken by ALBANK to ensure compliance with fair lending laws, the Board concludes that convenience and needs considerations, including the CRA performance records of the subsidiary depository institutions of Charter One and ALBANK, are consistent with approval of the proposal.

Nonbanking Activities

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of the BHC Act.[7] In making this determination the Board requires that savings associations acquired by bank holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4 of the BHC Act and Regulation Y. Charter One has committed to conform all of the activities of Charter One Savings to those permissible under section 4(c)(8) of the BHC Act.[8]

Charter One also has filed a notice under section 4(c)(8) of the BHC Act to acquire the nonbanking subsidiaries of ALBANK, including ALBANK Savings, to retain some of Charter One's nonbanking subsidiaries, and thereby engage in extending credit and servicing loans, providing asset management and real estate appraisal services, engaging in leasing personal or real property, operating a savings association, providing securities brokerage and data processing services, and engaging in credit insurance and community development activities. The Board has determined by regulation that these activities are closely related to banking for purposes of the BHC Act.[9] Charter One has committed to conduct these nonbanking activities in accordance with the limitations set forth in Regulation Y and all relevant Board orders and interpretations.

In order to approve a notice under section 4(c)(8) of the BHC Act, the Board also must determine that the proposed activities are a proper incident to banking, that is, that the proposal "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[10] As part of its evaluation of these factors, the Board considers the financial condition and managerial resources of the notificant and its subsidiaries, including the companies to be acquired, and the effect of the proposed transaction on those resources. For the reasons discussed above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has carefully considered the competitive effects of the proposed acquisition of nonbanking activities. Charter One represents that there are few overlaps in

6. ALBANK Commercial received its charter from the State of New York on October 8, 1997, and has not yet been examined for CRA performance.

7. 12 C.F.R. 225.28(b)(4)(ii).

8. Charter One has committed that it will conform all the insurance, annuities, real estate, and other nonconforming activities conducted by Charter One and its subsidiaries to the requirements of section 4 of the BHC Act within two years after consummation of the proposal. Charter One must also conform the savings bank life insurance activities conducted by ALBANK to the requirements of section 4 of the BHC Act within two years after consummation of the proposal. ALBANK already is required to conform its other activities to the requirements of section 4 of the BHC Act within two years of the date on which ALBANK became a bank holding company, and Charter One must conform these activities of ALBANK to the requirements of the BHC Act within that same period.

9. *See* 12 C.F.R. 225.28(b)(1), (b)(2)(i), (b)(2)(vi), (3), (4)(ii), (7)(i), (11)(i), (12) and (14).

10. 12 U.S.C. § 1843(c)(8).

the services provided by Charter One and ALBANK.[11] To the extent that Charter One and ALBANK offer different types of products, the proposed acquisition would result in no loss of competition. In those markets in which the product offerings of Charter One and ALBANK overlap, such as brokerage services and the sale of insurance and annuities products, there are numerous existing and potential competitors. Consummation of the proposal, therefore, would have a *de minimis* effect on competition in the markets for these services, and the Board has concluded that the proposal would not result in any significantly adverse competitive effects in any relevant market.

Charter One has indicated that, after consummation of the merger proposal, it may provide more products and services than those currently offered by ALBANK. In addition, as the Board has previously noted, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.[12]

The Board also concludes that the conduct of the proposed nonbanking activities within the framework established under Regulation Y is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would outweigh the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public benefits that the Board must consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of Charter One's notice.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application and notices should be, and hereby are, approved. Approval of the application and notice is specifically conditioned on compliance by Charter One with all the commitments made in connection with the proposal and with the conditions stated or referred to in this order. The Board's determination on the nonbanking activities also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders thereunder. For purposes of this transaction, the commitments and conditions referred to above shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of ALBANK Commercial shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Cleveland, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 28, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Meyer, Ferguson, and Gramlich. Absent and not voting: Governor Kelley.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Appendix

Commitments For Retaining Shares of Gateway Charter

One Financial, Inc. ("COFI") and CMB have committed, jointly and severally, that they will not, directly or indirectly:

(1) Take any action to cause Gateway or any of its subsidiaries to become a subsidiary of COFI or CMB;
(2) Acquire or retain shares of Gateway that would cause the combined interests of COFI, CMB, their affiliates, officers, and directors to equal or exceed 10 percent of the outstanding voting shares of Gateway;
(3) Exercise or attempt to exercise a controlling influence over the management or policies of Gateway or any of its subsidiaries.
(4) Seek or accept representation by more than one director on the board of directors of Gateway or any of its subsidiaries;
(5) Serve, or have or seek to have any representative of COFI or CMB serve, as an officer, agent, or employee of Gateway or any of its subsidiaries;
(6) Propose more than one director in opposition to any nominee or slate of nominees proposed by management or the board of directors of Gateway;
(7) Solicit or participate in soliciting proxies with respect to any matter presented to the shareholders of Gateway;
(8) Attempt to influence Gateway's or any of its subsidiaries': dividend policies; loan, credit, or investment decisions; pricing of services; personnel decisions;

11. Charter One Savings and ALBANK Savings do not compete in any relevant geographic market in providing savings association services.

12. *See, e.g., Banc One Corporation*, 84 *Federal Reserve Bulletin* 553 (1998); *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998).

operations activities, including the location of any offices or branches or their hours of operation, etc.; or any similar activities or decisions of Gateway or any of its subsidiaries;

(9) Enter into any other banking or nonbanking transactions with Gateway, except that COFI or CMB may establish and maintain deposit accounts with Gateway, provided that the aggregate balance of all such deposit accounts does not exceed $500,000, and provided that the accounts are maintained on substantially the same terms as those prevailing for comparable accounts of persons unaffiliated with COFI or CMB; and

(10) Dispose or threaten to dispose of shares of Gateway in any manner as a condition of specific action or nonaction by Gateway or any of its subsidiaries

Firstar Corporation Milwaukee, Wisconsin

Order Approving the Merger of Bank Holding Companies

Firstar Corporation ("Firstar"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to merge with Star Banc Corporation ("SBC") and thereby acquire SBC's wholly owned subsidiary bank, Star Bank, N.A. ("Star Bank"), both of Cincinnati, Ohio.[1] Firstar also has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to acquire the nonbanking subsidiaries of SBC.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 45,246 (1998)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

Firstar, with total consolidated assets of approximately $20 billion, is the 38th largest commercial banking organization in the United States, controlling less than 1 percent of the total assets of insured commercial banks in the United States ("total banking assets").[3] Firstar is the second largest commercial banking organization in Wisconsin, controlling deposits of $12.8 billion in the state. Firstar also operates subsidiary banks in Arizona, Florida, Iowa, Illinois, and Minnesota and engages in a number of permissible nonbanking activities nationwide.

SBC, with total consolidated assets of approximately $14.9 billion, is the 50th largest commercial banking organization in the United States, controlling less than 1 percent of total banking assets. SBC's subsidiary bank, Star Bank, operates in Indiana, Kentucky, Ohio, and Tennessee. After consummation of the proposal, Firstar would become the 24th largest commercial banking organization in the United States, with consolidated assets of approximately $34.9 billion, representing approximately 1 percent of total banking assets.

Interstate Analysis

Section 3(d) of the BHC Act, as amended by section 101 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act"), allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met.[4] For purposes of the BHC Act, the home state of Firstar is Wisconsin, and Firstar proposes to acquire a bank that is located in Indiana, Kentucky, Ohio, and Tennessee.[5] All conditions for an interstate acquisition enumerated in section 3(d) are met in this case.[6] In view of all the facts of record, the Board is permitted to approve this proposal under section 3(d) of the BHC Act.

Competitive, Financial, and Managerial Factors

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly, or that would substantially lessen competition in any relevant banking market unless, in the latter case, the anticompetitive effects of the proposal in that banking market are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[7] Firstar and Star do not compete directly in any relevant banking market. Based

1. Firstar and SBC also have requested the Board's approval to hold and exercise options to acquire up to 19.9 percent of each other's voting shares, if certain events occur. The options would expire on consummation of the proposed merger.

2. The nonbanking subsidiaries of SBC and their activities are listed in the Appendix.

3. All banking data, including rankings, assets, and deposits, are as of June 30, 1998.

4. Pub. L. No. 103–328, 108 Stat. 2338 (1994). A bank holding company's home state is the state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

5. For purposes of the Riegle-Neal Act, the Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch.

6. Firstar is adequately capitalized and adequately managed as defined in the Riegle-Neal Act. 12 U.S.C. § 1842(d)(1)(A). SBC's only subsidiary bank, Star Bank, has been in existence and operated for the minimum period of time required by state law. 12 U.S.C. § 1842(d)(1)(B). On consummation of the proposal, Firstar would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States, and Firstar and SBC do not both operate insured depository institutions in the same states. 12 U.S.C. § 1842(d)(2). All other requirements under section 3(d) of the BHC Act also would be met on consummation of the proposal.

7. *See* 12 U.S.C. § 1842(c).

on all the facts of record, the Board concludes that consummation of the proposal would not result in any significantly adverse effects on competition or on the concentration of banking resources in any relevant banking market and that competitive factors are consistent with approval of the proposal.

The BHC Act also requires the Board to consider the financial and managerial resources of the companies and banks involved and certain other supervisory factors. The Board has carefully considered the financial and managerial resources and future prospects of Firstar, SBC, and their respective subsidiary banks and other supervisory factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of the organizations and confidential financial information provided by Firstar. Based on these and all the other facts of record, the Board concludes that the financial and managerial resources and future prospects of Firstar, SBC, and their subsidiary banks are consistent with approval, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.

Convenience and Needs Factor

The Board also has considered carefully the effect of the proposed acquisition on the convenience and needs of the community to be served in light of all the facts of record, including public comments on the proposal. Three commenters expressed opposition to the merger proposal, alleging that Firstar and SBC have inadequate records of meeting the banking and credit needs of the communities they serve and, in particular, of communities with predominantly low- and moderate-income ("LMI") and minority populations. One commenter expressed particular concern about Firstar's record of lending and providing services to rural and LMI communities in Wisconsin and alleged that the proposed merger would adversely affect those communities. The commenter also alleged that Firstar's banks in Wisconsin failed to participate adequately in state and federally guaranteed loan programs designed to assist LMI individuals, small businesses, and owners of small farms.

A. CRA Performance Examinations

The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"). As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations of the CRA performance records of the relevant insured depository institutions by their appropriate federal financial supervisory agency. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of an institution's overall record of performance under the CRA by its appropriate federal supervisor.[8]

All of Firstar's subsidiary banks received "outstanding" or "satisfactory" ratings in the most recent examinations of their CRA performance. Firstar's lead subsidiary bank, Firstar Bank Milwaukee, Milwaukee, Wisconsin ("Firstar Milwaukee"), received a "satisfactory" rating in its most recent CRA performance evaluation by the Office of the Comptroller of Currency ("OCC"), as of November 1997. Firstar Bank Wisconsin, Madison, Wisconsin ("Firstar Wisconsin"), received an "outstanding" rating in its most recent CRA evaluation by the Federal Reserve Bank of Chicago ("Reserve Bank"), as of April 1997, and Firstar Bank Illinois, Waukegan, Illinois ("Firstar Illinois"), received a "satisfactory" rating in its most recent CRA examination by the Reserve Bank, as of June 1996. SBC's subsidiary bank, Star Bank, also received an "outstanding" rating in its most recent CRA examination by the OCC, as of December 1996.

The examinations found no evidence of prohibited discrimination or illegal credit practices at the subsidiary banks of Firstar or SBC. Examiners concluded that the banks solicited and accepted credit applications from all segments of their service communities. Examiners also generally noted that loans made by the banks were reasonably distributed throughout the local communities served, including in LMI communities, and that the banks served all members of those communities, including LMI individuals. In addition, examiners generally determined that the banks' delineation of the local communities they served were reasonable and did not arbitrarily exclude any LMI census tracts.

Firstar represents that, after consummation of the proposal, it will adopt SBC's approach to meeting its responsibilities under the CRA.[9] Firstar states that, by adopting SBC's CRA approach, it would draw on SBC's expertise in providing innovative financing to projects benefitting LMI communities to expand Firstar's investments in such communities. Firstar also has indicated that it would follow SBC's community banking approach to agricultural lending, which features locally based loan officers who have direct contact with their customers in rural communities. Firstar also intends to seek out partnerships with community organizations in Firstar markets similar to partnerships established by SBC with community-based groups in several of its markets. In addition, Firstar has noted that it would retain some of its CRA programs that have proven successful. Consequently, the Board has taken into account

8. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process. *See* 54 *Federal Register* 13,742, 13,745 (1989); *see also* 62 *Federal Register* 52,105 (1997).

9. Firstar has stated that it would place its CRA and community development programs under the leadership of SBC's current Director of Community Development.

the CRA performance records of SBC and Firstar in evaluating the proposal.

B. SBC's CRA Performance Record

SBC offers a variety of products and programs through Star Bank to assist in meeting the housing-related credit needs of LMI individuals and communities. For example, Star Bank has established a Home Advantage ("HA") mortgage program that features reduced down payment, increased debt-to-income ratios, and waiver of mortgage insurance requirements. In LMI communities, Star Bank also makes available HA home improvement loans with reduced interest rates for LMI borrowers. Examiners noted that, in 1995, Star Bank originated more than 1,100 HA mortgage loans, totaling $56.4 million, and more than 600 HA home improvement loans, totaling $4.9 million.

The CRA performance examination characterized Star Bank's responsiveness to the credit needs of its assessment areas as excellent and commended Star Bank's penetration of consumer loans in LMI census tracts. Examiners noted, for example, that 30 percent of the total dollar volume of home equity loans made by Star Bank from January 1, 1995, through June 30, 1996, were made in LMI census tracts. Examiners stated that this percentage was favorable because only 18 percent of the owner-occupied housing units in Star Bank's assessment areas were in LMI communities.

Star Bank also established a Small Business Banking Group ("BBG") to meet the credit and banking needs of small business owners. Star Bank's BBG originated more than 3,300 small business loans in 1997, totaling $376 million, and made more than 1,400 small business loans in the first five months of 1998, totaling $150 million. The CRA performance examination commended Star Bank's lending to small businesses and small farms and noted that the bank had an excellent record of extending credit to businesses and farms of different sizes. Examiners also noted that Star Bank participated in federal and state small business lending programs, including two Small Business Administration ("SBA") loan programs. Examiners determined that Star Bank originated 117 SBA loans under these programs in 1995, totaling approximately $25 million.

The CRA performance examination commended Star Bank for originating a high level of community development loans. Examiners cited Star Bank's origination of 21 loans from January 1994 through July 1996, totaling $70 million, that resulted in the rehabilitation of 1,848 units of affordable rental housing. Examiners also noted that Star Bank entered into an agreement with the City of Cleveland, Ohio ("Cleveland Agreement"), to provide $25 million in loans to focus on LMI neighborhoods from 1994 through 1998. As of June 1996, Star Bank had extended $25.9 million of credit under the Cleveland Agreement, which represented 104 percent of Star Bank's original commitment. Firstar notes that, in March 1998, Star Bank began a five year, $5.15 billion Community Development Initiative to engage in community development activities, including making small business loans, agricultural loans, and loans to businesses in LMI census tracts. Firstar has committed to carry out this initiative.

Examiners found that Star Bank had a good distribution of branches throughout its assessment areas. For example, examiners noted favorably that 27 percent of Star Bank's branches in Cincinnati were in LMI communities, which exceeded the percentage of families in Cincinnati that resided in those census tracts (19 percent). Examiners also noted that Star Bank offered a variety of alternative delivery systems, including banking by phone, by automatic teller machines ("ATMs"), and by home computer.

C. Firstar's CRA Performance

Firstar Milwaukee. Examiners noted that Firstar Milwaukee had been responsive to the credit needs of all segments of its service community. In particular, examiners commended the level of Firstar Milwaukee's home mortgage and home improvement lending to LMI census tracts. Examiners noted that, in 1996, Firstar Milwaukee made 10 percent of its housing-related loans in LMI census tracts, which almost equaled the 13 percent of owner-occupied homes in the bank's service communities that were in those census tracts. Examiners also commended Firstar Milwaukee for making 38 percent of its consumer loans to LMI borrowers, a percentage that closely approximated the 37 percent of the population in its service area with low- and moderate-incomes.

Examiners commended Firstar Milwaukee's lending to small businesses, including small businesses in LMI census tracts. Examiners also noted that Firstar Milwaukee had introduced a small business line-of-credit program. The program offered a streamlined applications process and was designed for emerging small businesses that needed to build a credit history. From the time of the program's inception in 1996 through November 1997, Firstar Milwaukee originated 147 small business credit lines under this program, totaling more than $3.5 million.

Firstar Milwaukee also has participated in a variety of governmentally insured, guaranteed, and subsidized loan programs. For example, Firstar represents that its banks have participated in the SBA's "Low Doc" program, which offers quick approvals to qualifying small businesses and farms. Firstar notes that Firstar Milwaukee originated a total of 40 SBA loans in 1996, totaling $6.2 million, and 43 SBA loans in 1997, totaling $9.1 million. Firstar also states that Firstar Milwaukee has actively participated in Veterans Administration ("VA") and Federal Housing Administration ("FHA") loan programs. Firstar Milwaukee made 149 VA loans in 1996, totaling $13.2 million, and 159 VA loans in 1997, totaling $14.2 million. The bank also originated 114 FHA loans in 1996, totaling $8.6 million, and 330 such loans in 1997, totaling $25 million.

Examiners noted that Firstar Milwaukee offered a variety of low-cost checking accounts to consumers, small businesses, community groups and nonprofit organizations. Examiners also noted that Firstar Milwaukee cashed federal government benefit checks without charge. Examiners found this check-cashing service to be unique in the bank's assessment area because it was offered free to customers and to noncustomers of the bank.

Firstar Wisconsin. The CRA examination of Firstar Wisconsin found that the bank had a strong record of small business and small farm lending. Examiners noted that, in 1996, Firstar Wisconsin made more than 3,600 small business loans and originated more than 230 small farm loans. Examiners stated that approximately 500 of the small business and farm loans, totaling approximately $42 million, were made in LMI areas.[10]

The CRA performance examination determined that Firstar Wisconsin offered a variety of governmentally insured, guaranteed, and subsidized loans to small businesses, small farms, and LMI borrowers. Examiners noted, for example, that Firstar Wisconsin originated 149 SBA loans, totaling $35.4 million, and 69 Farm Service Agency ("FSA") loans, totaling $11.7 million, in 1996. Examiners also commended the bank for using a Department of Housing and Urban Development ("HUD") lending program to offer nontraditional mortgage loans on real property in certain Native American reservations, where conventional mortgage lending was difficult because borrowers often did not own the mortgaged real estate outright.

Firstar states that, since the CRA performance examination, Firstar Wisconsin has continued to participate actively in various government-guaranteed loan programs. For example, Firstar reports that Firstar Wisconsin made more than 130 SBA loans in 1997, totaling $37.8 million, and that the bank made 56 SBA loans in the first six months of 1998, totaling $15.2 million. Firstar also states that Firstar Wisconsin and its affiliates in Wisconsin continue to participate in various lending programs operated by the Wisconsin Housing and Economic Development Authority ("WHEDA"). In 1997, for example, Firstar Wisconsin originated 92 loans through WHEDA, of which almost half were made in rural communities. Firstar banks in Wisconsin originated 30 loans, totaling $463,000, under the WHEDA Credit Relief Outreach Program during 1997. In addition, Firstar notes that it introduced this year the WHEDA Home Improvement Loan Program, which makes home improvement loans available to agricultural borrowers.[11]

The CRA performance examination commended the bank's responsiveness to the credit needs of LMI individuals and areas. For example, according to the CRA performance examination, Firstar Wisconsin and its affiliate, Firstar Home Mortgage Corporation ("FHMC"), made more than 10 percent of their housing-related loans in LMI census tracts, and 21 percent of their housing-related loans to LMI borrowers. Examiners characterized the dispersion of housing-related loans in LMI census tracts and to LMI borrowers as strong.[12]

Examiners noted that Firstar Wisconsin made extensive use of innovative and flexible lending practices and programs.[13] Examiners also cited favorably Firstar's ongoing participation in the ADVOCAP program, which provided mortgage loans with flexible underwriting standards to LMI families. In addition, examiners noted that Firstar Wisconsin had made investments in a number of projects to fund the purchase and rehabilitation of affordable rental and multifamily housing units.

D. Conclusion on the Convenience and Needs Factor

In its review of the convenience and needs factor under the BHC Act, the Board has considered carefully the entire record, including the CRA performance examinations of each of the insured depository institutions involved in this proposal and all the information provided by commenters.[14] Based on all the facts of record, and for the reasons

10. One commenter expressed concern about Firstar's commitment to agricultural lending in Wisconsin and alleged that Firstar's consolidation of certain agricultural loan origination and servicing operations into a single office has resulted in reduced lending by Firstar to small and LMI farm owners. Firstar denies any decreased emphasis on agricultural lending, noting that Firstar Wisconsin maintains a sizeable agricultural loan portfolio of $150 million. Firstar also represents that it employs 40 loan officers with agricultural lending authority and has implemented programs, including a simplified application for small loans and speedy processing, that demonstrate its commitment to agricultural lending. In addition, Firstar states that the consolidation of its agricultural lending operations does not limit its ability to extend credit to farms of all sizes.

11. One commenter expressed concern that Firstar has reduced its participation in FSA, WHEDA, and other government-guaranteed loan programs that benefit farmers and rural communities in Wisconsin. Firstar acknowledges that there has been some reduction in the volume of its origination of certain types of government-guaranteed loans designed for farmers and agricultural communities, but Firstar attributes this decrease in loan originations to changing market conditions and lower credit demand in Wisconsin.

12. One commenter alleged that Firstar's subsidiaries in Wisconsin make inadequate numbers of home mortgages to LMI individuals and in LMI communities. The commenter based the allegation on its analysis of certain data reported by Firstar in 1996 under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA"). As noted above, the CRA performance examinations of Firstar's subsidiary banks in Wisconsin noted that the banks had strong records of lending, including home mortgage lending, to LMI individuals and in LMI communities. Examiners of Firstar Wisconsin reached this conclusion based on their review of the bank's 1996 HMDA data and other data.

13. A commenter alleged that Firstar has been inflexible in working with farmers to restructure existing credit relationships or to resolve differences regarding loans and loan commitments. Firstar represents that it employs agricultural specialists to provide individualized attention to borrowers to resolve credit problems, consistent with safe and sound banking practices.

14. One commenter expressed concerns about the lack of branches or proprietary ATMs of Firstar Illinois in Waukegan, Illinois, and certain surrounding portions of Lake County, Illinois. Firstar represents that, although it does not maintain any branches or ATMs in Lake County, Firstar's subsidiaries provide financial assistance to, or engage in community development activities in conjunction with, a variety of community-based organizations operating in Lake County. The Board also notes that, under the CRA, an institution is evaluated on the basis of its record of serving the credit needs of its community, including areas in which the institution maintains an office, a branch or a deposit-taking ATM, as well as the surrounding areas in which the institution originates or purchases a substantial portion of its loans. An institution may not define its service community for CRA purposes in

discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant institutions, are consistent with approval of the application.

Nonbanking Activities

Firstar also has filed a notice under section 4(c)(8) of the BHC Act to acquire SBC's nonbanking subsidiaries and thereby to engage in extending credit and servicing loans, leasing real or personal property, providing credit life insurance and providing data processing services.[15] The Board has determined by regulation that these activities are closely related to banking for purposes of the BHC Act.[16] Firstar has committed to conduct these nonbanking activities in accordance with the limitations set forth in Regulation Y and the Board's orders and interpretations governing each of these activities.

In order to approve a notice under section 4(c)(8) of the BHC Act, the Board also must determine that the proposed activities are a proper incident to banking, that is, that the proposal "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[17] Firstar has indicated that, after consummation of the proposal, it would be able to provide more products and services with greater efficiency to current and future customers of Firstar and SBC. Firstar would achieve greater operational efficiencies, greater economies of scale, and eliminate redundant systems and technologies. These efficiencies would strengthen Firstar's ability to compete more effectively in the markets in which it operates. Firstar would draw on its product strengths and those of SBC to offer more products at more locations than either organization could offer separately. In addition, as the Board has previously noted, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.[18]

As part of its evaluation of these factors, the Board considers the financial condition and managerial resources of the notificant and its subsidiaries, including the companies to be acquired, and the effect of the proposed transaction on those resources. For the reasons noted above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has considered the competitive effects of the proposed acquisition by Firstar of the nonbanking subsidiaries of SBC. Numerous competitors would remain in each of the markets in which Firstar and SBC compete. The Board concludes that consummation of this proposal would have a *de minimis* effect on competition in the markets for nonbanking services in which Firstar and SBC compete. Based on all the facts of record, the Board concludes that it is unlikely that significantly adverse competitive effects would result from the nonbanking acquisitions proposed in this transaction.

The Board also concludes that the conduct of the proposed nonbanking activities within the framework of Regulation Y and prior Board precedent is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would outweigh the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public interest factors that the Board must consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of Firstar's notice.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application and notice should be, and hereby are, approved.[19] Approval of

a manner that reflects illegal discrimination or excludes LMI geographies. The CRA performance examination of Firstar Illinois determined that the bank did not exclude any area from its delineated service community that it could have been reasonably expected to serve. Examiners also concluded that Firstar Illinois maintained branches and facilities in census tracts of all income levels and that the bank provided loan products and services that were similar at all its locations.

15. Firstar currently engages in insurance activities grandfathered under section 4(c)(8)(G) of the BHC Act (12 U.S.C. § 1843(c)(8)(G)) ("Exemption G"). Based on the structure of the transaction, the fact that Firstar would be the legal entity surviving the proposed merger, and all the other facts of this case, the Board has determined that Firstar would retain its grandfathered rights to engage in Exemption G activities after consummation of the proposed merger.

16. *See* 12 C.F.R. 225.28(b)(1), (3), (11)(i), and (14).

17. 12 U.S.C. § 1843(c)(8).

18. *See, e.g., Banc One Corporation*, 84 *Federal Reserve Bulletin* 553 (1998); *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998).

19. Two commenters requested that the Board hold a public meeting or hearing on the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial. The Board has not received such a recommendation from the appropriate supervisory authorities. The Board's regulations provide for a hearing under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner. *See* 12 C.F.R. 225.25(a)(2).

Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has carefully considered the commenters' requests in light of all the facts of record. In the Board's view, commenters have had ample opportunity to submit their views, and, in fact, have submitted written comments that have been carefully considered by the Board in acting on the proposal. The commenters' requests fail the application and notice is specifically conditioned on compliance by Firstar with all the commitments made in connection with the proposal and with the conditions stated or referred to in this order. The Board's determination on the nonbanking activities also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders thereunder. For purposes of this order, the commitments and conditions referred to above shall be deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.[20]

The acquisition of Star Bank shall not be consummated before the fifteenth calendar day following the effective date of this order, and the proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Reserve Bank, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 28, 1998.

to identify disputed issues of fact that are material to the Board's decision that may be clarified by a public meeting or hearing. The commenters also fail to indicate why a public meeting or hearing is necessary for the proper presentation or consideration of their views. As noted above, commenters have provided substantial written comments, which have been carefully considered by the Board. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the requests are hereby denied.

20. Commenters requested that the Board delay action on the proposal, extend the public comment period, or deny the proposal until

(i) A pending CRA examination of Firstar Illinois is completed and the public has an opportunity to review the results of this examination;
(ii) The Board investigates Firstar's treatment of LMI borrowers;
(iii) The Board investigates Firstar's lending practices on certain Native American reservations; and
(iv) Firstar and SBC provide additional information on their CRA plans and programs or respond to specific allegations or concerns raised by the commenters.

The requests for delay do not warrant postponement of the Board's consideration of the proposal. The Board has accumulated a significant record in this case, including reports of examination, supervisory information, public reports and information, and public comment. As noted above, in the Board's view, the commenters have had ample opportunity to submit their views and, in fact, have provided substantial written submissions that have been considered carefully by the Board in acting on the proposal. Based on a review of all the facts of record, the Board concludes that the record in this case is sufficient to warrant Board consideration and action on the proposal at this time, and further delay of consideration of the proposal, an extension of the comment period, or denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Meyer, Ferguson, and Gramlich. Absent and not voting: Governor Kelley.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Appendix

Nonbanking Activities of SBC

(1) Extending credit and servicing loans in accordance with section 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1)), through Star Banc Finance, Inc., Cincinnati, Ohio.
(2) Engaging in leasing personal or real property in accordance with section 225.28(b)(3) of Regulation Y (12 C.F.R. 225.28(b)(3)), through DJJ Leasing Limited, Cincinnati, Ohio.
(3) Engaging in credit insurance activities in accordance with section 225.28(b)(11)(i) of Regulation Y (12 C.F.R. 225.28(b)(11)(i)), through The Miami Valley Insurance Company, Cincinnati, Ohio.
(4) Providing data processing services in accordance with section 225.28(b)(14) of Regulation Y (12 C.F.R. 225.28(b)(14)), through Money Station, Inc., Cincinnati, Ohio.

Norwest Corporation
Minneapolis, Minnesota

Wells Fargo & Company
San Francisco, California

Order Approving the Merger of Bank Holding Companies

Norwest Corporation, a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), and its wholly owned subsidiary, WFC Holdings Corporation (collectively "Norwest"), have requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire by merger Wells Fargo & Company ("Wells Fargo") and thereby acquire Wells Fargo's subsidiary banks, including its lead bank subsidiary, Wells Fargo Bank, N.A., San Francisco, California.[1] Norwest also has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board's Regulation Y (12 C.F.R. 225.24) to acquire the domestic nonbank subsidiaries of Wells Fargo.[2] In addi-

1. Norwest also would acquire Wells Fargo's other subsidiary banks, which are Wells Fargo Bank (Texas), N.A., Houston, Texas; Wells Fargo Bank (Arizona), N.A., Phoenix, Arizona; Wells Fargo Bank, Ltd., Los Angeles, California; Wells Fargo Central Bank, Calabasas, California; and Wells Fargo HSBC Trade Bank, N.A., San Francisco, California.

2. These subsidiaries are Wells Fargo Equity Capital, Inc., San Francisco, California, which makes loans and direct equity investments in companies in connection with such loans in accordance with

tion, Norwest has filed applications and notices under section 4(c)(13) of the BHC Act (12 U.S.C. § 1843(c)(13)), sections 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 601 *et seq.*, 611 *et seq.*), and the Board's Regulation K (12 C.F.R. 211) to acquire the foreign subsidiaries of Wells Fargo.[3]

Norwest, with total consolidated assets of approximately $93.1 billion, is the 12th largest commercial banking organization in the United States.[4] Norwest operates 44 subsidiary banks in 16 states,[5] and it engages through nonbanking subsidiaries in a number of permissible nonbanking activities nationwide, including securities underwriting and dealing, consumer finance, mortgage banking, venture capital, insurance brokerage, and commercial finance.

Wells Fargo, with total consolidated assets of approximately $93.2 billion, is the 11th largest commercial banking organization in the United States. Wells Fargo operates six subsidiary banks in ten states,[6] and engages in a number of permissible nonbanking activities nationwide.

The proposed transaction would create a combined organization that, after accounting for proposed divestitures, would be the seventh largest commercial banking organization in the United States. On a *pro forma* basis, the combined organization would have total consolidated assets of approximately $188.4 billion, and would operate under the name "Wells Fargo & Company" ("New Wells Fargo").

Factors Governing Board Review of Transaction

Under the BHC Act, the Board must consider a number of specific factors when reviewing the merger of bank holding companies or the acquisition of banks. These factors are the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the convenience and needs of the community to be served, including the records of performance under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA") of the insured depository institutions involved in the transaction; and the availability of information needed to determine and enforce compliance with the BHC Act.[7] In cases involving interstate bank acquisitions, the Board must also consider the concentration of deposits in the nation and certain states and compliance with other provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act").[8]

Public Comment on the Proposal

To give interested members of the public an opportunity to submit comments to the Board on the statutory factors that it is charged with reviewing, the Board published notice of the proposal and provided a period of time for public comment.[9] The Board extended the initial period for public comment by 27 days to accommodate public interest. The extended public comment period provided interested parties more than 56 days to submit written comments on the proposal.

Because of public interest in the proposal—particularly in Minnesota, where the combined organization would remain a significant competitor and where the merger would result in the loss of the corporate headquarters of Norwest—the Board also held a public meeting in Minneapolis, Minnesota, on September 17, 1998. The public meeting gave interested persons an opportunity to present oral testimony on the various factors the Board is charged with reviewing under the BHC Act. Sixty people appeared and testified at the public meeting, and many of the commenters who testified also submitted written comments.

In total, approximately 150 organizations and individuals submitted comments on the proposal through oral testimony, written comments, or both. Commenters included federal, state, and local government officials; community groups and nonprofit organizations; small business owners; union representatives and members; customers of Norwest and Wells Fargo; and other interested organizations and individuals from Arizona, California, Iowa, Minnesota, New Mexico, Oregon, South Dakota, Texas, Wisconsin, and other states. Commenters filed information and expressed views supporting and opposing the merger.

In evaluating the statutory factors under the BHC Act, the Board carefully considered the information and views presented by all commenters, including the testimony presented at the public meeting and the information submitted in writing. The Board also considered all the information presented in the application, notices, and supplemental

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section 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1)) and prior Board precedent; and Crocker Life Insurance Company, Brisbane, California, which underwrites optional credit life and disability insurance in connection with extensions of credit by affiliated lending entities in accordance with section 225.28(b)(11)(i) of Regulation Y (12 C.F.R. 225.28(b)(11)(i)).

3. Norwest also has requested the Board's approval to hold and exercise options to acquire up to 19.9 percent of Wells Fargo's voting shares, if certain events occur. The options would not be exercised if the merger is consummated.

4. Rankings are based on financial data as of June 30, 1998, and reflect the merger of NationsBank Corporation with BankAmerica Corporation, approved by the Board on August 17, 1998, the merger of Banc One Corporation with First Chicago NBD Corporation, approved by the Board on September 14, 1998, and the merger of Citicorp with Travelers Group, approved by the Board on September 23, 1998. All deposit data are as of June 30, 1997.

5. Norwest's subsidiary banks are located in Arizona, Colorado, Illinois, Indiana, Iowa, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Ohio, South Dakota, Texas, Wisconsin, and Wyoming.

6. Wells Fargo's subsidiary banks operate in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington.

7. In cases involving a foreign bank, the Board also must consider whether the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in the foreign bank's home country.

8. Pub. L. No. 103–328, 108 Stat. 2338 (1994).

9. Notice of the proposal was published in the *Federal Register* (63 *Federal Register* 39,570 (1998)) and in local newspapers in accordance with the Board's Rules of Procedure. *See* 12 C.F.R. 262.3(b). Notice of the proposal was also listed on the Board's Internet Home Page.

filings by Norwest and Wells Fargo, as well as various reports filed by the relevant companies, publicly available information, and other reports. In addition, the Board reviewed confidential supervisory information, including examination reports on the bank holding companies and the depository institutions involved, and information provided by the other federal banking agencies and the Department of Justice ("DOJ"). After a careful review of all the facts of record, and for the reasons discussed in this order, the Board has concluded that the statutory factors it is required to consider under the BHC Act and other relevant banking statutes are consistent with approval of the proposal, subject to the conditions noted in this order.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of the bank holding company if certain conditions are met. For purposes of the BHC Act, the home state of Norwest is Minnesota,[10] and Wells Fargo's subsidiary banks are located in California and other states.[11]

Section 3(d) of the BHC Act provides that the Board may not approve a proposal if, after consummation, the applicant would control more than 10 percent of the total deposits of insured depository institutions in the United States.[12] In addition, the Board may not approve a proposal if, on consummation of the proposal, the applicant would control 30 percent or more of the total deposits of insured depository institutions in any state in which both the applicant and the organization to be acquired operate an insured depository institution, or such higher or lower percentage established by state law.[13]

On consummation of the proposal, New Wells Fargo would control approximately 3.6 percent of the total amount of deposits of insured depository institutions in the United States. New Wells Fargo would control less than 30 percent or the appropriate percentage established by applicable state law of total deposits held by insured depository institutions in Arizona, Colorado, Nevada, New Mexico, and Texas, the states in which Norwest and Wells Fargo both operate an insured depository institution.[14]

All other requirements of section 3(d) of the BHC Act also would be met after consummation of the proposal.[15] In view of all the facts of record, the Board is permitted under section 3(d) of the BHC Act to approve the proposal.

Competitive Factor

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly, or that would substantially lessen competition in any relevant banking market if the anticompetitive effects of the proposal are not clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[16] The Board has carefully considered the competitive effects of the proposal in light of the facts of record, including public comments on the proposal.

A number of commenters expressed concern that the proposed merger would have adverse competitive effects. Many of these commenters expressed concern that large bank mergers in general, or this proposed merger in particular, would reduce competition for banking services and result in higher fees or reduced customer convenience. In addition, a number of commenters claimed that the proposed merger of Norwest and Wells Fargo would have significantly adverse effects on competition in Arizona and Nevada where Norwest and Wells Fargo both compete.[17]

In order to determine the effect of a particular transaction on competition, it is necessary to designate the area of effective competition between the parties, which the courts have held is decided by reference to the relevant "line of commerce" or product market and a geographic market. The Board and the courts have consistently recognized that the appropriate product market for analyzing the competitive effects of bank mergers and acquisitions is the cluster of products (various kinds of credit) and services (such as checking accounts and trust administration) offered by

10. A bank holding company's home state is that state in which the operations of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

11. For purposes of the Riegle-Neal Act, the Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch.

12. 12 U.S.C. § 1842(d)(2)(A). For this purpose, insured depository institutions include all insured banks, savings banks, and savings associations.

13. 12 U.S.C. § 1842(d)(2)(B)-(D).

14. Nevada law does not impose a limitation on deposit concentration in the state. As a consequence of the proposed merger, New Wells Fargo would control more than 30 percent of the total deposits in Nevada. The applicant has committed to divest an amount of deposits sufficient to comply with the 30 percent limitation imposed by federal law. The combined company would comply with the deposit limitations imposed by state law in the other states. *See* Ariz. Rev. Stat. § 6–328; Colo. Rev. Stat. § 11–6.4–103; N.M. Stat. Ann. § 58–1C-5; and Tex. Fin. Code § 38.002.

15. Norwest is adequately capitalized and adequately managed as defined by applicable law. 12 U.S.C. § 1842(d)(1)(A). Wells Fargo's subsidiary banks have been in existence and have been continuously operated for the period of time required by applicable state laws. *See* 12 U.S.C. § 1842(d)(1)(B). Wells Fargo has subsidiary banks that have been in existence for less than five years in California and Arizona, but those states do not impose state age requirements applicable to the proposed transaction.

16. 12 U.S.C. § 1842(c)(1).

17. Several commenters argued that branch divestitures would be required in connection with this merger and objected that portions of the divestiture proposal were not disclosed and subject to public comment. Release of this information is subject to the Freedom of Information Act and the Board's Rules Regarding Availability of Information, 12 C.F.R. Part 261, and, in fact, the Board has considered the objections under these procedures.

banking institutions.[18] The Board and the courts have consistently found that the geographic markets for analyzing the competitive effects of a proposal on the supply and demand of the cluster of banking products and services are local in nature.[19]

The Board concludes, based on all the facts of record, that the appropriate product market for considering the competitive effects of this case is the cluster of banking products and services, and that the appropriate geographic markets for considering the competitive effects of this proposal are the 30 local banking markets in the six states in which the subsidiary banks of Norwest and Wells Fargo operate and compete. The local banking markets are defined in Appendix A.[20]

A. Analysis of Banking Markets

Consummation of the proposal, without divestitures, would be consistent with the Department of Justice Merger Guidelines ("DOJ Guidelines")[21] and prior Board precedent in 13 banking markets. These markets are discussed in Appendix B. In 11 of these markets, consummation of the proposal would increase market concentration, as measured by the HHI, by less than half of the 200-point threshold in the DOJ Guidelines.[22] Seven of the markets also would remain unconcentrated or moderately concentrated, as measured by the HHI, after consummation of the proposal. In each of these markets a large number of competitors relative to the size of the market would remain after consummation of the proposal.

Consummation of the proposal would exceed the DOJ Guidelines as measured by the HHI in the remaining 17 banking markets. To mitigate the anticompetitive effects of the proposal in these markets, Norwest has committed to divest a total of 26 branches, which account for a total of approximately $1.18 billion in deposits.[23] After accounting for the proposed divestitures, consummation of the proposal would be consistent with the DOJ Guidelines and prior Board precedent in at least nine of the 17 markets. In addition, numerous competitors would remain in most of these banking markets after consummation of the proposal, and many of these markets are attractive for entry. These banking markets are discussed in Appendix C.

In the eight remaining banking markets, consummation of the proposal could increase the level of market concentration, as measured by the HHI, to levels that exceed the DOJ Guidelines. The Board has conducted a careful review of the competitive effects of the proposal in these markets, and considered whether other factors either mitigate the competitive effects of the proposal in the market or indicate that the proposal would have a significantly adverse effect on competition in any of these markets.[24]

18. *See Chemical Banking Corporation*, 82 *Federal Reserve Bulletin* 230 (1996) ("Chemical"), and the cases and studies cited therein. The Supreme Court has emphasized that it is the cluster of products and services that, as a matter of trade reality, makes banking a distinct line of commerce. *See United States v. Philadelphia National Bank*, 374 U.S. 321, 357 (1963) ("*Philadelphia National*"); *accord United States v. Connecticut National Bank*, 418 U.S. 656 (1974); *United States v. Phillipsburg National Bank*, 399 U.S. 350 (1969) ("*Phillipsburg National*").

19. *See Philadelphia National*, 374 U.S. at 357; *Phillipsburg National*; *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998) ("*First Union*"); *Chemical; St. Joseph Valley Bank*, 68 *Federal Reserve Bulletin* 673 (1982) ("*St. Joseph*"). In determining the geographic scope of local banking markets, the Board considers a number of factors, including: population density; worker commuting patterns (as indicated by census data); shopping patterns; the availability and geographic reach of various modes of advertising; the presence of shopping, employment, health care and other necessities; the availability of transportation systems and routes; branch banking patterns; deposit and loan activity; and other indicia of economic integration and the transmission of competitive forces among depository institutions that affect the pricing and availability of banking products and services. *See Crestar Bank*, 81 *Federal Reserve Bulletin* 200, 201 n.5 (1995); *Pennbancorp*, 69 *Federal Reserve Bulletin* 548 (1983); *St. Joseph*.

20. As discussed in this order, the Board has considered the projected increase in the concentration of total deposits in depository institutions in these banking markets ("market deposits" or "market share"). Market share data is based on calculations that include the deposits of thrift institutions at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competition of commercial banks. *See, e.g., Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50-percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

21. Under the DOJ Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger Herfindahl–Hirschman Index ("HHI") is less than 1000 is considered to be unconcentrated, and a market in which the post-merger HHI is between 1000 and 1800 is considered to be moderately concentrated. The DOJ 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 or acquisition increases the HHI by at least 200 points. The DOJ has stated that the higher than normal HHI thresholds for screening bank mergers or acquisitions for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial institutions.

22. The HHI for the Bullhead City market would increase 192 points on consummation of the proposal to 2010. The HHI for the South Lake Tahoe market would increase 204 points on consummation of the proposal, but the market would remain only moderately concentrated, with a post-merger HHI of 1792.

23. With respect to each market in which Norwest has committed to divest offices to mitigate the anticompetitve effects of the proposal, Norwest has committed to execute sales agreements for the proposed divestitures with a purchaser determined by the Board to be competitively suitable prior to consummation of the proposal, and to complete the divestiture within 180 days of consummation. Norwest also has committed that, in the event it is unsuccessful in completing any divestiture within 180 days of consummation, it will transfer the unsold branch(es) to an independent trustee that is acceptable to the Board and will instruct the trustee to sell the branch(es) promptly to one or more alternative purchasers acceptable to the Board. *See BankAmerica Corporation*, 78 *Federal Reserve Bulletin* 338 (1992); *United New Mexico Financial Corporation*, 77 *Federal Reserve Bulletin* 484 (1991).

24. The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the level of concentration and size of the increase in market concentration. *See NationsBank Corporation*, 84 *Federal Reserve Bulletin* 129 (1998) ("*NationsBank/Barnett*").

Arizona Banking Markets

Casa Grande. Norwest is the third largest of eight depository institutions in the Casa Grande banking market, and controls deposits of $38.1 million, representing 12.3 percent of market deposits. Wells Fargo is the sixth largest depository institution in the market, controlling $28.6 million in deposits, representing 9.2 percent of market deposits. On consummation of the proposal, New Wells Fargo would be the second largest depository institution in the market, controlling 21.5 percent of market deposits, and the HHI would increase by less than 228 points to a level that would not exceed a post-merger HHI of 2101.

Seven depository institutions would remain in the banking market after consummation of the proposal. Moreover, several large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would remain the largest depository institution in the market with 33.2 percent of market deposits, and another organization that would control 12.2 percent of market deposits. After the proposed merger, four depository institutions in the market other than New Wells Fargo would control market shares of 10 percent or more.

In addition, the Casa Grande banking market has characteristics that make it attractive for entry. The market is in Pinal County, which is an area of population and economic growth approximately 40 miles south of Phoenix and 60 miles north of Tucson. Since 1990, the market's population has increased 26 percent, including a 15-percent increase in population in the town of Casa Grande. Employment in the market has increased by 16 percent since 1990, compared with a national rate of increase of 14 percent in employment during the same period. Recent entries by depository institutions also appear to confirm that the Casa Grande banking market is attractive for entry. One bank entered the market *de novo* in 1996, and the second largest depository institution in the market entered in 1997 by acquiring two branches from the largest competitor in the market.

Phoenix. Wells Fargo is the third largest of 36 depository institutions in the Phoenix banking market, and controls deposits of $3 billion, representing 12.5 percent of market deposits. Norwest is the fourth largest depository institution in the market, controlling $2.5 billion in deposits, representing 10.8 percent of market deposits. Norwest proposes to divest eight branches in this market, with $256.8 million in deposits (representing 1.1 percent of market deposits), to an out-of-market commercial banking organization or to an in-market commercial banking organization that currently controls 2.1 percent or less of market deposits. After the proposed merger and divestiture, New Wells Fargo would be the third largest depository institution in the market, controlling 22.2 percent of market deposits, and the HHI would increase by less than 227 points to a level that would not exceed a post-merger HHI of 2511.

At least 35 depository institutions would remain in the market after consummation of the proposal. Nine large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would remain the largest depository institution in the market, with 33.3 percent of market deposits, and another organization that would be the second largest with 29.8 percent of market deposits. The proposed divestiture of 1.1 percent of market deposits to a new entrant or a smaller competitor would either add a new competitor or would enhance the competitive presence of a smaller competitor.

In addition, the Phoenix banking market has characteristics that make it attractive for entry. Phoenix is the sixth largest city in the country by population and has had the fifth largest increase in population of major American cities during the last decade. Maricopa County, the county containing the Phoenix market, is the fastest growing county in the United States. The Phoenix unemployment rate in May 1998 was 2.5 percent, which is less than the state and national rates of 4.1 percent and 4.3 percent, respectively. In general, unemployment in the Phoenix area over the last decade has been low and the increase in the rate of employment has been high. The increase in the rate of employment from 1990 to 1997 was 24 percent, which is higher than the national rate of 14 percent. Recent entries by depository institutions appear to confirm that the Phoenix banking market is attractive for entry by depository institutions. Since 1995, nine depository institutions have entered the market *de novo*.

Prescott. Wells Fargo is the third largest of 12 depository institutions in the Prescott banking market, and controls deposits of $111.6 million, representing 13.5 percent of market deposits. Norwest is the fourth largest depository institution in the market, controlling $100.2 million in market deposits, representing 12.1 percent of market deposits. On consummation of the proposal, New Wells Fargo would be the second largest depository institution in the market, controlling 25.5 percent of market deposits, and the HHI would increase by less than 326 points to a level that does not exceed a post-merger HHI of 1890.

Eleven depository institutions would remain in the banking market after consummation of the proposal. Moreover, several large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would remain the largest depository institution in the market with 25.8 percent of market deposits, and another organization that would rank third with 19.9 percent of market deposits. After the proposed merger, three competitors other than New Wells Fargo would control market shares 10 percent or more.

In addition, the Prescott banking market has characteristics that make it attractive for entry. The population of the market increased by 48 percent from 1990 to 1997, making the Prescott area one of the fastest-growing regions by population in Arizona. Increase in employment in the Prescott market since 1990 has been approximately 40 percent, significantly higher than the national rate of 14 percent. Recent entries by depository institutions also appear to confirm that the Prescott banking market is attractive for entry by depository institutions. One firm entered the Prescott banking market *de novo* in 1996. Two other firms entered the market by acquisition in 1997 and 1998, respectively.

Sierra Vista. Wells Fargo is the third largest of seven depository institutions in the Sierra Vista banking market, and controls $72.7 million of market deposits, representing 16.1 percent of market deposits. Norwest is the fourth largest depository institution in the market, controlling $61 million in market deposits, representing 13.5 percent of market deposits. Norwest proposes to divest one branch in this market, with $43.1 million in deposits (representing approximately 9.6 percent of market deposits), to an out-of-market commercial banking organization or an in-market commercial banking organization that currently controls 8.9 percent or less of market deposits. After the proposed merger and divestiture, New Wells Fargo would be the third largest depository institution in the market, controlling 20.1 percent of market deposits, and the HHI would increase by less than 222 points to a level that does not exceed a post-merger HHI of 2428.

At least six depository institutions would remain in the market after consummation of the proposal. Three large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would remain the largest depository institution in the market with 29.7 percent of market deposits, another organization that would remain the second largest depository institution in the market with 28.2 percent of market deposits, and another organization with 8.9 percent of market deposits. Norwest has committed to divest one branch controlling 9.6 percent of market deposits to an out-of-market firm or to a small in-market competitor. The proposed divestiture of 9.6 percent of market deposits to a new entrant or a smaller competitor would either add a new competitor or would enhance the competitive presence of a smaller competitor.

In addition, the Sierra Vista banking market has characteristics that make it attractive for entry. The population of the market increased by 17.1 percent from 1990 to 1997. In the past two years, two depository institutions have entered the market *de novo.*

Tucson. Wells Fargo is the third largest of thirteen depository institutions in the Tucson banking market, and controls deposits of $762.5 million, representing 13.9 percent of market deposits. Norwest is the fifth largest depository institution in the market, controlling $478.3 million in deposits, representing 8.7 percent of market deposits. On consummation of the proposal, New Wells Fargo would be the second largest depository institution in the market, controlling 22.6 percent of market deposits, and the HHI would increase by less than 244 points to a level that does not exceed a post-merger HHI of 2007.

Twelve depository institutions would remain in the banking market after consummation of the proposal. Moreover, several large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would remain the largest depository institution in the market with 29.5 percent of market deposits, and another organization that would be the third largest depository institution in the market with 21.7 percent of market deposits. After the proposed merger, three depository institutions other than New Wells Fargo would control market shares of 10 percent or more and two depository institutions other than New Wells Fargo would control market shares of 20 percent or more.

In addition, the Tucson banking market has characteristics that make it attractive for entry. Tucson is the second largest market in Arizona by population, and its population has increased 13 percent since 1990. Population in the surrounding parts of Pima County have increased 18 percent during the same period. In May 1998, the unemployment rate in the Tucson area was 2.5 percent, lower than the national average of 4.3 percent. Two depository institutions entered the market *de novo* since 1994, and four more depository institutions entered by acquisition. Also, another group has applied to the Arizona Banking Department for permission to organize a *de novo* bank in the Tucson banking market.

Nevada Banking Markets

Carson City. Norwest is the third largest of 11 depository institutions in the Carson City banking market, and controls deposits of $160 million, representing 18.8 percent of market deposits. Wells Fargo is the largest depository institution in the market, controlling deposits of $204 million, representing 24 percent of market deposits. Norwest proposes to divest one branch in this market, with deposits of approximately $104.9 million (representing more than 12 percent of market deposits), to an out-of-market commercial banking organization or to an in-market commercial banking organization that currently controls 3.9 percent or less of market deposits. After the proposed merger and divestiture, New Wells Fargo would be the largest depository institution in the market, controlling 30.5 percent of market deposits, and the HHI would increase by less than 247 points to a level that does not exceed a post-merger HHI of 1886.

At least ten depository institutions would remain in the market after consummation of the proposal. Three large multistate banking organizations, other than New Wells Fargo, would compete in the market, including one organization that would remain the second largest depository institution in the market with 21.9 percent of market deposits, and another organization with 10.1 percent of market deposits. The proposed divestiture of 12.3 percent of market deposits to a new entrant or a smaller competitor would either add a new competitor or would enhance the competitive presence of a smaller competitor.

In addition, the Carson City banking market has characteristics that make it attractive for entry. From 1990 to 1996, the population of Carson City increased by 14 percent, approximately twice the rate of increase in population nationally during that period.

Las Vegas. Wells Fargo is the second largest of 20 depository institutions in the Las Vegas banking market, and controls deposits of $1.53 billion, representing 15 percent of market deposits. Norwest is the third largest depository institution in the market, controlling $1.51 billion in deposits, representing 14.8 percent of market deposits. Norwest proposes to divest five branches in this market, with $268.7 million in deposits, to an out-of-market commercial banking organization or to an in-market commercial banking organization that currently controls 7.1 percent or less of market deposits. After the proposed merger and divestiture, New Wells Fargo would be the second largest depository institution in the market, controlling 27.2 percent of market deposits, and HHI would increase by less than 341 points to a level that would not exceed a post-merger HHI of 1978.

At least 19 depository institutions would remain in the market after consummation of the proposal. Several large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would remain the largest depository institution in the market with 31.4 percent of market deposits, and another organization with a 8.8 percent of market deposits. After the proposed merger and divestiture, at least four competitors in the market other than New Wells Fargo would control market shares of 5 percent or more. The proposed divestiture of 2.6 percent of market deposits to a new entrant or a smaller competitor would either add a new competitor or would enhance the competitive presence of a smaller competitor.

In addition, the Las Vegas banking market has characteristics that make it attractive for entry. According to the U.S Bureau of the Census, the population of Las Vegas increased 46 percent from 1990 to 1996. Over the last decade, the Las Vegas unemployment rate has been consistently low compared with the national rate. Seven of the 20 depository institutions in the market entered *de novo* since 1994. Two depository institutions have entered by acquisition in the past five years, and one existing depository institution has expanded in the market by opening seven new branches since 1994. Three additional groups have applications to organize *de novo* banks pending before the state banking authority.

Reno. Wells Fargo is the second largest of ten depository institutions in the Reno banking market, and controls deposits of $566.7 billion, representing 20.1 percent of market deposits. Norwest is the third largest depository institution in the market, controlling $536.8 million in deposits, representing 19.1 percent of market deposits. Norwest proposes to divest two branches in this market, with $208.4 million in deposits (representing 7.4 percent of market deposits), to an out-of-market banking organization or to an in-market banking organization that currently controls 3.8 percent or less of market deposits. After the proposed merger and divestiture, New Wells Fargo would be the largest firm in the market, controlling 31.8 percent of market deposits, and the HHI would increase by less than 353 points to a level that would not exceed a post-merger HHI of 2001.

At least nine depository institutions would remain in the market after consummation of the proposal. Three large multistate banking organizations, other than New Wells Fargo, would compete in this market, including one organization that would become the second largest depository institution in the market with 20.6 percent of market deposits, and another organization that would become the third largest depository institution in the market with 17.4 percent of market deposits. After the proposed merger and divestiture, at least three competitors in the market other than New Wells Fargo would control market shares of 10 percent or greater. The proposed divestiture of 7.4 percent of market deposits to a new entrant or a smaller competitor would either add a new competitor or would enhance the competitive presence of a smaller competitor.

In addition, the market has characteristics that make it attractive to entry. According to the U.S. Bureau of the Census, Reno's population increased 16.2 percent from 1990 to 1996. The unemployment rate for Reno in May 1998 was 4.1 percent, slightly lower than the national rate of 4.3 percent. Over the past three years, the Reno unemployment rate has been consistently low relative to the national rate. Per capita income in the Reno-Sparks MSA in 1995 was $27,866, slightly above the average of $24,361 for Nevada and the national average of $22,788. Two large banks have entered the market by acquisition since 1992 (including the fourth-ranked depository institution), and one *de novo* bank is in the process of formation in the market.

B. View of Other Agencies and Conclusion

DOJ has conducted a detailed review of the proposal and advised the Board that, in light of the proposed divestitures, consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. The Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") also have been afforded an opportunity to comment and have not objected to consummation of the proposal.

As discussed in this order, the Board has considered the competitive effects of the transaction in light of a number of factors that measure or affect the likely competitive effects of the proposal in each relevant banking market. These factors include the relative market share that would be controlled by New Wells Fargo in each relevant banking market; the level of market concentration and change in concentration that would result from this transaction; the number, size and relative resources of competitors remaining in each market; and the structure, characteristics and attractiveness of each market. The Board also has carefully weighed the divestitures proposed by Norwest to address the potential competitive effects on various markets.

After carefully reviewing these and all the other facts of record, including public comments on the competitive effects of the proposal, and for the reasons discussed in this order and appendices, the Board concludes that consummation of the proposal would not be likely to result in a significantly adverse effect on competition or on the concentration of banking resources in any of the 30 banking markets in which Norwest and Wells Fargo both compete or in any other relevant banking market.[25] Accordingly, based on all the facts of record and subject to completion of the proposed divestitures, the Board has determined that competitive factors are consistent with approval of the proposal.[26]

Financial, Managerial, and Other Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of Norwest, Wells Fargo, and their respective subsidiary banks, and other supervisory factors in light of all the facts of record. In considering the financial and managerial factors, the Board has reviewed relevant reports of examination and other information prepared by the supervising Reserve Banks and other federal financial supervisory agencies. The Board also has reviewed information on the programs that Norwest and Wells Fargo have implemented to prepare their systems for the Year 2000, including confidential examination and supervisory information assessing the efforts of the two banking organizations to ensure Year 2000 readiness, both before and after the proposed transaction.

In evaluating financial factors in expansion proposals by bank holding companies, the Board consistently has considered capital adequacy to be an especially important factor.[27] The Board notes that Norwest and Wells Fargo are well capitalized and New Wells Fargo would be well capitalized on a *pro forma* basis after consummation of the proposal. The Board has considered that the proposed merger is structured as a stock-for-stock transaction and would not increase the debt service requirements of the combined company.

The Board also has considered the managerial resources of the entities involved and the proposed combined organizations. Norwest, Wells Fargo, and their subsidiary depository institutions currently are well managed, with appropriate risk management processes in place. Senior management of New Wells Fargo would draw from the senior executives of Norwest and Wells Fargo, based on the individual management strengths of each company. Senior executives of the two companies also would form a transition team to manage and plan the integration of the bank holding companies. Norwest and Wells Fargo have experience with merger transactions and have indicated that they are devoting significant resources to address all aspects of the merger process.

In addition, the Board has considered other aspects of the financial condition and managerial resources of the two organizations, including the Board's extensive supervisory experience with Norwest and Wells Fargo, plans for integration of the two companies, plans for achieving Year 2000 readiness, and records of compliance with relevant banking laws. Based on all the facts of record, including careful review of the comments received, the Board concludes that considerations relating to the financial and managerial resources and future prospects of Norwest, Wells Fargo, and their respective subsidiaries are consistent with approval of the proposal, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.

Convenience and Needs Considerations

In acting on the proposal, the Board also must consider the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the CRA. The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal supervisory authority to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansion proposals. The Board has carefully considered the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Norwest and Wells Fargo in light of all the

25. One commenter expressed concern about the method by which the Board determines the appropriate levels of divestitures and the Board's use of mitigating factors. The commenter presented an alternative approach to assess the competitive effects of the merger proposal, which the commenter has presented to the Board in other merger proposals. For the reasons previously stated by the Board, the Board concludes that its current approach provides a more complete economic analysis of the competitive effects in a local banking market than the approach suggested by the commenter. *See NationsBank Corporation*, 84 *Federal Reserve Bulletin* 129 (1998).

26. One commenter expressed concern that financial institutions that operate very large numbers of automated teller machines (ATMs) may decide to handle their own ATM transaction processing functions, rather than relying on an ATM network or third parties for such processing, and that financial institutions that engage in significant levels of credit card lending may seek to establish a separate brand identity for the credit cards that they issue. Commenter has presented no evidence to demonstrate that, if such actions were to occur, they would significantly reduce competition in any relevant market or result in a violation of antitrust laws, and the Board notes that the events discussed by the commenter could, in fact, increase competition for ATM transaction processing or credit card lending by creating a new competitor for such services.

Commenter also expressed concern that combinations of large banking organizations that are significant members of separate regional ATM networks may lead to the merger of the ATM networks and, thereby, result in a reduction in competition for ATM network services. Under section 4 of the BHC Act, a bank holding company is required to obtain the Board's approval before acquiring more than 5 percent of the voting shares of any company engaged in activities that are closely related to banking, including a company formed by the merger of two or more ATM networks. In the event that a merger of regional ATM networks controlled by bank holding companies is proposed at some time in the future, the Board would have the opportunity to address the issues raised by the commenter in the context of the specific facts presented at that time.

27. *See, e.g., Banc One Corporation*, 84 *Federal Reserve Bulletin* 961 (1998); *NationsBank Corporation*, 84 *Federal Reserve Bulletin* 858 (1998).

facts of record, including public comments on the proposal.

A. Summary of Public Comments Regarding the Convenience and Needs Factor

The Board provided an extended public comment period and convened a public meeting in Minneapolis to aid in the collection of information on the aspects of the proposed merger that the Board is required to consider under the BHC Act and other relevant statutes. As noted above, approximately 150 interested persons submitted written comments, testified at the public meeting, or both, on all aspects of the proposal and, in particular, the effect of the proposal on the convenience and needs of the affected communities and the CRA performance records of the depository institutions involved.

Approximately 70 commenters either expressed support for the proposal or commented favorably on the CRA-related activities of Norwest and Wells Fargo.[28] Two commenters who supported the proposal were community groups that have opposed other mergers of banking organizations in the past, and a number of others were former First Interstate Bancorp customers who had been particularly impressed by Wells Fargo's performance after it acquired First Interstate.

Commenters in support of the merger commended Norwest, Wells Fargo, or both for providing home mortgage products, offering financial and technical assistance for small and rural businesses, sponsoring and supporting community development activities and affordable housing initiatives, and participating in programs designed to assist LMI and minority individuals and communities with predominantly LMI and minority residents ("LMI and minority communities"). The commenters also praised Norwest and Wells Fargo for the service and expertise bank officers and staff provide to community groups as volunteers, counselors, and board members.

Many community-based groups and nonprofit organizations commended one or both banking organizations for their mortgage lending efforts in LMI and minority communities, or for their participation in other programs and projects designed to increase affordable housing opportunities. Several groups praised the efforts of Norwest and Wells Fargo to meet the needs of specific underserved segments of the population and to participate in particularly innovative projects. Other commenters praised the records of Norwest and Wells Fargo in fulfilling their commitments to communities, and some expressed approval of recent commitments made in California and New Mexico.

Small business owners and groups supporting small businesses reported favorably on the small business and agricultural lending of one or both banking organizations. Some commenters particularly emphasized the support that Wells Fargo had provided to businesses owned by women or minorities. Several commenters who generally supported the merger encouraged the merging organizations to make additional CRA commitments and to continue their current patterns of local lending and community support.

Approximately 80 commenters opposed the proposed merger.[29] These commenters either expressed general concerns about the effects of large merger proposals on the convenience and needs of the communities to be served or expressed specific concerns about the performance records of Norwest and Wells Fargo.

A number of commenters opposed to the merger contended that Norwest and Wells have inadequate records of performance under the CRA, particularly with respect to serving the banking and credit needs of LMI and minority individuals and communities. Some commenters expressed concern that Norwest inappropriately refers loan applicants rejected by its subsidiary banks to its nonbank finance companies, which generally charge higher rates of interest.

Commenters opposing the merger also expressed concern about either Norwest's or Wells Fargo's denial rates and origination rates for loans to LMI and minority individuals. Other commenters criticized the amount and scope of rural and agricultural lending by Norwest or Wells Fargo,

28. The commenters included:
(1) The Commissioner of the City of Portland, Oregon, and a representative from the Navajo Nation Council, Window Rock, Arizona;
(2) A number of community groups, including the Greenlining Institute, San Francisco, California; the Hmong American Political Association and the Hmong American Community, both of Fresno, California; the Twin Cities Neighborhood Housing Services, the Minnesota Housing Partnership, and the Development Corporation for Children, all of Minneapolis, Minnesota; the Oregon Corporation for Affordable Housing, Portland, Oregon;
(3) A number of small businesses and groups that support businesses, including the Metropolitan Economic Development Association, Minneapolis, Minnesota; the Latin Business Association and the Black Business Association of Southern California, both of Los Angeles, California; the Greater Phoenix Urban League, Phoenix, Arizona; and the Black State Employees Association of Texas, Dallas, Texas; and
(4) Representatives of other community, civic, and nonprofit organizations based in Minnesota, California, Wisconsin, Arizona, Texas, and other states.

29. The commenters included:
(1) Several members of the U.S. Senate and the U.S. House of Representatives;
(2) State and local government officials, including the Minnesota Attorney General and a Minnesota State Representative;
(3) Various community-based groups and nonprofit organizations, including representatives from the national and Minnesota offices of the Association of Community Organizations for Reform Now ("ACORN"); Inner City Press/Community on the Move, Bronx, New York; the Wisconsin Rural Development Center, Mt. Horeb, Wisconsin; Citizens for Community Improvement of Des Moines and Iowa Citizens for Community Improvement, both of Des Moines, Iowa;
(4) Union members, including individuals from the United Steelworkers of America, Local Union 2101 and Local Union 3267; and
(5) Individual bank customers describing their negative experiences with the organizations.

particularly Norwest's record of lending in rural LMI areas.

Several commenters alleged that Norwest and Wells Fargo had generally poor consumer service records. Some commenters expressed concern that post-merger branch closures could negatively affect LMI communities and individuals. Many commenters expressed concern about the fees charged for various services by Norwest and Wells Fargo and about the decline in no-cost checking accounts offered by their subsidiary banks. Some commenters argued that such banking fees disproportionately affected persons likely to be on a fixed income, such as senior citizens, students, and individuals with disabilities. Other individuals claimed that Wells Fargo used high-technology banking services, such as ATMs and Internet banking, to replace rather than enhance traditional banking services to the detriment of LMI and minority consumers.

Many commenters from the Minneapolis area were concerned about the effect of relocating Norwest's headquarters from Minneapolis to San Francisco after the merger. These commenters feared a decrease in the combined company's involvement in Minnesota, particularly the Minneapolis-St. Paul area, and job losses. Some commenters were concerned that the merger would result in loss of local control over lending decisions.

B. Overview of CRA Policies of New Wells Fargo

In its consideration of the convenience and needs of the communities to be served by New Wells Fargo, the Board has reviewed in detail the CRA performance records of Norwest and Wells Fargo, including their mortgage and small business lending records, community development and investment programs, and their initiatives to increase lending in LMI areas in states served by their subsidiary depository institutions.[30] The Board has carefully reviewed the examinations conducted by the appropriate federal banking agencies under the Community Reinvestment Act of 1977 of the performance records of the insured depository institutions involved in this case. In addition, the Board has reviewed substantial data regarding the lending and other activities of these institutions since the conclusion of these examinations.

The Board also has considered the record and ability of the organizations to adapt programs to special local credit needs. In addition, the Board has considered the record of Norwest and Wells Fargo in implementing CRA programs and policies effectively after an expansion proposal, as well as the current plans of New Wells Fargo for implementing CRA policies and programs after consummation of the proposal.

Norwest and Wells Fargo have indicated that the CRA policies and programs of New Wells Fargo would draw on the CRA policies and programs currently in effect at both institutions. Wells Fargo has stated, for example, that New Wells Fargo would honor all of Wells Fargo's current CRA pledges and continue the lending programs of Wells Fargo that focus on lending to LMI and minority individuals and small businesses owned by minorities.

Norwest states that the New Wells Fargo's CRA activities would include local initiatives with community organizations with established records of community service. The combined organization will continue to manage and solicit input from the community on its CRA activities at a local level with some oversight functions conducted centrally so as to most effectively allocate resources. An annual CRA plan will be prepared to direct activities that will have measurable goals and quantifiable results at the local level. Meetings with local community organizations will continue at the local level.

Norwest states that the New Wells Fargo will manage and direct CRA activities at the market level by evaluating local needs identified through community contacts and market data. Community development lending and investment opportunities will continue to be identified and assessed locally. In addition, Norwest states the New Wells Fargo will continue to perform analyses of lending, services, and investments at the market level using demographic and business data to ensure awareness of and prompt attention to local issues.[31] Norwest also indicates that local CRA programs, such as the portfolio mortgage program for LMI home buyers or participation in specific programs, will continue to be managed at the market or state level.

C. CRA Performance Examinations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of evaluations by the appropriate federal supervisors of the CRA performance records of the relevant institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed on-site evaluation of the institution's overall record of performance under the CRA by the appropriate federal financial supervisory agency.

All Norwest's subsidiary banks that have been examined for CRA performance since being acquired by Norwest received "outstanding" or "satisfactory" ratings in the most recent examinations of their CRA performance.[32] In particular, Norwest's lead bank, Norwest Bank Minnesota,

30. Some commenters claimed that evidence suggests that, as a general matter, large banks engage in less small business lending, relative to their size and total lending activities, than small banks. The Board has considered these comments in light of the specific records of lending performance of Norwest and Wells Fargo, including their records of assisting in meeting the credit needs of small businesses.

31. Norwest states that regulatory reporting, including data collection, will be performed centrally as needed to ensure data integrity.

32. Norwest Bank Minnesota Fairbault N.A., Fairbault, Minnesota, is a special purpose bank engaged in cash management activities that is not subject to CRA. In addition, Norwest Bank North Country N.A., Brainard, Minnesota, was acquired by Norwest in October 1997, and has not been examined for CRA performance.

N.A., Minneapolis, Minnesota, received an "outstanding" performance rating from the OCC, as of October 17, 1996.

All Wells Fargo's subsidiary banks that are subject to CRA also received "outstanding" or "satisfactory" ratings in the most recent examinations of their CRA performance.[33] For example, Wells Fargo Bank, N.A., Wells Fargo's lead bank, and Wells Fargo Bank (Texas), N.A., received "outstanding" ratings from the OCC, as of March 31, 1996. Wells Fargo Bank (Arizona), N.A., received a "satisfactory" rating from the OCC, as of March 31, 1996.

D. Norwest's CRA Performance Record

Overview. Norwest's banks offer several products that focus on small businesses. In 1996, Norwest's banks reported more than 43,100 small business loans totaling $3.8 billion, with an average loan amount of approximately $90,000. During the same period, Norwest's banks made more than 9,300 small business loans totaling $896.1 million in LMI census tracts and more than 28,800 small business loans totaling $1.6 billion to firms with less than $1 million in revenues. In 1997, Norwest's banks reported approximately 40,450 small business loans, totaling $3.7 billion, with an average loan amount of approximately $94,000. During the same period, Norwest's banks reported more than 8,300 small business loans totaling $836 million in LMI census tracts and more than 27,000 small business loans totaling $1.5 billion to firms with less than $1 million in revenues. In the first five months of 1998, Norwest's banks reported approximately 16,000 small business loans totaling $1.6 billion with an average loan amount of $101,000. During the same period, Norwest made more than 3,200 small business loans totaling more than $347 million in LMI census tracts.

In 1996, Norwest's banks made more than 18,700 small farm loans totaling more than $952 million, with an average loan amount of approximately $51,000; in 1997, Norwest's banks made more than 17,800 small farm loans totaling more than $982 million, with an average loan amount of approximately $55,000; and in the first five months of 1998, Norwest's banks made more than 9,200 small farm loans totaling more than $613 million, with an average loan amount of approximately $66,000.

Norwest's banks offer all types of personal credit, including credit cards and secured and unsecured loans. In 1997, Norwest's banks made more than 131,000 consumer loans totaling more than $855 million to LMI borrowers and, as of May 31, 1998, made more than 46,000 consumer loans totaling more than $316 million to LMI borrowers.

With respect to home mortgage lending, in 1996, Norwest's banks made approximately 14,200 loans reported under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA"), loans to LMI borrowers totaling $327.3 million and more than 7,100 HMDA loans in LMI census tracts totaling $200.5 million. In 1997, Norwest's banks made more than 13,800 HMDA loans totaling $287.4 million to LMI borrowers and more than 6,800 HMDA loans totaling $179.6 million in LMI census tracts. In the first five months of 1998, Norwest's subsidiary banks made approximately 5,800 HMDA loans totaling $129.6 million to LMI borrowers, and more than 2,900 HMDA loans totaling $79.7 million in LMI census tracts.

Norwest Mortgage, Inc. ("NMI"), a nonbank subsidiary of Norwest, and Norwest Funding, Inc., a nonbank subsidiary of Norwest Bank, account for the majority of Norwest's HMDA lending. In 1996, Norwest's mortgage subsidiaries made approximately 109,200 HMDA loans totaling $8.4 billion to LMI borrowers and approximately 48,000 HMDA loans totaling $4.2 billion in LMI census tracts. During the same period, Norwest's mortgage subsidiaries made more than 83,900 HMDA loans totaling $9.1 billion to minority borrowers. In 1997, the Norwest mortgage subsidiaries made more than 104,000 HMDA loans totaling more than $8.3 billion to LMI borrowers and approximately 45,000 HMDA loans totaling $4.2 billion in LMI census tracts. During the same period, Norwest's mortgage subsidiaries made approximately 77,700 HMDA loans totaling approximately $9 billion to minority borrowers. In the first five months of 1998, Norwest's mortgage subsidiaries made more than 64,000 HMDA loans totaling $5.4 billion to LMI borrowers and approximately 31,000 HMDA loans totaling $3.3 billion in LMI census tracts. During the same period, Norwest's mortgage subsidiaries made over 38,000 HMDA loans totaling $4.8 billion to minority borrowers.

Lending Record in General. CRA performance examinations of Norwest's subsidiary banks conducted by the appropriate federal supervisory agencies generally found that each bank, either directly or in conjunction with its affiliates, offered a variety of housing-related loan products with flexible credit terms and underwriting guidelines, including mortgages with low down payment requirements and mortgages insured or guaranteed by the Federal Housing Authority ("FHA") or the Veterans Administration ("VA"). The examinations also found that Norwest's subsidiary banks affirmatively solicited loan applications from all segments of their communities, especially LMI neighborhoods, and that the banks' lending activities had effectively reached LMI communities and individuals. In addition, examiners determined that the loan originations and denials of Norwest's subsidiary banks were reasonably distributed throughout the banks' communities.

The examinations also concluded that Norwest's subsidiary banks had effectively identified potentially underserved areas in their communities and designated the areas for priority attention. Examiners noted that Norwest's subsidiary banks also maintained an ongoing dialogue with local government officials and community groups representing neighborhoods, small businesses and minorities to ascertain the credit needs of the local community and participated in loan pools and programs with local govern-

33. Wells Fargo Bank, Ltd. and Wells Fargo Central Bank are engaged only in controlled disbursements for business depositors of affiliates. They do not make loans and offer no other deposit services and, thus, are not subject to CRA.

ments and community development organizations to promote affordable housing opportunities in local communities.

Examiners concluded that Norwest's subsidiary banks continued to help meet the credit needs of small businesses in their communities, including LMI communities. The examiners also found that the banks actively participated in community development activities in their communities and noted that the banks frequently had taken a leadership role in corporate or local initiatives designed to promote community development.

Examiners concluded that Norwest's subsidiary banks reasonably served the credit needs of all segments of their communities, including LMI communities, through their branch structure, ATM networks, and alternative delivery systems. The examinations reviewed the branch closing policies and record of branch closings of Norwest's subsidiary banks and concluded that each of the banks had a good record of opening, closing, and relocating branch offices while providing all segments of its communities, including LMI areas, with reasonable access to bank services.

Importantly, examiners found no evidence of prohibited discriminatory or other illegal credit practices by Norwest's subsidiary banks. In reaching this conclusion, examiners, in some cases, conducted a comparative analysis of loan applications submitted by minority and nonminority applicants.

CRA Performance in Home State. As noted above, Norwest's lead bank in Minnesota, Norwest Bank Minnesota, N.A. ("Norwest Bank"), received an "outstanding" rating from the OCC in its most recent CRA performance evaluation. Norwest Bank represents approximately 23 percent of Norwest's consolidated assets.

Examiners commended Norwest Bank for its role in making real estate loans, including purchase money mortgages, refinancings, and home improvement loans during 1994 and 1995. In 1995, Norwest Bank, in conjunction with NMI, made HMDA loans totaling more than $1 billion. Examiners also stated that Norwest Bank, in conjunction with NMI, was a market leader in originating HMDA loans to LMI census tracts. Based on 1995 HMDA data, the examiners found that Norwest Bank and NMI had made 23 percent of the total dollar volume of HMDA loans in LMI census tracts. In addition, according to the examiners, Norwest Bank/NMI HMDA originations to LMI applicants constituted approximately 22 percent by number and by dollar volume of loans made to LMI applicants in 1995.

Norwest reports that, in 1996, Norwest Bank made approximately 10,000 HMDA loans totaling more than $270 million, with approximately 1,100 loans totaling more than $33 million in LMI census tracts and more than 2,500 loans totaling more than $55 million to LMI borrowers. Norwest reports that, in 1997, Norwest Bank made a total of more than 9,500 HMDA loans totaling more than $263 million, with almost 900 loans totaling more than $27 million in LMI census tracts and more than 2,300 loans totaling more than $52 million to LMI borrowers.

Examiners also noted that, as of June 30, 1995, Norwest Bank had $1.3 billion in loans outstanding to small businesses and $5 million in loans outstanding to small farms. By number, 59 percent of the small business and small farm loans were originated in amounts of less than $100,000. The examination report states that Norwest Bank was an active Small Business Administration ("SBA") lender. As a "Preferred Lender," Norwest Bank had been ranked as the top SBA lender in Minnesota for three consecutive years. According to the examination report, in 1995, Norwest Bank participated in the SBA's 504, 7(a), and "Low Doc" loan programs, with loans in these programs totaling more than $22 million.

Norwest reports that, in 1996, Norwest's banks in Minnesota made approximately 9,000 small business loans totaling almost $950 million, with an average loan amount of approximately $105,000. During the same period, Norwest's banks made almost 1,150 small business loans totaling almost $105 million in Minnesota LMI census tracts, with an average loan amount of approximately $91,000. During 1996, Norwest's banks in Minnesota also made almost 6,000 small business loans totaling approximately $290 million to firms with less than $1 million in revenues. In 1997, Norwest's banks in Minnesota made more than 8,000 small business loans totaling more than $850 million, with an average loan amount of approximately $102,000. During the period, Norwest's banks in Minnesota made approximately 1,100 small business loans totaling more than $108 million in LMI census tracts, with an average loan amount of approximately $97,000. During 1997, Norwest's banks in Minnesota made more than 5,700 small business loans totaling approximately $280 million to firms with less than $1 million in revenues.

In 1996, Norwest's banks in Minnesota made almost 2,800 small farm loans totaling more than $145 million, with an average loan amount of $52,000. In 1997, Norwest made more than 2,900 small farm loans totaling approximately $165 million in Minnesota, with an average loan amount of $56,000. This represents more than twice as many small farm loans for more than twice the dollar volume of any other lender in 1996 and 1997.

Examiners also found that Norwest Bank actively participated in community development and redevelopment programs, providing leadership, technical expertise and financial support throughout its community. For example, during 1994 and 1995, Norwest Bank committed a total of $2 million to the National Equity Fund ("NEF").

Norwest states that it also has implemented several programs to enhance its service to the communities in Minnesota since its most recent CRA evaluation. These programs include affordable mortgage financing provided by NMI that is funded through the Community Activity Set-Aside Program ("CASA") sponsored by that Minnesota Housing Finance Agency ("MHFA"). The CASA Program provides sellers, cities, and nonprofit housing providers with a set-aside of funds from MHFA mortgage revenue bond to assist in meeting specific, project-oriented needs in communities. In addition, Norwest collaborates with Consumer Credit Counseling Services ("CCCS") to provide financial management seminars throughout the metropolitan community. CCCS is a nonprofit organization that provides counseling and education to consumers on topics such as debt repayment, budgeting, and money management. Norwest reports that, since 1996, 26 seminars have been held for LMI individuals. Norwest also reports that Norwest Bank Minnesota North, N.A. is a SBA Preferred Lender and originated 16 SBA loans totaling $1.7 million and six loans totaling $798,000 in 1996 and 1997, respectively.

Arizona. OCC examiners found that Norwest Bank Arizona, N.A. ("Norwest-Arizona") and NMI offered and originated a variety of conventional loan products to meet community credit needs, including housing-related, consumer, small business, and small farm loans. In particular, examiners noted that the bank had originated or purchased from NMI a significant number of home purchase loans to LMI individuals and in LMI areas through its Community Homeowners Program ("CHOP").[34] Since the program's inception in 1994, through June 30, 1996, Norwest-Arizona and NMI originated 488 CHOP loans totaling $25 million. The examiners also noted that the Norwest-Arizona and NMI ranked third among HMDA reporting lenders in the market in 1995, with 7.4 percent of all HMDA originations. Norwest reports that, in 1996, its banks and NMI made 22,429 HMDA loans totaling approximately $2 billion in Arizona, with more than 3,000 loans totaling more than $206 million in LMI census tracts and more than 5,800 loans totaling more than $360 million to LMI borrowers. In 1997, Norwest's banks and NMI made more than 20,100 HMDA loans totaling more than $1.9 billion in Arizona, with more than 2,500 loans totaling more than $180 million in LMI census tracts and more than 4,800 loans totaling more than $300 million to LMI borrowers. Through May 31, 1998, Norwest's banks and NMI made more than 12,000 HMDA loans totaling more than $1.3 billion in Arizona, with more than 1,300 loans totaling more than $96 million in LMI census tracts and more than 3,100 loans totaling more than $220 million to LMI borrowers.

The CRA performance examinations indicated that Norwest-Arizona also was actively engaged in consumer lending. According to the examination record, the bank made more than 19,900 direct and indirect consumer loans totaling $100 million in 1995, and made more than 11,700 direct and indirect consumer loans totaling $75 million through June 30, 1996. Norwest reports that, in 1996, its banks made more than 7,500 consumer loans totaling more than $28 million to LMI borrowers in Arizona.

In addition, examiners noted that the bank was an active lender to small businesses and small farms. The examination report indicated that, as of June 30, 1996, Norwest-Arizona had $183 million in loans outstanding to small businesses and $202 million in loans outstanding to small farms, with 66 percent of the small business and small farm loans in amounts less than $100,000. Norwest reports that, in 1996, its banks made more than 700 small business loans in Arizona totaling more than $81 million, with an average loan amount of $116,000. During the period, Norwest's banks made more than 230 small business loans totaling more than $30 million in Arizona LMI census tracts and more than 420 loans totaling more than $34 million to firms in Arizona with revenues of less than $1 million. In 1997, Norwest's banks made more than 900 small business loans in Arizona totaling more than $108 million, with an average loan amount of $115,000. During this period, Norwest's banks made more than 240 small business loans totaling more than $32 million in Arizona LMI census tracts and more than 590 loans totaling more than $47 million to firms in Arizona with revenues of less than $1 million. Norwest also reports that, in 1997, Norwest's banks made 49 small farm loans totaling more than $6 million in Arizona, with 15 small farm loans totaling more than $1.8 million in Arizona LMI census tracts.

Examiners noted that Norwest-Arizona frequently participated in government-related lending programs for small business and affordable housing. According to the examination report, NMI made a significant amount of home-purchase and refinancing loans under programs sponsored by the FHA and VA, originating 11.3 percent of such loans made in Arizona's Metropolitan Statistical Areas ("MSAs"). In the Phoenix MSA, Norwest-Arizona/NMI ranked first in government-sponsored loan originations, with 11 percent of such loans. Examiners also noted that the bank supported SBA loan programs. Specifically, Norwest-Arizona was ranked ninth by the SBA Phoenix district office for the six months ending June 30, 1996, in total number of loans originated and fifteenth in total dollar amount of loans originated.

Examiners also determined that Norwest Bank Arizona, N.A., in cooperation with NMI, showed a reasonable distribution of loans throughout its delineated communities, including LMI areas. In 1995, Norwest-Arizona and NMI originated 9 percent of the total number of HMDA loans and 10 percent of the total dollar amount of loans to LMI borrowers in Arizona's MSAs.

Examiners also found that Norwest-Arizona made investments in community development and redevelopment programs, such as Norwest's contribution of $1.3 million to capitalize the Arizona Multibank. The Multibank is a nonprofit community development corporation that provides financial and technical assistance to support small businesses, LMI housing, and economic development.

Examiners found no practice intended to discourage applicants for any type of credit listed in Norwest-Arizona's CRA Statement and determined that the bank solicited applications from all portions of its communities, including LMI areas. Examiners also determined that Norwest-Arizona met the substantive provisions of antidiscrimination laws and regulations.

Norwest states that, since the completion of the most recent CRA performance evaluation, it has implemented several programs to enhance its service to its communities in Arizona. Norwest has formed, for example, a partner-

34. Examiners indicated that the CHOP program uses flexible underwriting criteria to help LMI borrowers obtain home purchase mortgages.

ship with Neighborhood Housing Services of Phoenix and Neighborhood Housing Services of America and makes reduced rate mortgages to LMI families in Phoenix. Norwest-Arizona also serves as the shareholder bank for a $150,000 subsidy under the Federal Home Loan Bank Affordable Housing Program which is used to reduce the interest rates on a borrower's home purchase mortgage to 5.5 percent. In addition, Norwest indicates that Norwest-Arizona is investing $1 million in the NEF Limited Partnership to support the purchase of Low Income Housing Tax Credits and thereby financially assist affordable multifamily housing projects in Arizona.

Colorado. Examiners found that Norwest Bank Colorado, N.A. ("Norwest-Colorado") offered and originated a variety of loan products to meet community credit needs, including loans for housing-related, consumer, small business and small farm loans. Examiners commended Norwest-Colorado for its participation in Norwest's CHOP mortgage program. From 1991 through August 30, 1996, Norwest-Colorado originated 2,649 CHOP loans totaling $152 million. In addition, examiners noted that, based on 1995 HMDA data for all lenders, Norwest-Colorado, in conjunction with NMI, was the market leader in its six delineated MSA markets, with a total of 7,885 HMDA loan originations in the MSA delineations representing 9 percent of all conventional HMDA originations. Norwest reports that, in 1996, its banks and NMI made more than 26,900 HMDA loans totaling more than $2.5 billion in Colorado, with more than 3,800 loans totaling more than $252 million in LMI census tracts and more than 7,500 loans totaling more than $492 million to LMI borrowers. In 1997, Norwest's banks and NMI made more than 25,000 HMDA loans totaling more than $2.6 billion in Colorado, with more than 3,300 loans totaling more than $232 million in LMI census tracts and more than 6,300 loans totaling more than $430 million to LMI borrowers.

Examiners also noted that Norwest-Colorado was active in lending to small businesses and small farms. As of June 30, 1996, Norwest-Colorado had $626 million in loans outstanding to small businesses and $66 million in loans outstanding to small farms. According to the examination report, 82 percent of these small business and small farm loans were originated in amounts less than $100,000. Norwest reports that, in 1996, its banks made more than 6,000 small business loans in Colorado totaling more than $470 million, with more than 1,600 loans totaling more than $137 million in LMI census tracts and more than 4,500 loans totaling more than $256 million to firms with revenues less than $1 million. In addition, Norwest reports that, in 1996, its banks made more than 700 small farm loans in Colorado totaling more than $50 million, with 90 loans totaling approximately $6 million in LMI census tracts and almost 700 loans totaling more than $47 million to farms with revenues less than $1 million. Norwest reports that, in 1997, its banks made more than 700 small farm loans in Colorado totaling approximately $35 million, with 75 loans totaling approximately $3 million in LMI census tracts and more than 600 loans totaling more than $28 million to farms with revenues less than $1 million.

Examiners also noted that Norwest-Colorado actively participates in government-sponsored loan programs. For example, examiners commended Norwest-Colorado for its strong support for SBA loan programs, noting that Norwest-Colorado had been designated as a SBA "Preferred Lender" and participated in the SBA's 7A and "Low Doc" loan programs. Examiners also noted that, as of the evaluation period, Norwest-Colorado had been the number one SBA loan originator in Colorado for four consecutive years. As of June 30, 1996, Norwest-Colorado had 411 SBA loans in its portfolio totaling $54 million. According to the examination report, based on 1995 HMDA data, Norwest-Colorado, in conjunction with NMI, made government-sponsored loans totaling $230 million in the MSAs in Colorado served by the bank, representing 8.78 percent of the total of such loans.

Examiners also noted that Norwest-Colorado actively engaged in extending credit to LMI consumers and in LMI neighborhoods. In 1994 and 1995, Norwest/NMI originated more HMDA loans in LMI tracts and to LMI borrowers than any other lender. In 1995, Norwest originated 36 percent of its HMDA loans to LMI applicants and 26 percent in LMI census tracts. In 1995, Norwest-Colorado also had retail loans outstanding in 75 percent of all LMI census tracts in its assessment area. In the first half of 1996, the bank had retail loans outstanding in 98 percent of its LMI census tracts.

Since the completion of the most recent CRA performance evaluation, Norwest states that it has implemented several programs to enhance service to its communities in Colorado. Norwest-Colorado is participating, for example, in Barrio Aztlan Homeownership Program, which provides mortgage lending, down payment assistance, and bilingual prepurchase counseling to low-income families in Denver's predominantly Latino neighborhoods. As of July 31, 1998, Norwest-Colorado has funded 18 loans totaling $1.4 million through this program. In addition, Norwest reports that in the City of Grand Junction, Norwest-Colorado participates in the Self-Help program with the U.S. Department of Agriculture ("USDA"), a pilot program that leverages government funds for the provision of subsidized mortgages to LMI borrowers. Under this program, the USDA subordinates its subsidized second mortgage to the bank's first mortgage, which is priced at, or slightly below, market rates. This permits USDA to use more of the Self-Help funds for additional first mortgages.

Nevada. Examiners concluded that Norwest Bank Nevada, N.A. ("Norwest-Nevada") and its predecessor institutions[35] had a strong volume of lending over a broad range of products, that the majority of its lending was in its delineated community, and that a formal structure was in place for CRA compliance. Examiners noted that the insti-

35. Norwest-Nevada was chartered as a federal thrift when it was acquired by Norwest in 1996. It was renamed Norwest Bank Nevada, F.S.B. and subsequently was merged with another Norwest federal thrift subsidiary. Norwest converted the thrift subsidiary to a national bank in 1997. The most recent CRA evaluation of the institution occurred before its conversion to a national bank.

tution was able to offer a broader range of products to assist LMI customers after its acquisition by Norwest.

Examiners commented favorably on the broad range of credit products offered by Norwest-Nevada and its affiliates, including mortgage loans for the purchase or refinance of 1–4 unit and multiunit residential properties.[36] Examiners noted that although Norwest-Nevada did not underwrite and originate FHA and VA housing loans, NMI continued to do so. Based on HMDA data, the examiners also concluded that Norwest-Nevada had a reasonable geographic distribution of loan products throughout its delineated community. Norwest reports that, in 1996, its banks and NMI made more than 10,000 HMDA loans totaling more than $1.1 billion in Nevada, with more than 600 loans totaling more than $54 million in LMI census tracts and more than 2,600 loans totaling more than $217 million to LMI borrowers. Norwest reports that, in 1997, its banks and NMI made a total of more than 6,900 HMDA loans totaling more than $753 million in Nevada, with approximately 530 loans totaling more than $46 million in LMI census tracts and almost 1,700 loans totaling more than $128 million to LMI borrowers.

Examiners commented favorably on the commercial credit products offered by Norwest-Nevada to businesses and farms. Examiners also noted that the institution was an active SBA lender. According to the report, the institution received approval to offer loans under a number of SBA programs, including the SBA's 7A-Capline, "Low Doc", 7A, and 504 loans. In addition, the institution participated in a program to lend to minority and small business owners in an enterprise zone in Las Vegas under a $750,000 grant from the Department of Housing and Urban Development. Norwest reports that, in 1996, its banks made a total of almost 250 small business loans totaling more than $25 million in Nevada, with more than 70 loans totaling approximately $9 million in LMI census tracts and approximately 180 loans totaling more than $15 million to firms with revenues less than $1 million. Norwest reports that, in 1997, its banks made a total of more than 330 small business loans totaling almost $30 million in Nevada, with 80 loans totaling more than $9 million in LMI census tracts and more than 250 loans totaling more than $14 million to firms with revenues of less than $1 million.

In addition, Norwest reports that, in 1996, its banks made a total of 27 small farm loans totaling more than $1.5 million in Nevada, with 24 loans totaling $1.4 million in LMI census tracts and 25 loans totaling more than $1.4 million to farms with revenues less than $1 million. Norwest reports that, in 1997, its banks made a total of 71 small farm loans totaling approximately $7 million in Nevada, with 34 loans totaling more than $3.4 million in LMI census tracts and more than 60 loans totaling more than $6.7 million to farms with revenues less than $1 million.

Examiners also concluded that Norwest-Nevada had a high level of participation in community development and redevelopment programs, often in a leadership role. The institution maintained two Community Outreach Centers in or adjacent to underserved areas. The centers had a staff of three Community Outreach Managers, who were responsible for identifying credit and financial needs in LMI areas, forming partnerships with communities and organizations, and soliciting loans from LMI customers. Examiners noted that the managers routinely worked with community-based organizations and local governments, including the Fund Urban Northern Nevada Development, Southern Nevada Reinvestment and Accountable Banking Committee, the City of North Las Vegas, and the City of Sparks, to assist in developing special housing or credit programs. In addition, the managers provided financial education workshops for residents in the local communities. Examiners noted that Norwest-Nevada, in conjunction with Volunteers of America, had submitted a financing proposal that was instrumental in obtaining a $750,000 grant to develop a small business loan guarantee program for a newly designated Enterprise Zone in the Las Vegas MSA. Norwest-Nevada also cashed social assistance checks for noncustomers without charge, waived fees for nonprofit organizations, and offered a free checking account with no monthly fee or minimum balance.

Norwest states that, since the most recent CRA performance evaluation, it has implemented several programs to enhance services to its Nevada communities. Norwest-Nevada has doubled its commitment to lend under the Affordable Loan Program to a total of $20 million per year. Norwest reports that, since 1997, Norwest-Nevada has allocated portions of the total commitment to various local nonprofit community development organizations that provide down payment assistance, and that for 1998, approximately 90 percent of the total allocation has been reserved for nonprofit organizations. In addition, in late 1997, Norwest-Nevada established a Community Business Banking Department to specifically address the needs of the small business owner with a gross annual revenue of $500,000 to $3 million and credit needs of up to $250,000. Norwest also reports that Norwest-Nevada participates in the USDA Self-Help program for Nevada communities discussed above.

New Mexico. Examiners concluded that Norwest's subsidiary banks in New Mexico generally met the credit needs of the communities they served. Examiners noted that Norwest Bank New Mexico, N.A. ("Norwest-NM"), in conjunction with NMI, originated more conventional home purchase loans, refinancings, and home improvement loans in its delineated communities in 1995 than any other lender, with 10.5 percent of the HMDA loans in the market. Norwest-NM's volume of HMDA loans increased from $291 million in 1995 to more than $328 million in 1996. During 1995 and 1996, 100 percent and 98 percent, respectively, of Norwest-NM's conventional real estate-related loans were made in the bank's delineated communities. Examiners also determined that Norwest-NM reasonably served LMI areas in its communities. According to the

36. The report noted that mortgage loans were processed and originated by NMI, but that the loans were underwritten and immediately purchased by Norwest-Nevada.

examination report, in 1996, Norwest-NM made 21 percent of its HMDA loans in LMI census tracts and 31 percent of its HMDA loans to LMI applicants. Norwest reports that, in 1997, its banks and NMI made a total of more than 6,100 HMDA loans totaling more than $480 million in New Mexico, with more than 1,000 loans totaling more than $72 million in LMI census tracts and more than 1,400 loans totaling more than $65 million to LMI borrowers.

Examiners also noted that Norwest-NM was an active lender to small businesses and small farms. In 1996, Norwest-NM made 2,969 small business loans totaling approximately $208 million, with 83 percent by number and 38 percent by dollar amount in loan amounts of $100,000 or less. Norwest reports that, in 1997, its banks made more than 3,500 small business loans totaling more than $330 million in New Mexico, with almost 1,000 loans totaling more than $106 million in LMI census tracts and more than 2,700 loans totaling more than $181 million to firms with revenues less than $1 million.

Examiners indicated that, in 1996, Norwest-NM made small farm loans totaling $36.1 million, with 88 percent in loan amounts of less than $100,000. Norwest reports that, in 1997, its banks made a total of more than 800 small farm loans totaling more than $45 million in New Mexico, with more than 200 loans totaling more than $11 million in LMI census tracts and almost 800 loans totaling approximately $40 million to farms with revenues less than $1 million.

Examiners also noted that Norwest-NM, in conjunction with NMI, actively participated in government-related lending programs for small business and housing. In 1996, Norwest-NM originated 448 home purchase loans and refinancings totaling $40 million under programs sponsored by government authorities, such as the FHA, the VA, and the Farmers Home Administration ("FmHA"). Examiners also noted that Norwest-NM was an active SBA lender with "Preferred Lender" status. More than half the $10.2 million in SBA loans made by Norwest-NM in the 1996 fiscal year were originated in the Albuquerque area where Norwest-NM ranked first in SBA lending.

Texas. Examiners noted that Norwest Bank El Paso, N.A. ("Norwest-El Paso") used innovative products and flexible underwriting guidelines to assist in meeting the need for home mortgage loans in its assessment area. In particular, the examiners noted that the bank offered affordable mortgages and home improvement loans designed specifically for LMI borrowers through programs like the Affordable Home Mortgage Loan Program. Norwest reports that, in 1996, its banks and NMI made a total of more than 20,000 HMDA loans totaling more than $1.8 billion in Texas, with more than 1,800 loans totaling more than $102 million in LMI census tracts and almost 3,500 loans totaling more than $182 million to LMI borrowers. Norwest also reports that, in 1997, its banks and NMI made a total of almost 30,000 HMDA loans totaling more than $2.7 billion in Texas, with more than 2,400 loans totaling more than $140 million in LMI census tracts and more than 4,800 loans totaling more than $254 million to LMI borrowers.

Examiners stated that Norwest-El Paso's level of small business and small farm loans reflected a significant number of loans throughout its assessment area. Data for 1996 showed that Norwest-El Paso made 31 percent of its small business and small farm loans to businesses in LMI census tracts that had annual revenues of less than $1 million. In 1996, Norwest-El Paso also introduced the Small Business Banking Center to assist in meeting the credit needs of small businesses. The center originated 91 loans totaling $2.7 million in 1996, with an average loan amount of $30,000. Norwest states that, in 1996, its banks made more than 5,200 small business loans totaling more than $256 million in Texas, with approximately 1,100 loans totaling more than $51 million in LMI census tracts and almost 3,500 loans totaling almost $150 million to firms with revenues less than $1 million. Norwest reports that, in 1997, its banks made more than 7,600 small business loans totaling more than $520 million in Texas, with more than 1,600 loans totaling more than $138 million in LMI census tracts and more than 4,700 loans totaling more than $243 million to firms with revenues less than $1 million.

Norwest reports that, in 1996, its banks made a total of approximately 2,000 small farm loans totaling almost $83 million in Texas, with 300 loans totaling more than $12 million in LMI census tracts and more than 1,600 loans totaling almost $65 million to farms with revenues less than $1 million. Norwest also reports that, in 1997, its banks made a total of more than 1,600 small farm loans totaling more than $84 million in Texas, with more than 230 loans totaling more than $14 million in LMI census tracts and more than 1,300 loans totaling more than $64 million to farms with revenues less than $1 million.

Examiners noted that Norwest Bank Texas, N.A. ("Norwest-Texas") actively participated in development and redevelopment programs in its communities by providing loans and financial expertise to the community. Examiners also commented favorably that Norwest-Texas had been recognized by the Federal Home Loan Bank of Dallas for its community support. Norwest reports that, in 1998, Norwest-Texas became a sponsor of the Texas Capital Access Program established by the Texas Economic Development Corporation. Under this program, state funds are used to create a loan loss reserve account for bank loans to small businesses that permits banks to use underwriting guidelines for qualifying applicants that are more flexible than conventional guidelines.

E. Wells Fargo's CRA Performance Record

Overview. Wells Fargo offers a variety of products specifically designed for small business customers. Wells Fargo's Business Banking Group focuses on small businesses with annual revenues of less than $10 million in which the owner is the primary financial decision maker. Wells Fargo reports that, in 1996, its banks made more than 138,000 small business and small farm loans totaling more than $5.4 billion, with more than 33,000 small business and small farm loans totaling more than $1.5 billion in LMI census tracts. In 1997, Wells Fargo reports that its banks made more than 195,000 small business and small farm loans totaling more than $5.8 billion, with more than 45,700 small business and small farm loans totaling $1.7 billion in LMI census tracts. During 1996 and 1997, Wells Fargo reports that 95 percent of its small business and small farm loans were for amounts less than $100,000, and that the average loan amount was approximately $33,000. Through June 30, 1998, Wells Fargo made a total of approximately 69,000 small business and small farm loans totaling $2.7 billion, with more than 14,000 small business and small farm loans totaling approximately $668 million in LMI census tracts.

In 1996, Wells Fargo made more than 15,000 HMDA loans totaling approximately $960 million. During the same period, Wells Fargo made approximately 1,900 HMDA loans totaling $118 million in LMI census tracts, more than 5,200 HMDA loans totaling more than $180 million to LMI borrowers, and more than 1,800 HMDA loans totaling approximately $96 million to minority borrowers. In 1997, Wells Fargo made approximately 4,800 HMDA loans totaling $540 million. During this period, Wells Fargo made more than 600 HMDA loans totaling $10 million in LMI census tracts, approximately 1,600 HMDA loans totaling more than $53 million to LMI borrowers, and more than 800 HMDA loans totaling more than $36 million to minority borrowers. Through June 30, 1998, Wells Fargo made a total of approximately 4,400 HMDA loans totaling more than $220 million. During this period, Wells Fargo made more than 490 HMDA loans totaling more than $21 million in LMI census tracts, more than 1,400 HMDA loans totaling more than $53 million to LMI borrowers, and more than 600 HMDA loans totaling $25 million to minority borrowers. As of March 1998, Wells Fargo reports that it has loaned more than $14.5 billion or 33 percent of its lending goal under a $44.5 billion, 10-year CRA pledge announced in December 1995.

Lending Record in General. Examiners generally determined that Wells Fargo's banks had an effective program to ascertain the credit needs of their communities. In addition, the examiners found that the banks' level of lending reflected a responsiveness to the credit needs of their communities. The banks were generally active participants in government-guaranteed or sponsored loan programs that addressed housing, consumer, and small business credit needs. Examiners also determined that Wells Fargo's geographic distribution of loan originations was reasonable and generally consistent with demographic patterns in the community, including LMI communities. Examiners generally found that Wells Fargo's banks participated in financing community development and redevelopment projects.

California. As noted above, Wells Fargo Bank, N.A. ("WFB"), Wells Fargo's lead bank, received an "outstanding" rating from the OCC at its most recent CRA performance evaluation. WFB accounts for approximately 90 percent of Wells Fargo's consolidated assets.

Examiners noted that the largest component of WFB's lending activities was small business loans. Examiners found that WFB's record of making loans for less than $50,000, which accounted for 75 percent of WFB's small business lending during the evaluation period, evidenced the bank's commitment to small business lending. Examiners noted that, in 1995, WFB's loan growth was almost evenly divided between loans less than and loans more than $50,000. Examiners also noted that WFB made a significant number of small business loans in LMI census tracts.

In 1996, WFB made approximately 72,600 small business and small farm loans in California totaling $3.1 billion, with more than 18,800 small business and small farm loans totaling more than $960 million in California LMI census tracts. In 1997, WFB made approximately 108,300 small business and small farm loans in California totaling $3.6 billion, with more than 27,000 small business and small farm loans totaling $1.1 billion in California LMI census tracts. Through June 30, 1998, WFB made approximately 32,700 small business and small farm loans in California totaling $1.7 billion, with approximately 8,000 small business and small farm loans totaling more than $451 million in California LMI census tracts.

Examiners stated that WFB was an active participant in government-guaranteed or sponsored loan programs that addressed housing-related, consumer, and business credit needs. According to the examination report, in 1994 and 1995, WFB government-guaranteed loans totaled over $1 billion. During the evaluation period, the SBA recognized WFB as California's leading originator of loans under the SBA's 504 Program. Examiners also noted that, during the evaluation period, WFB funded approximately 90 percent of all loans in the California Capital Access Program. Wells Fargo reports that, as of year-end 1997, WFB was the largest lender in the California Capital Access Program, providing funding for approximately 84 percent of the program's loans in the state.

Examiners found that WFB offered a variety of lending products, with many specifically designed to help meet the credit needs of the LMI community. Examiners noted that, during the evaluation period, WFB was the leading lender in LMI areas in the Los Angeles MSA. Based on 1994 HMDA data, WFB made 33 percent of its home purchase loans in Los Angeles's LMI census tracts and increased the percentage to 36 percent in 1995. Examiners commended WFB for its consumer loan products designed for LMI borrowers, which included flexible underwriting or extended terms. In 1996, WFB and Wells Fargo Bank (Arizona), N.A. ("WFBA"), its credit card bank affiliate, made more than one million consumer loans in California totaling more than $4.3 billion, with approximately 214,200 consumer loans totaling $620 million in California LMI census tracts. In 1997, WFB and WFBA made more than 655,000 consumer loans in California totaling more than $4 billion, with more than 130,000 consumer loans totaling more than $490 million in California LMI census tracts. Through the second quarter of 1998, WFB and WFBA made approximately 184,200 consumer loans in California totaling $1.6 billion, with more than 37,000 consumer loans totaling $175 million in California LMI census tracts.

Examiners also commended WFB for its leadership, innovation, and participation in financing community development and redevelopment projects in its delineated community. Examiners noted WFB's use of a variety of lending and investment opportunities to finance more than $694 million in community development ventures during the evaluation period. WFB also committed to develop 57 LMI housing projects totaling $253 million during the same period. In 1994, WFB made a $50 million loan commitment for the construction of affordable housing through a partnership formed with Bridge, a California nonprofit developer of affordable housing; the World Savings Bank; and the California Public Employees Retirement System.

Examiners noted that WFB's management decided in 1995 to begin to phase-out direct mortgage lending. Wells Fargo primarily originates HMDA affordable mortgage loans through Wells Resource Real Estate Services ("WRRES"), a joint venture with PHH Mortgage Services.[37] To maintain community access to mortgages, WFB established local loan centers in LMI communities in South Central Los Angeles, the Fruitridge community of Sacramento, and Southeast San Diego to provide access and counseling through its joint venture partners and in partnership with nonprofit organizations providing credit counseling and down payment assistance. Wells Fargo opened a fourth home mortgage loan center in Fresno in 1998.[38]

In 1996, WFB made approximately 4,400 HMDA loans in California totaling more than $439 million. During this period, the bank made 575 HMDA loans totaling more than $50 million in California LMI census tracts, more than 1,500 HMDA loans totaling more than $80 million to California LMI borrowers, and more than 700 HMDA loans totaling approximately $56 million to California minority borrowers. In 1997, WFB made a total of approximately 2,100 HMDA loans in California totaling more than $236 million. During this period, the bank made more than 290 HMDA loans totaling more than $42 million in California LMI census tracts, more than 700 HMDA loans totaling more than $24 million to California LMI borrowers, and approximately 500 HMDA loans totaling more than $24 million to California minority borrowers. Through June 30, 1998, WFB made a total of almost 1,500 HMDA loans in California totaling more than $83 million. During this period, the bank made almost 170 HMDA loans totaling more than $6 million in California LMI census tracts, approximately 500 HMDA loans totaling more than $20 million to California LMI borrowers, and more than 300 HMDA loans totaling more than $12 million to California minority borrowers.

Examiners also noted that WFB, through the California Community Reinvestment Corporation, committed more than $30 million to a revolving loan pool to provide financing for the development or rehabilitation of LMI housing projects throughout California. Examiners noted that, since 1990, WFB's annual financing activities for affordable housing development had consistently exceeded $100 million. During the evaluation period, WFB made 193 business loans totaling $353 million to borrowers in designated Enterprise Zones and 19 business loans totaling $33 million to nonprofit community organizations involved in community development activity, businesses producing affordable housing, and businesses sponsored by a public agency to promote community development. In 1995, WFB committed to invest $12 million in equity capital through the Local Initiatives Support Corporation's California Equity Fund, and an additional $6 million through the federal tax-exempt credit program.

Wells Fargo reports that, since its most recent CRA performance evaluations WFB has taken several steps to enhance its service to its communities. Wells Fargo reports that, in 1996 and 1997, WFB's Real Estate Group provided more than $1.1 billion to 291 affordable housing and economic development financing projects, and its Commercial Banking Group made more than 2,000 loans totaling more than $4.4 billion to economic development projects. During the same period, Wells Fargo reports that WFB financed 30 transactions totaling more than $70 million for rural projects, including self-help housing projects. Wells Fargo also reports that, from 1996 through June 30, 1998, it provided $39.3 million in contributions that qualified as community development activity under the CRA.

Wells Fargo states that, in mid-1997, WFB introduced its "Business Center" program. The program's centers are smaller than traditional branches, but are full-service facilities with business specialists trained to provide specialized services to small businesses. By the end of 1997, WFB had opened 30 Business Centers in California, Arizona, Nevada, and Oregon.

Wells Fargo also reports that, by September 1996, and through an alliance with the National Association of Women Business Owners, WFB met its $1 billion goal in the Women's Loan Program designed for creditworthy and established women entrepreneurs. At that time, WFB expanded its commitment to the program to $10 billion over ten years. In addition, in August 1998, Wells Fargo made a $15 billion, three-year CRA-related lending and investment commitment for California, including a separate $100 million goal for CRA-related investment and contributions in the state. This pledge also included a 35 percent minority mortgage outreach goal for California.

Texas. Examiners commented favorably on the special efforts of Wells Fargo Bank (Texas), N.A. ("WFBT") in 1995 to expand its small business lending and to address the needs of its small business customers through the development of several new products. Examiners noted that WFBT introduced a "Business Advance" line of credit for small businesses and the "Quick Step Small Business Loan," which includes an abbreviated application process for loans of less than $50,000. In addition, examiners noted that WFBT committed $550,000 to five programs offering below-market rate loans to promote initiatives to help maintain a strong central business district. Wells Fargo reports that, in 1996, WFBT made a total of more 1,900

37. Wells Fargo has a 24 percent interest in WRRES and PHH Mortgage Services has a 76 percent interest.

38. Wells Fargo operates the home loan centers in California in partnership with WRRES.

small business and small farm loans totaling more than $96 million in LMI census tracts in Texas. Wells Fargo also reports that, in 1997, WFBT made more than 2,100 small business and small farm loans totaling more than $168 million in LMI census tracts in Texas.

Examiners also found that WFBT actively participated in government-guaranteed and sponsored loan programs. Examiners noted that, for the fiscal year ended September 30, 1995, WFBT was the most active lender in Texas under the SBA's 7A Program, and that it was ranked sixth nationally for number of loans and fifth nationally for dollar amount of loans under this program. Examiners found that the number of SBA loans made by WFBT increased by 165 percent from 1994 to 1995. In addition, examiners stated that WFBT was also active in government-guaranteed student loan programs. During the evaluation period, WFBT originated $89 million in student loans and, as a result, was the leading bank in Texas for lending under the PLUS Student Loan Program.

Examiners determined that WFBT had a reasonable number of consumer and small business loans in LMI census tracts in 1994 and 1995. Examiners stated that, in 1995, the bank originated 35 percent of its business loans and 24 percent of its consumer loans in LMI census tracts in its delineated communities that were the focus of the examination. Examiners also noted that, at the time of the examination, 27 percent of WFBT's branches were located in LMI census tracts. Examiners also commended the bank for conducting an analysis of credit distribution between LMI and non-LMI census tracts for each area in its delineated community and for using the analysis in assessing the bank's CRA performance. Wells Fargo reports that, in 1996, WFBT and WFBA made more than 13,000 consumer loans totaling more than $62 million in LMI census tracts in Texas, and, in 1997, made more than 15,000 consumer loans totaling more than $55 million in LMI census tracts in Texas.

Examiners also noted that WFBT had a high level of participation in community development and redevelopment activities and commended WFBT's use of innovative solutions to assist in meeting community development needs. Examiners noted that WFBT's total commitments to community development and redevelopment projects and programs during the evaluation period exceeded $115 million. As an example of WFBT's community development investments, examiners noted WFBT's commitment of $1 million to the Greater Houston Small Business Equity Fund, a multibank community development corporation that provides loan and equity financing to small businesses in the greater Houston area to stimulate economic growth and create jobs. In addition, examiners stated that, in 1996, WFBT committed $1.5 million to MESBIC Venture Holding Company, a small business investment corporation that provides venture capital financing for small businesses owned by minorities. Examiners also noted that WFBT made 59 loans totaling $3.6 million through its Community Assistance Program, which provides financing with flexible underwriting standards to organizations that serve basic social needs, create jobs, provide technical assistance, or develop affordable housing. Examiners also noted that, during the evaluation period, WFBT made more than $1 million in charitable contributions to a variety of community-based organizations.[39]

Arizona. As mentioned above, Wells Fargo Bank (Arizona), N.A. is a special purpose bank that extends credit to consumers and small businesses, primarily through credit cards. WFBA has delineated its service community as the Phoenix MSA, but has no branch offices in the area. In its most recent CRA performance evaluation, examiners stated that WFBA had a comprehensive program to ascertain the credit needs of its community. As part of this program, management initiated direct contact with a variety of local organizations. Examiners also found that WFBA's board of directors supported the bank's CRA efforts, which included flexible and innovative underwriting guidelines designed to help meet the need for consumer credit in its delineated community. Examiners also found that WFBA's board monitored the bank's CRA performance through WFB's Corporate Community Development Group.

Examiners noted that WFBA offered a variety of products that were specifically designed to help meet the needs of LMI communities, including a secured credit card for low-income borrowers with little credit history. Examiners also noted that WFB had been working with community organizations to develop sites in LMI communities to provide the use of computers so that individuals who do not own computers can have Internet access.

Examiners noted that, in 1995, WFBA invested $3 million in equity capital through LISC's National Equity Fund. Examiners also found that, during the evaluation period, WFBA contributed more than $161,000 to five community groups involved in a variety of activities, including CDC housing development training and predevelopment costs, mortgage loan counseling for LMI home buyers, and the construction of a single-room-occupancy housing project.

F. HMDA Data

The Board also has carefully considered the lending records of Norwest and Wells Fargo in light of comments on the 1996 and 1997 HMDA data reported by the subsidiaries of the organizations. The data for 1996 and 1997 generally show that Norwest adequately assisted in meeting the credit needs of the communities it serves with respect to HMDA-related loans, including minority and LMI borrowers and borrowers in LMI census tracts. As stated above, Wells Fargo began phasing out its direct residential mortgage lending activities in 1995. Although from 1996 to 1997, Wells Fargo's actual number of applications from and loan originations in LMI census tracts decreased in Arizona, California, Idaho, Nevada, New Mexico, Oregon, and Texas, Wells Fargo was either consistent with or exceeded lenders in the aggregate in the

39. In addition, Wells Fargo reports that, in 1997, it made a $100,000 contribution to the National Council of La Raza Foundation's credit counseling program for low-income Hispanic homeowners in Arizona, Colorado, Texas, and California.

percentage of LMI originations during the same period. Wells Fargo's percentage of loan originations to LMI individuals also was either consistent with or exceeded lenders in the aggregate in those states during the same period. Similarly, while the number of applications received from and originations made to African-American and Hispanic applicants decreased from 1996 to 1997 in those states, Wells Fargo's percentage of loan originations to African-American and Hispanic borrowers was consistent with lenders in the aggregate in those states during the same period. The data also generally do not indicate that the banking organizations are excluding any geographic areas or population segments on a prohibited basis.

The data for 1996 and 1997 also reflect certain disparities in the rates of loan applications, originations, and denials among members of different racial groups and persons at different income levels, both generally and in certain states and local areas. The Board is concerned when an institution's record indicates such disparities in lending, and believes that all banks are obligated to ensure that their lending practices are based on criteria that assure not only safe and sound banking, but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because the data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.[40] HMDA data, therefore, have limitations that make the data an inadequate basis, absent other information, for concluding that an institution has not adequately assisted in meeting its communities' credit needs or has engaged in illegal discrimination in making lending decisions.

Because of the limitations of HMDA data, the Board has carefully considered the data in light of other information, including examination reports that provide an on-site evaluation of the compliance by the subsidiary banks of Norwest and Wells Fargo with the fair lending laws and the overall lending and community development activities of the banks. The examinations revealed no evidence of prohibited or illegal credit practices at the Norwest banks, and the banks were in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act. In the most recent CRA examination report for Norwest Bank, examiners stated that all employees involved in making lending decisions received regular, comprehensive training on fair lending practices, and the bank had an independent second review program for all denial recommendations on HMDA-reportable loans.

The examinations of Wells Fargo's subsidiary banks also found no illegal discrimination in the credit practices at the banks. For example, in the CRA examination of WFB, examiners stated that compliance and credit officers performed a second-level review of declined residential loan applications from minorities and low-income individuals, reviewed loan files to analyze primary reasons for denials, regularly reviewed HMDA and comparable data for other types of credit to evaluate lending activity by census tract and race, and implemented ongoing sensitivity and cultural diversity training for all bank personnel.

The Board notes that examiners reviewed the fair lending policies, procedures, and training maintained by the depository institutions of Norwest and Wells Fargo and found them to be appropriate for monitoring compliance with fair lending laws. The Board also has considered the HMDA data in light of the overall lending records of Norwest and Wells Fargo, which show that their subsidiary depository institutions assist in meeting the credit needs of their entire communities, including LMI neighborhoods.

G. Branch Closings

Several commenters contended that branch closings by Norwest or Wells Fargo in their respective service areas, particularly in LMI neighborhoods, had adversely affected local communities. These commenters and other commenters also expressed concern that this proposal would result in additional branch closings in LMI and other neighborhoods. Norwest has stated that although it is expected that some branches will be relocated, or consolidated as a result of the proposed merger, no determinations have been made as to which branches may be sold, consolidated, relocated or closed over the next two years as a result of the proposed transaction, other than branches that are proposed to be divested for antitrust purposes.

The Board has carefully considered the branch closing policies of Norwest and Wells Fargo and the record of the institutions in opening and closing branches. The Board also has carefully considered the public comments regarding past and potential branch closings in light of all the facts of record.

Examiners reviewed the branch closing policies and record of opening and closing branches of Norwest's banks during the examination periods. Examiners concluded that its subsidiary banks generally had good records of opening, closing, and relocating their offices while providing all segments of their communities with reasonable access to banking services. Examiners also reviewed the branch closing policies and record of opening and closing branches of WFB and WFBT during the CRA examination periods.[41] Examiners concluded that the branches of both banks were readily accessible to all segments of their delineated com-

40. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

41. WFBA and Wells Fargo HSBC Trade Bank, N.A. do not operate branch offices in their delineated communities.

munities, and that the closing of branches during the evaluation period did not adversely affect the banks' ability to provide services to their communities, including LMI neighborhoods.[42]

The Board also has considered that federal banking law requires a specific mechanism for addressing branch closings. Federal law requires an insured depository institution to provide notice to the public and to the appropriate federal regulatory agency before closing a branch.[43] The law does not authorize federal regulators to prevent the closing of any branch. Any branch closings resulting from the proposed transaction will be considered by the appropriate federal supervisor at the next CRA examination of the relevant subsidiary bank.

To permit the Board to monitor the effectiveness of the branch closing policies of New Wells Fargo, the Board conditions its action on this proposal on the requirement that New Wells Fargo report to the Federal Reserve System, on a semiannual basis during the two-year period after consummation, all branch closings, including consolidations, that occur as a result of this proposal. For branches closed in LMI census tracts, New Wells Fargo should indicate the proximity of the closed branch to the closest branch of New Wells Fargo and the steps New Wells Fargo took to mitigate the impact of the branch closure.[44]

H. Community Development Corporation Activities

Norwest states that New Wells Fargo intends to form a community development corporation (the "CDC") as a subsidiary of the parent holding company to engage in general community development activities. The CDC will purchase at fair market value the existing CRA-related loans and investments of the combined company's subsidiaries. Thereafter, the CDC will work to source, package, and structure loans and investments, which will be allocated geographically to the various New Wells Fargo subsidiary banks for CRA examination purposes. Norwest indicates that the proposed CDC will allow New Wells Fargo to increase the amount of community development lending in all the communities it serves, engage in innovative and flexible lending, develop new products, and work with affordable housing developers and technical assistance providers to increase market opportunities for all segments of the communities it serves.

The proposed CDC will provide short- and longer-term financing for community development projects, such as financing for multifamily affordable housing for terms of 15 to 30 years, and other types of nontraditional financing. The CDC also will invest in Low Income Housing Tax Credits, purchase exempt housing debt instruments, and invest in other secondary community development funds, such as the NEF. In addition, the CDC will provide debt and equity funding for organizations engaged in community development activities, including constructing affordable housing, financing small and very small businesses, providing services to LMI individuals, and revitalizing LMI communities.

I. Norwest's Nonbank Lending Subsidiaries

NMI participates in more than 600 mortgage-related programs, including down payment assistance programs and bond programs. A number of special products available through NMI are designed for LMI families. The Norwest Homeownership Assistance Program ("NHAP"), for example, is designed to assist first-time buyers and LMI residents in purchasing a home. As discussed in this order, Norwest's CHOP program is designed to meet the credit needs of LMI families. Loans made under the CHOP programs typically feature flexible qualifying guidelines with higher debt ratios and less stringent credit requirements, minimal down payment and higher loan-to-value ratios, no cash reserve requirement, and no private mortgage insurance. The program also offers comprehensive education programs on home ownership and budget management.

Some commenters contended that Norwest has smaller percentages of originations to minority and low-income home buyers than its competitors, has higher rejection ratios for African-American and Hispanic applicants than its competitors, and lends minimally in LMI neighborhoods and racially diverse census tracts. In addition, some commenters claimed that applicants who are denied a loan by a Norwest subsidiary bank are referred to one of Norwest's nonbank finance companies, but that qualified customers of the finance companies are not referred to a Norwest bank subsidiary where they might obtain a lower interest rate.

The Board has carefully considered the comments in light of all the facts of record, including the OCC's fair lending examination findings and Norwest's fair lending policies and procedures. As noted, these examinations found no evidence of illegal discrimination by Norwest's subsidiary banks, and examiners commented favorably on

42. According to examination reports, WFB's branch closing policy required that, prior to closing, management complete an in-depth analysis of the closing's possible effect on the community. The policy also required bank management to assess potential CRA concerns and required approval of the bank's board of directors before closure.

43. Section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (58 *Federal Register* 49,083 (1993)), requires that a bank provide the public with at least 30 days notice and the appropriate federal supervisory agency with at least 90 days notice before the date of the proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

44. Several commenters contended that the merger of Norwest and Wells Fargo would result in the loss of jobs, particularly in Minnesota. The effect of a proposed transaction on employment in a community is not among the factors included in the BHC Act, and the federal banking agencies, courts, and Congress consistently have interpreted the convenience and needs factor to relate to the effect of a proposal on the availability and quality of banking services in the community. *See, e.g., Wells Fargo & Company*, 82 *Federal Reserve Bulletin* 445, 457 (1996).

Norwest's fair lending policies and procedures to prevent illegal practices.[45]

NMI, Norwest's principal mortgage lender, originated $5.3 billion in 1–4 family mortgages to LMI families in 1997, which includes loans under Norwest's CHOP program for LMI families. FHA has designated NMI as the nation's top lender to minority first-time home buyers for three consecutive years. In late 1996, NMI initiated an Affordable Housing Program, which employs loan originators to focus on LMI and ethnically diverse communities by using nontraditional marketing techniques to reach underserved communities. Prepurchase counseling, through the Norwest Homebuyers Club, and down payment assistance programs are important aspects of the Affordable Housing Program.[46] In addition, the Norwest Housing Foundation has committed $16 million over five years to Habitat for Humanity.

J. Conclusion on Convenience and Needs Factor

The Board recognizes that the proposal represents a significant increase in the size of the resulting institution and expansion of the geographic areas of the country the resulting institution would serve. Accordingly, an important component of the Board's review of the proposal is consideration of the effects of the proposal on the convenience and needs of all communities served by Norwest and Wells Fargo.

In conducting its review, the Board has carefully considered all the comments on the convenience and needs factor. A significant number of commenters have expressed support for the proposal based on the records of Norwest and Wells Fargo in helping serve the banking and, in particular, the lending needs of their entire communities, including LMI areas. Other commenters have expressed concern about specific aspects of Norwest's record of performance under the CRA in its current service areas and have expressed reservations about whether Norwest and Wells Fargo have been, and New Wells Fargo would be, responsive to the banking and credit needs of all their communities, particularly in the Midwest.[47] The Board has carefully considered these concerns and weighed them against the overall CRA records of Norwest and Wells Fargo, reports of examinations of CRA performance, and information provided by the two banking organizations, including their responses to comments.[48]

As discussed in this order, the record in this case demonstrates that Norwest and Wells Fargo have established records of helping to meet the convenience and needs of the communities that each currently serves. Norwest has indicated that New Wells Fargo will draw on the CRA policies and programs of both organizations. The Board notes that, in 1997, the Norwest and Wells Fargo organizations loaned and invested, in the aggregate, more than $20 billion in qualified community reinvestments, including more than $5.2 billion in single family mortgages to LMI families and more than $10 billion in loans to small businesses and small farms. The Board expects that New Wells Fargo will demonstrate the same commitment to helping to serve the banking needs of its communities, including LMI neighborhoods, that Norwest and Wells Fargo have demonstrated to date. The Board also expects that New Wells Fargo will continue the policies of Norwest and Wells Fargo that give priority to addressing the banking needs of local communities, including LMI neighborhoods through programs and policies that recognize the needs of different communities.

Based on a review of the entire record, the Board concludes that convenience and needs considerations, including the CRA records of performance of both organizations' subsidiary depository institutions, are consistent with approval of the proposal.

Nonbanking Activities

Norwest also has filed a notice under section 4(c)(8) of the BHC Act to acquire Wells Fargo's nonbanking companies and thereby to engage in lending and making related equity investments, and selling credit life and disability insurance.[49] The Board has determined by regulation or order

45. Written submissions alleging improper referrals of customers by Norwest Bank to its finance affiliates have also been forwarded to the OCC, the bank's primary supervisor.

46. The Homebuyers Club is a prepurchase counseling service that helps people solve credit problems that might prevent them from qualifying for a mortgage.

47. A number of commenters criticized Norwest for not entering into agreements with community-based organizations that would provide separate monetary goals for CRA performance for a particular geographic area. The Board recognizes that communications by depository institutions with community groups provide a valuable method of assessing and determining how best to meet the credit needs of a community. Neither the CRA nor the CRA regulations of the federal supervisory agencies, however, require depository institutions to enter into agreements with any organization. The Board, therefore, has viewed such agreements and their enforceability as private contractual matters between the parties and has focused on the existing record of performance by the applicant and the programs that the applicant has in place to serve the credit needs of its communities. The Board also notes that New Wells Fargo will have a responsibility to help serve the credit needs of its entire community, including LMI neighborhoods, with or without private CRA agreements.

48. A number of commenters expressed concern about the current fee policies of one or both banking organizations. In addition, several commenters expressed concern that the proposal would result in increased fees for banking services or in the loss of low-cost banking products, and some requested that the Board require the merging entities to commit to preventing increases in banking fees and decreases in banking services as a condition of the merger. Norwest and Wells Fargo offer a full range of banking products and services. Moreover, although the Board has recognized that banks help serve the banking needs of communities by making basic services available at nominal or no charge, neither the CRA nor the primary federal supervisors of the banks involved in this case require an institution to limit the fees charged for its services or to provide any specific types of banking products.

49. Norwest currently engages in insurance activities grandfathered under section 4(c)(8)(G) of the BHC Act (12 U.S.C. § 1843(c)(8)(G)) ("Exemption G"). Norwest will be the legal entity surviving the merger with Wells Fargo and, based on the structure of the transaction and all of the other facts of this case, the Board has determined that

that the activities for which notice has been provided are closely related to banking for purposes of section 4(c)(8) of the BHC Act.[50]

In order to approve Norwest's notice to engage in nonbanking activities, the Board must determine that the acquisition of the nonbanking subsidiaries of Wells Fargo and the performance of those activities by New Wells Fargo is a proper incident to banking. That is, the Board must determine that the proposed transaction "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[51]

As part of its evaluation of these factors, the Board considers the financial condition and managerial resources of Norwest and its subsidiaries, including the companies to be acquired, and the effect of the proposed transaction on those resources. For the reasons noted above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has considered the competitive effects of the proposed acquisition by Norwest of the nonbanking subsidiaries of Wells Fargo in light of all the facts of record, including the public comments received. The markets in which the nonbanking subsidiaries of Norwest and Wells Fargo compete are national or regional and are unconcentrated. The Board concludes that consummation of this proposal would have a *de minimis* effect on the markets for lending and credit life and disability insurance. The Board notes that numerous competitors would remain in each of these markets. Based on all the facts of record, the Board concludes that it is unlikely that significantly adverse competitive effects would result from the nonbanking acquisitions proposed in this transaction.

Norwest has indicated that the combined company will be a stronger organization with increased capacity to serve its customers' credit needs and will be better able to provide existing and potential customers with a broader range of services through an expanded delivery system and enhanced technology. Norwest states that significant cost savings are expected to produce comparable incremental earnings and increased retained earnings, which will create additional lending capacity and thereby enable the combined entity to provide additional credit to consumers and businesses. Norwest also states that the combined company will have a more complete, efficient and effective delivery system in each of the markets where Norwest and Wells Fargo offer their products and services, thereby creating greater convenience for customers and permitting the combined company to meet the needs of its communities more effectively and efficiently.

In addition, as the Board has previously noted, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.[52]

The Board also believes that the conduct of the proposed nonbanking activities within the framework of Regulation Y and prior Board precedent is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would outweigh the public benefits of the proposal, such as increased customer convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public interest factors that the Board must consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of Norwest's notice.

Norwest also has provided notice, in accordance with section 4(c)(13) of the BHC Act and section 211.5(c) of the Board's Regulation K (12 C.F.R. 211.5(c)), to acquire Wells Fargo's foreign nonbanking subsidiaries. The Board concludes that all of the factors required to be considered under the Federal Reserve Act, the BHC Act, and the Board's Regulation K in connection with the foregoing notices are consistent with approval of the proposal.

Requests for Additional Public Meetings

A number of commenters requested that the Board hold additional public meetings or hearings on the proposal in areas that may be affected by the merger, including California, Texas, and other states. The Board has carefully considered these requests in light of the BHC Act, its Rules of Procedure, and the substantial record developed in this case.[53]

As explained above, the Board held a public meeting on the proposal in Minneapolis to clarify issues related to the application and notices and to provide an opportunity for members of the public to testify.[54] More than 50 interested persons appeared and provided oral testimony at the public meeting, including representatives and members of community groups from cities and towns throughout the Midwest and from a number of other states, including California, Texas, and Oregon. In addition, the public comment

Norwest would retain its exemption to engage in Exemption G activities after consummation of the proposed merger and the change of its name to Wells Fargo & Company.

50. *See* 12 C.F.R. 225.28(b)(1) and (11)(i).

51. 12 U.S.C. § 1843(c)(8).

52. *See, e.g., Banc One Corporation*, 84 *Federal Reserve Bulletin* 553 (1998); *First Union Corporation*, 84 *Federal Reserve Bulletin* 489 (1998).

53. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. 12 U.S.C. § 1842(b). In this case, the Board has not received such a recommendation from any state or federal supervisory authority.

54. *See* 12 C.F.R. 262.3(e) and 262.25(d).

period provided 56 days for interested persons to submit written comments on the proposal, and the Board received and considered written comments from more than 90 interested persons who did not testify at the public hearing.

In the Board's view, all interested persons have had ample opportunity to submit their views either in writing or orally at the public meeting. Numerous commenters have, in fact, submitted substantial materials that have been carefully considered by the Board in acting on the proposal. Commenters requesting additional public meetings have failed to show why their written comments do not adequately present their views, evidence, and allegations. They also have not shown why the public meeting in Minneapolis and the 56-day comment period did not provide an adequate opportunity for all interested parties to present their views and voice their concerns. Moreover, the Board has carefully considered the lending records of Norwest and Wells Fargo separately in many of the states where commenters requested public meetings, particularly California and Texas. For these reasons, and based on all the facts of record, the Board has determined that additional public meetings or hearings are not required and are not necessary or warranted to clarify the factual record on the proposal. Accordingly, the requests for additional public meetings or hearings on the proposal are hereby denied.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the transaction should be, and hereby is, approved. In reaching this conclusion, the Board has carefully considered all oral testimony and the written comments regarding this proposal in light of the factors that the Board is required to consider under the BHC Act and other applicable statutes and concludes that the comments do not warrant a delay or denial of the proposal.[55]

The Board's approval is specifically conditioned on compliance by Norwest with all the commitments made in connection with this application and notice and with the conditions stated or referred to in this order, including Norwest's divestiture commitments. The Board's determination on the nonbanking activities also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) of Regulation Y (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this transaction, the commitments and conditions referred to above are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Wells Fargo's subsidiary banks shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may 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 San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 14, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Meyer, Ferguson, and Gramlich. Absent and not voting: Governor Kelley.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Appendix A

Banking Market Definitions

A. *Arizona Banking Markets*

The *Bullhead City* banking market is approximated by the towns of Bullhead City, Dolan Springs, Golden Valley, Kingman, Mohave Valley, and Riviera, Arizona; Laughlin, Nevada; and Needles, California.

The *Casa Grande* banking market is approximated by the towns of Arizona City, Casa Grande, Coolidge, Eloy, Florence, and Sacaton.

The *Flagstaff* banking market is approximated by the towns of Flagstaff and Williams.

The *Lake Havasu City* banking market is approximated by the towns of Havasu Lake and Lake Havasu City.

The *Payson* banking market is approximated by the towns of Payson and Pine.

55. A number of commenters requested that the Board delay action, extend the public comment period on the proposal, or deny the proposal until:

(i) The pending CRA examination of Wells Fargo is completed,
(ii) The Board conducts additional investigations on prices charged by subprime lenders in mega mergers,
(iii) Norwest and Wells Fargo make additional CRA commitments, either throughout their market areas or in specific communities that would be affected by the merger, or
(iv) The banking organizations publicly disclose their complete divestiture plan.

The requests for delay do not warrant postponement of the Board's consideration of the proposal. The Board has accumulated a significant record in this case, including reports of examinations, supervisory information, public reports and information, and considerable public comment. In the Board's view, for the reasons discussed above, commenters have had ample opportunity to submit their views, and, in fact, have provided substantial written submissions and oral testimony that have been considered carefully by the Board in acting on the proposal. Based on a review of all the facts of record, the Board concludes that the record in this case is sufficient to warrant Board consideration and action on the proposal at this time, and that further delay of consideration of the proposal, extension of the comment period, or denial of the proposal on the grounds discussed above or on the basis of informational insufficiency is not warranted.

The *Phoenix* banking market is approximated by the Phoenix Ranally Metropolitan Area ("RMA").

The *Prescott* banking market is approximated by the towns of Prescott, Prescott Valley, Chino Valley, and Mayer.

The *Show Low* banking market is approximated by the towns of Pinetop, Show Low, Snowflake, and Taylor.

The *Sierra Vista* banking market is approximated by the towns of Bisbee, Douglas, Fort Huachara, Sierra Vista, and Tombstone.

The *Tucson* banking market is approximated by the Tucson RMA and the town of Green Valley.

The *Winslow* banking market is approximated by the towns of Holbrook and Winslow.

The *Yuma* banking market is approximated by the Yuma RMA and the town of Welton.

B. *California Banking Markets*

The *Riverside* banking market is approximated by the Riverside-San Bernadino RMA and the towns of Banning, Beaumont, Blue Jay, Lake Arrowhead, Nuevo, Perris, and Running Springs.

The *South Lake Tahoe* banking market is approximated by the towns of South Lake Tahoe, California; and Stateline and Zephyr Cove, Nevada.

The *Truckee-Tahoe* banking market is approximated by the towns of King's Beach, Tahoe City, and Truckee, California; and Incline Village, Nevada.

C. *Colorado Banking Market*

The *Denver* banking market is approximated by the Denver RMA, Boulder County, the towns of Erie, Fredrick, and Keenesburg in Weld County, and the non-RMA portions of Adams and Arapahoe Counties.

D. *Nevada Banking Markets*

The *Carson City* banking market is approximated by the towns of Carson City, Dayton, Gardnerville, Minden, and Virginia City.

The *Elko* banking market is approximated by the towns of Carlin and Elko.

The *Fallon* banking market is approximated by the town of Fallon.

The *Las Vegas* banking market is approximated by the Las Vegas RMA.

The *Reno* banking market is approximated by the Reno RMA and the town of Fernley.

The *Winnemucca* banking market is approximated by the town of Winnemucca.

The *Yerington* banking market is approximated by the town of Yerington.

E. *New Mexico Banking Market*

The *Santa Fe* banking market is approximated by the Santa Fe RMA.

F. *Texas Banking Markets*

The *Austin* banking market is approximated by the Austin RMA.

The *Brazos County* banking market is approximated by Brazos County.

The *Dallas* banking market is approximated by Dallas County, the southeastern quadrant of Denton County, the southwestern quadrant of Collins County, Rockwell County, and the towns of Forney, Terrell, Midlothian, Waxahachie, Fort Ferria, Grapevine, and Arlington.

The *Fort Worth* banking market is approximated by Tarrant County (excluding the towns of Grapevine and Arlington), the northern half of Johnson County, the eastern half of Parker County, the southwestern quadrant of Denton County, and the towns of Boyd, Neward, and Rhome.

The *Houston* banking market is approximated by the Houston RMA.

The *San Antonio* banking market is approximated by the San Antonio Metropolitan Statistical Area ("MSA") and Kendall County.

Appendix B

Certain Banking Markets With No Divestitures

A. *Arizona Banking Markets*

Bullhead City: Norwest is the fifth largest depository institution in the market, controlling deposits of $47.6 million, representing 7.4 percent of total market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $84.4 million, representing 13 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the third largest of nine depository institutions in the market, controlling deposits of $132 million, representing approximately 20.4 percent of total market deposits. The HHI would increase 192 points to 2010.

Winslow: Norwest is the second largest depository institution in the market, controlling deposits of $29.4 million, representing 28.4 percent of total market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $235 thousand, representing less than 1 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the second largest of two depository institutions in the market, controlling deposits of $29.6 million, representing approximately 28.6 percent of total market deposits. The HHI would increase 13 points to 5916.

B. *California Banking Markets*

Riverside: Norwest is the 26th largest depository institution in the market, controlling deposits of $27 million, representing less than 1 percent of total market deposits. Wells Fargo is the second largest depository institution in the market, controlling deposits of $594.3 million, representing 10.5 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the second largest of 34 depository institutions in the market, controlling deposits of $621.2 million, representing approximately 11 percent of total market deposits. The HHI would increase 10 points to 1469.

South Lake Tahoe: Norwest is the eighth largest depository institution in the market, controlling deposits of $16.8 million, representing 5.3 percent of total market deposits. Wells Fargo is the second largest depository institution in the market, controlling deposits of $61.8 million, representing 19.4 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the second largest of seven depository institutions in the market, controlling deposits of $78.6 million, representing approximately 24.7 percent of total market deposits. The HHI would increase 204 points to 1792.

Truckee-Tahoe: Norwest is the sixth largest depository institution in the market, controlling deposits of $20.9 million, representing 4.2 percent of total market deposits. Wells Fargo is the fourth largest depository institution in the market, controlling deposits of $53.4 million, representing 10.8 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the third largest of seven depository institutions in the market, controlling deposits of $74.3 million, representing 15 percent of total market deposits. The HHI would increase 91 points to 2522.

C. *Colorado Banking Market*

Denver: Norwest is the largest depository institution in the market, controlling deposits of $4.7 billion, representing 21.7 percent of total market deposits. Wells Fargo is the 13th largest depository institution in the market, controlling deposits of $350.4 million, representing 1.6 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the largest of 62 depository institutions in the market, controlling deposits of $5.1 billion, representing 23.3 percent of total market deposits. The HHI would increase 69 points to 1135.

D. *New Mexico Banking Market*

Santa Fe: Norwest is the tenth largest depository institution in the market, controlling deposits of $21.9 million, representing 2.4 percent of total market deposits. Wells Fargo is the fourth largest depository institution in the market, controlling deposits of $86.4 million, representing 9.3 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the third largest of nine depository institutions in the market, controlling deposits of $108.3 million, representing 11.7 percent of total market deposits. The HHI would increase 44 points to 2007.

E. *Texas Banking Market*

Austin: Norwest is the third largest depository institution in the market, controlling deposits of $884.3 million, representing 11.6 percent of total market deposits. Wells Fargo is the ninth largest depository institution in the market, controlling deposits of $176.4 million, representing 2.2 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the third largest of 44 depository institutions in the market, controlling deposits of $1.1 billion, representing 13.1 percent of total market deposits. The HHI would increase 48 points to 1181.

Brazos Country: Norwest is the largest depository institution in the market, controlling deposits of $234.9 million, representing 27.6 percent of total market deposits. Wells Fargo is the ninth largest depository institution in the market, controlling deposits of $7.6 million, representing less than 1 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the largest of nine depository institutions in the market, controlling deposits of $242.5 million, representing 28.5 percent of total market deposits. The HHI would increase 49 points to 1836.

Dallas: Norwest is the 39th largest depository institution in the market, controlling deposits of $80.1 million, representing less than 1 percent of total market deposits. Wells Fargo is the eighth largest depository institution in the market, controlling deposits of $596.9 million, representing 1.6 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the seventh largest of 100 depository institutions in the market, controlling deposits of $676.9 million, representing 1.7 percent of total market deposits. The HHI would increase 1 point to 1983.

Fort Worth: Norwest is the third largest depository institution in the market, controlling deposits of $1.1 billion, representing 12.4 percent of total market deposits. Wells Fargo is the eighth largest depository institution in the market, controlling deposits of $351.3 million, representing 3.8 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the third largest of 48 depository institutions in the market, controlling deposits of $1.5 billion, representing 16.2 percent of total market deposits. The HHI would increase 95 points to 1046.

Houston: Norwest is the 27th largest depository institution in the market, controlling deposits of $192.3 million, representing less than 1 percent of total market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $3.6 billion, representing 9.4 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the third largest of 89 depository institutions in the market, controlling deposits of $3.8 billion, representing 9.9 percent of total market deposits. The HHI would increase 9 points to 979.

San Antonio: Norwest is the fourth largest depository institution in the market, controlling deposits of $786.2 million, representing 6.7 percent of total market deposits. Wells Fargo is the 16th largest depository institution in the market, controlling deposits of $82.9 million, representing less than 1 percent of total market deposits. On consummation of the proposal, New Wells Fargo would be the fourth largest of 37 depository institutions in the market, controlling deposits of $869.1 million, representing 7.5 percent of total market deposits. The HHI would increase 10 points to 1313.

Appendix C

Certain Banking Markets with Divestitures

A. *Arizona Banking Markets*

Flagstaff: Norwest is the second largest depository institution in the market, controlling deposits of $77.3 million, representing 20 percent of market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $69.4 million, representing 17.9 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $50.4 million. After the proposed merger and divestiture, New Wells Fargo would be the second largest of at least six depository institutions in the market, controlling deposits of $96.4 million, representing 24.9 percent of market deposits. The HHI would not increase more than 157 points or exceed a post-merger HHI of 2135.

Lake Havasu City: Norwest is the fifth largest depository institution in the market, controlling deposits of $35.9 million, representing 9.4 percent of market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $52.4 million, representing 13.7 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $35.9 million. After the proposed merger and divestiture, New Wells Fargo would be the third largest of at least five depository institutions in the market, controlling deposits of $52.4 million, representing 13.7 percent of market deposits. The HHI would not increase more than 34 points or exceed a post-merger HHI of 2399.

Payson: Norwest is the fifth largest depository institution in the market, controlling deposits of $29.5 million, representing 12.3 percent of market deposits. Wells Fargo is the fourth largest depository institution in the market, controlling deposits of $36.5 million, representing 15.2 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $29.5 million. After the proposed merger and divestiture, New Wells Fargo would be the fourth largest of five depository institutions in the market, controlling deposits of $36.5 million, representing 15.2 percent of market deposits. The HHI would not increase and would remain 2502.

Show Low: Norwest is the fifth largest depository institution in the market, controlling deposits of $26.8 million, representing 12.6 percent of market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $38.8 million, representing 18.2 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $12.8 million. After the proposed merger and divestiture, New Wells Fargo would become the second largest of at least four depository institutions in the market, controlling deposits of $52.8 million, representing 24.7 percent of market deposits. The HHI would increase 160 points to 2419.

Yuma: Norwest is the fifth largest depository institution in the market, controlling deposits of $75.9 million, representing 10.9 percent of market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $130.6 million, representing 18.7 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $28.7 million. After the proposed merger and divestiture, New Wells Fargo would be the second largest of at least eight depository institutions in the market, controlling deposits of $177.8 million, representing 25.4 percent of market deposits. The HHI would not increase more than 199 points or exceed a post-merger HHI of 2112.

B. *Nevada Banking Markets*

Elko: Norwest is the fifth largest depository institution in the market, controlling deposits of $28.2 million, representing 12.3 percent of market deposits. Wells Fargo is the largest depository institution in the market, controlling deposits of $62.2 million, representing 27.1 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $28.2 million. After the proposed merger and divestiture, New Wells Fargo would be the largest of at least six depository institutions in the market, controlling deposits of $62.2 million, representing 27.1 percent of market deposits. The HHI would not increase more than 90 points or exceed a post-merger HHI of 2034.

Fallon: Norwest is the second largest depository institution in the market, controlling deposits of $52 million, representing 25.3 percent of market deposits. Wells Fargo is the third largest depository institution in the market, controlling deposits of $40 million, representing 19.5 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $39.8 million. After the proposed merger and divestiture, New Wells Fargo would be the second largest of five depository institutions in the market, controlling deposits of $52.3 million, representing 25.4 percent of market deposits. The HHI would increase 2 points to 2405.

Winnemucca: Norwest is the third largest depository institution in the market, controlling deposits of $31.9 million, representing 24.2 percent of market deposits. Wells Fargo is the second largest depository institution in the market, controlling deposits of $38.7 million, representing 29.3 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $31.9 million. After the proposed merger and divestiture, New Wells Fargo would be the second largest of four depository institutions in the market, controlling deposits of $38.7 million, representing 29.3 percent of market deposits. The HHI would not increase and would remain 2641.

Yerington: Norwest is the second largest depository institution in the market, controlling deposits of $37.9 million, representing 49.6 percent of market deposits. Wells Fargo is the largest depository institution in the market, controlling deposits of $38.4 million, representing 50.4 percent of market deposits. Norwest proposes to divest one branch controlling deposits of approximately $38.4 million. After the proposed merger and divestiture, New Wells Fargo would be the second largest of two depository institutions in the market, controlling deposits of $37.9 million, representing 49.6 percent of market deposits. The HHI would not increase and would remain 5000.

SunTrust Banks, Inc. *Atlanta, Georgia*

Order Approving the Acquisition of a Bank Holding Company

SunTrust Banks, Inc. ("SunTrust"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842(a)(3)) to acquire Crestar Financial Corporation ("Crestar"), and thereby acquire Crestar's subsidiary bank, Crestar Bank, both of Richmond, Virginia.[1] SunTrust also has requested the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board's Regulation Y (12 CFR 225.24) to acquire the nonbanking subsidiaries of Crestar and thereby engage in the nonbanking activities listed in the Appendix.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (63 *Federal Register* 47,499 and 49,358 (1998)). The time for filing comments has expired, and the Board has considered the application and notice and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

SunTrust, with total consolidated assets of approximately $61.4 billion, operates banks in Florida, Georgia, Tennessee, and Alabama, and engages in a number of permissible nonbanking activities.[3] SunTrust is the second largest commercial banking organization in Georgia, controlling deposits of approximately $10.3 billion, representing 12.6 percent of total deposits in commercial banking organizations in the state ("state deposits"). Crestar, with total consolidated assets of approximately $26.2 billion, operates a bank with branches in Virginia, Maryland, and the District of Columbia. Crestar is the largest commercial banking organization in Virginia, controlling deposits of approximately $10.1 billion, representing 13.3 percent of Virginia state deposits. Crestar is the fourth largest commercial banking organization in Maryland, controlling deposits of approximately $4.9 billion, representing 8.9 percent of Maryland state deposits. In the District of Columbia, Crestar is the fifth largest commercial banking organization, controlling deposits of approximately $922.6 million, representing 9.1 percent of deposits in the District of Columbia.

1. SunTrust proposes to acquire Crestar by merging its wholly owned subsidiary, SMR Corporation, formed solely for the purpose of effecting the acquisition, with and into Crestar.

2. SunTrust also has requested the Board's approval to hold and exercise an option to purchase up to 19.9 percent of the voting shares of Crestar if certain events occur. The option would expire on consummation of the proposal.

3. Asset data are as of June 30, 1998, and state deposit and ranking data are as of June 30, 1997.

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company, if certain conditions are met. For purposes of the BHC Act, the home state of SunTrust is Georgia, and Crestar controls a bank that operates in Virginia, Maryland, and the District of Columbia.[4] All the conditions for an interstate acquisition enumerated in section 3(d) are met in this case.[5] In view of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

The BHC Act prohibits the Board from approving an application under section 3 of the BHC Act if the proposal would result in a monopoly or if the proposal would substantially lessen competition in any relevant banking market and, in the latter case, the Board has not found that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.[6] SunTrust and Crestar do not compete in any banking market. Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market. Accordingly, the Board has determined that competitive factors are consistent with approval of the proposal.

Financial, Managerial, and Other Supervisory Factors

The Board has carefully considered the financial and managerial resources and future prospects of SunTrust and Crestar, and their respective subsidiaries, and other supervisory factors in light of all the facts of record. As part of this consideration, the Board has reviewed relevant reports of examination and other supervisory information prepared by the Reserve Banks and other federal agencies. The Board notes that the bank holding companies and their

4. A bank holding company's home state is that state in which the operation of the bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

5. *See* 12 U.S.C. §§ 1842(d)(1)(A) and (B) and 1842(d)(2)(A) and (B). SunTrust is adequately capitalized and adequately managed, as defined by applicable law. Crestar Bank has been in existence and continuously operated for the minimum period of five years. On consummation of the proposal, SunTrust would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States. SunTrust also would not exceed applicable state law deposit limitations, as calculated under state law, in any state in which Crestar operates. *See* Md. Code Ann., § 5-1013 (1997). All other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

6. 12 U.S.C. § 1842(c)(1).

subsidiary banks are currently well capitalized and are expected to remain so after consummation of the proposal.

The Board also has considered other aspects of the financial condition and resources of the two organizations and the structure of the proposed transaction. Based on these and other facts of record, the Board concludes that considerations relating to the financial and managerial resources and future prospects of SunTrust, Crestar, and their respective subsidiaries are consistent with approval of the proposal, as are the other supervisory factors that the Board must consider under section 3 of the BHC Act.

Convenience and Needs Factor

The Board has carefully considered the effect of the proposed acquisition on the convenience and needs of the communities to be served in light of all the facts of record, including comments on the effect the proposal would have on the communities to be served by the combined organization. Overall, the Board received approximately 45 comments in favor of the proposal and nine opposed to, or expressing concern about, the proposal.

Most of the comments supporting the proposal were submitted by public officials and community-based organizations and commented favorably on SunTrust's record of performance under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA").[7] These commenters generally commended the assistance SunTrust provided in community redevelopment activities and praised SunTrust for reinvesting in various communities. The letters expressing concern about the proposal urged SunTrust to make commitments to lending in rural and small metropolitan areas or criticized various aspects of the CRA performance or home mortgage lending records of SunTrust and Crestar, including their lending records to minorities and in low- to moderate-income ("LMI") areas, in part on the basis of data submitted under the Home Mortgage Disclosure Act (12 U.S.C. § 2801 *et seq.*) ("HMDA").[8]

In reviewing the convenience and needs of the communities to be served, the Board notes that SunTrust provides a full range of financial services through its bank and nonbank subsidiaries, including commercial and retail banking, trust and investment management, and corporate and investment banking services. SunTrust has stated that the proposed acquisition would enhance and expand the banking services available to all of its and Crestar's customers, including LMI households. The Board has given substantial consideration to the comments received in addition to SunTrust's and Crestar's existing record of helping to serve the convenience and needs of all their communities, as reflected in SunTrust's and Crestar's CRA and supervisory examinations and in their current programs and policies.

CRA Performance Examinations. The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the CRA. As provided in the CRA, the Board evaluates the convenience and needs factor in light of examinations of the CRA performance records of the relevant institutions by their appropriate federal financial supervisory agencies. An institution's most recent CRA performance examination is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.[9] The Board has reviewed the records of performance of the subsidiary depository institutions of SunTrust and Crestar in light of their most recent CRA performance examinations and all other facts of record.

The reports of these examinations indicate that the subsidiary depository institutions of SunTrust and Crestar are helping to meet the convenience and needs of the communities they serve. All of SunTrust's 28 subsidiary banks, which operate in four states, received ratings of "satisfactory" or better from the appropriate federal supervisor at their most recent examinations for performance under the CRA. SunTrust's lead subsidiary bank, SunTrust Bank, Atlanta, Georgia, which accounts for approximately 28 percent of SunTrust's consolidated assets, received a "satisfactory" rating from the Federal Reserve Bank of Atlanta at its most recent examination for CRA performance, as of December 1996 (the "1996 Examination").[10] Crestar Bank received an "outstanding" rating from the Federal Reserve Bank of Richmond at its most recent examination for CRA performance, as of May 1996.[11]

7. These commenters included nine public officials and the following community groups: Atlanta Neighborhood Development Partnership, Inc., The College Fund/UNCF, Community Equity Investments, Inc., Community Housing Resource Center, The Enterprise Foundation, Florida Community Loan Fund, Greater Miami Neighborhoods, Inc., Keystone Challenge Fund, and Tampa Bay Economic Development Corporation.

8. These commenters were CANICCOR, Metropolitan Washington Planning & Housing Association, Withlacoochee Regional Planning Council, Apalachee Regional Planning Council, CSRA Regional Development Center, Southwest Tennessee Development District, Southeast Georgia Regional Development Center, and two individuals.

9. The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that reports of these examinations will be given great weight in the applications process. *See* 54 *Federal Register* 13,742 and 13,745 (1989); *see also* 62 *Federal Register* 52,105 (1997).

10. More than 25 percent of SunTrust's subsidiary banks received ratings of "outstanding" from the appropriate federal supervisors at their most recent examinations for CRA performance.

11. Since that examination, Crestar Bank has merged with Crestar's other subsidiary depository institutions, each of which also received an "outstanding" rating from the appropriate federal supervisor at its most recent CRA performance examination. Crestar Bank MD, Bethesda, Maryland, received an "outstanding" CRA performance rating from the Federal Reserve Bank of Richmond, as of August 1996; Crestar Bank, N.A., Washington, D.C., received an "outstanding" CRA performance rating from the Office of the Comptroller of the Currency, as of November 1994; and Crestar Bank FSB, Baltimore, Maryland, received an "outstanding" CRA performance rating from the Office of Thrift Supervision, as of April 1996.

The 1996 Examination concluded that the management of SunTrust Bank had taken an active and affirmative role in meeting credit needs throughout the bank's assessment area, including the credit needs of LMI areas and individuals and small businesses and small farms. Examiners found that SunTrust Bank's CRA-related investments exhibited a high level of complexity and responsiveness to credit and community development needs, that the bank's branch network was accessible to most segments of the communities it served,[12] and that the bank provided a significant number and variety of community development services.[13]

Lending Record of SunTrust. The 1996 Examination concluded that SunTrust Bank's level of lending within its assessment area was excellent, and that the bank's level of qualified loans constituted a significant percentage of the bank's total assets and total loans. Examiners noted that the bank extended a large dollar volume of small business loans during 1995 and the first two quarters of 1996. During this review period, the bank made 6,612 small business loans, totalling $840 million. More than 80 percent of these loans, totalling $291 million, were in amounts of less than $250,000. The bank also originated 27 Small Business Administration ("SBA") loans, totalling $56 million, during the review period, and an additional 12 SBA loans, totalling $16.6 million, during the third quarter of 1996. Examiners noted that the bank offered a variety of flexible and innovative business products and participated in several business development and microloan programs.[14] Examiners further noted that the bank's institutional community development loans, primarily to nonprofit organizations and community service providers in the Atlanta Metropolitan Statistical Area ("MSA"), totalled $378 million in 1995 and $445 million in 1996.

According to the 1996 Examination, the bank had an excellent record of extending home improvement, Federal Housing Administration ("FHA") and Veterans Administration ("VA") loans to LMI borrowers and in LMI census tracts. SunTrust Bank also offered numerous flexible home purchase lending programs. The 1996 Examination found that the bank assisted LMI borrowers to obtain affordable housing through a variety of programs that featured reduced down payment and closing cost requirements and flexible underwriting standards. In addition, SunTrust supports efforts to provide affordable housing through its community development activities. During the review period of the 1996 Examination, SunTrust Bank originated loans of approximately $17.4 million to support the development of 437 affordable housing units in the Atlanta MSA. SunTrust has stated that, since the 1996 Examination, the bank has made approximately $29 million in construction loans for affordable single family homes.

Examiners also concluded that the lending records of SunTrust's lead Florida and Tennessee banks, SunTrust Bank, Central Florida, Orlando, Florida ("STB-Central Florida"), and SunTrust Bank, Nashville, N.A., Nashville, Tennessee ("STB-Nashville"), respectively, reflected a responsiveness to their communities' identified credit needs. Examiners noted that STB-Central Florida had been active in meeting the primary community development lending need in its assessment areas, which was affordable housing for LMI individuals, and stated that the bank originated $70.2 million in community development loans during the review period, most of which were for housing-related projects for LMI individuals. Examiners further stated that STB-Central Florida used innovative and flexible lending practices to serve the credit needs of its communities.[15] Examiners of STB-Nashville also favorably noted the bank's flexible credit products designed for LMI individuals and described the bank as an active lender to small businesses, explaining that the bank had made more than 6,700 small business loans, totalling almost $800 million, from January 1, 1994, to June 30, 1996.[16] Examiners found no evidence of prohibited discrimination or other illegal credit practices and found no violations of fair lending laws at STB-Central Florida or STB-Nashville.

SunTrust has indicated that its subsidiary banks, during 1997 and the first half of 1998, made 14,000 mortgage loans, totalling $679 million, to LMI borrowers, representing 21.3 percent of all mortgages made by the banks, and 6,500 mortgage loans, totalling $404 million, in LMI census tracts. SunTrust also has asserted that its subsidiary banks, during this same period, made 76,000 consumer loans, totalling $791 million, to LMI borrowers, representing 34 percent of all consumer loans made by the banks, and 27,000 consumer loans, totalling $591 million, in LMI census tracts. Moreover, during this time period, SunTrust's subsidiary banks originated 41,000 small business loans, totalling $4.1 billion. Approximately 64 percent of these loans were made to small businesses with annual revenues of less than $1 million, 76 percent were made in

12. A commenter questioned whether the proposal would result in any branch closings or service reductions in the District of Columbia. SunTrust has indicated that it does not expect the transaction to result in the closure of any branches and that it would make no immediate changes in the terms and conditions of products and services offered by Crestar.

13. One commenter alleged, without providing any supporting facts, that SunTrust's subsidiary banks had dealt improperly with the commenter's SunTrust shares. The Board has provided copies of the comment to the appropriate federal supervisors of the relevant SunTrust subsidiary banks for their consideration. The Board retains sufficient authority to take appropriate supervisory action against SunTrust if the allegations can be substantiated.

14. These programs included the Entrepreneurial Development Loan Fund, which makes loans to small businesses and businesses owned by minorities in Atlanta, and the GRASP, Inc., Microloan Program, which provides entrepreneurs access to loans in amounts of $500 to $25,000.

15. Examiners discussed the SunTrust Affordable Housing Program, a proprietary program providing down payment assistance, flexible debt ratios, below market interest rates, and no mortgage insurance; the Community Home Buyers Program, a proprietary program offering flexible debt ratios and no discount points or origination fees; and the Florida Housing Finance Agency Homeowner Mortgage Revenue Bond Program, a statewide program that offers a below market interest rate and down payment assistance.

16. Examiners also noted that approximately 23 percent of the bank's small business loans in 1995 and the first half of 1996 were made to borrowers in LMI census tracts.

amounts of $100,000 or less, and 23 percent were made to businesses in LMI census tracts.[17]

SunTrust also has a strong record of small farm lending. SunTrust and its subsidiaries originated more than 50 percent of the farm loans having an original principal amount of $500,000 or less ("small loans to farms") and the loans to farms having gross annual revenues of $1 million or less ("loans to small farms") made by all financial institutions in the state of Florida in 1996 and 1997. In Georgia, SunTrust and its subsidiaries originated approximately 29 percent of the small loans to farms and approximately 35 percent of the loans to small farms made by financial institutions in the aggregate during the same period.[18]

Lending Record of Crestar. The CRA performance examinations of Crestar's subsidiary depository institutions indicated that Crestar's banks, thrift, and mortgage company subsidiary, Crestar Mortgage Corporation, Richmond, Virginia, actively marketed mortgage products and actively solicited residential mortgage applications from LMI individuals. The examinations also noted that Crestar offered a number of affordable housing products and participated in a variety of government-sponsored loan programs, including those available through the FHA, VA, Virginia Housing Development Authority, the Maryland Community Development Authority, and the D.C. Housing Finance Agency. Crestar also participates in an affordable housing program sponsored by the Federal Home Loan Bank. Through this program, Crestar has helped develop 350 units of low-cost housing by providing $35 million in loans and grants.

In addition, Crestar has created special business loan centers to underwrite credit to small businesses in its service areas. Crestar also participates in several government programs to promote small business lending, including programs sponsored by the SBA, the Economic Development Administration, and the Virginia Small Business Financing Authority. Examiners also concluded that Crestar's depository institutions' delineations of their service areas were reasonable and did not exclude any LMI neighborhoods, and that the banks' offices were reasonably accessible to all segments of their communities.

During 1997 and the first half of 1998, Crestar made more than 13,600 mortgage loans, totalling approximately $945 million, to LMI borrowers, representing approximately 42 percent of all HMDA-reportable loans made by Crestar. During this same period, Crestar and its subsidiaries made more than 36,200 consumer loans, totalling $441 million, to LMI borrowers, representing 40 percent of all consumer loans made by Crestar, and more than 11,500 consumer loans, totalling $168 million, in LMI census tracts, representing 32 percent of all consumer loans made by Crestar. Moreover, during this time period, Crestar originated approximately 14,800 small business loans, totalling $1.4 billion; more than 80 percent of these loans were made in amounts of $100,000 or less, and approximately 20 percent were made to businesses in LMI census tracts.

HMDA Data. The Board also has considered SunTrust's and Crestar's lending record in light of comments on the HMDA data of the organizations' subsidiaries. The 1997 data indicate that Crestar Bank and Crestar Mortgage Corporation originated loans for a larger percentage of housing-related loan applications received from African Americans, LMI individuals, and residents of census tracts with predominately minority and LMI residents ("minority and LMI census tracts") in Virginia than did lenders in the aggregate. The 1997 data also generally indicate that SunTrust's subsidiary banks originated loans for a significantly larger percentage of housing-related loan applications, and denied a significantly smaller percentage of such applications, received from African Americans, Hispanics, LMI individuals, and residents of minority and LMI census tracts in Georgia, Florida, and Tennessee than did lenders in the aggregate in those states.

The data reflect, however, certain disparities in the rates of loan denials by racial group and income level. The Board is concerned when the record of an institution indicates disparities in lending, and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about the covered loans.[19] HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not

17. Many of SunTrust's banks operate in rural and small metropolitan areas and were recognized in their examinations for their small business and small farm lending. Several of these banks participated in government-sponsored programs, such as those offered by the Rural Development Agency.

18. Several commenters have urged SunTrust and Crestar to define their commitment to economic development investment and lending in rural and small metropolitan areas. SunTrust has indicated that the six SunTrust subsidiary banks whose communities include the service areas of the commenters have average loan-to-deposit ratios of more than 104 percent and make the majority of their loans within their delineated communities. In addition, several of SunTrust's banks that operate in rural areas offer government-sponsored loan programs, including those of the Rural Development Agency, and were commended in their most recent CRA performance examinations for the volume of their small business and small farm loan originations. Moreover, Crestar Bank offers Rural Housing and Community Development Service loans and has invested in the Virginia Economic Development Corporation, a private organization that provides equity and other forms of financing to small- and medium-sized businesses in rural areas throughout Virginia.

19. The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

adequately assisted in meeting its community's credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information. Examiners found no evidence of prohibited discrimination or other illegal credit practices at the subsidiary depository institutions of SunTrust and Crestar at their most recent completed examinations. Examiners reviewed the fair lending policies and procedures maintained by the banks and found the policies and procedures to be comprehensive and appropriate for monitoring compliance with fair lending laws. The Board also has considered the HMDA data in light of SunTrust's and Crestar's lending records, which show that the organizations' subsidiary depository institutions assist significantly in helping to meet the credit needs of their communities, including LMI areas.

Conclusion on Convenience and Needs Considerations

The Board has carefully considered all the facts of record, including the public comments received, responses to the comments, and the CRA performance records of the subsidiary depository institutions of SunTrust and Crestar, including relevant reports of examination. Based on a review of the entire record, and for the reasons discussed in this order, the Board has concluded that convenience and needs considerations, including the CRA performance records of the subsidiary depository institutions of SunTrust and Crestar, are consistent with approval.

Nonbanking Activities

SunTrust also has filed notice under section 4(c)(8) of the BHC Act to acquire the nonbanking subsidiaries of Crestar and thereby engage in a number of nonbanking activities, including extending credit and servicing loans, providing leasing services, providing financial and investment advice, providing agency transactional services (other than acting as a futures commission merchant), underwriting and dealing to a limited extent in debt and equity securities, buying and selling bullion and related activities for the account of customers, insurance agency activities, community development activities, and data processing and management consulting activities through an automated teller machine ("ATM") and point-of-sale network. The Board previously has determined by regulation or order that each of these activities is closely related to banking for purposes of section 4(c)(8) of the BHC Act.[20] SunTrust proposes to conduct these activities in accordance with Regulation Y and all relevant Board interpretations and orders.

A. Insurance Agency Activities

SunTrust also has applied to acquire and operate subsidiaries of Crestar that engage in certain insurance activities. These subsidiaries, Crestar Insurance Agency, Inc. ("Crestar Insurance"), and Crestar Securities Corporation ("Crestar Securities"), both of Richmond, Virginia, engage in insurance agency activities pursuant to Exemption G ("Exemption G") of Title VI of the Garn–St Germain Depository Institutions Act of 1982 ("Garn–St Germain Act"), which allows a bank holding company and its subsidiaries to continue to engage in any insurance agency activity if the bank holding company or subsidiary was engaged in insurance agency activities prior to January 1, 1971, as a consequence of approval by the Board prior to that date.[21] SunTrust argues that it should be permitted to acquire and engage in insurance agency activities through Crestar Insurance and Crestar Securities on the basis of Exemption G rights that accrue to Crestar.

The Board previously has determined that Exemption G rights expire when the bank holding company possessing the Exemption G rights is acquired by another bank holding company that does not independently qualify for Exemption G rights.[22] In this case, SunTrust does not qualify for Exemption G rights because it was not engaged in insurance activities prior to January 1, 1971, as a consequence of Board approval. The Board does not believe that the facts of this case justify a different conclusion.[23] For the foregoing reasons, the Board concludes that Crestar's Exemption G rights will expire when SunTrust acquires Crestar, and SunTrust is not entitled to engage, directly or through Crestar Insurance or Crestar Securities, in general insurance agency activities pursuant to Exemption G.

In the alternative, SunTrust proposes to acquire and conduct insurance agency activities through Crestar Insurance and Crestar Securities pursuant to Exemption D ("Exemption D") of Title VI of the Garn-St Germain Act.[24] Exemption D permits a bank holding company and any subsidiary of a bank holding company to continue to engage in any insurance agency activity in which the company was engaged on May 1, 1982, or which the Board approved for such company on or before May 1, 1982. The Board previously has determined that a company with Exemption D rights does not lose those rights on its acquisition by a nongrandfathered bank holding company, provided that the grandfathered company retains its separate corporate structure, its insurance activities are not conducted by other companies within the acquiring banking organization, and the company conducts its insurance activities in accordance with the limits in Exemption D.[25]

20. *See* 12 C.F.R. 225.28 (b)(1), (3), (6), (7), (8), (9), (11), (12), and (14); *United Virginia Bancshares, Inc.*, 73 *Federal Reserve Bulletin* 309 (1987); *Barnett Banks, Inc., et al.*, 83 *Federal Reserve Bulletin* 131 (1997).

21. 12 U.S.C. § 1843(c)(8)(G).

22. *See Trustcorp, Inc.*, 73 *Federal Reserve Bulletin* 827, 829 (1987) ("*Trustcorp*"); *C&S/Sovran Corporation*, 76 *Federal Reserve Bulletin* 853 (1990) ("*C&S/Sovran*").

23. SunTrust argues that, because Crestar would continue to exist after the proposed transaction, the language of Exemption G indicates that Crestar Insurance and Crestar Securities would retain their Exemption G rights even after Crestar's acquisition by SunTrust. The Board previously has considered and rejected this interpretation of Exemption G. *See Trustcorp*, at 829.

24. 12 U.S.C. § 1843(c)(8)(D).

25. *See Sovran Financial Corporation*, 73 *Federal Reserve Bulletin* 672 (1987), *aff'd, National Ass'n of Professional Insurance Agents v.*

Although SunTrust would not qualify for Exemption G rights after its acquisition of Crestar, the Board notes that Crestar Insurance and Crestar Securities may qualify for Exemption D rights.[26] SunTrust may provide additional evidence to the Board that Crestar Insurance or Crestar Securities acted as agent in the sale of particular types of insurance in particular states on May 1, 1982.[27] On such a showing, the relevant company would be permitted to continue to act as agent for those types of insurance in Virginia, the states adjacent to Virginia, and the states in which the company was lawfully engaged in such activity on May 1, 1982.

B. Proper Incident Considerations

In order to approve the proposal, the Board also must determine that the performance of the proposed activities is a proper incident to banking, that is, that the proposed transaction "can reasonably be expected to produce benefits to the public . . . that outweigh adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."[28]

The Board expects that the acquisition of Crestar by SunTrust would provide added convenience to customers of both institutions and is likely to result in increased operating efficiencies for the combined organization. Additionally, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient, when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.

As part of its evaluation of the statutory factors, the Board considers the financial and managerial resources of the notificant, its subsidiaries, and any company to be acquired; the effect the transaction would have on such resources; and the management expertise, internal control and risk management systems, and capital of the entity conducting the activity.[29] For the reasons discussed above, and based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has carefully considered the competitive effects of the proposed acquisition of Crestar's nonbanking subsidiaries. Nonbank subsidiaries of SunTrust and Crestar compete in securities underwriting and dealing activities, securities brokerage, asset management and investment advisory activities, mutual fund advisory and share brokerage activities, credit card operations, mortgage origination and servicing activities, trust services, and selling insurance to the extent permissible for bank holding companies. The Board notes that the market for each of the nonbanking services is unconcentrated, that there are numerous providers of the services, and that there is minimal geographic overlap in the areas in which SunTrust and Crestar primarily offer these services. Consummation of the proposal, therefore, would have a *de minimis* effect on competition, and the Board has concluded that the proposal would not have a significantly adverse effect on competition in any relevant market.

The Board believes that the conduct of the proposed activities within the framework established under Regulation Y and prior orders is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would not be outweighed by the public benefits of the proposal, such as increased convenience and gains in efficiency. Accordingly, based on all the facts of record, the Board has determined that the balance of public benefits that the Board must consider under the proper incident to banking standard of section 4(c)(8) of the BHC Act is favorable and consistent with approval of the proposal.[30]

Conclusion

Based on the foregoing and all the other facts of record, the Board has determined that the application and notice should be, and hereby are, approved. The Board's approval is specifically conditioned on compliance by SunTrust with all the commitments made in connection with the proposal and all the conditions in this order.

The Board's determination on the nonbanking activities also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) of Regulation Y (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of

Board of Governors of the Federal Reserve System, 856 F.2d 282 (D.C. Cir. 1988), *cert. denied*, 490 U.S. 1090 (1989).

26. The Board previously has determined that acquiring bank holding companies which did not qualify for Exemption G rights in connection with their acquisition of a grandfathered bank holding company could qualify for Exemption D rights. *See Trustcorp*; *C&S/Sovran*.

27. This evidence should be consistent with the types of evidence relied on by the Board in previous orders in which the Board found that a company met the requirements of Exemption D. *See MidAmerican Corporation*, 76 *Federal Reserve Bulletin* 559 (1990); *Citicorp*, 76 *Federal Reserve Bulletin* 70 (1990).

28. 12 U.S.C. § 1843(c)(8).

29. *See* 12 C.F.R. 225.26.

30. SunTrust and Crestar each currently owns an approximately 20 percent nonvoting equity interest in a company that engages in impermissible activities ("Company"). As part of this transaction, SunTrust would acquire Crestar's 20 percent interest in Company. As a condition of the order, SunTrust is required to divest or reduce its interest in Company to comply with the Board's Policy Statement on Nonvoting Equity Investments, 12 C.F.R. 225.143, within two years of consummation of the proposal.

this order, the commitments and conditions relied on by the Board in reaching this decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions, and, as such, may be enforced in proceedings under applicable law.

The acquisition of Crestar Bank may not be consummated before the fifteenth calendar day following the effective date of this order, and the proposal may 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, acting pursuant to delegated authority.

By order of the Board of Governors, effective October 28, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Meyer, Ferguson, and Gramlich. Absent and not voting: Governor Kelley.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Appendix

Crestar Financial Corporation's Nonbanking Subsidiaries

(1) Crestar Securities Corporation, Richmond, Virginia ("Crestar Securities"), and thereby engage in extending credit and servicing loans, providing leasing services, providing financial and investment advisory services, providing securities brokerage, riskless principal, and private placement services, underwriting and dealing in bank-eligible securities, entering into futures, forwards, and options contracts for hedging purposes, and buying and selling bullion and related activities for the account of customers pursuant to sections 225.28(b)(1), (3), (6), (7), and (8) of Regulation Y (12 C.F.R. 225.28(b)(1), (3), (6), (7), and (8)); and underwriting and dealing in, to a limited extent, certain municipal revenue bonds, 1–4 family mortgage-related securities, consumer receivable-related securities, and commercial paper, as previously approved by the Board in *Crestar Financial Corporation*, 83 *Federal Reserve Bulletin* 512 (1997).

(2) Crestar Insurance Agency, Inc., Richmond, Virginia, and thereby engage in insurance agency activities, with Crestar Securities, pursuant to section 225.28(b)(11)(iv) of Regulation Y (12 C.F.R. 225.28(b)(11)(iv)), as discussed more fully in the Order.

(3) Crestar Community Development Corporation, Richmond, Virginia, and thereby engage in community development activities, pursuant to section 225.28(b)(12) of Regulation Y (12 C.F.R. 225.28(b)(12)).

(4) Honor Technologies, Inc., Maitland, Florida, and thereby engage in data processing and management consulting activities through the operation of an ATM and point-of-sale network, pursuant to sections 225.28(b)(9) and (14) of Regulation Y (12 C.F.R. 225.28(b)(9) and (14)).

ORDERS ISSUED UNDER INTERNATIONAL BANKING ACT

Chinatrust Commercial Bank, Ltd.
Taipei, Taiwan

Order Approving Establishment of a Branch

Chinatrust Commercial Bank, Ltd. ("Bank"), Taipei, Taiwan, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a state-licensed branch in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York, New York (*New York Times*, November 12, 1997). The time for filing comments has expired, and all comments have been considered.

Bank, with assets equivalent to approximately $16.9 billion, is the ninth largest bank in Taiwan.[1] Bank's shares are publicly traded and widely held, with no single shareholder directly owning more than 2 percent. Bank operates more than 30 branches in Taiwan and also has branches in Hong Kong, India, and Paraguay. In addition, Bank operates an offshore banking unit in Taiwan and commercial bank subsidiaries in the Philippines and Indonesia.

Bank's primary purpose for establishing the proposed branch is to provide banking services to the U.S. subsidiaries of Bank's existing customers in Taiwan, and to facilitate international trade between the United States and Asia. Bank does not engage directly or indirectly in any nonbanking activities in the United States, and, after establishing the proposed branch, would be a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

Bank has received approval to establish the proposed branch from the Taiwan authorities. The New York State Banking Department also has approved Bank's application to establish the proposed branch.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States, and has furnished to the Board the information it needs to assess the application adequately. The Board also must determine that the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24)). The Board also may take into account additional standards as set forth

1. All data are as of December 31, 1997, unless otherwise noted.

in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised and regulated in such a manner that its home country supervisor receives sufficient information on the foreign bank's worldwide operations, including the relationship of the foreign bank to any affiliate, to assess the overall financial condition of the foreign bank and its compliance with law and regulation (12 C.F.R. 211.24(c)(1)).[2]

With respect to the issue of supervision by home country authorities, the Board has considered the following information. Bank is supervised and regulated by the Ministry of Finance ("Ministry") and the Taiwan Central Bank ("Central Bank"), which share responsibility for the supervision of banks in Taiwan. The Banking Law of Taiwan grants the Ministry overall authority for the regulation and supervision of banks in Taiwan, including Bank.[3] The Ministry has delegated the authority to the Central Bank to act as the primary examiner of banks in Taiwan, in which capacity the Central Bank conducts mandatory annual examinations.

The Board previously has determined, in connection with applications involving other banks in Taiwan, that these banks were subject to home country supervision on a consolidated basis.[4] Bank is supervised by the Ministry and the Central Bank on substantially the same terms and conditions as such other banks. Based on all the facts of record, the Board has determined that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisors.

The Board also has taken into account the additional standards set forth in section 7 of the IBA (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). As noted above, Bank has received the consent of its home country authorities to establish the proposed state-licensed branch.

Bank must comply with the minimum capital standards of the Basle Accord, as implemented by Taiwan. Bank's capital exceeds these minimum standards and can be considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. Bank has established controls and procedures for the proposed branch in order to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant authorities about access to information. Bank has committed that it will make available to the Board such information on the operations of Bank and any affiliate of Bank that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable federal law. To the extent that the provision of such information is prohibited or impeded by law, Bank has committed to cooperate with the Board to obtain any consents or waivers that might be required from third parties in connection with disclosure of such information. In addition, subject to certain conditions, the Ministry and the Central Bank may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank, and the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a state-licensed branch should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of the application also is specifically conditioned on compliance by Bank with the commitments made in

2. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors:

(i) Ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide;
(ii) Obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;
(iii) Obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;
(iv) Receive from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;
(v) Evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

These are indicia of comprehensive, consolidated supervision. No single factor is essential and other elements may inform the Board's determination.

3. This authority permits the Ministry, among other things, to issue licenses, limit activities and expansion, conduct examinations, set minimum capital and liquidity ratios, limit credit extensions, restrict director interlocks, define qualifications for management, and take enforcement actions.

4. *See Taipei Bank*, 79 *Federal Reserve Bulletin* 143 (1993); *United World Chinese Commercial Bank*, 79 *Federal Reserve Bulletin* 146 (1993); *Bank of Taiwan*, 79 *Federal Reserve Bulletin* 541 (1993); *Chiao Tung Bank*, 79 *Federal Reserve Bulletin* 543 (1993); *The Farmers Bank of China*, 81 *Federal Reserve Bulletin* 620 (1995); *Taiwan Business Bank*, 81 *Federal Reserve Bulletin* 746 (1995); *Land Bank of Taiwan*, 83 *Federal Reserve Bulletin* 336 (1997); *Bank SinoPac*, 83 *Federal Reserve Bulletin* 669 (1997).

connection with this application, and with the conditions in this order.[5] The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision, and may be enforced in proceedings under 12 U.S.C. § 1818 or 12 U.S.C. § 1847 against Bank, its offices, and its affiliates.

By order of the Board of Governors, effective October 5, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Meyer, Ferguson, and Gramlich.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

Erste Bank ödersterreichischen Sparkassen Aktiengesellschaft
Vienna, Austria

Order Approving Establishment of a Branch

Erste Bank ödersterreichischen Sparkassen Aktiengesellschaft, Vienna, Austria ("Bank"), a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a federally licensed branch in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York (*The New York Times*, May 28, 1998). The time for filing comments has expired, and the Board has considered the application and all comments received.

Bank, with total consolidated assets of approximately $57 billion, is one of the largest banks in Austria.[1] Die Erste österreichische Spar-Casse Anteilsverwaltungssparkasse, Vienna, Austria ("AVS"), which owns 43 percent of Bank's voting shares, is Bank's largest shareholder.[2] No other single shareholder holds 10 percent or more of the outstanding voting shares of Bank.

In addition to its network of domestic branches, Bank operates bank and nonbank subsidiaries that engage in a number of activities in Austria, including commercial banking, finance, insurance, real estate, and travel-related services. International operations include branches, representative offices, and bank and nonbank subsidiaries located in Europe, Asia, and the United States. Bank is a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

Bank was formed as the result of the merger of GiroCredit Bank Aktiengesellschaft der Sparkassen AG ("GiroCredit") into Die Erste österreichische Spar-Casse Bank Aktiengesellschaft ("Die Erste"), both of Vienna, Austria. Before the merger, Die Erste had no banking operations in the United States. GiroCredit operated a federally licensed, uninsured branch in New York, which Bank seeks authority to operate through the instant application. Pursuant to Regulation K, the Board allowed the merger to proceed before an application to establish the office was filed and acted on by the Board.[3]

The Austrian Federal Ministry of Finance (the "Ministry"), which approved the merger of Die Erste and GiroCredit, has no objection to the continued operation of the existing branch of Bank.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately. The Board generally also must determine that the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2)). The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)).

Bank engages directly in the business of banking outside of the United States through its banking operations in Austria and elsewhere. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised and regulated in such a manner that its home country supervisor receives sufficient information on the foreign bank's worldwide operations, including the relationship of the foreign bank to any affiliate, to assess the overall financial condition of the foreign bank and its compliance with law and regulation (12 C.F.R. 211.24(c)(1)).[4]

5. The Board's authority to approve the establishment of the proposed office parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board's approval of the application does not supplant the authority of the State of New York and the New York State Banking Department ("Department") to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

1. All data are as of June 30, 1998.

2. AVS, an inactive savings bank that acts as a holding company for Bank, is controlled by Verein - Die Ersteösterreichische Spar-Casse Anteilsverwaltungssparkasse ("Verein DE"), a savings bank association. Verein DE engages in no activities other than controlling AVS.

3. 12 C.F.R. 211.24(a)(3).

4. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors:

(i) Ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide;
(ii) Obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;
(iii) Obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;

In this case, with respect to the issue of supervision by home country authorities, the Board has considered the following information. Bank is supervised and regulated by the Ministry and the Austrian National Bank ("Central Bank"). The Board previously has determined that another Austrian credit institution is subject to comprehensive supervision on a consolidated basis by the Ministry and the Central Bank.[5] The Board has determined that Bank is supervised on substantially the same terms and conditions as that other institution. Based on all the facts of record, the Board concludes that Bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The Board also has taken into account the additional standards set forth in section 7 of the IBA (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). As noted above, the Ministry has not objected to Bank establishing the proposed federally licensed uninsured branch.

Austria is a signatory to the Basle risk-based capital standards, and Austrian risk-based capital standards meet those established by the Basle Capital Accord and the European Union. Bank's capital is in excess of the minimum levels that would be required by the Basle Capital Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the branch. Bank has established controls and procedures for the branch to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations in general.

Finally, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities about access to information. Bank and Verein DE have committed to make available to the Board such information on the operations of Bank and any affiliate of Bank that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable federal law. To the extent that the provision of such information is prohibited or impeded by law, Bank and Verein DE have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties in connection with disclosure of certain information. In addition, subject to certain conditions, the Ministry may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a federally licensed branch should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may recommend termination of any of Bank's direct or indirect activities in the United States. Approval of this application is also specifically conditioned on Bank's compliance with the commitments made in connection with this application and with the conditions in this order.[6] The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision, and may be enforced in proceedings under 12 U.S.C. § 1818 or 12 U.S.C. § 1847 against Bank, its offices, and its affiliates.

By order of the Board of Governors, effective October 14, 1998.

Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Meyer, Ferguson, and Gramlich. Absent and not voting: Governor Kelley.

ROBERT DEV. FRIERSON
Associate Secretary of the Board

(iv) Receive from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;

(v) Evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

These are indicia of comprehensive, consolidated supervision. No single factor is essential and other elements may inform the Board's determination.

5. *See Creditanstalt-Bankverein*, 82 *Federal Reserve Bulletin* 594 (1996).

6. The Board's authority to approve establishment of the proposed branch office parallels the continuing authority of the Office of the Comptroller of the Currency ("OCC") to license federal offices of a foreign bank. The Board's approval of this application does not supplant the authority of the OCC to license the proposed branch office of Bank in accordance with any terms or conditions that the OCC may impose.

APPLICATIONS APPROVED UNDER BANK HOLDING COMPANY ACT
By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 3

Applicant(s)	Bank(s)	Effective Date
Compass Bancshares, Inc., Birmingham, Alabama	Arizona Bank, Tucson, Arizona	October 23, 1998
First Citizens Bancshares, Inc., Dyersburg, Tennessee	First Volunteer Corporation, Union City, Tennessee First Volunteer Bank, Union City, Tennessee	October 29, 1998
Old National Bancorp, Evansville, Indiana	Southern Bancshares, Ltd., Carbondale, Illinois First National Bank and Trust Company, Carbondale, Illinois	October 13, 1998
Simmons First National Corporation, Pine Bluff, Arkansas	American Bancshares of Arkansas, Inc., Charleston, Arkansas American State Bank, Charleston, Arkansas	October 5, 1998

Section 4

Applicant(s)	Bank(s)	Effective Date
The Chase Manhattan Corporation, New York, New York Chase Equity Holdings, Inc., Wilmington, Delaware	CBC Holding (Delaware) Inc., Wilmington, Delaware PNC Bank, National Association, Pittsburgh, Pennsylvania PNC Trust Company, Delaware, National Association, Wilmington, Delaware	October 14, 1998
Norwest Corporation, Minneapolis, Minnesota	Edina Realty Mortgage, LLC, Edina, Minnesota	October 13, 1998
Norwest Corporation, Minneapolis, Minnesota	RELS, LLC, San Diego, California RELS Title, LLC, Edina, Minnesota	October 5, 1998
State Street Corporation, Boston, Massachusetts	Bridge Information Systems, Inc., St. Louis, Missouri Wall Street on Demand, Inc., Boulder, Colorado	October 16, 1998

By Federal Reserve Banks

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

Section 3

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Area Bancshares Corporation, Owensboro, Kentucky	Broadway Bank and Trust, Paducah, Kentucky	St. Louis	October 8, 1998
BancorpSouth, Inc., Tupelo, Mississippi	The First Corporation, Opelika, Alabama First National Bank of Opelika, Opelika, Alabama	St. Louis	October 9, 1998
BancFirst Corporation, Okalahoma City, Oklahoma	Kingfisher Bancorp, Inc., Kingfisher, Oklahoma	Kansas City	October 7, 1998
Baylake Corporation, Sturgeon Bay, Wisconsin	Evergreen Bank, N.A., Poy Sippi, Wisconsin	Chicago	September 17, 1998
BOK Financial Corporation, Tulsa, Oklahoma	Bank of Albuquerque, N.A., Albuquerque, New Mexico	Kansas City	September 29, 1998
The George Family Partnership, Ltd., Bonifay, Florida Bonifay Holdings, L.L.C. Bonifay, Florida	Bonifay Holding Company, Inc., Bonifay, Florida	Atlanta	September 30, 1998
Business Holding Corporation, Baton Rouge, Louisiana	The Business Bank of Baton Rouge, Baton Rouge, Louisiana	Atlanta	October 1, 1998
Central Bancshares, Inc., Cambridge, Nebraska	First Central Bank McCook, National Association, McCook, Nebraska	Kansas City	October 21, 1998
Century Bancshares, Inc., Schaller, Iowa	State Bank of Schaller, Schaller, Iowa	Chicago	October 15, 1998
Colonial BancGroup, Inc., Montgomery, Alabama	InterWest Bancorp, Reno, Nevada InterWest Bank, Reno, Nevada	Atlanta	September 29, 1998
Colonial BancGroup, Inc., Montgomery, Alabama	TB&T, Inc., Dallas, Texas Texas Bank & Trust, Dallas, Texas	Atlanta	October 15, 1998
Cortland First Financial Corporation, Cortland, New York	Oneida Valley Bancshares, Inc., Oneida, New York Oneida Valley National Bank of Oneida, Oneida, New York	New York	October 7, 1998
Eggemeyer Advisory Corp., Rancho Santa Fe, California Castle Creek Capital, L.L.C., Rancho Santa Fe, California Castle Creek Capial Partners Fund-I, L.P., Rancho Santa Fe, California	Peninsula Bank of San Diego, San Diego, California	San Francisco	October 16, 1998
First Beemer Corporation, Beemer, Nebraska	Citizens Bank, Bancroft, Nebraska	Kansas City	September 30, 1998

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
First Gilmer Bankshares, Inc., Gilmer, Texas First Gilmer Delaware Holdings, Ltd., Wilmington, Delaware	Security State Bank, Ore City, Texas	Dallas	August 27, 1998
FLAG Financial Corporation, LaGrange, Georgia	Heart of Georgia Bancshares, Inc., Mount Vernon, Georgia Mount Vernon Bank, Mount Vernon, Georgia	Atlanta	September 30, 1998
F&M Bancorp, Frederick, Maryland	Monocacy Bancshares, Inc., Taneytown, Maryland	Richmond	October 9, 1998
Frontier Financial Corporation, Everett, Washington	Valley Bancorporation, Sumner, Washington Bank of Sumner, Sumner, Washington	San Francisco	October 7, 1998
Grandview Bancshares, Inc., Grandview, Texas Grandview Delaware Financial, Inc., Dover, Delaware	First State Bank, Grandview, Texas	Dallas	September 30, 1998
Gold Banc Corporation, Leawood, Kansas	Citizens Bancorporation, Inc., Tulsa, Oklahoma Citizens Bank of Tulsa, Tulsa, Oklahoma	Kansas City	October 16, 1998
Heritage Commerce Corp., San Jose, California	Heritage Bank East Bay, Fremont, California	San Francisco	October 21, 1998
Intra Financial Corporation, Clyde, Kansas	Arizona Bancshares, Inc., Flagstaff, Arizona	Kansas City	September 24, 1998
Lake Bank Shares, Inc., Employee Stock Ownership Plan, Emmons, Minnesota	Lake Bank Shares, Inc., Emmons, Minnesota	Minneapolis	October 15, 1998
Legacy Bancorp, Inc., Milwaukee, Wisconsin	Legacy Bank, Milwaukee, Wisconsin	Chicago	October 9, 1998
Marine Bancshares, Inc., Marine on St. Croix, Minnesota	Security State Bank of Marine, Marine on St. Croix, Minnesota	Minneapolis	October 21, 1998
Marin National Bancorp, San Rafael, California	First National Interim Bank of Marin, Las Vegas, Nevada	San Francisco	October 19, 1998
MetroCorp Bancshares, Inc., Houston, Texas	MetroBank, National Association, Houston, Texas	Dallas	October 9, 1998
MetroCorp-Delaware, Inc., Wilmington, Delaware	MetroBank, National Association, Houston, Texas	Dallas	October 9, 1998
Michigan Community Bancorp Limited, Sterling Heights, Michigan	Lakeside Community Bank, Sterling Heights, Michigan North Oakland Community Bank, Rochester Hills, Michigan	Chicago	October 9, 1998
Morrill Bancshares, Inc., Sabetha, Kansas	Morrill & Janes Bancshares, Inc., Hiawatha, Kansas	Kansas City	September 24, 1998
Mutual Bancorp of the Berkshires, Inc. Pittsfield, Massachusetts City Savings Bank of Pittsfield, Pittsfield, Massachusetts	Lenox Financial Services Corp., Lenox, Massachusetts Lenox Savings Bank, Lenox, Massachusetts United Financial Group, Inc., Pittsfield, Massachusetts	Boston	October 16, 1998

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
National City Bancshares, Inc., Evansville, Indiana	Progressive Bancshares, Inc., Lexington, Kentucky The Progressive Bank, N.A., Lexington, Kentucky	St. Louis	October 5, 1998
Oconee Financial Corporation, Watkinsville, Georgia	Oconee State Bank, Watkinsville, Georgia	Atlanta	October 15, 1998
Ottawa Bancshares, Inc., Ottawa, Kansas	First State Management, Inc., Salina, Kansas	Kansas City	October 21, 1998
Pacific Coast Bankers' Bancshares, San Francisco, California	Pacific Coast Bankers' Bank, San Francisco, California	San Francisco	October 15, 1998
Pepperell Bancshares Financial Group, Inc., Biddeford, Maine	Pepperell Trust Company, Biddeford, Maine	Boston	September 23, 1998
Petefish, Skiles Bancshares, Inc., Virginia, Illinois	Petefish, Skiles & Co., Virginia, Illinois	Chicago	October 15, 1998
PHS Bancorp, M.H.C., Beaver Falls, Pennsylvania	PHS Bancorp, Inc., Beaver Falls, Pennsylvania	Cleveland	September 25, 1998
Provincial Corp., Lakeville, Minnesota	Provincial Bank, Lakeville, Minnesota	Minneapolis	October 8, 1998
Putnam County Bancorp, Inc., Hennepin, Illinois	Bank of Ladd, Ladd, Illinois	Chicago	September 25, 1998
Republic First Bancorp, Inc., Philadelphia, Pennsylvania	Republic First Bank Delaware, Brandywine, Delaware	Philadelphia	October 1, 1998
Robinson Bancshares, Inc., Lenox, Georgia	Bank of Lenox, Lenox, Georgia	Atlanta	October 21, 1998
Seed Money Limited Partnership, Allison Park, Pennsylvania	Enterprise Bank, Allison Park, Pennsylvania	Cleveland	October 8, 1998
Texas Financial Bancorporation, Inc., Minneapolis, Minnesota Delaware Financial, Inc., Wilmington, Delaware	Walburg State Bank, Georgetown, Texas	Dallas	August 31, 1998
Travelers Rest Bancshares, Inc., Travelers Rest, South Carolina	Bank of Travelers Rest, Travelers Rest, South Carolina	Richmond	October 22, 1998
United Financial Corp., Great Falls, Montana	Valley Bancorp, Inc., Phoenix, Arizona	Minneapolis	October 22, 1998
Union Planters Corporation, Memphis, Tennessee Union Planters Holding Corporation, Memphis, Tennessee	LaPlace Bancshares, Inc., LaPlace, Louisiana Bank of LaPlace of St. John the Baptist Parish, Louisiana LaPlace, Louisiana	St. Louis	September 24, 1998

Section 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Advance Bancorp, Inc., Homewood, Illinois	South Chicago Bank, Chicago, Illinois	Chicago	October 15, 1998
ANB Corporation, Muncie, Indiana	American National Trust and Investment Management Company, Muncie, Indiana, Indiana Trust & Investment Management Company, Mishawaka, Indiana	Chicago	October 8, 1998
The Bank of New York Company, Inc., New York, New York	BNY ESI & Co., New York, New York Alpha Management Inc., San Francisco, California	New York	October 1, 1998
Bank of the Ozarks, Inc., Little Rock, Arkansas	John R. Taylor Financial Group, Inc., Fort Smith, Arkansas	St. Louis	October 13, 1998
Colonial BancGroup, Inc., Montgomery, Alabama	InterWest Mortgage, Reno, Nevada	Atlanta	September 29, 1998
Davis Bancorporation, Inc., Davis, Oklahoma	FBC Financial Corporation, Claremore, Oklahoma	Kansas City	October 16, 1998
First Bancorporation, Inc., La Crosse, Wisconsin	Midwest Data Services, Inc., La Crosse, Wisconsin	Minneapolis	September 30, 1998
First Centralia Bancshares, Inc., Centralia, Kansas	FBC Financial Corporation, Claremore, Oklahoma	Kansas City,	October 16, 1998
First Western Bancorp, Inc., Huron, South Dakota	Northern Hills Insurance, LLC, Belle Fourche, South Dakota	Minneapolis	October 19, 1998
Imperial Bancorp, Inglewood, California	First Houston Financial Services, Inc., d.b.a., Altair Corporation, Houston, Texas	San Francisco	October 5, 1998
Mellon Bank Corporation, Pittsburgh, Pennsylvania	Russell Mellon Analytical Services, LLC, Tacoma, Washington	Cleveland	October 19, 1998
Morrill Bancshares, Inc., Sabetha, Kansas	FBC Financial Corporation, Claremore, Oklahoma	Kansas City	October 16, 1998
Morrill & Janes Bancshares, Inc., Hiawatha, Kansas	FBC Financial Corporation, Claremore, Oklahoma	Kansas City	October 16, 1998
New London Bancshares, Inc., New London, Missouri	To engage in general insurance agency activities	St. Louis	October 15, 1998
Onaga Bancshares, Inc., Onaga, Kansas	FBC Financial Corporation, Claremore, Oklahoma	Kansas City	October 16, 1998
Second Bancorp, Warren, Ohio	Trumbull Financial Corporation, Warren, Ohio	Cleveland	October 7, 1998
Sherburn Bancshares, Inc., Sherburn, Minnesota	To engage *de novo* in the nonbank activity of making loans and buying overlines	Minneapolis	October 2, 1998
TIB Financial Corporation, Key Largo, Florida	TIB Software and Services, Inc., Key Largo, Florida ERAS Joint Venture, Miami, Florida	Atlanta	October 7, 1998
United Overseas Bank Limited, Singapore	UOB Global Capital LLC, Delaware TeamCo Management Co., LLC, Delaware	New York	October 22, 1998
Westdeutsche Landesbank Girozentrale, Duesseldorf, Federal Republic of Germany	WestLB Securities Americas Inc., New York, New York	New York	October 1, 1998

Section 4—Continued

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Wilmington Trust Corporation, Wilmington, Delaware	WT Investments, Inc. Wilmington, Delaware Wilmington Trust Company, Wilmington, Delaware	Philadelphia	September 25, 1998

APPLICATIONS APPROVED UNDER BANK MERGER ACT

By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Applicant(s)	Bank(s)	Effective Date
AmSouth Bank, Birmingham, Alabama	AmSouth Bank of Tennessee, Chattanooga, Tennessee	October 22, 1998
Capital City Bank Group, Inc., Tallahassee, Florida	First Union National Bank, Charlotte, North Carolina	October 20, 1998
Security Bank, Ralls, Texas	First State Bank, Petersburg, Texas	October 26, 1998

By Federal Reserve Banks

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

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
BancFirst, Oklahoma City, Oklahoma	Kingfisher Bank & Trust Company, Kingfisher, Oklahoma	Kansas City	October 7, 1998
Bank of Bentonville, Bentonville, Arkansas	State Bank of Noel, Noel, Missouri	St. Louis	October 9, 1998
Colonial Bank, Montgomery, Alabama	InterWest Bank, Reno, Nevada	Atlanta	September 29, 1998
Colonial Bank, Montgomery, Alabama	Texas Bank & Trust, Dallas, Texas	Atlanta	October 15, 1998
Comerica Bank, Detroit, Michigan	Comerica Bank & Trust, F.S.B., Boca Raton, Florida	Chicago	October 19, 1998
Farmers State Bank of West Concord, West Concord, Minnesota	Eagle Valley Bank, N.A., St. Croix Falls, Wisconsin	Minneapolis	October 21, 1998
Mercantile Bank Midwest, Des Moines, Iowa	The Rock Island Bank National Association, Bettendorf, Iowa	Chicago	October 2, 1998
Mercantile Bank Midwest, Des Moines, Iowa	First National Bank Iowa, Iowa City, Iowa	Chicago	October 2, 1998
People First Bank, Hennessey, Oklahoma	City Bank, Weatherford, Oklahoma	Kansas City	October 8, 1998
Republic Security Bank, West Palm Beach, Florida	Newberry Bank, Newberry, Florida	Atlanta	October 21, 1998

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.

Attorneys Against American Apartheid v. Board of Governors, No. 98–1483 (D.C. Cir., filed October 21, 1998). Petition for review of denial of reconsideration of a Board order dated August 17, 1998, approving the merger of NationsBank Corporation, Charlotte, North Carolina, and BankAmerica. Corporation, San Francisco, California.

Independent Bankers Association of America v. Board of Governors, No. 98–1482 (D.C. Cir., filed October 21, 1998). Petition for review of a Board order dated September 23, 1998, conditionally approving the applications of Travelers Group, Inc., New York, New York, to become a bank holding company by acquiring Citicorp, New York, New York, and its bank and nonbank subsidiaries.

Jones v. Board of Governors, No. 98–30138 (5th Cir., filed October 1, 1998). Appeal of district court dismissal of complaint alleging violations of the Fair Housing Act.

Cunningham v. Board of Governors, No. 98–1459 (D.C. Cir., filed September 30, 1998). Petition for review of a Board order dated September 23, 1998, conditionally approving the applications of Travelers Group, Inc., New York, New York, to become a bank holding company by acquiring Citicorp, New York, New York, and its bank and nonbank subsidiaries.

Wasserman v. Board of Governors, No. 98-CIV-6017 (S.D.N.Y., filed August 24, 1998). Complaint alleging wrongful failure to investigate activities of a bank. On September 14, 1998, the Board filed its motion to dismiss the complaint, and on October 14 the court dismissed the action on plaintiff's withdrawal of the complaint.

Pharaon v. Board of Governors, No. 98–103 (U.S. Supreme Court, filed July 15, 1998). Petition for *writ of certiorari* seeking review of the decision of the Court of Appeals for the District of Columbia Circuit affirming the Board's order dated January 31, 1997, imposing civil money penalties and an order of prohibition for violations of the Bank Holding Company Act. On October 19, 1998, the Supreme Court denied the writ.

Inner City Press/Community on the Move v. Board of Governors, No. 98-CIV-4608 (DLC) (S.D.N.Y., filed June 30, 1998). Freedom of Information Act case. On July 1, 1998, the court denied plaintiff's motion for a temporary restraining order extending the public comment period on the application by Travelers Group Inc. to acquire Citicorp. On September 30, 1998, the court granted the Board's motion for summary judgment.

Clarkson v. Greenspan, No.98–5349 (D.C. Cir., filed July 29, 1998). Appeal of district court order granting Board's motion for summary judgment in a Freedom of Information Act case. On September 14, 1998, the Board filed a motion for summary affirmance of the district court dismissal.

Board of Governors v. Carrasco, No. 98 Civ. 3474 (LAK) (S.D.N.Y., filed May 15, 1998). Action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On May 26, 1998, the court issued a preliminary injunction restraining the transfer or disposition of the individual's assets and appointing the Federal Reserve Bank of New York as receiver for those assets.

Board of Governors v. Pharaon, No. 98–6101 (2d Cir., filed May 4, 1998). Appeal of partial denial of Board's motion for summary judgment in action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On May 22, 1998, the appellee filed a cross-appeal from the partial final judgment.

Research Triangle Institute v. Board of Governors, No. 97–1719 (U.S. Supreme Court, filed April 28, 1998). Petition for writ of *certiorari* to review dismissal by the United States Court of Appeals for the Fourth Circuit of a contract claim against the Board. On October 5, 1998, the Supreme Court denied the writ.

Fenili v. Davidson, No. C-98–01568-CW (N.D. California, filed April 17, 1998). Tort and constitutional claim arising out of return of a check. On June 5, 1998, the Board filed its motion to dismiss.

Wilkins v. Warren, No. 98–1320 (4th Cir., filed March 2, 1998). Appeal of District Court dismissal of action involving customer dispute with a bank. On June 10, 1998, the court of appeals dismissed the appeal.

Logan v. Greenspan, No. 1:98CV00049 (D.D.C., filed January 9, 1998). Employment discrimination complaint.

Goldman v. Department of the Treasury, No. 1–97-CV-3798 (N.D. Ga., filed December 23, 1997). Declaratory judgment action challenging Federal Reserve notes as lawful money. On March 2, 1998, the Board filed a motion to dismiss the action.

Kerr v. Department of the Treasury, No. CV-S-97–01877-DWH (S.D. Nev., filed December 22, 1997). Challenge to income taxation and Federal Reserve notes. On September 3, 1998, a motion to dismiss was filed on behalf of all federal defendants.

Allen v. Indiana Western Mortgage Corp., No. 97–7744 RJK (C.D. Cal., filed November 12, 1997). Customer dispute with a bank. On March 23, 1998, the district court dismissed the action.

Patrick v. United States, No. 97–75564 (E.D. Mich., filed November 7, 1997). Action for damages arising out of tax dispute. On August 20, 1998, the district court dismissed the action as to all defendants.

Patrick v. United States, No. 97–75017 (E.D. Mich., filed September 30, 1997). Action for damages arising out of tax dispute. On August 20, 1998, the district court dismissed the action as to all defendants.

Artis v. Greenspan, No. 97–5235 (D.C. Cir., filed September 19, 1997). Appeal of district court order dismissing employment discrimination class action. On October 20, 1998, the court of appeals affirmed the dismissal.

Towe v. Board of Governors, No. 97–71143 (9th Cir., filed September 15, 1997). Petition for review of a Board order dated August 18, 1997, prohibiting Edward Towe and Thomas E. Towe from further participation in the banking industry.

In re: Subpoena Duces Tecum Served on the Office of the Comptroller of the Currency, No. 97–5229 (D.C. Cir., filed September 12, 1997). Appeal of district court order denying motion to compel production of pre-decisional supervisory documents and testimony sought in connection with an action by Bank of New England Corporation's trustee in bankruptcy against the Federal Deposit Insurance Corporation. On June 26, 1998, the court of appeals reversed and remanded the case to the district court. On August 10, 1998, the Board filed a petition for rehearing and suggestion for rehearing in banc. On October 6, 1998, the court amended its opinion and denied the petition.

Bettersworth v. Board of Governors, No. 97-CA-624 (W.D. Tex., filed August 21, 1997). Privacy Act case.

Greeff v. Board of Governors, No. 97–1976 (4th Cir., filed June 17, 1997). Petition for review of a Board order dated May 19, 1997, approving the application by Allied Irish Banks, plc, Dublin, Ireland, and First Maryland Bancorp, Baltimore, Maryland, to acquire Dauphin Deposit Corporation, Harrisburg, Pennsylvania, and thereby acquire Dauphin's banking and nonbanking subsidiaries. On August 14, 1998, the court of appeals denied the petition.

Final Enforcement Orders Issued by the Board of Governors

Jerome C. Bechstein
Perrysburg, Ohio

The Federal Reserve Board announced on October 15, 1998, the issuance of an Order of Prohibition against Jerome C. Bechstein, the former President, Chief Executive Officer, and a Director of the former Towne Bank, Perrysburg, Ohio, and the bank's former bank holding company, Towne Bancorp, Inc.

Lois A. Brigham
Perrysburg, Ohio

The Federal Reserve Board announced on October 15, 1998, the issuance of an Order of Prohibition against Lois A. Brigham, the former Senior Vice President and a Director of the former Towne Bank, Perrysburg, Ohio, and the bank's former bank holding company, Towne Bancorp, Inc.

Financial and Business Statistics

INTERNATIONAL STATISTICS

Summary Statistics

Reported by Banks in the United States

Reported by Nonbanking Business Enterprises in the United States

Securities Holdings and Transactions

Interest and Exchange Rates

Guide to Tabular Presentation

SYMBOLS AND ABBREVIATIONS

c	Corrected
e	Estimated
n.a.	Not available
p	Preliminary
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)
0	Calculated to be zero
. . .	Cell not applicable
ATS	Automatic transfer service
BIF	Bank insurance fund
CD	Certificate of deposit
CMO	Collateralized mortgage obligation
CRA	Community Reinvestment Act of 1977
FFB	Federal Financing Bank
FHA	Federal Housing Administration
FHLBB	Federal Home Loan Bank Board
FHLMC	Federal Home Loan Mortgage Corporation
FmHA	Farmers Home Administration
FNMA	Federal National Mortgage Association
FSLIC	Federal Savings and Loan Insurance Corporation
G-7	Group of Seven
G-10	Group of Ten
GNMA	Government National Mortgage Association
GDP	Gross domestic product
HUD	Department of Housing and Urban Development
IMF	International Monetary Fund
IO	Interest only
IPCs	Individuals, partnerships, and corporations
IRA	Individual retirement account
MMDA	Money market deposit account
MSA	Metropolitan statistical area
NOW	Negotiable order of withdrawal
OCD	Other checkable deposit
OPEC	Organization of Petroleum Exporting Countries
OTS	Office of Thrift Supervision
PMI	Private mortgage insurance
PO	Principal only
REIT	Real estate investment trust
REMIC	Real estate mortgage investment conduit
RP	Repurchase agreement
RTC	Resolution Trust Corporation
SCO	Securitized credit obligation
SDR	Special drawing right
SIC	Standard Industrial Classification
VA	Department of Veterans Affairs

GENERAL INFORMATION

In many of the tables, components do not sum to totals because of rounding.

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury.

"State and local government" also includes municipalities, special districts, and other political subdivisions.

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

Percent annual rate of change, seasonally adjusted[1]

Monetary or credit aggregate	1997	1998			1998				
	Q4	Q1	Q2	Q3	May	June	July	Aug.	Sept.
Reserves of depository institutions[2]									
1 Total	−2.8[r]	−1.9	−3.8	−7.4	−9.6	−5.3	−15.3	4.9	−10.9
2 Required	−5.6	−1.8	−2.5	−9.0	−4.7	−18.1	−8.8	1.0[r]	−16.1
3 Nonborrowed	−.8	−.6[r]	−4.3	−8.3	−11.7	−7.9	−15.5	4.6	−10.5
4 Monetary base[3]	7.9	6.9	4.1	6.9	4.7	6.2	5.0	8.9	11.5
Concepts of money, liquid assets, and debt[4]									
5 M1	.9	3.0	.2	−2.7	−3.3	−3.6	−3.2	−3.6	3.4
6 M2	7.0	8.0	7.5	6.7	3.0	5.3	4.7	8.3	15.6
7 M3	10.0	11.0	10.3[r]	7.0	7.4[r]	6.8[r]	1.3[r]	11.5[r]	15.1
8 L	9.2	12.8[r]	8.0[r]	n.a.	4.0[r]	7.2[r]	−.5[r]	9.3	n.a.
9 Debt	6.0	6.2	6.2[r]	n.a.	6.0[r]	5.5[r]	5.8[r]	5.9	n.a.
Nontransaction components									
10 In M2[5]	9.3	9.8	10.1	10.0	5.2	8.4	7.5	12.4	19.7
11 In M3 only[6]	19.5	20.3	18.8[r]	8.0	20.4[r]	10.9[r]	−8.6[r]	20.9[r]	13.8
Time and savings deposits									
Commercial banks									
12 Savings, including MMDAs	16.3	13.6	14.3	13.9	.4	10.9	16.8	14.9	21.5
13 Small time[7]	4.5	1.5	−1.0	.7	−4.4	−1.0[r]	.0[r]	5.6[r]	1.5
14 Large time[8,9]	9.9	19.5	18.0	−2.4	15.4	16.8[r]	−30.2[r]	11.5[r]	−1.6
Thrift institutions									
15 Savings, including MMDAs	1.4	7.6	11.6	6.9	16.3	3.6	8.2	2.7	8.1
16 Small time[7]	−3.1	−.4	−5.6	−4.9	−3.2	−1.1	−5.3[r]	−12.1[r]	1.1
17 Large time[8]	5.4	14.4	−.8	−4.0	−20.5	13.9	−9.6	−8.3[r]	2.8
Money market mutual funds									
18 Retail	15.1	19.3	21.7	21.8	20.1	20.8	5.5	33.1	48.3
19 Institution-only	22.0	18.9	36.5	21.6	38.7	28.7	−5.3	36.5	38.4
Repurchase agreements and Eurodollars									
20 Repurchase agreements[10]	39.5	34.1	14.5	10.3	7.9	−32.6	17.9	32.5[r]	32.1
21 Eurodollars[10]	24.3	7.6[r]	−7.7[r]	9.9	35.7[r]	13.9[r]	17.2[r]	4.2[r]	−33.7
Debt components[4]									
22 Federal	.4	.0	−1.4	n.a.	−4.0	−.9	−.9	−.8	n.a.
23 Nonfederal	7.9	8.3	8.7[r]	n.a.	9.3[r]	7.6[r]	7.9[r]	8.0	n.a.

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

2. Figures incorporate adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.20.)

3. The seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

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

M1 (1) currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions, (2) travelers checks of nonbank issuers, (3) demand deposits at all commercial banks other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float, and (4) other checkable deposits (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) savings (including MMDAs), (2) small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and (3) balances in retail money market mutual funds (money funds with minimum initial investments of less than $50,000). Excludes individual retirement accounts (IRAs) and Keogh balances at depository institutions and money market funds. Seasonally adjusted M2 is calculated by summing savings deposits, small-denomination time deposits, and retail money fund balances, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

M3: M2 plus (1) large-denomination time deposits (in amounts of $100,000 or more), (2) balances in institutional money funds (money funds with minimum initial investments of $50,000 or more), (3) RP liabilities (overnight and term) issued by all depository institutions, and (4) Eurodollars (overnight and term) held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Seasonally adjusted M3 is calculated by summing large time deposits, institutional money fund balances, RP liabilities, and Eurodollars, each seasonally adjusted separately, and adding this result to seasonally adjusted M2.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, net of money market fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: The debt aggregate is the outstanding credit market debt of the domestic nonfinancial sectors—the federal sector (U.S. government, not including government-sponsored enterprises or federally related mortgage pools) and the nonfederal sectors (state and local governments, households and nonprofit organizations, nonfinancial corporate and nonfarm noncorporate businesses, and farms). Nonfederal debt consists of mortgages, tax-exempt and corporate bonds, consumer credit, bank loans, commercial paper, and other loans. The data, which are derived from the Federal Reserve Board's flow of funds accounts, are break-adjusted (that is, discontinuities in the data have been smoothed into the series) and month-averaged (that is, the data have been derived by averaging adjacent month-end levels).

5. Sum of (1) savings deposits (including MMDAs), (2) small time deposits, and (3) retail money fund balances, each seasonally adjusted separately.

6. Sum of (1) large time deposits, (2) institutional money fund balances, (3) RP liabilities (overnight and term) issued by depository institutions, and (4) Eurodollars (overnight and term) of U.S. addressees, each seasonally adjusted separately.

7. Small time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits.

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

9. Large time deposits at commercial banks less those held by money market funds, depository institutions, the U.S. government, and foreign banks and official institutions.

10. Includes both overnight and term.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT[1]

Millions of dollars

Factor	Average of daily figures			Average of daily figures for week ending on date indicated						
	1998			1998						
	July	Aug.	Sept.	Aug. 19	Aug. 26	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	479,603	481,257	486,639	479,828	480,993	483,827	486,271	486,799	486,081	487,908
U.S. government securities[2]										
2 Bought outright—System account[3]	440,572	441,902	444,223	441,783	442,278	442,322	443,535	442,785	444,810	446,239
3 Held under repurchase agreements	4,662	3,072	6,303	1,949	2,812	5,050	6,150	8,038	5,675	5,441
Federal agency obligations										
4 Bought outright	526	469	417	451	451	451	451	403	403	403
5 Held under repurchase agreements	838	3,013	1,923	2,932	3,638	3,425	2,959	1,729	1,521	1,170
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions										
7 Adjustment credit	55	27	56	45	4	12	63	27	11	138
8 Seasonal credit	215	247	177	256	254	234	184	167	174	172
9 Extended credit	0	0	0	0	0	0	0	0	0	0
10 Float	377	414	622	343	421	604	379	530	678	797
11 Other Federal Reserve assets	32,358	32,113	32,918	32,069	31,135	31,729	32,549	33,120	32,808	33,549
12 Gold stock	11,047	11,045	11,045	11,044	11,044	11,046	11,046	11,045	11,045	11,045
13 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
14 Treasury currency outstanding	25,855	25,888	25,948	25,888	25,902	25,916	25,930	25,944	25,958	25,972
ABSORBING RESERVE FUNDS										
15 Currency in circulation	485,999	487,890	492,780	488,159	487,775	488,715	492,825	493,787	492,395	492,771
16 Treasury cash holdings	188	120	93	132	93	94	92	92	94	93
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	5,430	5,130	6,296	5,450	4,905	5,400	5,396	5,869	7,144	6,989
18 Foreign	170	167	176	164	167	166	162	175	165	201
19 Service-related balances and adjustments	6,919[r]	6,979	6,911	6,860	7,167[r]	6,870	6,875	6,827	6,946	7,009
20 Other	277	347	360	354	373	365	358	358	370	353
21 Other Federal Reserve liabilities and capital	16,832	16,922	17,160	16,846	17,077	17,135	17,251	16,998	17,168	17,206
22 Reserve balances with Federal Reserve Banks[4]	9,891	9,836	9,057	7,996	9,582[r]	11,244	9,488	8,881	8,002	9,503

Factor	End-of-month figures			Wednesday figures						
	July	Aug.	Sept.	Aug. 19	Aug. 26	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	482,030	487,877[r]	496,372	478,560	488,228	483,254	494,426	486,641	491,427	496,372
U.S government securities[2]										
2 Bought outright—System account[3]	440,612	442,135	446,047	442,059	441,355	441,976	443,499	442,835	445,804	446,047
3 Held under repurchase agreements	7,266	7,942	12,135	1,986	9,272	5,110	10,965	9,106	8,630	12,135
Federal agency obligations										
4 Bought outright	526	451	403	451	451	451	451	403	403	403
5 Held under repurchase agreements	760	3,566	2,099	3,148	4,964	3,076	4,104	795	2,075	2,099
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions										
7 Adjustment credit	2	66	896	0	1	4	4	31	9	896
8 Seasonal credit	239	226	159	261	259	217	182	173	177	159
9 Extended credit	0	0	0	0	0	0	0	0	0	0
10 Float	−267	973[r]	−1,229	220	271	668	1,776	142	836	−1,229
11 Other Federal Reserve assets	32,893	32,518	35,862	30,435	31,656	31,753	33,446	33,157	33,495	35,862
12 Gold stock	11,046	11,046	11,044	11,042	11,046	11,046	11,044	11,045	11,045	11,044
13 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
14 Treasury currency outstanding	25,860	25,916	25,972	25,888	25,902	25,916	25,930	25,944	25,958	25,972
ABSORBING RESERVE FUNDS										
15 Currency in circulation	486,038	488,577	494,221	488,912	489,033	491,008	494,609	493,960	493,325	494,221
16 Treasury cash holdings	141	94	92	93	94	92	92	94	93	92
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	4,648	6,704	4,952	4,372	4,331	5,372	4,940	6,265	7,508	4,952
18 Foreign	161	162	347	160	162	191	171	163	166	347
19 Service-related balances and adjustments	6,976	6,870[r]	7,009	6,860	7,167[r]	6,870	6,875	6,827	6,946	7,009
20 Other	264	332	349	378	365	362	354	357	388	349
21 Other Federal Reserve liabilities and capital	16,830	17,420	17,654	16,560	16,899	16,990	16,832	16,734	16,952	17,654
22 Reserve balances with Federal Reserve Banks[4]	13,078	13,881	17,965	7,355	16,323[r]	8,531	16,728	8,430	12,253	17,965

1. Amounts of cash held as reserves are shown in table 1.12, line 2.
2. Includes securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale–purchase transactions.
3. Includes compensation that adjusts for the effects of inflation on the principal of inflation-indexed securities.
4. Excludes required clearing balances and adjustments to compensate for float

1.12 RESERVES AND BORROWINGS Depository Institutions[1]

Millions of dollars

Reserve classification	Prorated monthly averages of biweekly averages									
	1995	1996	1997	1998						
	Dec.	Dec.	Dec.	Mar.	Apr.	May	June	July	Aug.[r]	Sept.
1 Reserve balances with Reserve Banks[2]	20,440	13,395	10,673	10,138[r]	11,053	9,646	9,668	9,646	9,682	9,285
2 Total vault cash[3]	42,281	44,525	44,707	41,598	41,215	41,482	42,635	42,035[r]	42,121	42,579
3 Applied vault cash[4]	37,460	37,848	37,206	35,370	35,423	35,159	35,427	34,954	35,025	34,910
4 Surplus vault cash[5]	4,821	6,678	7,500	6,228	5,792	6,323	7,208	7,081[r]	7,095	7,669
5 Total reserves[6]	57,900	51,242[r]	47,880	45,507[r]	46,475	44,805	45,095	44,600	44,707	44,195
6 Required reserves	56,622	49,819	46,196	44,193	45,131	43,655	43,475	43,235	43,194	42,509
7 Excess reserve balances at Reserve Banks[7]	1,278	1,423[r]	1,683	1,314[r]	1,345	1,150	1,620	1,365	1,513	1,686
8 Total borrowings at Reserve Banks[8]	257	155	324	41	72	153	251	258	271	251
9 Seasonal borrowings	40	68	79	22	41	94	159	215	242	178
10 Extended credit[9]	0	0	0	0	0	0	0	0	0	0
	Biweekly averages of daily figures for two week periods ending on dates indicated									
	1998									
	June 3	June 17	July 1	July 15	July 29	Aug. 12	Aug. 26	Sept. 9[r]	Sept. 23	Oct. 7
1 Reserve balances with Reserve Banks[2]	9,898	9,339[r]	9,969	10,225	8,933	10,428	8,800[r]	10,363	8,439	9,595
2 Total vault cash[3]	41,277	43,592	41,919	42,101	41,984[r]	41,984[r]	42,355[r]	41,793	42,900	42,948
3 Applied vault cash[4]	34,969	35,867	35,060	35,102	34,770	35,157	35,024	34,712	35,039	34,906
4 Surplus vault cash[5]	6,307	7,725	6,859	6,999	7,214[r]	6,827[r]	7,330[r]	7,081	7,862	8,042
5 Total reserves[6]	44,867	45,206	45,029	45,326[r]	43,703	45,585	43,824[r]	45,075	43,477	44,501
6 Required reserves	43,597	43,676	43,232	43,999	42,341	44,147	42,392	43,153	42,093	42,515
7 Excess reserve balances at Reserve Banks[7]	1,270	1,530	1,797	1,327[r]	1,362	1,437	1,431	1,922	1,384	1,985
8 Total borrowings at Reserve Banks[8]	178	236	285	198	314	271	280	247	190	379
9 Seasonal borrowings	123	145	184	196	233	241	255	209	171	152
10 Extended credit[9]	0	0	0	0	0	0	0	0	0	0

1 Data in this table also appear in the Board's H.3 (502) weekly statistical release. For ordering address, see inside front cover. Data are not break-adjusted or seasonally adjusted.

2. Excludes required clearing balances and adjustments to compensate for float and includes other off-balance-sheet "as-of" adjustments.

3. Total "lagged" vault cash held by depository institutions subject to reserve requirements. Dates refer to the maintenance periods during which the vault cash may be used to satisfy reserve requirements. The maintenance period for weekly reporters ends sixteen days after the lagged computation period during which the vault cash is held. Before Nov. 25, 1992, the maintenance period ended thirty days after the lagged computation period.

4. All vault cash held during the lagged computation period by "bound" institutions (that is, those whose required reserves exceed their vault cash) plus the amount of vault cash applied during the maintenance period by "nonbound" institutions (that is, those whose vault cash exceeds their required reserves) to satisfy current reserve requirements.

5. Total vault cash (line 2) less applied vault cash (line 3).

6. Reserve balances with Federal Reserve Banks (line 1) plus applied vault cash (line 3)

7. Total reserves (line 5) less required reserves (line 6).

8. Also includes adjustment credit.

9. Consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as with traditional short-term adjustment credit, the money market effect of extended credit is similar to that of nonborrowed reserves.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit[1]			Seasonal credit[2]			Extended credit[3]		
	On 11/27/98	Effective date	Previous rate	On 11/27/98	Effective date	Previous rate	On 11/27/98	Effective date	Previous rate
Boston	4.50	11/18/98	4.75	5.05	11/19/98	5.15	5.55	11/19/98	5.65
New York		11/17/98							
Philadelphia		11/17/98							
Cleveland		11/19/98							
Richmond		11/18/98							
Atlanta		11/18/98							
Chicago		11/19/98							
St. Louis		11/19/98							
Minneapolis		11/19/98							
Kansas City		11/18/98							
Dallas		11/17/98							
San Francisco	4.50	11/17/98	4.75	5.05	11/19/98	5.15	5.55	11/19/98	5.65

Range of rates for adjustment credit in recent years[4]

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1977	6	6
1978—Jan. 9	6–6.5	6.5
20	6.5	6.5
May 11	6.5–7	7
12	7	7
July 3	7–7.25	7.25
10	7.25	7.25
Aug. 21	7.75	7.75
Sept. 22	8	8
Oct. 16	8–8.5	8.5
20	8.5	8.5
Nov. 1	8.5–9.5	9.5
3	9.5	9.5
1979—July 20	10	10
Aug. 17	10–10.5	10.5
20	10.5	10.5
Sept. 19	10.5–11	11
21	11	11
Oct. 8	11–12	12
10	12	12
1980—Feb. 15	12–13	13
19	13	13
May 29	12–13	13
30	12	12
June 13	11–12	11
16	11	11
July 28	10–11	10
29	10	10
Sept. 26	11	11
Nov. 17	12	12
Dec. 5	12–13	13
8	13	13
1981—May 5	13–14	14
8	14	14
1981—Nov. 2	13–14	13
6	13	13
Dec. 4	12	12
1982—July 20	11.5–12	11.5
23	11.5	11.5
Aug. 2	11–11.5	11
3	11	11
16	10.5	10.5
27	10–10.5	10
30	10	10
Oct. 12	9.5–10	9.5
13	9.5	9.5
Nov. 22	9–9.5	9
26	9	9
Dec. 14	8.5–9	9
15	8.5–9	8.5
17	8.5	8.5
1984—Apr. 9	8.5–9	9
13	9	9
Nov. 21	8.5–9	8.5
26	8.5	8.5
Dec. 24	8	8
1985—May 20	7.5–8	7.5
24	7.5	7.5
1986—Mar. 7	7–7.5	7
10	7	7
Apr. 21	6.5–7	6.5
23	6.5	6.5
July 11	6	6
Aug. 21	5.5–6	5.5
22	5.5	5.5
1987—Sept. 4	5.5–6	6
11	6	6
1988—Aug. 9	6–6.5	6.5
11	6.5	6.5
1989—Feb. 24	6.5–7	7
27	7	7
1990—Dec. 19	6.5	6.5
1991—Feb. 1	6–6.5	6
4	6	6
Apr. 30	5.5–6	5.5
May 2	5.5	5.5
Sept. 13	5–5.5	5
17	5	5
Nov. 6	4.5–5	4.5
7	4.5	4.5
Dec. 20	3.5–4.5	3.5
24	3.5	3.5
1992—July 2	3–3.5	3
7	3	3
1994—May 17	3–3.5	3.5
18	3.5	3.5
Aug. 16	3.5–4	4
18	4	4
Nov. 15	4–4.75	4.75
17	4.75	4.75
1995—Feb. 1	4.75–5.25	5.25
9	5.25	5.25
1996—Jan. 31	5.00–5.25	5.00
Feb. 5	5.00	5.00
1998—Oct. 15	4.75–5.00	4.75
Oct. 16	4.75	4.75
1998—Nov. 17	4.50–4.75	4.50
Nov. 19	4.50	4.50
In effect Nov. 27, 1998	4.50	4.50

1. Available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. The highest rate established for loans to depository institutions may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

2. Available to help relatively small depository institutions meet regular seasonal needs for funds that arise from a clear pattern of intrayearly movements in their deposits and loans and that cannot be met through special industry lenders. The discount rate on seasonal credit takes into account rates charged by market sources of funds and ordinarily is reestablished on the first business day of each two-week reserve maintenance period; however, it is never less than the discount rate applicable to adjustment credit.

3. May be made available to depository institutions when similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided when exceptional circumstances (including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance) or practices involve only a particular institution, or to meet the needs of institutions experiencing difficulties adjusting to changing market conditions over a longer period (particularly at times of deposit disintermediation). The discount rate applicable to adjustment credit ordinarily is charged on extended-credit loans outstanding less than thirty days; however, at the discretion of the Federal Reserve Bank, this time period may be shortened. Beyond this initial period, a flexible rate somewhat above rates charged on market sources of funds is charged. The rate ordinarily is reestablished on the first business day of each two-week reserve maintenance period, but it is never less than the discount rate applicable to adjustment credit plus 50 basis points.

4. For earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*; and the *Annual Statistical Digest, 1970–1979*.

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment-credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than four weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980. A surcharge of 2 percent was reimposed on Nov. 17, 1980; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12, 1981. As of Oct. 1, 1981, the formula for applying the surcharge was changed from a calendar quarter to a moving thirteen-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

	Type of deposit	Requirement	
		Percentage of deposits	Effective date
	Net transaction accounts[2]		
1	$0 million–$47.8 million[3]	3	1/1/98
2	More than $47.8 million[4]	10	1/1/98
3	Nonpersonal time deposits[5]	0	12/27/90
4	Eurocurrency liabilities[6]	0	12/27/90

1. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmember institutions may maintain reserve balances with a Federal Reserve Bank indirectly, on a pass-through basis, with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* or the *Federal Reserve Bulletin*. Under the Monetary Control Act of 1980, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge Act corporations.

2. Transaction accounts include all deposits against which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, or telephone or preauthorized transfers for the purpose of making payments to third persons or others. However, accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month (of which no more than three may be by check, draft, debit card, or similar order payable directly to third parties) are savings deposits, not transaction accounts.

3. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage change in transaction accounts held by all depository institutions, determined as of June 30 of each year. Effective with the reserve maintenance period beginning January 1, 1998, for depository institutions that report weekly, and with the period beginning January 15, 1998, for institutions that report quarterly, the amount was decreased from $49.3 million to $47.8 million.

Under the Garn–St Germain Depository Institutions Act of 1982, the Board adjusts the amount of reservable liabilities subject to a zero percent reserve requirement each year for the succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is made in the event of a decrease. The exemption applies only to accounts that would be subject to a 3 percent reserve requirement. Effective with the reserve maintenance period beginning January 1, 1998, for depository institutions that report weekly, and with the period beginning January 15, 1998, for institutions that report quarterly, the exemption was raised from $4.4 million to $4.7 million.

4. The reserve requirement was reduced from 12 percent to 10 percent on Apr. 2, 1992, for institutions that report weekly, and on Apr 16, 1992, for institutions that report quarterly.

5. For institutions that report weekly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to 1½ percent for the maintenance period that began Dec. 13, 1990, and to zero for the maintenance period that began Dec. 27, 1990. For institutions that report quarterly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to zero on Jan. 17, 1991.

The reserve requirement on nonpersonal time deposits with an original maturity of 1½ years or more has been zero since Oct. 6, 1983.

6. The reserve requirement on Eurocurrency liabilities was reduced from 3 percent to zero in the same manner and on the same dates as the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years (see note 5).

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS[1]

Millions of dollars

Type of transaction and maturity	1995	1996	1997	1998 Feb.	Mar.	Apr.	May	June	July	Aug.
U.S. TREASURY SECURITIES[2]										
Outright transactions (excluding matched transactions)										
Treasury bills										
1 Gross purchases	10,932	9,901	9,147	0	0	3,550	0	0	0	0
2 Gross sales	0	0	0	0	0	0	0	0	0	0
3 Exchanges	405,296	426,928	436,257	35,495	34,025	46,802	35,190	32,830	40,312	34,607
4 For new bills	405,296	426,928	435,907	35,495	34,025	46,802	35,190	32,830	40,312	34,607
5 Redemptions	900	0	0	0	0	0	0	0	0	0
Others within one year										
6 Gross purchases	390	524	5,549	0	1,501	1,369	0	0	0	986
7 Gross sales	0	0	0	0	0	0	0	0	0	0
8 Maturity shifts	43,574	30,512	41,716	6,098	1,964	4,369	6,951	1,520	2,638	6,367
9 Exchanges	−35,407	−41,394	−27,499	−6,128	−5,736	−2,601	−4,990	−5,084	−2,242	−8,964
10 Redemptions	1,776	2,015	1,996	0	0	286	0	0	1,311	0
One to five years										
11 Gross purchases	5,366	3,898	19,680	0	2,262	2,993	0	0	0	535
12 Gross sales	0	0	0	0	0	0	0	0	0	0
13 Maturity shifts	−34,646	−25,022	−37,987	−3,213	−1,964	−4,369	−6,620	−1,520	−2,638	−2,168
14 Exchanges	26,387	31,459	20,274	3,383	5,736	2,201	2,270	5,084	1,842	5,828
Five to ten years										
15 Gross purchases	1,432	1,116	3,849	0	283	495	0	0	0	303
16 Gross sales	0	0	0	0	0	0	0	0	0	0
17 Maturity shifts	−3,093	−5,469	−1,954	−2,884	0	0	−331	0	0	−3,411
18 Exchanges	7,220	6,666	5,215	1,420	0	0	2,720	0	0	1,364
More than ten years										
19 Gross purchases	2,529	1,655	5,897	0	743	0	0	0	0	1,769
20 Gross sales	0	0	0	0	0	0	0	0	0	0
21 Maturity shifts	−2,253	−20	−1,775	0	0	0	0	0	0	−789
22 Exchanges	1,800	3,270	2,360	1,325	0	400	0	0	400	1,772
All maturities										
23 Gross purchases	20,649	17,094	44,122	0	4,789	8,407	0	0	0	3,593
24 Gross sales	0	0	0	0	0	0	0	0	0	0
25 Redemptions	2,676	2,015	1,996	0	0	286	0	0	1,311	0
Matched transactions										
26 Gross purchases	2,197,736	3,092,399	3,577,954	326,813	364,307	354,756	367,934	369,358	373,285	346,245
27 Gross sales	2,202,030	3,094,769	3,580,274	326,235	364,537	354,741	368,281	370,569	371,142	348,318
Repurchase agreements										
28 Gross purchases	331,694	457,568	810,485	33,428	40,211	59,548	7,722	57,098	52,116	39,078
29 Gross sales	328,497	450,359	809,268	30,583	37,010	50,663	20,456	41,414	63,531	38,402
30 Net change in U.S. Treasury securities	16,875	19,919	41,022	3,423	7,760	17,021	−13,081	14,473	−10,584	2,196
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
31 Gross purchases	0	0	0	0	0	0	0	0	0	0
32 Gross sales	0	0	0	0	0	0	0	0	0	25
33 Redemptions	1,003	409	1,540	10	50	74	0	25	0	50
Repurchase agreements										
34 Gross purchases	36,851	75,354	160,409	9,615	17,685	13,547	1,575	14,548	11,236	33,431
35 Gross sales	36,776	74,842	159,369	8,776	18,342	13,042	3,300	12,913	12,341	30,625
36 Net change in federal agency obligations	−928	103	−500	829	−707	431	−1,725	1,610	−1,105	2,731
37 **Total net change in System Open Market Account**	**15,948**	**20,021**	**40,522**	**4,252**	**7,053**	**17,452**	**−14,806**	**16,083**	**−11,689**	**4,927**

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings.

2. Transactions exclude changes in compensation for the effects of inflation on the principal of inflation-indexed securities.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements[1]

Millions of dollars

Account	Wednesday					End of month		
	1998					1998		
	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30	July 31	Aug. 31	Sept. 30
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,046	11,044	11,045	11,045	11,044	11,046	11,046	11,044
2 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
3 Coin	410	397	395	412	417	435	423	417
Loans								
4 To depository institutions	221	186	203	185	1,055	241	293	1,055
5 Other	0	0	0	0	0	0	0	0
6 Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations								
7 Bought outright	451	451	403	403	403	526	451	403
8 Held under repurchase agreements	3,076	4,104	795	2,075	2,099	760	3,566	2,099
9 **Total U.S. Treasury securities**	**447,086**	**454,464**	**451,941**	**454,434**	**458,182**	**447,878**	**450,077**	**458,182**
10 Bought outright[2]	441,976	443,499	442,835	445,804	446,047	440,612	442,135	446,047
11 Bills	197,174	198,696	198,032	196,851	195,864	199,407	197,334	195,864
12 Notes	178,827	178,827	178,828	182,977	184,186	178,887	178,826	184,186
13 Bonds	65,975	65,975	65,975	65,976	65,996	62,318	65,975	65,996
14 Held under repurchase agreements	5,110	10,965	9,106	8,630	12,135	7,266	7,942	12,135
15 **Total loans and securities**	**450,833**	**459,204**	**453,342**	**457,096**	**461,738**	**449,404**	**454,386**	**461,738**
16 Items in process of collection	8,311	10,537	7,676	7,187	6,454	4,677	2,465	6,454
17 Bank premises	1,293	1,296	1,297	1,297	1,295	1,289	1,293	1,295
Other assets								
18 Denominated in foreign currencies[3]	17,604	17,612	17,621	17,630	18,448	17,282	17,601	18,448
19 All other[4]	12,887	14,593	14,198	14,543	15,880	14,378	13,671	15,880
20 **Total assets**	**511,585**	**523,883**	**514,774**	**518,410**	**524,476**	**507,711**	**510,087**	**524,476**
LIABILITIES								
21 Federal Reserve notes	465,594	469,168	468,505	467,872	468,759	460,754	463,179	468,759
22 **Total deposits**	**21,298**	**29,135**	**22,353**	**27,387**	**31,353**	**25,312**	**27,520**	**31,353**
23 Depository institutions	15,373	23,670	15,567	19,325	25,706	20,239	20,321	25,706
24 U.S. Treasury—General account	5,372	4,940	6,265	7,508	4,952	4,648	6,704	4,952
25 Foreign—Official accounts	191	171	163	166	347	161	162	347
26 Other	362	354	357	388	349	264	332	349
27 Deferred credit items	7,702	8,748	7,182	6,200	6,711	4,816	1,968	6,711
28 Other liabilities and accrued dividends[5]	4,698	4,690	4,540	4,762	4,637	4,818	4,750	4,637
29 **Total liabilities**	**499,292**	**511,741**	**502,580**	**506,220**	**511,460**	**495,699**	**497,417**	**511,460**
CAPITAL ACCOUNTS								
30 Capital paid in	5,865	5,945	5,950	5,912	5,910	5,822	5,866	5,910
31 Surplus	5,220	5,220	5,220	5,220	5,220	5,220	5,220	5,220
32 Other capital accounts	1,207	976	1,023	1,058	1,886	970	1,583	1,886
33 **Total liabilities and capital accounts**	**511,585**	**523,883**	**514,774**	**518,410**	**524,476**	**507,711**	**510,087**	**524,476**
MEMO								
34 Marketable U.S. Treasury securities held in custody for foreign and international accounts	566,887	562,649	553,835	558,948	564,692	595,603	573,571	564,692
	Federal Reserve note statement							
35 Federal Reserve notes outstanding (issued to Banks)	575,063	576,139	577,941	579,127	580,575	570,428	574,813	580,575
36 LESS: Held by Federal Reserve Banks	109,469	106,971	109,436	111,255	111,817	109,674	111,635	111,817
37 Federal Reserve notes, net	465,594	469,168	468,505	467,872	468,759	460,754	463,179	468,759
Collateral held against notes, net								
38 Gold certificate account	11,046	11,044	11,045	11,045	11,044	11,046	11,046	11,044
39 Special drawing rights certificate account	9,200	9,200	9,200	9,200	9,200	9,200	9,200	9,200
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. Treasury and agency securities	445,348	448,924	448,260	447,626	448,515	440,508	442,932	448,515
42 **Total collateral**	**465,594**	**469,168**	**468,505**	**467,872**	**468,759**	**460,754**	**463,179**	**468,759**

1. Some of the data in this table also appear in the Board's H.4.1 (503) weekly statistical release. For ordering address, see inside front cover.
2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and includes compensation that adjusts for the effects of inflation on the principal of inflation-indexed securities. Excludes securities sold and scheduled to be bought back under matched sale–purchase transactions.
3. Valued monthly at market exchange rates.
4. Includes special investment account at the Federal Reserve Bank of Chicago in Treasury bills maturing within ninety days.
5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign exchange commitments.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holding

Millions of dollars

Type of holding and maturity	Wednesday					End of month		
	1998					1998		
	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30	July 31	Aug. 31	Sept. 30
1 **Total loans**	**221**	**186**	**203**	**185**	**1,055**	**241**	**293**	**233**
2 Within fifteen days[1]	60	46	189	173	973	107	176	155
3. Sixteen days to ninety days	161	140	15	12	82	134	117	78
4 **Total U.S. Treasury securities**[2]	**447,086**	**454,464**	**451,941**	**454,434**	**458,182**	**447,878**	**442,135**	**458,182**
5 Within fifteen days[1]	13,326	20,087	24,463	17,677	20,310	13,538	15,104	20,310
6 Sixteen days to ninety days	93,050	93,576	92,841	92,715	90,644	98,052	92,231	90,644
7 Ninety-one days to one year	143,965	144,055	137,890	144,183	145,875	145,377	145,997	145,875
8 One year to five years	101,535	101,535	101,535	104,646	105,789	96,711	101,535	105,789
9 Five years to ten years	41,276	41,276	41,276	41,276	41,628	43,018	41,276	41,628
10 More than ten years	53,934	53,935	53,935	53,935	53,936	51,181	53,935	53,936
11 **Total federal agency obligations**	**3,527**	**4,555**	**1,198**	**2,478**	**2,502**	**1,286**	**4,017**	**2,502**
12 Within fifteen days[1]	3,124	4,152	795	2,075	2,099	810	3,614	2,099
13 Sixteen days to ninety days	5	5	50	50	50	48	5	50
14 Ninety-one days to one year	120	120	75	75	75	114	120	75
15 One year to five years	93	93	93	93	93	104	93	93
16 Five years to ten years	185	185	185	185	185	185	185	185
17 More than ten years	n.a.	n.a.	n.a.	n.a.	n.a.	25	n.a.	n.a.

1. Holdings under repurchase agreements are classified as maturing within fifteen days in accordance with maximum maturity of the agreements.

2. Includes compensation that adjusts for the effects of inflation on the principal of inflation-indexed securities.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE[1]

Billions of dollars, averages of daily figures

Item	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	1998 Feb.	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.
					Seasonally adjusted							
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]												
1 Total reserves[3]	59.41	56.40	50.08	46.67	45.72	46.05	45.96	45.59	45.39	44.81	45.00	44.59
2 Nonborrowed reserves[4]	59.20	56.14	49.93	46.35	45.66	46.00[r]	45.89	45.44	45.14	44.56	44.73	44.34
3 Nonborrowed reserves plus extended credit[5]	59.20	56.14	49.93	46.35	45.66	46.00[r]	45.89	45.44	45.14	44.56	44.73	44.34
4 Required reserves	58.24	55.12	48.66	44.99	44.20	44.73	44.61	44.44	43.77	43.45	43.48	42.90
5 Monetary base[6]	418.12	434.17	452.38	480.15	484.23	485.86	487.20	489.10	491.63	493.67	497.31	502.09
					Not seasonally adjusted							
6 Total reserves[7]	61.13	58.02	51.52	47.97	44.99	45.54[r]	46.53	44.87	45.17	44.69	44.81	44.31
7 Nonborrowed reserves	60.92	57.76	51.37	47.65	44.94	45.50	46.45	44.71	44.92	44.43	44.54	44.06
8 Nonborrowed reserves plus extended credit[5]	60.92	57.76	51.37	47.65	44.94	45.50	46.45	44.71	44.92	44.43	44.54	44.06
9 Required reserves[8]	59.96	56.74	50.10	46.29	43.47	44.23	45.18	43.72	43.55	43.32	43.30[r]	42.63
10 Monetary base[9]	422.51	439.03	456.72	485.11	481.35	484.00	487.36	488.28	491.18	495.32	497.49	500.98
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[10]												
11 Total reserves[11]	61.34	57.90	51.24	47.88	44.97	45.51	46.48	44.81	45.10	44.60	44.71	44.20
12 Nonborrowed reserves	61.13	57.64	51.09	47.56	44.92	45.47	46.40	44.65	44.84	44.34	44.44	43.94
13 Nonborrowed reserves plus extended credit[5]	61.13	57.64	51.09	47.56	44.92	45.47	46.40	44.65	44.84	44.34	44.44	43.94
14 Required reserves	60.17	56.62	49.82	46.20	43.45	44.19	45.13	43.66	43.48	43.24	43.19	42.51
15 Monetary base[12]	427.25	444.45	463.49	491.92	488.41	490.96	494.11	494.95	497.93	502.17	504.39	507.79
16 Excess reserves[13]	1.17	1.28	1.42	1.68	1.52	1.31[r]	1.35	1.15	1.62	1.37	1.51[r]	1.69
17 Borrowings from the Federal Reserve	.21	.26	.16	.32	.06	.04	.07	.15	.25	.26	.27	.25

1. Latest monthly and biweekly figures are available from the Board's H.3 (502) weekly statistical release. Historical data starting in 1959 and estimates of the effect on required reserves of changes in reserve requirements are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

2. Figures reflect adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.10.)

3. Seasonally adjusted, break-adjusted total reserves equal seasonally adjusted, break-adjusted required reserves (line 4) plus excess reserves (line 16).

4. Seasonally adjusted, break-adjusted nonborrowed reserves equal seasonally adjusted, break-adjusted total reserves (line 1) less total borrowings of depository institutions from the Federal Reserve (line 17).

5. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as with traditional short-term adjustment credit, the money market effect of extended credit is similar to that of nonborrowed reserves.

6. The seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

7. Break-adjusted total reserves equal break-adjusted required reserves (line 9) plus excess reserves (line 16).

8. To adjust required reserves for discontinuities that are due to regulatory changes in reserve requirements, a multiplicative procedure is used to estimate what required reserves would have been in past periods had current reserve requirements been in effect. Break-adjusted required reserves include required reserves against transactions deposits and nonpersonal time and savings deposits (but not reservable nondeposit liabilities).

9. The break-adjusted monetary base equals (1) break-adjusted total reserves (line 6), plus (2) the (unadjusted) currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

10. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with regulatory changes in reserve requirements.

11. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements.

12. The monetary base, not break-adjusted and not seasonally adjusted, consists of (1) total reserves (line 11), plus (2) required clearing balances and adjustments to compensate for float at Federal Reserve Banks, plus (3) the currency component of the money stock, plus (4) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the difference between current vault cash and the amount applied to satisfy current reserve requirements. Since the introduction of contemporaneous reserve requirements in February 1984, currency and vault cash figures have been measured over the computation periods ending on Mondays.

13. Unadjusted total reserves (line 11) less unadjusted required reserves (line 14).

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES[1]

Billions of dollars, averages of daily figures

Item	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	1998 June	1998 July	1998 Aug.	1998 Sept.
	Seasonally adjusted							
Measures[2]								
1 M1	1,150.7	1,128.7	1,082.8	1,076.0	1,074.5	1,071.6	1,068.4	1,071.4
2 M2	3,503.0	3,651.2	3,826.1	4,046.4	4,196.1	4,212.7	4,242.0	4,297.1
3 M3	4,333.6	4,595.6	4,931.1	5,376.8	5,645.9r	5,652.1r	5,706.5r	5,778.4
4 L	5,315.8	5,702.3	6,083.6	6,611.3	6,927.8r	6,925.0r	6,978.9	n.a.
5 Debt	12,999.5	13,697.6	14,425.2	15,167.8	15,633.1r	15,708.4r	15,785.3	n.a
M1 components								
6 Currency[3]	354.3	372.4	394.9	425.5	438.2	441.2	443.7	449.5
7 Travelers checks[4]	8.5	8.9	8.6	8.2	7.8	7.7	7.8	7.9
8 Demand deposits[5]	384.0	391.0	403.6	397.1	383.1	377.9	373.9r	373.1
9 Other checkable deposits[6]	403.9	356.4	275.9	245.2	245.4	244.7	243.1	241.0
Nontransaction components								
10 In M2[7]	2,352.3	2,522.6	2,743.2	2,970.4	3,121.6	3,141.1r	3,173.6r	3,225.6
11 In M3 only[8]	830.6	944.4	1,105.0	1,330.4	1,449.8r	1,439.4r	1,464.5r	1,481.3
Commercial banks								
12 Savings deposits, including MMDAs	752.6	775.0	904.8	1,020.9	1,088.4	1,103.6	1,117.3	1,137.3
13 Small time deposits[9]	503.2	575.8	594.5	625.7	623.5	623.5r	626.4	627.2
14 Large time deposits[10, 11]	298.7	345.4	413.2	487.5	536.0r	522.5r	527.5r	526.8
Thrift institutions								
15 Savings deposits, including MMDAs	397.3	359.7	366.9	376.6	396.4	399.1	400.0	402.7
16 Small time deposits[9]	314.2	357.2	354.3	343.9	338.9	337.4r	334.0	334.3
17 Large time deposits[10]	64.7	74.2	78.0	85.4	87.5	86.8	86.2r	86.4
Money market mutual funds								
18 Retail	385.0	454.9	522.8	603.2	674.3	677.4	696.1	724.1
19 Institution-only	203.1	253.9	310.3	376.2	432.1	430.2	443.3	457.5
Repurchase agreements and Eurodollars								
20 Repurchase agreements[12]	183.3	182.4	194.2	236.1	254.3	258.1	265.1r	272.2
21 Eurodollars[12]	80.8	88.6	109.2	145.3	139.9r	141.9r	142.4r	138.4
Debt components								
22 Federal debt	3,492.4	3,638.9	3,780.6	3,798.4	3,775.7	3,772.9	3,770.3	n.a
23 Nonfederal debt	9,507.0	10,058.7	10,644.7	11,369.4	11,857.4r	11,935.5r	12,015.0	n.a.
	Not seasonally adjusted							
Measures[2]								
24 M1	1,174.4	1,152.4	1,104.9	1,097.6	1,073.8	1,072.5	1,067.1	1,068.2
25 M2	3,523.4	3,672.0	3,845.4	4,065.3	4,191.2	4,213.2r	4,246.5	4,288.3
26 M3	4,353.2	4,615.2	4,948.9	5,394.0	5,635.8r	5,644.0r	5,707.6r	5,762.8
27 L	5,344.6	5,732.8	6,111.6	6,636.7r	6,909.8r	6,910.3r	6,980.5	n.a.
28 Debt	13,002.0	13,699.1	14,425.5	15,167.4	15,599.4r	15,660.4r	15,740.0	n.a.
M1 components								
29 Currency[3]	357.5	376.2	397.9	429.0	438.3	442.6	444.3	448.2
30 Travelers checks[4]	8.1	8.5	8.3	7.9	8.0	8.2	8.2	8.1
31 Demand deposits[5]	400.3	407.2	419.9	413.0	382.5	378.7	373.9r	372.1
32 Other checkable deposits[6]	408.6	360.5	278.8	247.7	245.0	243.0	240.8	239.7
Nontransaction components								
33 In M2[7]	2,349.0	2,519.6	2,740.5	2,967.8	3,117.4r	3,140.7	3,179.3r	3,220.2
34 In M3 only[8]	829.7	943.2	1,103.5	1,328.6	1,444.6r	1,430.8r	1,461.2r	1,474.4
Commercial banks								
35 Savings deposits, including MMDAs	751.7	774.1	903.3	1,019.0	1,091.6	1,106.1	1,119.6	1,135.5
36 Small time deposits[9]	501.5	573.8	592.7	624.1	623.9	624.2r	626.5	626.8
37 Large time deposits[10, 11]	298.9	345.8	413.6	488.0	534.9	521.6r	527.6r	529.2
Thrift institutions								
38 Savings deposits, including MMDAs	396.8	359.2	366.4	375.9	397.6	400.0	400.8r	402.1
39 Small time deposits[9]	313.2	355.9	353.2	343.0	339.1	337.8	334.0	334.1
40 Large time deposits[10]	64.8	74.3	78.1	85.4	87.3	86.7	86.2	86.8
Money market mutual funds								
41 Retail	385.9	456.4	524.8	605.8	665.2	672.6	698.4	721.6
42 Institution-only	204.6	255.8	312.7	378.9	424.5	425.3	441.1	451.3
Repurchase agreements and Eurodollars								
43 Repurchase agreements[12]	179.6	178.0	188.8	229.4	259.4	258.4r	265.6r	270.3
44 Eurodollars[12]	81.8	89.4	110.3	146.9	138.4r	138.8r	140.8r	136.8
Debt components								
45 Federal debt	3,499.0	3,645.9	3,787.9	3,805.8	3,755.2	3,740.8	3,749.6	n.a.
46 Nonfederal debt	9,503.1	10,053.1	10,637.6	11,361.6	11,844.2r	11,919.6r	11,990.4	n.a.

Footnotes appear on following page

NOTES TO TABLE 1.21

1. Latest monthly and weekly figures are available from the Board's H.6 (508) weekly statistical release Historical data starting in 1959 are available from the Money and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

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

M1: (1) currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions, (2) travelers checks of nonbank issuers, (3) demand deposits at all commercial banks other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float, and (4) other checkable deposits (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) savings deposits (including MMDAs), (2) small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and (3) balances in retail money market mutual funds (money funds with minimum initial investments of less than $50,000). Excludes individual retirement accounts (IRAs) and Keogh balances at depository institutions and money market funds. Seasonally adjusted M2 is calculated by summing savings deposits, small-denomination time deposits, and retail money fund balances, each seasonally adjusted separately, and adding this result to seasonally adjusted M1.

M3: M2 plus (1) large-denomination time deposits (in amounts of $100,000 or more) issued by all depository institutions, (2) balances in institutional money funds (money funds with minimum initial investments of $50,000 or more), (3) RP liabilities (overnight and term) issued by all depository institutions, and (4) Eurodollars (overnight and term) held by U.S. residents at foreign branches of U.S. banks worldwide and at all banking offices in the United Kingdom and Canada. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Seasonally adjusted M3 is calculated by summing large time deposits, institutional money fund balances, RP liabilities, and Eurodollars, each seasonally adjusted separately, and adding this result to seasonally adjusted M2.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, net of money market fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: The debt aggregate is the outstanding credit market debt of the domestic nonfinancial sectors—the federal sector (U.S. government, not including government-sponsored enterprises or federally related mortgage pools) and the nonfederal sectors (state and local governments, households and nonprofit organizations, nonfinancial corporate and nonfarm noncorporate businesses, and farms). Nonfederal debt consists of mortgages, tax-exempt and corporate bonds, consumer credit, bank loans, commercial paper, and other loans. The data, which are derived from the Federal Reserve Board's flow of funds accounts, are break-adjusted (that is, discontinuities in the data have been smoothed into the series) and month-averaged (that is, the data have been derived by averaging adjacent month-end levels).

3. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of depository institutions.

4. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

5. Demand deposits at commercial banks and foreign-related institutions other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float.

6. Consists of NOW and ATS account balances at all depository institutions, credit union share draft account balances, and demand deposits at thrift institutions.

7. Sum of (1) savings deposits (including MMDAs), (2) small time deposits, and (3) retail money fund balances.

8. Sum of (1) large time deposits, (2) institutional money fund balances, (3) RP liabilities (overnight and term) issued by depository institutions, and (4) Eurodollars (overnight and term) of U.S. addressees.

9. Small time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRAs and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits

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

11. Large time deposits at commercial banks less those held by money market funds, depository institutions, the U.S. government, and foreign banks and official institutions.

12. Includes both overnight and term.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]

A. All commercial banks

Billions of dollars

Account	Monthly averages 1997 Sept.	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept	Wednesday figures 1998 Sept. 9	Sept. 16	Sept 23	Sept 30
	Seasonally adjusted											
Assets												
1 Bank credit	4,006.6	4,222.9	4,220.3	4,248.7	4,260.0	4,278.1	4,338.3	4,394.4	4,375.7	4,387.4	4,399.4	4,418.9
2 Securities in bank credit	1,036.3	1,129.6	1,109.8	1,125.7	1,119.9	1,127.9	1,153.3	1,173.7	1,168.5	1,167.2	1,176.3	1,184.2
3 U.S. government securities	724.5	782.0	766.1	773.3	756.6	759.5	769.7	766.5	766.5	755.8	766.0	774.2
4 Other securities	311.8	347.6	343.6	352.4	363.2	368.5	383.6	407.2	402.0	411.4	410.3	409.9
5 Loans and leases in bank credit[2]	2,970.3	3,093.2	3,110.5	3,123.0	3,140.1	3,150.1	3,185.0	3,220.6	3,207.3	3,220.3	3,223.1	3,234.7
6 Commercial and industrial	838.1	872.7	870.4	878.6	888.4	893.9	901.5	912.8	907.6	915.2	916.5	913.1
7 Real estate	1,214.6	1,264.6	1,273.1	1,274.9	1,274.0	1,275.4	1,285.0	1,285.9	1,289.8	1,287.1	1,282.5	1,283.0
8 Revolving home equity	95.4	98.3	98.4	97.9	97.7	97.4	97.4	97.8	97.9	97.9	98.4	96.9
9 Other	1,119.2	1,166.3	1,174.7	1,176.9	1,176.3	1,178.0	1,187.6	1,188.1	1,191.9	1,189.2	1,184.2	1,186.1
10 Consumer	515.5	502.1	505.5	505.9	502.7	496.7	494.3	497.3	495.3	497.3	501.6	495.7
11 Security[3]	95.8	116.9	115.8	120.9	127.7	131.1	138.4	144.3	138.4	138.5	141.3	160.0
12 Other loans and leases	306.3	337.0	345.7	342.8	347.2	353.0	365.9	380.4	376.2	382.1	381.2	382.9
13 Interbank loans	196.5	218.3	214.6	202.2	217.3	213.6	208.1	222.0	221.8	213.6	220.7	235.1
14 Cash assets[4]	253.3	275.9	268.8	250.7	250.8	243.7	251.9	252.8	267.7	247.8	242.4	257.6
15 Other assets[5]	288.9	295.8	308.8	313.4	313.3	310.9	312.0	317.5	317.1	313.2	313.7	324.9
16 **Total assets[6]**	**4,688.8**	**4,955.7**	**4,955.0**	**4,957.4**	**4,983.9**	**4,988.8**	**5,053.4**	**5,129.4**	**5,125.5**	**5,105.0**	**5,118.9**	**5,178.5**
Liabilities												
17 Deposits	3,048.0	3,198.8	3,211.9	3,205.5	3,223.0	3,197.1	3,228.8	3,249.8	3,258.8	3,249.4	3,229.4	3,263.7
18 Transaction	687.6	698.3	696.6	687.5	682.8	667.0	667.6	677.2	669.3	668.5	666.9	711.7
19 Nontransaction	2,360.4	2,500.5	2,515.3	2,518.0	2,540.2	2,530.1	2,561.3	2,572.7	2,589.4	2,580.9	2,562.5	2,552.0
20 Large time	612.6	677.3	674.5	674.9	685.1	667.4	679.2	684.2	686.4	687.3	686.0	676.1
21 Other	1,747.8	1,823.1	1,840.7	1,843.1	1,855.1	1,862.8	1,882.1	1,888.5	1,903.0	1,893.6	1,876.5	1,875.9
22 Borrowings	770.2	856.9	870.7	861.8	857.3	856.8	861.6	889.6	885.6	868.6	883.4	922.6
23 From banks in the U.S.	295.2	306.8	305.9	282.2	287.6	289.3	293.9	303.7	308.8	298.1	291.7	317.1
24 From others	475.0	550.1	564.8	579.6	569.7	567.5	567.7	585.9	576.7	570.5	591.7	605.6
25 Net due to related foreign offices	198.2	205.4	179.8	174.4	170.6	186.1	201.1	200.2	203.2	207.7	199.9	191.4
26 Other liabilities	268.0	296.1	295.2	299.1	308.2	317.9	325.4	335.1	333.0	328.2	336.9	343.6
27 **Total liabilities**	**4,284.4**	**4,557.2**	**4,557.6**	**4,540.7**	**4,559.1**	**4,558.0**	**4,617.0**	**4,674.7**	**4,680.5**	**4,653.9**	**4,649.6**	**4,721.3**
28 Residual (assets less liabilities)[7]	404.3	398.6	397.4	416.7	424.8	430.8	436.5	454.7	444.9	451.2	469.4	457.2
	Not seasonally adjusted											
Assets												
29 Bank credit	3,998.9	4,213.9	4,225.4	4,243.6	4,261.4	4,272.1	4,324.8	4,381.4	4,357.4	4,375.7	4,381.6	4,413.0
30 Securities in bank credit	1,027.8	1,131.4	1,120.9	1,130.4	1,122.9	1,122.3	1,144.8	1,161.7	1,159.6	1,152.1	1,160.9	1,173.0
31 U.S. government securities	720.5	785.3	774.5	777.9	759.1	755.6	764.9	761.4	762.8	750.9	759.6	768.1
32 Other securities	307.4	346.1	346.5	352.5	363.8	366.7	379.9	400.3	396.9	401.2	401.3	404.9
33 Loans and leases in bank credit[2]	2,971.1	3,082.4	3,104.4	3,113.3	3,138.6	3,149.8	3,180.1	3,219.7	3,197.7	3,223.6	3,220.7	3,240.0
34 Commercial and industrial	833.0	876.2	878.0	884.1	891.2	893.5	895.5	907.3	897.5	909.8	912.0	912.0
35 Real estate	1,219.2	1,258.0	1,266.6	1,268.6	1,271.6	1,277.6	1,288.6	1,290.8	1,294.8	1,293.0	1,286.0	1,289.0
36 Revolving home equity	96.0	97.2	97.5	97.6	97.4	97.5	97.5	98.4	98.4	98.6	99.1	97.9
37 Other	1,123.1	1,160.8	1,169.1	1,171.0	1,174.2	1,180.1	1,191.1	1,192.4	1,196.4	1,194.4	1,186.9	1,191.1
38 Consumer	518.2	495.6	500.5	500.6	499.9	494.7	495.9	500.1	497.6	500.6	504.6	498.2
39 Security[3]	93.7	117.8	117.3	120.5	127.7	129.0	133.9	140.9	131.9	138.8	138.9	155.3
40 Other loans and leases	307.0	334.8	342.1	339.5	348.2	355.0	366.2	380.5	375.9	381.4	379.2	385.5
41 Interbank loans	191.9	217.8	217.3	197.8	214.0	207.2	201.0	216.4	222.1	208.6	208.2	228.7
42 Cash assets[4]	251.4	264.4	264.1	246.3	245.8	239.3	239.6	250.8	270.5	244.6	233.1	255.7
43 Other assets[5]	290.0	295.6	307.2	312.8	311.7	312.1	314.0	318.7	320.8	313.6	312.7	325.8
44 **Total assets[6]**	**4,675.3**	**4,934.7**	**4,956.8**	**4,943.1**	**4,975.4**	**4,973.2**	**5,022.2**	**5,109.6**	**5,113.4**	**5,085.1**	**5,078.2**	**5,165.1**
Liabilities												
45 Deposits	3,050.5	3,189.5	3,211.3	3,189.0	3,215.0	3,189.6	3,218.6	3,254.0	3,282.4	3,258.8	3,203.5	3,267.8
46 Transaction	682.8	685.9	701.7	675.6	677.8	662.1	654.1	672.5	675.7	667.8	640.3	708.4
47 Nontransaction	2,367.7	2,503.6	2,509.6	2,513.4	2,537.2	2,527.5	2,564.5	2,581.5	2,606.7	2,591.1	2,563.2	2,559.4
48 Large time	614.3	674.8	669.0	675.2	682.8	664.1	678.2	685.9	686.8	688.2	688.4	679.7
49 Other	1,753.4	1,828.8	1,840.6	1,838.2	1,854.4	1,863.4	1,886.3	1,895.6	1,919.8	1,902.9	1,874.8	1,879.7
50 Borrowings	772.3	848.6	870.1	867.3	867.1	861.4	854.6	893.1	870.7	872.0	905.2	928.3
51 From banks in the U.S.	294.2	304.3	305.0	283.4	290.6	289.6	289.9	302.6	301.6	297.0	296.9	316.0
52 From others	478.2	544.3	565.1	583.9	576.5	571.8	564.7	590.5	569.1	575.1	608.3	612.3
53 Net due to related foreign offices	197.6	203.9	179.0	183.0	176.5	188.2	201.6	200.3	199.9	204.1	204.7	193.3
54 Other liabilities	267.8	296.3	294.4	298.6	307.4	317.2	325.4	334.8	333.0	327.6	336.3	343.5
55 **Total liabilities**	**4,288.2**	**4,538.4**	**4,554.8**	**4,537.9**	**4,566.0**	**4,556.4**	**4,600.3**	**4,682.1**	**4,686.0**	**4,662.6**	**4,649.7**	**4,733.0**
56 Residual (assets less liabilities)[7]	387.1	396.3	402.0	405.2	409.4	416.9	421.9	427.5	427.4	422.5	428.4	432.1
MEMO												
57 Revaluation gains on off-balance-sheet items[8]	80.8	87.8	83.8	85.8	92.7	92.7	95.7	109.5	108.0	107.9	113.2	111.3
58 Revaluation losses on off-balance-sheet items[8]	81.7	89.4	84.4	84.9	90.7	90.5	96.4	110.2	107.5	109.2	115.1	112.0

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

B. Domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998							1998			
	Sept	Mar.	Apr.	May	June	July	Aug.	Sept.	Sept. 9	Sept. 16	Sept. 23	Sept. 30
	Seasonally adjusted											
Assets												
1 Bank credit	3,469.9	3,656.7	3,663.4	3,685.7	3,693.9	3,706.0	3,748.5	3,787.0	3,775.5	3,776.7	3,794.9	3,803.9
2 Securities in bank credit	857.4	929.5	915.6	928.6	920.8	928.1	942.6	959.4	955.6	953.6	965.6	964.8
3 U.S. government securities	641.8	693.2	676.9	684.2	669.3	669.3	676.8	684.3	683.7	676.6	686.5	690.0
4 Other securities	215.6	236.3	238.7	244.5	251.6	258.8	265.8	275.1	271.9	277.1	279.1	274.8
5 Loans and leases in bank credit[2]	2,612.6	2,727.2	2,747.8	2,757.0	2,773.1	2,778.0	2,805.9	2,827.6	2,819.9	2,823.1	2,829.3	2,839.1
6 Commercial and industrial	615.8	653.0	657.3	666.8	675.5	677.8	684.4	691.3	688.5	691.2	692.7	693.8
7 Real estate	1,186.5	1,238.7	1,248.2	1,250.5	1,249.9	1,251.6	1,261.3	1,262.5	1,266.2	1,263.6	1,259.3	1,260.0
8 Revolving home equity	95.4	98.3	98.4	97.9	97.7	97.4	97.4	97.8	97.9	97.9	98.4	96.9
9 Other	1,091.2	1,140.4	1,149.8	1,152.6	1,152.1	1,154.1	1,163.9	1,164.7	1,168.3	1,165.7	1,160.9	1,163.1
10 Consumer	515.5	502.1	505.5	505.9	502.7	496.7	494.3	497.3	495.3	497.3	501.6	495.7
11 Security[3]	52.3	67.8	63.6	61.8	67.5	69.6	73.3	75.2	70.0	68.9	74.2	87.5
12 Other loans and leases	242.5	265.6	273.2	272.0	277.5	282.3	292.6	301.3	299.7	302.1	301.6	302.0
13 Interbank loans	178.0	195.1	192.0	180.4	193.4	191.6	185.6	190.7	190.0	188.2	188.6	197.0
14 Cash assets[4]	219.1	241.3	233.2	215.9	215.5	208.5	217.9	218.6	233.7	212.9	207.0	224.7
15 Other assets[5]	245.3	259.3	272.7	279.3	279.1	276.7	276.3	279.4	279.8	275.4	275.0	286.3
16 **Total assets**[6]	**4,056.2**	**4,295.7**	**4,304.0**	**4,304.0**	**4,324.7**	**4,325.6**	**4,371.6**	**4,418.6**	**4,422.4**	**4,396.5**	**4,408.4**	**4,454.2**
Liabilities												
17 Deposits	2,784.8	2,907.5	2,917.9	2,910.2	2,920.3	2,899.9	2,922.6	2,934.6	2,942.0	2,933.0	2,911.5	2,953.5
18 Transaction	676.5	686.4	684.4	676.0	671.7	653.6	655.8	662.0	654.4	653.6	650.8	696.5
19 Nontransaction	2,108.2	2,221.2	2,233.5	2,234.2	2,248.6	2,246.2	2,266.8	2,272.7	2,287.6	2,279.4	2,260.7	2,257.0
20 Large time	361.0	400.8	394.5	391.7	393.2	384.5	384.0	382.9	382.5	384.0	383.1	380.9
21 Other	1,747.2	1,820.4	1,839.0	1,842.6	1,855.5	1,861.7	1,882.8	1,889.8	1,905.1	1,895.4	1,877.6	1,876.1
22 Borrowings	625.6	704.1	704.7	698.4	690.2	686.9	691.6	705.4	709.4	690.8	705.3	716.3
23 From banks in the U.S.	260.4	279.8	279.2	259.8	258.0	262.5	269.8	271.2	280.6	270.3	265.8	268.0
24 From others	365.2	424.3	425.4	438.6	432.2	424.5	421.8	434.2	428.7	420.4	439.5	448.3
25 Net due to related foreign offices	72.6	82.8	77.4	73.3	73.4	79.3	92.8	105.1	102.0	106.0	107.5	109.2
26 Other liabilities	173.8	207.1	210.1	211.8	218.1	224.9	226.8	230.6	232.3	224.7	231.6	233.4
27 **Total liabilities**	**3,656.8**	**3,901.5**	**3,910.0**	**3,893.6**	**3,902.0**	**3,891.0**	**3,933.8**	**3,975.7**	**3,985.7**	**3,954.4**	**3,956.0**	**4,012.4**
28 Residual (assets less liabilities)[7]	399.4	394.3	394.0	410.3	422.7	434.6	437.8	442.9	436.7	442.1	452.5	441.8
	Not seasonally adjusted											
Assets												
29 Bank credit	3,465.4	3,647.5	3,668.2	3,678.9	3,692.3	3,697.2	3,732.6	3,779.1	3,764.3	3,772.5	3,782.3	3,800.1
30 Securities in bank credit	850.5	932.8	924.8	929.4	920.6	919.7	929.8	950.6	949.0	943.5	953.5	957.9
31 U.S. government securities	637.6	695.8	686.7	688.2	671.6	665.8	671.2	679.3	679.9	671.4	680.4	684.8
32 Other securities	212.8	237.0	238.1	241.2	249.0	253.9	258.7	271.4	269.1	272.1	273.1	273.2
33 Loans and leases in bank credit[2]	2,615.0	2,714.7	2,743.4	2,749.5	2,771.7	2,777.5	2,802.7	2,828.5	2,815.3	2,829.0	2,828.8	2,842.2
34 Commercial and industrial	611.8	655.9	664.8	672.9	678.3	677.7	679.5	686.9	681.0	687.6	689.1	691.6
35 Real estate	1,191.2	1,232.1	1,241.9	1,244.3	1,247.6	1,253.9	1,265.0	1,267.5	1,271.3	1,269.5	1,262.7	1,265.8
36 Revolving home equity	96.0	97.2	97.5	97.6	97.4	97.5	97.5	98.4	98.4	98.6	99.1	97.9
37 Other	1,095.1	1,134.8	1,144.4	1,146.7	1,150.2	1,156.4	1,167.5	1,169.0	1,173.0	1,170.9	1,163.6	1,168.0
38 Consumer	518.2	495.6	500.5	500.6	499.9	494.7	495.9	500.1	497.6	500.6	504.6	498.2
39 Security[3]	50.4	67.9	65.7	61.9	67.6	68.0	69.6	72.1	65.4	69.2	71.6	82.1
40 Other loans and leases	243.4	263.2	270.5	269.8	278.3	283.1	292.7	302.0	299.9	302.1	300.8	304.5
41 Interbank loans	173.5	194.6	194.7	176.0	190.1	185.2	178.6	185.0	190.3	183.2	176.0	190.6
42 Cash assets[4]	217.1	231.0	230.2	211.9	209.5	204.2	205.6	216.4	236.9	210.4	197.4	221.6
43 Other assets[5]	246.3	259.2	273.0	278.3	278.4	278.3	277.4	280.6	282.6	275.9	274.6	287.8
44 **Total assets**[6]	**4,045.7**	**4,275.7**	**4,309.2**	**4,288.0**	**4,313.0**	**4,307.7**	**4,337.0**	**4,403.8**	**4,417.0**	**4,384.8**	**4,373.1**	**4,442.3**
Liabilities												
45 Deposits	2,786.0	2,897.1	2,919.0	2,891.0	2,910.6	2,894.2	2,913.7	2,937.2	2,966.7	2,942.9	2,882.3	2,952.3
46 Transaction	671.3	674.1	689.9	664.4	666.7	648.6	642.4	656.6	660.6	652.5	623.3	691.7
47 Nontransaction	2,114.7	2,223.0	2,229.1	2,226.6	2,243.9	2,245.5	2,271.3	2,280.6	2,306.1	2,290.4	2,259.0	2,260.6
48 Large time	363.8	396.2	390.3	389.9	390.8	383.4	386.4	386.3	387.6	388.8	385.6	382.2
49 Other	1,750.9	1,826.8	1,838.8	1,836.7	1,853.1	1,862.1	1,884.9	1,894.3	1,918.5	1,901.6	1,873.5	1,878.4
50 Borrowings	627.7	695.8	704.1	703.9	699.9	691.5	684.7	708.8	694.5	694.2	727.1	722.0
51 From banks in the U.S.	259.3	277.3	278.4	261.0	261.0	262.7	265.9	270.0	273.4	269.2	271.0	266.9
52 From others	368.4	418.5	425.7	443.0	439.0	428.7	418.8	438.8	421.1	425.0	456.1	455.0
53 Net due to related foreign offices	73.5	82.1	78.0	80.9	80.1	84.9	96.7	106.7	104.3	106.9	110.7	109.1
54 Other liabilities	173.8	207.1	210.1	211.8	218.1	224.9	226.8	230.6	232.3	224.7	231.6	233.4
55 **Total liabilities**	**3,661.0**	**3,882.1**	**3,911.1**	**3,887.6**	**3,908.7**	**3,895.4**	**3,921.8**	**3,983.4**	**3,997.8**	**3,968.7**	**3,951.7**	**4,016.7**
56 Residual (assets less liabilities)[7]	384.6	393.6	398.1	400.3	404.3	412.3	415.2	420.4	419.1	416.2	421.3	425.6
MEMO												
57 Revaluation gains on off-balance-sheet items[8]	37.5	47.2	43.9	45.6	50.5	51.0	51.9	61.5	61.1	60.3	64.6	61.7
58 Revaluation losses on off-balance-sheet items[8]	39.9	49.6	45.3	46.3	50.1	50.4	54.2	65.0	63.3	64.3	69.1	65.2
59 Mortgage-backed securities[9]	259.0	300.7	295.6	298.0	291.2	294.4	301.9	314.0	310.8	308.2	314.2	323.5

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

C. Large domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998							1998			
	Sept.	Mar.	Apr.	May	June	July	Aug.	Sept.	Sept. 9	Sept. 16	Sept. 23	Sept. 30
	Seasonally adjusted											
Assets												
1 Bank credit	2,089.4	2,227.6	2,228.0	2,240.9	2,239.0	2,238.8	2,269.2	2,300.1	2,290.8	2,291.6	2,307.0	2,313.9
2 Securities in bank credit	458.5	523.9	511.2	520.1	512.1	513.9	524.7	539.5	538.0	536.0	545.2	540.3
3 U.S. government securities	325.4	374.0	360.9	364.4	350.4	347.8	353.8	360.4	361.4	354.4	362.0	363.1
4 Trading account	23.5	27.5	23.7	24.5	24.3	20.2	21.1	21.8	21.5	18.5	23.5	23.5
5 Investment account	302.0	346.6	337.2	339.9	326.1	327.6	332.7	338.6	339.9	335.9	338.4	339.6
6 Other securities	133.1	149.9	150.3	155.7	161.7	166.1	170.9	179.1	176.6	181.5	183.2	177.2
7 Trading account	61.7	70.9	69.4	74.4	78.5	81.1	83.1	89.3	87.0	91.2	94.2	87.1
8 Investment account	71.4	79.0	80.9	81.4	83.2	85.0	87.7	89.8	89.6	90.3	89.0	90.1
9 State and local government	22.2	22.8	23.0	22.8	22.2	22.4	22.6	23.2	23.2	23.1	23.1	23.3
10 Other	49.2	56.2	58.0	58.6	60.9	62.6	65.1	66.6	66.4	67.2	65.9	66.8
11 Loans and leases in bank credit[2]	1,630.9	1,703.7	1,716.8	1,720.8	1,726.9	1,724.8	1,744.5	1,760.7	1,752.8	1,755.7	1,761.9	1,773.5
12 Commercial and industrial	438.5	467.8	470.6	477.7	484.2	485.0	488.4	493.4	490.8	493.4	494.9	495.5
13 Bankers acceptances	1.5	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3
14 Other	437.0	466.5	469.4	476.4	483.0	483.7	487.2	492.1	491.3	493.9	495.3	496.0
15 Real estate	660.7	681.7	686.1	685.8	679.0	675.1	677.7	675.9	679.8	677.3	672.8	673.0
16 Revolving home equity	67.3	69.1	69.4	68.8	68.3	67.8	67.7	68.0	68.1	68.1	68.5	67.3
17 Other	593.4	612.7	616.7	617.1	610.7	607.3	610.0	607.9	611.6	609.1	604.2	605.7
18 Consumer	306.9	297.0	301.2	300.8	297.4	292.0	292.8	295.8	294.4	295.2	298.2	295.9
19 Security[3]	47.6	61.7	57.3	55.9	61.3	63.4	66.9	68.5	63.1	62.1	67.9	81.0
20 Federal funds sold to and repurchase agreements with broker–dealers	30.9	43.8	39.8	37.6	42.8	44.8	47.9	50.0	43.6	43.6	48.7	64.3
21 Other	16.7	17.9	17.6	18.3	18.6	18.6	19.0	18.5	19.5	18.6	19.2	16.7
22 State and local government	12.2	11.2	11.2	11.3	11.2	11.1	11.2	11.3	11.3	11.4	11.4	11.2
23 Agricultural	9.5	9.8	9.9	9.9	9.9	9.8	9.8	9.8	9.8	9.8	9.9	9.8
24 Federal funds sold to and repurchase agreements with others	7.6	7.2	7.2	5.6	5.5	8.7	9.7	12.1	11.2	12.0	13.4	12.1
25 All other loans	70.3	79.8	82.7	81.0	84.7	84.8	89.9	94.3	93.2	95.0	94.1	94.8
26 Lease-financing receivables	77.7	87.4	90.5	92.7	93.6	95.0	97.9	99.6	99.2	99.4	99.5	100.3
27 Interbank loans	126.1	132.5	127.8	115.5	124.9	120.4	112.5	114.3	114.4	109.7	112.4	121.6
28 Federal funds sold to and repurchase agreements with commercial banks	82.6	82.2	76.1	65.1	74.5	67.7	60.4	62.0	61.9	56.2	60.3	70.5
29 Other	43.5	50.3	51.7	50.3	50.4	52.7	52.1	52.3	52.5	53.5	52.1	51.1
30 Cash assets[4]	150.2	174.9	165.8	148.3	147.0	141.6	148.9	148.9	162.9	145.0	139.3	151.1
31 Other assets[5]	185.5	197.4	209.1	214.1	211.3	208.8	208.4	208.1	210.1	208.0	205.9	206.5
32 **Total assets**[6]	**2,514.2**	**2,695.1**	**2,693.2**	**2,681.1**	**2,684.7**	**2,672.2**	**2,702.2**	**2,734.3**	**2,741.5**	**2,717.6**	**2,727.6**	**2,755.3**
Liabilities												
33 Deposits	1,547.1	1,626.6	1,629.3	1,613.4	1,610.1	1,586.3	1,593.9	1,594.1	1,604.3	1,594.4	1,575.0	1,601.7
34 Transaction	383.1	391.4	390.8	382.8	376.6	361.7	363.2	366.6	366.1	361.8	355.5	387.4
35 Nontransaction	1,164.0	1,235.1	1,238.5	1,230.6	1,233.5	1,224.6	1,230.7	1,227.5	1,238.2	1,232.7	1,219.5	1,214.3
36 Large time	200.6	229.7	222.0	217.3	218.7	212.4	211.2	206.1	207.1	206.8	204.9	203.9
37 Other	963.5	1,005.5	1,016.5	1,013.3	1,014.8	1,012.2	1,019.5	1,021.3	1,031.1	1,025.8	1,014.6	1,010.4
38 Borrowings	474.1	548.0	546.4	537.6	528.3	522.0	527.2	540.0	541.9	524.2	540.8	553.4
39 From banks in the U.S.	186.6	210.3	209.6	189.6	187.2	188.9	195.9	197.0	204.5	195.6	193.5	194.5
40 From others	287.5	337.7	336.7	348.0	341.1	333.2	331.2	343.0	337.4	328.6	347.4	358.8
41 Net due to related foreign offices	67.8	78.7	73.9	69.4	69.5	75.6	89.1	101.3	98.4	102.7	103.8	104.9
42 Other liabilities	147.0	176.7	179.5	181.4	187.8	193.9	196.0	199.6	201.3	194.4	200.6	201.9
43 **Total liabilities**	**2,235.9**	**2,430.0**	**2,429.1**	**2,401.8**	**2,395.8**	**2,377.9**	**2,406.1**	**2,435.1**	**2,445.9**	**2,415.7**	**2,420.2**	**2,461.9**
44 Residual (assets less liabilities)[7]	278.3	265.1	264.1	279.3	289.0	294.3	296.0	299.3	295.6	302.0	307.4	293.3

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

C. Large domestically chartered commercial banks—Continued

Account	Monthly averages								Wednesday figures			
	1997	1998							1998			
	Sept.	Mar.	Apr.	May	June	July	Aug.	Sept.	Sept. 9	Sept. 16	Sept. 23	Sept. 30
	Not seasonally adjusted											
Assets												
45 Bank credit	2,082.4	2,222.0	2,227.1	2,227.1	2,232.6	2,231.8	2,253.7	2,290.1	2,279.7	2,284.2	2,289.1	2,309.3
46 Securities in bank credit	452.1	525.8	514.9	516.7	508.8	506.9	513.0	531.4	532.5	526.1	532.5	535.5
47 U.S. government securities	321.5	375.4	365.6	365.1	350.1	345.6	349.0	355.7	358.3	349.3	355.1	359.3
48 Trading account	23.4	28.3	23.9	23.7	23.4	19.6	20.9	21.7	22.3	18.8	22.9	23.0
49 Investment account	298.1	347.1	341.7	341.4	326.7	325.9	328.1	334.0	336.0	330.5	332.3	336.4
50 Mortgage-backed securities	193.9	228.8	222.5	222.3	213.8	215.2	221.8	232.2	230.9	228.6	232.9	241.4
51 Other	103.0	116.8	117.8	117.7	111.6	109.4	104.9	100.3	105.1	101.9	99.3	95.0
52 One year or less	28.8	30.4	31.7	30.2	30.2	29.1	27.7	26.5	27.3	26.4	26.8	25.5
53 One to five years	50.9	52.2	51.6	50.2	47.0	49.8	46.8	42.3	44.7	43.2	41.4	39.0
54 More than five years	23.3	34.2	34.5	37.3	34.3	30.5	30.4	31.5	33.1	32.3	31.1	30.4
55 Other securities	130.6	150.4	149.3	151.6	158.7	161.3	164.0	175.7	174.2	176.8	177.3	176.2
56 Trading account	59.4	71.4	69.0	70.9	75.7	77.0	76.8	86.3	85.0	86.7	89.1	86.1
57 Investment account	71.2	79.0	80.3	80.7	82.9	84.3	87.2	89.4	89.2	90.0	88.2	90.1
58 State and local government	22.3	22.7	22.9	22.7	22.4	22.3	22.7	23.2	23.2	23.2	23.2	23.4
59 Other	49.0	56.3	57.3	58.0	60.6	62.1	64.6	66.2	66.0	66.9	65.0	66.7
60 Loans and leases in bank credit[2]	1,630.3	1,696.2	1,712.2	1,710.4	1,723.8	1,724.9	1,740.7	1,758.7	1,747.2	1,758.2	1,756.6	1,773.8
61 Commercial and industrial	435.9	469.7	475.7	481.3	485.3	485.1	485.1	490.5	485.2	491.1	492.1	494.9
62 Bankers acceptances	1.5	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
63 Other	434.4	468.5	474.5	480.1	484.1	483.8	483.8	489.2	483.9	489.8	490.8	493.6
64 Real estate	663.6	677.5	680.2	678.0	676.1	677.4	681.0	679.2	684.0	681.4	673.8	676.9
65 Revolving home equity	67.8	68.1	68.4	68.3	68.0	68.0	68.0	68.6	68.5	68.7	69.0	68.1
66 Other	365.2	376.0	377.1	374.6	374.2	375.5	377.9	374.6	382.1	378.3	369.9	373.5
67 Commercial	227.5	230.2	231.5	231.9	230.7	230.7	231.3	232.6	233.4	234.4	234.9	235.2
68 Consumer	308.7	292.5	297.1	296.8	296.2	291.7	294.4	297.7	296.2	297.4	299.9	297.8
69 Security[3]	45.7	61.8	59.4	56.0	61.4	61.8	63.2	65.4	58.5	62.5	65.3	75.6
70 Federal funds sold to and repurchase agreements with broker–dealers	29.4	44.0	41.7	37.6	42.4	43.8	45.0	47.5	40.4	43.8	46.4	59.5
71 Other	16.3	17.8	17.7	18.4	19.0	18.1	18.3	18.0	18.1	18.7	18.9	16.1
72 State and local government	12.2	11.2	11.1	11.2	11.2	11.1	11.3	11.4	11.3	11.4	11.4	11.3
73 Agricultural	9.7	9.4	9.5	9.7	10.0	10.1	10.1	10.1	10.1	10.1	10.1	10.1
74 Federal funds sold to and repurchase agreements with others	7.6	7.2	7.2	5.6	5.5	8.7	9.7	12.1	11.2	12.0	13.4	12.1
75 All other loans	69.9	78.9	81.7	79.8	84.9	84.5	89.2	93.8	92.5	94.0	92.4	95.4
76 Lease-financing receivables	76.9	88.0	90.3	92.0	93.2	94.5	96.7	98.5	98.1	98.3	98.1	99.7
77 Interbank loans	124.7	128.2	128.5	114.8	125.3	119.4	110.0	113.1	112.2	109.2	109.9	121.5
78 Federal funds sold to and repurchase agreements with commercial banks	81.7	78.8	77.3	64.8	74.9	67.0	58.6	61.5	59.9	56.8	58.9	70.8
79 Other	43.0	49.4	51.2	50.0	50.5	52.4	51.4	51.6	52.3	52.4	51.0	50.7
80 Cash assets[4]	148.8	166.1	163.4	144.3	141.9	138.0	138.9	147.4	164.0	143.8	133.0	149.7
81 Other assets[5]	185.5	197.4	209.1	214.1	211.3	208.8	208.4	208.1	210.1	208.0	205.9	206.5
82 **Total assets**[6]	**2,504.0**	**2,676.7**	**2,690.9**	**2,662.9**	**2,673.6**	**2,660.5**	**2,673.8**	**2,721.3**	**2,728.8**	**2,707.9**	**2,700.8**	**2,749.0**
Liabilities												
83 Deposits	1,551.8	1,614.5	1,622.1	1,593.6	1,603.8	1,586.3	1,591.5	1,600.2	1,621.1	1,606.7	1,559.2	1,608.8
84 Transaction	380.1	382.2	392.8	373.3	373.2	359.5	354.0	363.5	366.5	361.9	338.8	387.7
85 Nontransaction	1,171.7	1,232.3	1,229.3	1,220.3	1,230.6	1,226.8	1,237.5	1,236.7	1,254.5	1,244.8	1,220.4	1,221.1
86 Large time	203.3	225.1	217.8	215.5	216.3	211.3	213.6	209.6	212.2	211.6	207.4	205.2
87 Other	968.3	1,007.2	1,011.6	1,004.8	1,014.3	1,015.5	1,023.9	1,027.1	1,042.4	1,033.2	1,013.0	1,015.9
88 Borrowings	473.2	543.0	547.6	542.9	537.6	526.5	518.9	540.1	528.6	525.8	554.1	553.8
89 From banks in the U.S.	184.4	209.0	209.1	190.1	189.6	188.9	191.3	194.8	198.2	194.1	195.3	191.8
90 From nonbanks in the U.S.	288.8	334.0	338.5	352.7	348.0	337.6	327.6	345.3	330.4	331.7	358.9	362.0
91 Net due to related foreign offices	68.6	78.0	74.5	77.1	76.2	81.2	92.9	103.0	100.7	103.6	106.9	104.8
92 Other liabilities	147.0	176.7	179.5	181.4	187.8	193.9	196.0	199.6	201.3	194.4	200.6	201.9
93 **Total liabilities**	**2,240.6**	**2,412.2**	**2,423.7**	**2,395.0**	**2,405.4**	**2,388.0**	**2,399.4**	**2,442.9**	**2,451.7**	**2,430.4**	**2,420.9**	**2,469.3**
94 Residual (assets less liabilities)[7]	263.4	264.5	267.2	267.9	268.2	272.6	274.4	278.4	277.1	277.5	279.9	279.8
MEMO												
95 Revaluation gains on off-balance-sheet items[8]	37.5	47.2	43.9	45.6	50.5	51.0	51.9	61.5	61.1	60.3	64.6	61.7
96 Revaluation losses on off-balance-sheet items[8]	39.9	49.6	45.3	46.3	50.1	50.4	54.2	65.0	63.3	64.3	69.1	65.2
97 Mortgage-backed securities[9]	211.9	248.6	242.3	243.0	235.1	237.6	244.2	254.8	253.5	250.7	255.5	264.3
98 Pass-through securities	145.0	169.9	165.3	164.7	156.8	156.9	160.2	166.3	163.3	161.1	167.1	174.1
99 CMOs, REMICs, and other mortgage-backed securities	66.9	78.8	77.0	78.3	78.2	80.7	84.0	88.5	90.2	89.6	88.4	90.2
100 Net unrealized gains (losses) on available-for-sale securities[10]	1.8	2.9	3.0	2.8	3.2	3.5	3.1	3.8	3.5	3.4	3.5	4.6
101 Offshore credit to U.S. residents[11]	34.1	35.2	35.5	36.0	36.1	35.3	35.6	36.8	36.7	36.9	36.7	37.3

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

D. Small domestically chartered commercial banks

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998							1998			
	Sept.	Mar.	Apr.	May	June	July	Aug.	Sept.	Sept. 9	Sept. 16	Sept. 23	Sept. 30
	Seasonally adjusted											
Assets												
1 Bank credit	1,380.5	1,429.1	1,435.4	1,444.8	1,454.9	1,467.3	1,479.3	1,486.9	1,484.7	1,485.1	1,487.8	1,490.0
2 Securities in bank credit	398.8	405.6	404.4	408.5	408.7	414.1	417.9	420.0	417.6	417.7	420.4	424.4
3 U.S. government securities	316.3	319.2	316.0	319.8	318.8	321.5	323.0	323.9	322.3	322.2	324.5	326.8
4 Other securities	82.5	86.4	88.4	88.7	89.9	92.6	94.9	96.0	95.3	95.5	95.9	97.6
5 Loans and leases in bank credit[2]	981.7	1,023.5	1,031.0	1,036.3	1,046.2	1,053.2	1,061.5	1,066.9	1,067.1	1,067.4	1,067.4	1,065.6
6 Commercial and industrial	177.2	185.2	186.7	189.1	191.2	192.8	196.0	197.9	197.8	197.8	197.8	198.4
7 Real estate	525.9	556.9	562.0	564.7	570.9	576.5	583.6	586.6	586.5	586.3	586.5	587.0
8 Revolving home equity	28.1	29.2	29.0	29.1	29.4	29.6	29.7	29.7	29.7	29.7	29.8	29.6
9 Other	497.8	527.7	533.0	535.5	541.4	546.8	553.9	556.9	556.7	556.5	556.7	557.5
10 Consumer	208.6	205.1	204.3	205.1	205.3	204.7	201.5	201.5	200.9	202.1	203.3	199.8
11 Security[3]	4.7	6.1	6.2	5.9	6.2	6.2	6.4	6.6	7.0	6.7	6.3	6.5
12 Other loans and leases	65.3	70.2	71.7	71.4	72.6	72.9	74.0	74.3	75.0	74.5	73.4	73.9
13 Interbank loans	51.9	62.6	64.1	64.9	68.5	71.1	73.1	76.4	75.7	78.5	76.2	75.4
14 Cash assets[4]	68.9	66.4	67.4	67.7	68.5	66.9	69.0	69.7	70.8	67.9	67.8	73.6
15 Other assets[5]	59.8	61.9	63.6	65.1	67.8	67.9	67.9	71.3	69.7	67.4	69.1	79.9
16 **Total assets**[6]	**1,541.9**	**1,600.6**	**1,610.8**	**1,622.8**	**1,640.0**	**1,653.4**	**1,669.4**	**1,684.2**	**1,680.9**	**1,678.9**	**1,680.8**	**1,698.9**
Liabilities												
17 Deposits	1,237.7	1,281.0	1,288.5	1,296.8	1,310.2	1,313.5	1,328.8	1,340.5	1,337.7	1,338.6	1,336.5	1,351.8
18 Transaction	293.5	294.9	293.6	293.2	295.1	291.9	292.6	295.3	288.3	291.8	295.3	309.1
19 Nontransaction	944.2	986.0	995.0	1,003.6	1,015.1	1,021.6	1,036.1	1,045.2	1,049.4	1,046.8	1,041.2	1,042.7
20 Large time	160.5	171.1	172.5	174.4	174.5	172.1	172.8	176.7	175.4	177.2	178.2	177.0
21 Other	783.8	814.9	822.5	829.2	840.6	849.5	863.3	868.5	874.0	869.6	863.0	865.8
22 Borrowings	151.5	156.1	158.3	160.7	161.9	164.9	164.5	165.3	167.5	166.6	164.5	162.9
23 From banks in the U.S.	73.8	69.5	69.6	70.2	70.8	73.6	73.9	74.1	76.2	74.7	72.4	73.5
24 From others	77.7	86.6	88.7	90.6	91.1	91.3	90.6	91.2	91.3	91.8	92.1	89.4
25 Net due to related foreign offices	4.9	4.1	3.5	3.8	3.9	3.7	3.7	3.7	3.6	3.3	3.7	4.3
26 Other liabilities	26.8	30.3	30.6	30.4	30.3	31.0	30.7	31.0	31.0	30.3	31.1	31.5
27 **Total liabilities**	**1,420.9**	**1,471.5**	**1,480.9**	**1,491.8**	**1,506.2**	**1,513.1**	**1,527.7**	**1,540.6**	**1,539.8**	**1,538.8**	**1,535.8**	**1,550.5**
28 Residual (assets less liabilities)[7]	121.1	129.1	129.9	131.0	133.7	140.3	141.8	143.7	141.1	140.1	145.1	148.4
	Not seasonally adjusted											
Assets												
29 Bank credit	1,383.0	1,425.5	1,441.1	1,451.8	1,459.7	1,465.4	1,478.8	1,489.0	1,484.6	1,488.2	1,493.2	1,490.8
30 Securities in bank credit	398.3	407.0	409.9	412.7	411.9	412.8	416.8	419.3	416.5	417.5	421.0	422.4
31 U.S. government securities	316.1	320.4	321.1	323.1	321.5	320.2	322.2	323.6	321.7	322.1	325.3	325.4
32 Other securities	82.3	86.6	88.8	89.6	90.3	92.6	94.7	95.7	94.9	95.4	95.8	97.0
33 Loans and leases in bank credit[2]	984.7	1,018.5	1,031.1	1,039.2	1,047.8	1,052.6	1,062.0	1,069.8	1,068.1	1,070.8	1,072.1	1,068.4
34 Commercial and industrial	175.9	186.2	189.1	191.7	193.0	192.6	194.4	196.4	195.8	196.5	196.9	196.6
35 Real estate	527.6	554.6	561.7	566.3	571.5	576.5	584.0	588.3	587.3	588.1	588.9	589.0
36 Revolving home equity	28.3	29.1	29.2	29.3	29.4	29.5	29.5	29.9	29.8	29.9	30.1	29.8
37 Other	499.3	525.5	532.5	537.0	542.1	547.0	554.5	558.4	557.5	558.2	558.8	559.2
38 Consumer	209.5	203.2	203.4	203.9	203.7	203.0	201.6	202.4	201.4	203.2	204.7	200.4
39 Security[3]	4.7	6.1	6.2	5.9	6.2	6.2	6.4	6.6	7.0	6.7	6.3	6.5
40 Other loans and leases	67.1	68.4	70.7	71.4	73.5	74.2	75.6	76.1	76.6	76.3	75.3	75.9
41 Interbank loans	48.8	66.4	66.2	61.2	64.7	65.8	68.6	72.0	78.1	74.0	66.1	69.2
42 Cash assets[4]	68.3	64.9	66.8	67.6	67.6	66.3	66.7	69.0	73.0	66.7	64.3	71.9
43 Other assets[5]	60.8	61.8	63.9	64.2	67.1	69.5	69.0	72.5	72.5	67.9	68.8	81.3
44 **Total assets**[6]	**1,541.7**	**1,599.0**	**1,618.3**	**1,625.1**	**1,639.4**	**1,647.2**	**1,663.3**	**1,682.5**	**1,688.2**	**1,676.9**	**1,672.3**	**1,693.3**
Liabilities												
45 Deposits	1,234.3	1,282.6	1,296.9	1,297.3	1,306.8	1,307.9	1,322.2	1,337.1	1,345.7	1,336.3	1,323.1	1,343.5
46 Transaction	291.2	291.9	297.1	291.1	293.5	289.1	288.4	293.1	294.1	290.6	284.5	304.1
47 Nontransaction	943.0	990.7	999.7	1,006.2	1,013.3	1,018.7	1,033.8	1,044.0	1,051.5	1,045.6	1,038.6	1,039.5
48 Large time	160.5	171.1	172.5	174.4	174.5	172.1	172.8	176.7	175.4	177.2	178.2	177.0
49 Other	782.6	819.6	827.2	831.8	838.8	846.6	861.0	867.2	876.1	868.4	860.4	862.5
50 Borrowings	154.5	152.9	156.5	161.1	162.3	164.9	165.8	168.7	165.9	168.4	173.0	168.1
51 From banks in the U.S.	74.9	68.4	69.3	70.9	71.4	73.8	74.6	75.2	75.2	75.1	75.8	75.1
52 From others	79.7	84.5	87.2	90.2	91.0	91.2	91.1	93.5	90.7	93.3	97.2	93.0
53 Net due to related foreign offices	4.9	4.1	3.5	3.8	3.9	3.7	3.7	3.7	3.6	3.3	3.7	4.3
54 Other liabilities	26.8	30.3	30.6	30.4	30.3	31.0	30.7	31.0	31.0	30.3	31.1	31.5
55 **Total liabilities**	**1,420.5**	**1,469.9**	**1,487.4**	**1,492.6**	**1,503.3**	**1,507.5**	**1,522.4**	**1,540.5**	**1,546.1**	**1,538.2**	**1,530.9**	**1,547.4**
56 Residual (assets less liabilities)[7]	121.2	129.1	130.9	132.5	136.1	139.7	140.9	142.1	142.1	138.6	141.4	145.8
MEMO												
57 Mortgage-backed securities[9]	47.1	52.1	53.3	55.0	56.1	56.8	57.8	59.2	57.3	57.4	58.7	59.2

Footnotes appear on p. A21.

1.26 COMMERCIAL BANKS IN THE UNITED STATES Assets and Liabilities[1]—Continued

E. Foreign-related institutions

Billions of dollars

Account	Monthly averages								Wednesday figures			
	1997	1998							1998			
	Sept.	Mar.	Apr.	May	June	July	Aug.	Sept.	Sept. 9	Sept. 16	Sept. 23	Sept. 30
	Seasonally adjusted											
Assets												
1 Bank credit	536.6	566.1	556.9	563.0	566.0	572.0	589.8	607.4	600.3	610.7	604.5	615.1
2 Securities in bank credit	178.9	200.1	194.1	197.0	199.0	199.9	210.7	214.3	212.9	213.5	210.7	219.4
3 U.S. government securities	82.7	88.8	89.2	89.1	87.4	90.2	92.9	82.2	82.8	79.2	79.5	84.2
4 Other securities	96.2	111.3	105.0	107.9	111.7	109.7	117.8	132.1	130.1	134.3	131.2	135.2
5 Loans and leases in bank credit[2]	357.7	366.0	362.8	366.0	367.0	372.2	379.1	393.1	387.4	397.2	393.8	395.7
6 Commercial and industrial	222.3	219.6	213.1	211.8	213.0	216.1	217.1	221.5	219.1	223.9	223.8	219.3
7 Real estate	28.0	25.9	25.0	24.4	24.2	23.9	23.7	23.4	23.6	23.6	23.3	23.0
8 Security[3]	43.6	49.1	52.2	59.1	60.2	61.5	65.1	69.2	68.4	69.6	67.1	72.5
9 Other loans and leases	63.8	71.3	72.5	70.8	69.7	70.7	73.2	79.1	76.4	80.0	79.6	80.8
10 Interbank loans	18.4	23.1	22.6	21.8	23.9	22.0	22.5	31.4	31.8	25.4	32.2	38.1
11 Cash assets[4]	34.2	34.5	35.6	34.8	35.3	35.2	34.0	34.3	34.0	34.9	35.4	32.9
12 Other assets[5]	43.6	36.4	36.2	34.1	34.1	34.2	35.8	38.1	37.3	37.8	38.7	38.5
13 **Total assets**[6]	**632.6**	**660.0**	**651.0**	**653.4**	**659.2**	**663.2**	**681.8**	**710.8**	**703.1**	**708.5**	**710.5**	**724.3**
Liabilities												
14 Deposits	263.2	291.2	294.0	295.3	302.6	297.2	306.2	315.2	316.8	316.4	317.9	310.2
15 Transaction	11.0	12.0	12.3	11.5	11.1	13.4	11.8	15.2	14.9	14.9	16.1	15.2
16 Nontransaction	252.1	279.3	281.8	283.7	291.6	283.9	294.4	300.0	301.8	301.5	301.8	295.0
17 Borrowings	144.6	152.8	166.0	163.4	167.1	169.9	169.9	184.3	176.2	177.9	178.1	206.4
18 From banks in the U.S.	34.9	27.0	26.6	22.4	29.6	26.8	24.0	32.6	28.2	27.8	25.9	49.1
19 From others	109.7	125.8	139.4	141.0	137.5	143.1	145.9	151.7	148.0	150.1	152.2	157.3
20 Net due to related foreign offices	125.6	122.6	102.5	101.2	97.2	106.8	108.3	95.1	101.2	101.7	92.3	82.1
21 Other liabilities	94.2	89.1	85.1	87.3	90.1	93.0	98.7	104.5	100.7	103.5	105.2	110.2
22 **Total liabilities**	**627.7**	**655.7**	**647.6**	**647.1**	**657.1**	**667.0**	**683.2**	**699.0**	**694.9**	**699.4**	**693.6**	**708.9**
23 Residual (assets less liabilities)[7]	4.9	4.3	3.4	6.4	2.1	−3.8	−1.3	11.8	8.2	9.1	16.9	15.4
	Not seasonally adjusted											
Assets												
24 Bank credit	533.5	566.3	557.2	564.7	569.1	574.9	592.3	602.2	593.0	603.2	599.3	612.9
25 Securities in bank credit	177.4	198.6	196.1	201.0	202.2	202.6	214.9	211.0	210.6	208.6	207.4	215.1
26 U.S. government securities	82.9	89.5	87.8	89.7	87.4	89.8	93.7	82.1	82.8	79.5	79.2	83.4
27 Trading account	17.0	17.5	18.5	20.8	18.9	24.9	30.7	21.5	22.0	20.0	19.6	20.9
28 Investment account	65.9	72.1	69.3	68.9	68.5	64.9	63.1	60.6	60.8	59.5	59.7	62.5
29 Other securities	94.5	109.1	108.3	111.3	114.8	112.8	121.2	128.9	127.8	129.0	128.2	131.7
30 Trading account	56.6	65.8	64.8	66.6	70.2	70.1	75.2	83.1	82.3	83.2	82.5	85.2
31 Investment account	37.9	43.3	43.6	44.7	44.6	42.7	46.0	45.8	45.5	45.8	45.7	46.4
32 Loans and leases in bank credit[2]	356.1	367.7	361.0	363.7	366.9	372.3	377.3	391.2	382.5	394.7	391.9	397.8
33 Commercial and industrial	221.2	220.3	213.1	211.2	212.9	215.8	216.0	220.4	216.5	222.3	222.9	220.4
34 Real estate	28.0	25.9	24.7	24.3	24.0	23.6	23.6	23.3	23.5	23.5	23.3	23.1
35 Security[3]	43.3	49.9	51.6	58.6	60.1	60.9	64.3	68.9	66.5	69.6	67.3	73.3
36 Other loans and leases	63.6	71.6	71.6	69.7	70.0	71.9	73.5	78.6	76.1	79.3	78.4	81.0
37 Interbank loans	18.4	23.1	22.6	21.8	23.9	22.0	22.5	31.4	31.8	25.4	32.2	38.1
38 Cash assets[4]	34.3	33.4	33.9	34.4	36.3	35.1	34.1	34.4	33.6	34.2	35.7	34.1
39 Other assets[5]	43.6	36.4	34.2	34.5	33.4	33.8	36.6	38.1	38.3	37.7	38.1	38.0
40 **Total assets**[6]	**629.6**	**659.0**	**647.6**	**655.2**	**662.4**	**665.5**	**685.2**	**705.8**	**696.4**	**700.2**	**705.1**	**722.8**
Liabilities												
41 Deposits	264.5	292.5	292.3	298.0	304.4	295.4	304.9	316.8	315.6	315.9	321.2	315.5
42 Transaction	11.5	11.9	11.8	11.2	11.1	13.5	11.8	15.8	15.1	15.2	17.0	16.7
43 Nontransaction	253.0	280.6	280.5	286.8	293.3	282.0	293.2	300.9	300.6	300.6	304.2	298.8
44 Borrowings	144.6	152.8	166.0	163.4	167.1	169.9	169.9	184.3	176.2	177.9	178.1	206.4
45 From banks in the U.S.	34.9	27.0	26.6	22.4	29.6	26.8	24.0	32.6	28.2	27.8	25.9	49.1
46 From others	109.7	125.8	139.4	141.0	137.5	143.1	145.9	151.7	148.0	150.1	152.2	157.3
47 Net due to related foreign offices	124.1	121.7	101.0	102.1	96.5	103.3	105.0	93.5	95.6	97.3	94.1	84.2
48 Other liabilities	94.0	89.3	84.3	86.8	89.3	92.3	98.7	104.2	100.8	102.9	104.6	110.2
49 **Total liabilities**	**627.2**	**656.3**	**643.7**	**650.3**	**657.3**	**660.9**	**678.5**	**698.7**	**688.2**	**693.9**	**698.0**	**716.3**
50 Residual (assets less liabilities)[7]	2.5	2.7	3.9	4.9	5.1	4.6	6.7	7.0	8.2	6.3	7.1	6.5
MEMO												
51 Revaluation gains on off-balance-sheet items[8]	43.3	40.6	39.9	40.2	42.2	41.7	43.8	47.9	46.9	47.6	48.6	49.6
52 Revaluation losses on off-balance-sheet items[8]	41.8	39.8	39.0	38.6	40.6	40.2	42.2	45.3	44.2	44.9	46.0	46.8

Footnotes appear on p. A21.

NOTES TO TABLE 1.26

NOTE. Tables 1.26, 1.27, and 1.28 have been revised to reflect changes in the Board's H.8 statistical release, "Assets and Liabilities of Commercial Banks in the United States." Table 1.27, "Assets and Liabilities of Large Weekly Reporting Commercial Banks," and table 1.28, "Large Weekly Reporting U.S. Branches and Agencies of Foreign Banks," are no longer being published in the *Bulletin*. Instead, abbreviated balance sheets for both large and small domestically chartered banks have been included in table 1.26, parts C and D. Data are both merger-adjusted and break-adjusted. In addition, data from large weekly reporting U.S. branches and agencies of foreign banks have been replaced by balance sheet estimates of all foreign-related institutions and are included in table 1.26, part E. These data are break-adjusted.

The not-seasonally-adjusted data for all tables now contain additional balance sheet items, which were available as of October 2, 1996.

1. Covers the following types of institutions in the fifty states and the District of Columbia: domestically chartered commercial banks that submit a weekly report of condition (large domestic); other domestically chartered commercial banks (small domestic); branches and agencies of foreign banks, and Edge Act and agreement corporations (foreign-related institutions). Excludes International Banking Facilities. Data are Wednesday values or *pro rata* averages of Wednesday values. Large domestic banks constitute a universe; data for small domestic banks and foreign-related institutions are estimates based on weekly samples and on quarter-end condition reports. Data are adjusted for breaks caused by reclassifications of assets and liabilities.

The data for large and small domestic banks presented on pp. A17–19 are adjusted to remove the estimated effects of mergers between these two groups. The adjustment for mergers changes past levels to make them comparable with current levels. Estimated quantities of balance sheet items acquired in mergers are removed from past data for the bank group that contained the acquired bank and put into past data for the group containing the acquiring bank. Balance sheet data for acquired banks are obtained from Call Reports, and a ratio procedure is used to adjust past levels.

2. Excludes federal funds sold to, reverse RPs with, and loans made to commercial banks in the United States, all of which are included in "Interbank loans."

3. Consists of reverse RPs with brokers and dealers and loans to purchase and carry securities.

4. Includes vault cash, cash items in process of collection, balances due from depository institutions, and balances due from Federal Reserve Banks.

5. Excludes the due-from position with related foreign offices, which is included in "Net due to related foreign offices."

6. Excludes unearned income, reserves for losses on loans and leases, and reserves for transfer risk. Loans are reported gross of these items.

7. This balancing item is not intended as a measure of equity capital for use in capital adequacy analysis. On a seasonally adjusted basis this item reflects any differences in the seasonal patterns estimated for total assets and total liabilities.

8. Fair value of derivative contracts (interest rate, foreign exchange rate, other commodity and equity contracts) in a gain/loss position, as determined under FASB Interpretation No. 39.

9. Includes mortgage-backed securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and private entities.

10. Difference between fair value and historical cost for securities classified as available-for-sale under FASB Statement No. 115. Data are reported net of tax effects. Data shown are restated to include an estimate of these tax effects.

11. Mainly commercial and industrial loans but also includes an unknown amount of credit extended to other than nonfinancial businesses.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Item	Year ending December					1998					
	1993 Dec.	1994 Dec.	1995 Dec.	1996 Dec.	1997 Dec.	Mar.	Apr.	May	June	July	Aug.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**555,075**	**595,382**	**674,904**	**775,371**	**966,699**	**1,049,222**	**1,041,681**	**1,053,995**	**1,091,554**	**1,102,307**	**1,119,816**
Financial companies[1]											
2 Dealer-placed paper[2], total	218,947	223,038	275,815	361,147	513,307	550,670	558,817	569,065	597,193	616,382	606,355
3 Directly placed paper[3], total	180,389	207,701	210,829	229,662	252,536	282,083	275,415	274,469	276,476	266,022	281,927
4 Nonfinancial companies[4]	155,739	164,643	188,260	184,563	200,857	216,469	207,449	210,460	217,885	219,904	231,534
	Bankers dollar acceptances (not seasonally adjusted)[5]										
5 **Total**	**32,348**	**29,835**	**29,242**	**25,832r**	**25,774**						
By holder											
6 Accepting banks	12,421	11,783									
7 Own bills	10,707	10,462									
8 Bills bought from other banks	1,714	1,321									
Federal Reserve Banks[6]											
9 Foreign correspondents	725	410	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10 Others	19,202	17,642									
By basis											
11 Imports into United States	10,217	10,062									
12 Exports from United States	7,293	6,355									
13 All other	14,838	13,417									

1. Institutions engaged primarily in commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
2. Includes all financial-company paper sold by dealers in the open market.
3. As reported by financial companies that place their paper directly with investors.
4. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
5. Data on bankers dollar acceptances are gathered from approximately 100 institutions. The reporting group is revised every January. Beginning January 1995, data for Bankers dollar acceptances are reported annually in September.
6. In 1977 the Federal Reserve discontinued operations in bankers dollar acceptances for its own account.

1.33 PRIME RATE CHARGED BY BANKS Short-Term Business Loans[1]

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1995—Jan. 1	8.50	1995	8.83	1996—Jan.	8.50	1997—Jan.	8.25
Feb. 1	9.00	1996	8.27	Feb.	8.25	Feb.	8.25
July 7	8.75	1997	8.44	Mar.	8.25	Mar.	8.30
Dec. 20	8.50			Apr.	8.25	Apr.	8.50
		1995—Jan.	8.50	May	8.25	May	8.50
1996—Feb. 1	8.25	Feb.	9.00	June	8.25	June	8.50
		Mar.	9.00	July	8.25	July	8.50
1997—Mar 26	8.50	Apr.	9.00	Aug.	8.25	Aug.	8.50
		May	9.00	Sept.	8.25	Sept	8.50
1998—Sept. 30	8.25	June	9.00	Oct.	8.25	Oct.	8.50
Oct. 16	8.00	July	8.80	Nov.	8.25	Nov.	8.50
		Aug.	8.75	Dec.	8.25	Dec.	8.50
		Sept.	8.75				
		Oct.	8.75			1998—Jan.	8.50
		Nov.	8.75			Feb.	8.50
		Dec.	8.65			Mar.	8.50
						Apr.	8.50
						May	8.50
						June	8.50
						July	8.50
						Aug.	8.50
						Sept.	8.49
						Oct.	8.12

1. The prime rate is one of several base rates that banks use to price short-term business loans. The table shows the date on which a new rate came to be the predominant one quoted by a majority of the twenty-five largest banks by asset size, based on the most recent Call Report. Data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Percent per year; figures are averages of business day data unless otherwise noted

Item	1995	1996	1997	1998				1998, week ending				
				June	July	Aug.	Sept.	Aug. 28	Sept. 4	Sept. 11	Sept. 18	Sept. 25
MONEY MARKET INSTRUMENTS												
1 Federal funds[1,2,3]	5.83	5.30	5.46	5.56	5.54	5.55	5.51	5.48	5.61	5.47	5.54	5.42
2 Discount window borrowing[2,4]	5.21	5.02	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Commercial paper[3,4,5,6]												
Nonfinancial												
3 1-month	n.a.	n.a.	5.57	5.51	5.51	5.50	5.44	5.50	5.50	5.49	5.49	5.45
4 2-month	n.a.	n.a.	5.57	5.50	5.50	5.50	5.37	5.49	5.48	5.44	5.40	5.34
5 3-month	n.a.	n.a.	5.56	5.48	5.48	5.48	5.31	5.47	5.42	5.39	5.32	5.27
Financial												
6 1-month	n.a.	n.a.	5.59	5.53	5.52	5.51	5.45	5.50	5.50	5.50	5.50	5.44
7 2-month	n.a.	n.a.	5.59	5.52	5.51	5.51	5.38	5.50	5.48	5.44	5.43	5.35
8 3-month	n.a.	n.a.	5.60	5.50	5.50	5.50	5.32	5.49	5.42	5.40	5.34	5.28
Commercial paper (historical)[3,5,6,7]												
9 1-month	5.93	5.43	5.54	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10 3-month	5.93	5.41	5.58	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11 6-month	5.93	5.42	5.62	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Finance paper, directly placed (historical)[3,5,7,8]												
12 1-month	5.81	5.31	5.44	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13 3-month	5.78	5.29	5.48	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
14 6-month	5.68	5.21	5.48	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bankers acceptances[3,5,9]												
15 3-month	5.81	5.31	5.54	5.50	5.50	5.49	5.38	5.49	5.47	5.47	5.38	5.34
16 6-month	5.80	5.31	5.57	5.47	5.46	5.46	5.27	5.45	5.41	5.40	5.24	5.20
Certificates of deposit, secondary market[3,10]												
17 1-month	5.87	5.35	5.54	5.57	5.57	5.56	5.49	5.56	5.55	5.53	5.53	5.48
18 3-month	5.92	5.39	5.62	5.60	5.59	5.58	5.41	5.57	5.52	5.46	5.42	5.37
19 6-month	5.98	5.47	5.73	5.65	5.65	5.61	5.33	5.58	5.50	5.41	5.33	5.27
20 Eurodollar deposits, 3-month[3,11]	5.93	5.38	5.61	5.57	5.57	5.56	5.39	5.55	5.50	5.48	5.38	5.33
U.S. Treasury bills												
Secondary market[3,5]												
21 3-month	5.49	5.01	5.06	4.98	4.96	4.90	4.61	4.89	4.76	4.73	4.62	4.53
22 6-month	5.56	5.08	5.18	5.12	5.03	4.95	4.63	4.91	4.79	4.71	4.69	4.52
23 1-year	5.60	5.22	5.32	5.13	5.08	4.94	4.50	4.85	4.68	4.55	4.54	4.40
Auction average[3,5,12]												
24 3-month	5.51	5.02	5.07	4.99	4.96	4.94	4.74	4.92	4.80	4.79	4.74	4.64
25 6-month	5.59	5.09	5.18	5.12	5.03	4.97	4.75	4.94	4.83	4.79	4.76	4.62
26 1-year	5.69	5.23	5.36	5.13	5.10	5.00	4.51	n.a.	n.a.	n.a.	4.51	n.a.
U.S. TREASURY NOTES AND BONDS												
Constant maturities[13]												
27 1-year	5.94	5.52	5.63	5.41	5.36	5.21	4.71	5.10	4.91	4.76	4.76	4.61
28 2-year	6.15	5.84	5.99	5.52	5.46	5.27	4.67	5.09	4.91	4.74	4.70	4.53
29 3-year	6.25	5.99	6.10	5.52	5.47	5.24	4.62	5.05	4.84	4.67	4.65	4.51
30 5-year	6.38	6.18	6.22	5.52	5.46	5.27	4.62	5.07	4.92	4.72	4.62	4.48
31 7-year	6.50	6.34	6.33	5.56	5.52	5.36	4.76	5.19	5.04	4.87	4.77	4.61
32 10-year	6.57	6.44	6.35	5.50	5.46	5.34	4.81	5.20	5.05	4.90	4.83	4.67
33 20-year	6.95	6.83	6.69	5.80	5.78	5.66	5.38	5.57	5.47	5.41	5.38	5.34
34 30-year	6.88	6.71	6.61	5.70	5.68	5.54	5.20	5.42	5.32	5.26	5.21	5.14
Composite												
35 More than 10 years (long-term)	6.93	6.80	6.67	5.78	5.76	5.64	5.34	5.54	5.44	5.37	5.34	5.29
STATE AND LOCAL NOTES AND BONDS												
Moody's series[14]												
36 Aaa	5.80	5.52	5.32	4.97	5.01[r]	5.01	4.84	4.92	4.92	4.84	4.85	4.75
37 Baa	6.10	5.79	5.50	5.08[r]	5.12[r]	5.15	5.11	5.13	5.15	5.08	5.10	5.10
38 *Bond Buyer* series[15]	5.95	5.76	5.52	5.12	5.14	5.10	4.99	5.03	5.03	5.00	4.97	4.94
CORPORATE BONDS												
39 Seasoned issues, all industries[16]	7.83	7.66	7.54	6.83	6.84	6.83	6.75	6.84	6.80	6.76	6.76	6.72
Rating group												
40 Aaa	7.59	7.37	7.27	6.53	6.55	6.52	6.40	6.52	6.47	6.43	6.42	6.37
41 Aa	7.72	7.55	7.48	6.78	6.78	6.77	6.68	6.78	6.74	6.70	6.70	6.66
42 A	7.83	7.69	7.54	6.88	6.89	6.89	6.82	6.91	6.87	6.84	6.83	6.79
43 Baa	8.20	8.05	7.87	7.13	7.15	7.14	7.09	7.15	7.12	7.08	7.10	7.07
44 A-rated, recently offered utility bonds[17]	7.86	7.77	7.71	6.98	6.93	7.02	6.93	7.08	7.00	6.93	6.90	6.89
MEMO												
Dividend–price ratio[18]												
45 Common stocks	2.56	2.19	1.77	1.45	1.39	1.48	1.59	1.48	1.64	1.61	1.56	1.53

1. The daily effective federal funds rate is a weighted average of rates on trades through New York brokers.
2. Weekly figures are averages of seven calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.
3. Annualized using a 360-day year for bank interest.
4. Rate for the Federal Reserve Bank of New York.
5. Quoted on a discount basis.
6. An average of offering rates on commercial paper for firms whose bond rating is AA or the equivalent.
7. Series ended August 29, 1997.
8. An average of offering rates on paper directly placed by finance companies.
9. Representative closing yields for acceptances of the highest-rated money center banks.
10. An average of dealer offering rates on nationally traded certificates of deposit.
11. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time. Data are for indication purposes only.
12. Auction date for daily data; weekly and monthly averages computed on an issue-date basis.
13. Yields on actively traded issues adjusted to constant maturities. Source: U.S. Department of the Treasury.
14. General obligation bonds based on Thursday figures; Moody's Investors Service.
15. State and local government general obligation bonds maturing in twenty years are used in compiling this index. The twenty-bond index has a rating roughly equivalent to Moody's A1 rating. Based on Thursday figures.
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 thirty-year maturity and five years of call protection. Weekly data are based on Friday quotations.
18. Standard & Poor's corporate series. Common stock ratio is based on the 500 stocks in the price index.

NOTE. Some of the data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1995	1996	1997	1998 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
	Prices and trading volume (averages of daily figures)[1]											
Common stock prices (indexes)												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	291.18	357.98	456.99	504.13	532.15	560.70	578.05	574.46	569.76	586.39	539.16	506.56
2 Industrial	367.40	453.57	574.97	624.61	660.91	693.13	711.89	712.39	731.01	718.54	665.66	629.51
3 Transportation	270.14	327.30	415.08	458.49	485.73	508.06	523.73	505.02	492.98	503.89	441.36	408.75
4 Utility	110.64	126.36	143.87	146.25	170.96	191.67	207.32	198.25	188.26	189.95	186.24	186.17
5 Finance	238.48	303.94	424.84	479.81	508.97	539.47	563.07	551.28	548.57	579.67	511.22	454.28
6 Standard & Poor's Corporation (1941–43 = 10)[2]	541.72	670.49	873.43	963.36	1,023.74	1,076.83	1,112.20	1,108.42	1,108.39	1,156.58	1,074.62	1,020.64
7 American Stock Exchange (Aug. 31, 1973 = 50)[3]	498.13	570.86	628.34	665.72	685.73	722.37	742.33	735.02	704.59	724.83	655.67	621.48
Volume of trading (thousands of shares)												
8 New York Stock Exchange	345,729	409,740	523,254	632,895	610,958	619,366	647,110	569,239	605,576	639,744	712,710	790,238
9 American Stock Exchange	20,387	22,567	n.a.	28,199	26,808	28,943	29,544	27,004	25,447	26,473	32,721	33,331
	Customer financing (millions of dollars, end-of-period balances)											
10 Margin credit at broker–dealers[4]	**76,680**	**97,400**	**126,090**	**127,790**	**135,590**	**140,340**	**140,240**	**143,600**	**147,700**	**154,370**	**147,800**	**137,540**
Free credit balances at brokers[5]												
11 Margin accounts[6]	16,250	22,540	31,410	29,480	27,450	27,430	28,160	26,200	29,840	31,820	38,460[r]	41,970
12 Cash accounts	34,340	40,430	52,160	48,620	48,640	51,340	51,050	47,770	51,205	53,780	53,850[r]	54,240

	Margin requirements (percent of market value and effective date)[7]					
	Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974
13 Margin stocks	70	80	65	55	65	50
14 Convertible bonds	50	60	50	50	50	50
15 Short sales	70	80	65	55	65	50

1. Daily data on prices are available upon request to the Board of Governors. For ordering address, see inside front cover.
2. In July 1976 a financial group, composed of banks and insurance companies, was added to the group of stocks on which the index is based. The index is now based on 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.
3. On July 5, 1983, the American Stock Exchange rebased its index, effectively cutting previous readings in half.
4. Since July 1983, under the revised Regulation T, margin credit at broker–dealers has included credit extended against stocks, convertible bonds, stocks acquired through the exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984.
5. Free credit balances are amounts in accounts with no unfulfilled commitments to brokers and are subject to withdrawal by customers on demand.
6. Series initiated in June 1984.
7. Margin requirements, stated in regulations adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit that can be used to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

On Jan. 1, 1977, the Board of Governors for the first time established in Regulation T the initial margin required for writing options on securities, setting it at 30 percent of the current market value of the stock underlying the option. On Sept. 30, 1985, the Board changed the required initial margin, allowing it to be the same as the option maintenance margin required by the appropriate exchange or self-regulatory organization; such maintenance margin rules must be approved by the Securities and Exchange Commission.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year			Calendar year					
	1995	1996	1997	1998					
				Apr.	May	June	July	Aug.	Sept.
U.S. budget[1]									
1 Receipts, total	1,351,830	1,453,062	1,579,292	261,002	95,278	187,860	119,723	111,741	180,947
2 On-budget	1,000,751	1,085,570	1,187,302	216,988	61,790	144,973	87,820	79,135	149,737
3 Off-budget	351,079	367,492	391,990	44,014	33,488	42,887	31,903	32,606	31,210
4 Outlays, total	1,515,729	1,560,512	1,601,235	136,400	134,057	136,754	143,807	122,907	142,725
5 On-budget	1,227,065	1,259,608	1,290,609	108,569	102,381	125,606	115,714	92,555	107,911
6 Off-budget	288,664	300,904	310,626	27,830	31,676	11,148	28,094	30,352	34,814
7 Surplus or deficit (−), total	−163,899	−107,450	−21,943	124,603	−38,779	51,106	−24,084	−11,166	38,222
8 On-budget	−226,314	−174,038	−103,307	108,419	−40,591	19,367	−27,894	−13,420	41,826
9 Off-budget	62,415	66,588	81,364	16,184	1,812	31,739	3,809	2,254	−3,604
Source of financing (total)									
10 Borrowing from the public	171,288	129,712	38,171	−60,587	−8,597	−12,618	−16,370	33,989	−46,413
11 Operating cash (decrease, or increase (−))	−2,007	−6,276	604	−60,398	51,899	−36,144	36,210	−362	−2,451
12 Other[2]	−5,382	−15,986	−16,832	−3,618	−4,523	−2,344	4,244	−22,461	10,642
MEMO									
13 Treasury operating balance (level, end of period)	37,949	44,225	43,621	88,030	36,131	72,275	36,065	36,427	38,878
14 Federal Reserve Banks	8,620	7,700	7,692	28,014	5,693	18,140	4,648	6,704	4,952
15 Tax and loan accounts	29,329	36,525	35,930	60,016	30,438	54,135	31,417	29,722	33,926

1. Since 1990, off-budget items have been the social security trust funds (federal old-age survivors insurance and federal disability insurance) and the U.S. Postal Service.

2. Includes special drawing rights (SDRs); reserve position on the U.S. quota in the International Monetary Fund (IMF); loans to the IMF; other cash and monetary assets; accrued interest payable to the public; allocations of SDRs; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts, seigniorage; increment on gold; net gain or loss for U.S. currency valuation adjustment; net gain or loss for IMF loan-valuation adjustment; and profit on sale of gold.

SOURCE. Monthly totals: U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*; fiscal year totals: U.S. Office of Management and Budget, *Budget of the U.S. Government*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS[1]

Millions of dollars

Source or type	Fiscal year 1996	Fiscal year 1997	Calendar year 1996 H2	1997 H1	1997 H2	1998 H1	1998 July	1998 Aug.	1998 Sept.
RECEIPTS									
1 **All sources**	**1,453,062**	**1,579,292**	**707,552**	**845,527**	**773,812**	**922,632**	**119,723**	**111,741**	**180,947**
2 Individual income taxes, net	656,417	737,466	323,884	400,436	354,072	447,514	58,969	55,300	90,479
3 Withheld	533,080	580,207	279,988	292,252	306,865	316,309	57,486	51,881	53,353
4 Nonwithheld	212,168	250,753	53,491	191,050	58,069	219,136	4,001	4,944	39,853
5 Refunds	88,897	93,560	9,604	82,926	10,869	87,989	2,520	1,525	2,729
Corporation income taxes									
6 Gross receipts	189,055	204,493	95,364	106,451	104,659	109,353	5,808	2,952	38,928
7 Refunds	17,231	22,198	10,053	9,635	10,135	14,220	1,736	1,484	2,128
8 Social insurance taxes and contributions, net	509,414	539,371	240,326	288,251	260,795	312,713	43,817	45,806	43,079
9 Employment taxes and contributions[2]	476,361	506,751	227,777	268,357	247,794	293,520	41,130	41,973	42,540
10 Unemployment insurance	28,584	28,202	10,302	17,709	10,724	17,080	2,301	3,502	206
11 Other net receipts[3]	4,469	4,418	2,245	2,184	2,280	2,112	385	331	333
12 Excise taxes	54,014	56,924	27,016	28,084	31,133[r]	29,922	6,127	3,181	2,961
13 Customs deposits	18,670	17,928	9,294	8,619	9,679	8,546	1,777	1,732	1,701
14 Estate and gift taxes	17,189	19,845	8,835	10,477	10,262	12,971	1,825	1,718	2,356
15 Miscellaneous receipts[4]	25,534	25,465	12,889	12,866	13,348	15,837	3,135	2,535	3,572
OUTLAYS									
16 **All types**	**1,560,512**	**1,601,235**	**800,177**	**797,418**	**824,370**	**815,886**	**143,807**	**122,907**	**142,725**
17 National defense	265,748	270,473	139,402	132,698	140,873	129,351	25,865	18,502	24,748
18 International affairs	13,496	15,228	8,532	5,740	9,420	4,610	815	443	1,123
19 General science, space, and technology	16,709	17,174	8,260	8,938	10,040	9,426	1,711	1,581	1,824
20 Energy	2,844	1,483	695	803	411	957	122	−113	892
21 Natural resources and environment	21,614	21,369	10,307	9,628	11,106	10,051	2,217	1,855	2,115
22 Agriculture	9,159	9,032	11,037	1,465	10,590	2,387	176	1,656	2,780
23 Commerce and housing credit	−10,472	−14,624	−5,899	−7,575	−3,526	−2,483	−1,223	−1,423	8,147
24 Transportation	39,565	40,767	21,512	16,847	20,414	16,196	3,327	3,218	3,997
25 Community and regional development	10,685	11,005	5,498	5,678	5,749	4,863	917	770	1,115
26 Education, training, employment, and social services	52,001	53,008	27,524	25,080	26,851	25,928	3,645	4,708	4,455
27 Health	119,378	123,843	61,595	61,809	63,552	65,053	11,033	10,704	11,293
28 Social security and Medicare	523,901	555,273	269,412	278,863	283,109	286,305	51,109	44,240	47,555
29 Income security	225,989	230,886	107,631	124,034	106,353	125,196	21,198	14,281	17,309
30 Veterans benefits and services	36,985	39,313	21,109	17,697	22,077	19,615	4,958	1,749	3,432
31 Administration of justice	17,548	20,197	9,583	10,670	10,212	11,287	2,256	2,012	1,675
32 General government	11,892	12,768	6,546	6,623	7,302	6,139	308	579	2,199
33 Net interest[5]	241,090	244,013	122,573	122,655	122,620	122,345	20,791	21,366	15,976
34 Undistributed offsetting receipts[6]	−37,620	−49,973	−25,142	−24,235	−22,795	−21,340	−5,416	−3,221	−7,909

1. Functional details do not sum to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for receipts and outlays do not correspond to calendar year data because revisions from the *Budget* have not been fully distributed across months.
2. Old-age, disability, and hospital insurance, and railroad retirement accounts.
3. Federal employee retirement contributions and civil service retirement and disability fund.
4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.
5. Includes interest received by trust funds.
6. Rents and royalties for the outer continental shelf, U.S. government contributions for employee retirement, and certain asset sales.

SOURCE. Fiscal year totals: U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1999*; monthly and half-year totals: U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government.*

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars, end of month

Item	1996		1997				1998		
	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30
1 **Federal debt outstanding**	**5,260**	**5,357**	**5,415**	**5,410**	**5,446**	**5,536**	**5,573**	**5,578**	**5,556**
2 Public debt securities	5,225	5,323	5,381	5,376	5,413	5,502	5,542	5,548	5,526
3 Held by public	3,778	3,826	3,874	3,805	3,815	3,847	3,872	3,790	n.a.
4 Held by agencies	1,447	1,497	1,507	1,572	1,599	1,656	1,670	1,758	n.a.
5 Agency securities	35	34	34	34	33	34	31	30	29
6 Held by public	27	27	26	26	26	27	26	26	n.a.
7 Held by agencies	8	8	8	7	7	7	5	4	n.a.
8 **Debt subject to statutory limit**	**5,137**	**5,237**	**5,294**	**5,290**	**5,328**	**5,417**	**5,457**	**5,460**	**5,440**
9 Public debt securities	5,137	5,237	5,294	5,290	5,328	5,416	5,456	5,460	5,439
10 Other debt[1]	0	0	0	0	0	0	0	0	0
MEMO									
11 Statutory debt limit	5,500	5,500	5,500	5,500	5,950	5,950	5,950	5,950	5,950

1. Consists of guaranteed debt of U.S. Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCE. U.S. Department of the Treasury, *Monthly Statement of the Public Debt of the United States* and *Treasury Bulletin.*

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1994	1995	1996	1997	1997	1998		
					Q4	Q1	Q2	Q3
1 **Total gross public debt**	**4,800.2**	**4,988.7**	**5,323.2**	**5,502.4**	**5,502.4**	**5,542.4**	**5,547.9**	**5,526.2**
By type								
2 Interest-bearing	4,769.2	4,964.4	5,317.2	5,494.9	5,494.9	5,535.3	5,540.2	5,518.7
3 Marketable	3,126.0	3,307.2	3,459.7	3,456.8	3,456.8	3,467.1	3,369.5	3,331.0
4 Bills	733.8	760.7	777.4	715.4	715.4	720.1	641.1	637.7
5 Notes	1,867.0	2,010.3	2,112.3	2,106.1	2,106.1	2,091.9	2,064.6	2,009.1
6 Bonds	510.3	521.2	555.0	587.3	587.3	598.7	598.7	610.4
7 Inflation-indexed notes and bonds[1]	n.a.	n.a.	n.a.	33.0	33.0	41.5	50.1	41.9
8 Nonmarketable[2]	1,643.1	1,657.2	1,857.5	2,038.1	2,038.1	2,068.2	2,170.7	2,187.7
9 State and local government series	132.6	104.5	101.3	124.1	124.1	139.1	155.0	164.4
10 Foreign issues[3]	42.5	40.8	37.4	36.2	36.2	35.4	36.0	35.1
11 Government	42.5	40.8	47.4	36.2	36.2	36.4	36.0	35.1
12 Public	.0	.0	.0	.0	.0	.0	.0	.0
13 Savings bonds and notes	177.8	181.9	182.4	181.2	181.2	181.2	180.7	180.8
14 Government account series[4]	1,259.8	1,299.6	1,505.9	1,666.7	1,666.7	1,681.5	1,769.1	1,777.3
15 Non-interest-bearing	31.0	24.3	6.0	7.5	7.5	7.2	7.7	7.5
By holder[5]								
16 U.S. Treasury and other federal agencies and trust funds	1,257.1	1,304.5	1,497.2	1,655.7	1,655.7	1,670.4	1,757.6	
17 Federal Reserve Banks	374.1	391.0	410.9	451.9	451.9	400.0	458.4	
18 Private investors	3,168.0	3,294.9	3,411.2	3,393.4	3,393.4	3,430.7	3,330.6	
19 Commercial banks	290.4	278.7	261.8	269.8	269.8	279.2	275.0	
20 Money market funds	67.6	71.5	91.6	88.9	88.9	84.8	82.9	
21 Insurance companies	240.1	241.5	214.1	224.9	224.9	225.5	228.0	
22 Other companies	224.5	228.8	258.5	265.0	265.0	268.1	267.2	n.a.
23 State and local treasuries[6,7]	541.0	469.6	482.5	493.0	493.0	442.4	441.0	
Individuals								
24 Savings bonds	180.5	185.0	187.0	186.5	186.5	186.3	186.0	
25 Other securities	150.7	162.7	169.6	168.4	168.4	165.8	165.0	
26 Foreign and international[8]	688.7	862.2	1,135.6	1,278.0	1,278.0	1,240.2	1,247.4	
27 Other miscellaneous investors[7,9]	784.6	794.9	610.5	418.8	418.8	538.4	438.0	

1. The U.S. Treasury first issued inflation-indexed securities during the first quarter of 1997.
2. Includes (not shown separately) securities issued to the Rural Electrification Administration, depository bonds, retirement plan bonds, and individual retirement bonds.
3. Nonmarketable series denominated in dollars, and series denominated in foreign currency held by foreigners.
4. Held almost entirely by U.S. Treasury and other federal agencies and trust funds.
5. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
6. Includes state and local pension funds.
7. In March 1996, in a redefinition of series, fully defeased debt backed by nonmarketable federal securities was removed from "Other miscellaneous investors" and added to "State and local treasuries." The data shown here have been revised accordingly.
8. Consists of investments of foreign balances and international accounts in the United States.
9. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. Treasury deposit accounts, and federally sponsored agencies.

SOURCE. U.S. Treasury Department, data by type of security, *Monthly Statement of the Public Debt of the United States;* data by holder, *Treasury Bulletin.*

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Millions of dollars, daily averages

Item	1998			1998, week ending								
	June	July	Aug.	Aug. 5	Aug. 12	Aug. 19	Aug. 26	Sept. 2	Sept. 9	Sept. 16	Sept. 23	Sept. 30
OUTRIGHT TRANSACTIONS[2]												
By type of security												
1 U.S. Treasury bills	30,868	25,889	32,286	26,401	26,841	28,263	33,499	51,929	35,909	40,148	31,762	28,504
Coupon securities, by maturity												
2 Five years or less	111,622	82,094	137,256	115,476	120,628	116,569	157,479	187,693	120,894	151,592	141,650	130,825
3 More than five years	78,005	59,741	77,455	64,454	72,437	58,072	93,119	105,015	74,135	85,936	84,597	85,452
4 Inflation-indexed	651	1,205	717	301	761	585	968	862	1,212	1,657	817	1,140
Federal agency												
5 Discount notes	37,154	35,439	37,530	37,020	37,479	37,638	34,649	42,747	39,628	45,984	48,277	50,771
Coupon securities, by maturity												
6 One year or less	1,746	1,325	1,095	777	1,302	1,195	1,093	905	517	1,544	1,378	1,036
7 More than one year, but less than or equal to five years	3,196	2,892	4,118	4,748	4,505	2,948	4,049	4,908	6,093	5,078	4,466	4,003
8 More than five years	3,330	2,700	3,583	2,455	2,468	3,046	5,026	5,058	2,561	2,569	2,817	2,769
9 Mortgage-backed	71,310	61,434	72,609	67,380	95,734	63,047	59,351	77,327	111,619	103,767	83,919	71,093
By type of counterparty												
With interdealer broker												
10 U.S. Treasury	122,408	92,782	135,577	113,694	121,193	112,826	155,714	185,792	130,450	156,360	143,203	135,153
11 Federal agency	2,250	1,904	3,012	2,511	2,752	2,377	3,559	4,094	2,696	2,768	3,556	3,264
12 Mortgage-backed	20,149	19,316	22,350	20,538	26,766	19,705	20,044	25,054	31,866	37,391	29,255	26,631
With other												
13 U.S. Treasury	98,737	76,148	112,136	92,938	99,474	90,663	129,351	159,536	101,700	122,973	115,623	110,769
14 Federal agency	43,176	40,451	43,314	42,489	43,003	42,450	41,257	49,524	46,102	52,406	53,382	55,315
15 Mortgage-backed	51,161	42,118	50,258	46,843	68,967	43,342	39,307	52,272	79,753	66,375	53,271	44,462
FUTURES TRANSACTIONS[3]												
By type of deliverable security												
16 U.S. Treasury bills	170	65	95	0	139	0	50	0	47	413	54	0
Coupon securities, by maturity												
17 Five years or less	2,666	1,764	5,907	3,023	5,031	3,780	7,777	10,680	3,498	5,087	3,506	2,724
18 More than five years	16,057	11,813	18,177	15,079	12,194	13,845	23,221	30,063	16,714	22,287	20,808	15,948
19 Inflation-indexed	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency												
20 Discount notes	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
21 One year or less	0	0	0	0	0	0	0	0	0	0	0	0
22 More than one year, but less than or equal to five years	0	0	0	0	0	0	0	0	0	0	0	0
23 More than five years	0	0	0	0	0	0	0	0	0	0	0	0
24 Mortgage-backed	0	0	0	0	0	0	0	0	0	0	0	0
OPTIONS TRANSACTIONS[4]												
By type of underlying security												
25 U.S. Treasury bills	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
26 Five years or less	1,627	1,856	1,790	1,272	1,230	1,701	2,468	2,263	1,723	2,691	1,407	1,950
27 More than five years	4,943	5,124	6,496	4,488	5,613	6,005	9,382	5,986	6,421	6,440	5,485	6,383
28 Inflation-indexed	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency												
29 Discount notes	0	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity												
30 One year or less	0	0	0	0	0	0	0	0	0	0	0	0
31 More than one year, but less than or equal to five years	0	0	0	0	0	0	0	0	0	0	0	0
32 More than five years	0	0	0	0	0	0	0	0	0	0	0	0
33 Mortgage-backed	768	623	793	697	1,110	541	633	1,050	815	786	348	975

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Monthly averages are based on the number of trading days in the month. Transactions are assumed to be evenly distributed among the trading days of the report week. Immediate, forward, and futures transactions are reported at principal value, which does not include accrued interest; options transactions are reported at the face value of the underlying securities.

Dealers report cumulative transactions for each week ending Wednesday.

2. Outright transactions include immediate and forward transactions. Immediate delivery refers to purchases or sales of securities (other than mortgage-backed federal agency securities) for which delivery is scheduled in five business days or less and "when-issued" securities that settle on the issue date of offering. Transactions for immediate delivery of mortgage-backed agency securities include purchases and sales for which delivery is scheduled in thirty business days or less. Stripped securities are reported at market value by maturity of coupon or corpus.

Forward transactions are agreements made in the over-the-counter market that specify delayed delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty business days.

3. Futures transactions are standardized agreements arranged on an exchange. All futures transactions are included regardless of time to delivery.

4. Options transactions are purchases or sales of put and call options, whether arranged on an organized exchange or in the over-the-counter market, and include options on futures contracts on U.S. Treasury and federal agency securities.

NOTE. "n.a." indicates that data are not published because of insufficient activity.

Major changes in the report form filed by primary dealers induced a break in the dealer data series as of the week ending January 28, 1998.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Millions of dollars

Item	1998 June	1998 July	1998 Aug.	1998, week ending Aug. 5	Aug. 12	Aug. 19	Aug. 26	Sept. 2	Sept. 9	Sept. 16	Sept. 23
					Positions[2]						
NET OUTRIGHT POSITIONS[3]											
By type of security											
1 U.S. Treasury bills	2,012	1,766	3,981	4,030	2,786	6,322	2,185	4,845	6,948	−896	−1,168
Coupon securities, by maturity											
2 Five years or less	−22,489	−16,440	−18,708	−21,834	−26,511	−29,451	−7,988	−4,625	−7,456	−6,121	−7,093
3 More than five years	−11,405	−17,653	−11,060	−15,890	−13,915	−12,806	−10,324	−820	597	−3,598	−2,644
4 Inflation-indexed	1,306	2,671	2,305	2,725	2,603	2,187	2,196	1,786	1,883	1,536	1,327
Federal agency											
5 Discount notes	16,758	19,296	16,408	18,105	18,803	14,783	13,975	17,042	19,191	20,889	17,117
Coupon securities, by maturity											
6 One year or less	2,098	2,782	2,756	2,809	2,692	2,278	2,833	3,355	3,211	2,961	2,653
7 More than one year, but less than or equal to five years	7,043	7,435	5,821	6,793	7,717	6,232	4,565	3,378	5,033	5,992	4,906
8 More than five years	10,934	10,759	8,784	9,054	8,831	10,414	7,990	7,280	6,512	6,371	7,344
9 Mortgage-backed	69,961	64,705	61,657	61,216	71,517	63,422	52,505	58,637	62,539	66,404	55,797
NET FUTURES POSITIONS[4]											
By type of deliverable security											
10 U.S. Treasury bills	139	596	1,144	809	878	1,172	1,385	1,474	1,617	287	151
Coupon securities, by maturity											
11 Five years or less	−1,530	−4,346	−4,879	−2,889	−4,360	−4,629	−6,374	−5,851	−6,506	−10,554	−9,681
12 More than five years	−32,350	−26,100	−32,741	−31,268	−33,884	−33,411	−33,309	−30,879	−29,025	−26,815	−23,089
13 Inflation-indexed	0	0	0	0	0	0	0	0	0	0	0
Federal agency											
14 Discount notes	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
15 One year or less	0	0	0	0	0	0	0	0	0	0	0
16 More than one year, but less than or equal to five years	0	0	0	0	0	0	0	0	0	0	0
17 More than five years	0	0	0	0	0	0	0	0	0	0	0
18 Mortgage-backed	0	0	0	0	0	0	0	0	0	0	0
NET OPTIONS POSITIONS											
By type of deliverable security											
19 U.S. Treasury bills	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
20 Five years or less	−2,063	−1,050	−827	−577	−645	−627	−1,294	−957	−1,878	−911	267
21 More than five years	−343	−3,065	−2,842	−3,397	−3,409	−3,859	−880	−2,815	−3,497	−1,015	−2,398
22 Inflation-indexed	0	0	0	0	0	0	0	0	0	n.a.	n.a.
Federal agency											
23 Discount notes	0	0	0	0	0	0	0	0	0	0	0
Coupon securities, by maturity											
24 One year or less	0	0	0	0	0	0	0	0	0	0	0
25 More than one year, but less than or equal to five years	n.a.	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
26 More than five years	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
27 Mortgage-backed	1,750	2,332	1,954	3,092	1,696	2,229	1,649	1,222	1,692	1,706	2,517
					Financing[5]						
Reverse repurchase agreements											
28 Overnight and continuing	341,684	320,143	333,413	323,805	327,992	337,894	332,826	345,156	305,452	309,408	336,627
29 Term	824,391	895,133	829,365	959,264	1,002,726	702,978	734,912	765,937	778,038	798,530	820,842
Securities borrowed											
30 Overnight and continuing	221,331	218,172	221,150	212,332	218,696	221,834	225,402	226,495	223,820	231,670	232,824
31 Term	98,054	95,894	95,383	97,037	95,627	95,116	94,232	95,375	99,144	103,598	101,204
Securities received as pledge											
32 Overnight and continuing	3,043	3,140	2,770	2,748	2,617	2,983	2,820	2,641	3,120	3,413	3,470
33 Term	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a.
Repurchase agreements											
34 Overnight and continuing	740,876	720,678	735,478	711,604	729,503	747,609	729,867	758,591	726,556	747,092	735,625
35 Term	744,206	799,633	728,531	856,968	886,939	606,000	646,966	664,056	675,410	718,248	746,038
Securities loaned											
36 Overnight and continuing	11,164	10,999	12,518	12,389	12,904	13,197	12,992	10,495	10,932	10,016	10,007
37 Term	3,625	3,623	3,830	3,497	4,100	3,773	3,876	3,803	3,808	3,936	3,897
Securities pledged											
38 Overnight and continuing	56,175	54,477	49,094	49,034	47,835	49,230	51,485	47,376	46,482	52,344	55,635
39 Term	5,471	6,425	5,612	5,851	5,853	4,867	5,861	5,732	5,794	5,560	5,878
Collateralized loans											
40 Total	11,177	16,787	21,580	21,562	24,137	21,570	21,434	18,238	13,879	14,678	16,520

1. Data for positions and financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Weekly figures are close-of-business Wednesday data. Positions for calendar days of the report week are assumed to be constant. Monthly averages are based on the number of calendar days in the month.

2. Securities positions are reported at market value.

3. Net outright positions include immediate and forward positions. Net immediate positions include securities purchased or sold (other than mortgage-backed agency securities) that have been delivered or are scheduled to be delivered in five business days or less and "when-issued" securities that settle on the issue date of offering. Net immediate positions for mortgage-backed agency securities include securities purchased or sold that have been delivered or are scheduled to be delivered in thirty business days or less.

Forward positions reflect agreements made in the over-the-counter market that specify delayed delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty business days.

4. Futures positions reflect standardized agreements arranged on an exchange. All futures positions are included regardless of time to delivery.

5. Overnight financing refers to agreements made on one business day that mature on the next business day; continuing contracts are agreements that remain in effect for more than one business day but have no specific maturity and can be terminated without advance notice by either party; term agreements have a fixed maturity of more than one business day. Financing data are reported in terms of actual funds paid or received, including accrued interest.

NOTE. "n.a." indicates that data are not published because of insufficient activity.

Major changes in the report form filed by primary dealers induced a break in the dealer data series as of the week ending January 28, 1998.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1994	1995	1996	1997	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July
1 **Federal and federally sponsored agencies**	**738,928**	**844,611**	**925,823**	**1,022,609**	**1,059,043**	**1,048,661**	**1,044,575**	**1,061,253**	n.a.
2 Federal agencies	39,186	37,347	29,380	27,792	27,227	27,104	26,995	26,817	26,990
3 Defense Department[1]	6	6	6	6	6	6	6	6	6
4 Export-Import Bank[2,3]	3,455	2,050	1,447	552	549	542	542	1,295	0
5 Federal Housing Administration[4]	116	97	84	102	97	102	108	144	156
6 Government National Mortgage Association certificates of participation[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7 Postal Service[6]	8,073	5,765	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8 Tennessee Valley Authority	27,536	29,429	27,853	27,786	27,221	27,098	26,989	26,811	26,984
9 United States Railway Association[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
10 Federally sponsored agencies[7]	699,742	807,264	896,443	994,817	1,031,816	1,021,557	1,017,580	1,034,436	n.a.
11 Federal Home Loan Banks	205,817	243,194	263,404	313,919	317,967	323,208	322,155	328,514	328,009
12 Federal Home Loan Mortgage Corporation	93,279	119,961	156,980	169,200	193,300	200,800	204,751	200,314	208,800
13 Federal National Mortgage Association	257,230	299,174	331,270	369,774	381,093	395,977	399,489	406,162	415,229
14 Farm Credit Banks[8]	53,175	57,379	60,053	63,517	62,327	62,799	63,744	64,717	64,528
15 Student Loan Marketing Association[9]	50,335	47,529	44,763	37,717	36,310	36,256	35,952	33,231	n.a.
16 Financing Corporation[10]	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170
17 Farm Credit Financial Assistance Corporation[11]	1,261	1,261	1,261	1,261	1,261	1,261	1,261	1,261	1,261
18 Resolution Funding Corporation[12]	29,996	29,996	29,996	29,996	29,996	29,996	29,996	29,996	29,996
MEMO									
19 **Federal Financing Bank debt**[13]	**103,817**	**78,681**	**58,172**	**49,090**	**45,487**	**44,893**	**44,223**	**136,892**	**42,610**
Lending to federal and federally sponsored agencies									
20 Export-Import Bank[3]	3,449	2,044	1,431	552	549	542	542	1,295	
21 Postal Service[6]	8,073	5,765	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
22 Student Loan Marketing Association	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
23 Tennessee Valley Authority	3,200	3,200	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
24 United States Railway Association[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Other lending[14]									
25 Farmers Home Administration	33,719	21,015	18,325	13,530	13,030	12,380	11,955	13,530	10,900
26 Rural Electrification Administration	17,392	17,144	16,702	14,898	14,315	14,203	14,207	14,819	14,126
27 Other	37,984	29,513	21,714	20,110	17,593	17,768	17,519	107,248	17,584

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. On-budget since Sept. 30, 1976.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal year 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration, the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Small Business Administration, and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Includes Federal Agricultural Mortgage Corporation, therefore details do not sum to total. Some data are estimated.
8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, which is shown on line 17.
9. Before late 1982, the association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 22.
10. The Financing Corporation, established in August 1987 to recapitalize the Federal Savings and Loan Insurance Corporation, undertook its first borrowing in October 1987.
11. The Farm Credit Financial Assistance Corporation, established in January 1988 to provide assistance to the Farm Credit System, undertook its first borrowing in July 1988.
12. The Resolution Funding Corporation, established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, undertook its first borrowing in October 1989.
13. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Because FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table to avoid double counting.
14. Includes FFB purchases of agency assets and guaranteed loans; the latter are loans guaranteed by numerous agencies, with the amounts guaranteed by any one agency generally being small. The Farmers Home Administration entry consists exclusively of agency assets, whereas the Rural Electrification Administration entry consists of both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1995	1996	1997	1998							
				Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
1 **All issues, new and refunding**[1]	**145,657**	**171,222**	**214,694**	**21,306**	**27,859**	**20,271**	**22,862**	**29,665**	**22,599**	**20,344**	**17,526**
By type of issue											
2 General obligation	56,980	60,409	69,934	9,893	9,597	8,154	4,827	10,135	6,515	5,812	5,619
3 Revenue	88,677	110,813	134,989	11,413	18,261	12,117	18,035	19,530	16,084	14,532	11,907
By type of issuer											
4 State	14,665	13,651	18,237	2,420	2,375	3,548	1,146	2,809	1,972	1,483	1,280
5 Special district or statutory authority[2]	93,500	113,228	134,919	14,228	19,629	12,504	16,865	18,099	16,244	14,233	12,490
6 Municipality, county, or township	37,492	44,343	70,558	4,658	5,859	4,219	4,851	7,220	5,673	4,628	3,756
7 **Issues for new capital**	**102,390**	**112,298**	**135,519**	**12,538**	**15,134**	**12,616**	**15,281**	**19,341**	**15,895**	**11,258**	**9,106**
By use of proceeds											
8 Education	23,964	26,851	31,860	3,525	4,297	4,080	2,819	4,911	2,733	2,435	2,041
9 Transportation	11,890	12,324	13,951	1,760	771	1,089	1,043	2,962	3,677	1,982	918
10 Utilities and conservation	9,618	9,791	12,219	687	1,866	749	5,971	2,368	795	1,179	831
11 Social welfare	19,566	24,583	27,794	2,903	3,104	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12 Industrial aid	6,581	6,287	6,667	581	1,236	678	576	563	1,002	709	315
13 Other purposes	30,771	32,462	35,095	3,082	3,860	3,255	2,482	5,279	4,674	2,764	2,726

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts.

SOURCE. Securities Data Company beginning January 1990; *Investment Dealer's Digest* before then.

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue, offering, or issuer	1995	1996	1997	1998[r]							
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
1 **All issues**[1]	**673,779**[r]	**668,687**	**771,135**	**81,465**	**76,178**	**116,594**	**84,399**	**85,013**	**36,944**	**70,306**	**53,628**
2 **Bonds**[2]	**572,998**	**548,922**	**641,069**	**73,798**	**64,996**	**97,323**	**71,929**	**70,313**	**19,833**	**60,534**	**49,903**
By type of offering											
3 Public, domestic	408,707	465,489	537,880	55,647	50,453	81,778	55,452	56,965	78,280[r]	54,266	46,184
4 Private placement, domestic[3]	87,492	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5 Sold abroad	76,799	83,433	103,188	10,551	6,943	7,946	8,878	5,748	7,363[r]	6,267	3,719
By industry group											
6 Nonfinancial	156,763	119,765	130,116	21,039	12,133	17,301	16,985	12,856	16,844	17,221	12,799
7 Financial	416,235	429,157	510,953	45,159	45,263	72,422	47,345	49,857	10,344	43,313	37,104
8 **Stocks**[2]	**105,323**	**122,006**	**117,880**	**7,667**	**11,182**	**19,271**	**12,470**	**14,700**	**17,111**	**9,772**	**3,725**
By type of offering											
9 Public	73,223	122,006	117,880	7,667	11,182	19,271	12,470	14,700	17,111	9,772	3,725
10 Private placement[3]	32,100	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
By industry group											
11 Nonfinancial	52,707	80,460	60,386	1,761	5,737	10,756	5,551	9,271	10,248	6,390	2,560
12 Financial	20,516	41,546	57,494	5,906	5,445	8,515	6,919	5,429	6,863	3,382	1,165

1. Figures represent gross proceeds of issues maturing in more than one year; they are the principal amount or number of units calculated by multiplying by the offering price. Figures exclude secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.
2. Monthly data cover only public offerings.
3. Monthly data are not available.

SOURCE. Beginning July 1993, Securities Data Company and the Board of Governors of the Federal Reserve System.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Assets[1]

Millions of dollars

Item	1996	1997	1998							
			Feb.	Mar.	Apr.	May	June	July	Aug.[r]	Sept.
1 **Sales of own shares**[2]	**934,595**	**1,190,900**	**114,219**	**128,348**	**128,828**	**113,593**	**122,288**	**134,801**	**111,587**	**118,640**
2 Redemptions of own shares	702,711	918,728	81,688	97,248	97,087	84,421	97,899	107,368	118,812	106,942
3 Net sales[3]	231,885	272,172	32,532	31,100	31,741	29,172	24,389	27,433	−7,225	11,697
4 **Assets**[4]	**2,624,463**	**3,409,315**	**3,675,392**	**3,843,971**	**3,909,932**	**3,882,061**	**3,986,952**	**3,957,093**	**3,479,401**	**3,628,812**
5 Cash[5]	138,559	174,154	180,415	174,058	170,045	171,425	199,135	195,966	194,435	210,226
6 Other	2,485,904	3.235,161	3,494.977	3,669,913	3,739,887	3,710,636	3,787,817	3,761,127	3,284,967	3,418,586

1. Data include stock, hybrid, and bond mutual funds and exclude money market mutual funds.
2. Excludes reinvestment of net income dividends and capital gains distributions and share issue of conversions from one fund to another in the same group.
3. Excludes sales and redemptions resulting from transfers of shares into or out of money market mutual funds within the same fund family.
4. Market value at end of period, less current liabilities.
5. Includes all U.S. Treasury securities and other short-term debt securities.

SOURCE. Investment Company Institute. Data based on reports of membership, which comprises substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect underwritings of newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data at seasonally adjusted annual rates

Account	1995	1996	1997	1996		1997				1998	
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1 Profits with inventory valuation and capital consumption adjustment	672.4	750.4	817.9	755.4	762.0	794.3	815.5	840.9	820.8	829.2	820.6
2 Profits before taxes	635.6	680.2	734.4	681.9	685.7	712.4	729.8	758.9	736.4	719.1	723.5
3 Profits-tax liability	211.0	226.1	246.1	227.7	224.2	238.8	241.9	254.2	249.3	239.9	241.6
4 Profits after taxes	424.6	454.1	488.3	454.2	461.5	473.6	487.8	504.7	487.1	479.2	481.8
5 Dividends	205.3	261.9	275.1	269.1	273.6	274.1	274.7	275.1	276.4	277.3	278.1
6 Undistributed profits	219.3	192.3	213.2	185.1	187.9	199.5	213.2	229.5	210.6	201.8	203.7
7 Inventory valuation	−22.6	−1.2	6.9	1.2	3.0	8.1	10.3	4.8	4.3	25.3	7.8
8 Capital consumption adjustment	59.4	71.4	76.6	72.3	73.3	73.8	75.5	77.2	80.1	84.9	89.4

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities[1]

Billions of dollars, end of period; not seasonally adjusted

Account	1995	1996	1997	1996	1997				1998	
				Q4	Q1	Q2	Q3	Q4	Q1	Q2
ASSETS										
1 Accounts receivable, gross[2]	607.0	637.1	663.3	637.1	648.0	651.6	660.5	663.3	667.2	676.0
2 Consumer	233.0	244.9	256.8	244.9	249.4	255.1	254.5	256.8	251.7	251.3
3 Business	301.6	309.5	318.5	309.5	315.2	311.7	319.5	318.5	325.9	334.9
4 Real estate	72.4	82.7	87.9	82.7	83.4	84.8	86.4	87.9	89.6	89.9
5 LESS: Reserves for unearned income	60.7	55.6	52.7	55.6	51.3	57.2	54.6	52.7	52.1	53.2
6 Reserves for losses	12.8	13.1	13.0	13.1	12.8	13.3	12.7	13.0	13.1	13.2
7 Accounts receivable, net	533.5	568.3	597.6	568.3	583.9	581.2	593.1	597.6	601.9	609.6
8 All other	250.9	290.0	312.4	290.0	289.6	306.8	289.1	312.4	329.7	340.1
9 **Total assets**	**784.4**	**858.3**	**910.0**	**858.3**	**873.4**	**887.9**	**882.3**	**910.0**	**931.6**	**949.7**
LIABILITIES AND CAPITAL										
10 Bank loans	15.3	19.7	24.1	19.7	18.4	18.8	20.4	24.1	22.0	22.3
11 Commercial paper	168.6	177.6	201.5	177.6	185.3	193.7	189.6	201.5	211.7	225.9
Debt										
12 Owed to parent	51.1	60.3	64.7	60.3	61.0	60.0	61.6	64.7	64.6	60.0
13 Not elsewhere classified	300.0	332.5	328.8	332.5	324.6	345.3	322.8	328.8	338.2	348.7
14 All other liabilities	163.6	174.7	189.6	174.7	189.2	171.4	190.1	189.6	193.1	188.9
15 Capital, surplus, and undivided profits	85.9	93.5	101.3	93.5	94.9	98.7	97.9	101.3	102.1	103.9
16 **Total liabilities and capital**	**784.4**	**858.3**	**910.0**	**858.3**	**873.4**	**887.9**	**882.3**	**910.0**	**931.6**	**949.7**

1. Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data are amounts carried on the balance sheets of finance companies; securitized pools are not shown, as they are not on the books.
2. Before deduction for unearned income and losses.

1.52 DOMESTIC FINANCE COMPANIES Owned and Managed Receivables[1]

Billions of dollars, amounts outstanding

Type of credit	1995	1996	1997	1998 Mar.	Apr.	May	June	July	Aug.
	Seasonally adjusted								
1 **Total**	**682.4**	**761.9**	**809.8**	**819.0**	**825.3**	**833.0**	**831.3**	**840.6[r]**	**845.3**
2 Consumer	283.1	307.7	327.7	328.7	328.9	330.2	332.5	336.6[r]	339.1
3 Real estate	72.4	111.9	121.1	121.6	121.9	124.2	120.9	125.2	127.1
4 Business	326.8	342.4	361.0	368.7	374.5	378.6	377.9	378.7	379.2
	Not seasonally adjusted								
5 **Total**	**689.5**	**769.7**	**818.1**	**819.7**	**825.3**	**832.2**	**836.0**	**835.2[r]**	**841.6**
6 Consumer	285.8	310.6	330.9	325.4	326.7	329.4	335.4	338.5[r]	340.5
7 Motor vehicles loans	81.1	86.7	87.0	86.8	90.6	89.6	89.9	91.7	95.3
8 Motor vehicle leases	80.8	92.5	96.8	95.2	95.9	95.9	97.0	97.3	96.9
9 Revolving[2]	28.5	32.5	38.6	36.6	30.4	30.5	29.9	29.6[r]	30.2
10 Other[3]	42.6	33.2	34.4	33.0	33.4	33.5	34.4	35.0	34.7
Securitized assets[4]									
11 Motor vehicle loans	34.8	36.8	44.3	45.0	42.8	45.7	49.3	50.2	49.2
12 Motor vehicle leases	3.5	8.7	10.8	10.5	10.4	10.8	10.9	10.8	10.7
13 Revolving	n.a.	0.0	0.0	0.0	5.3	5.3	5.3	5.3	5.3
14 Other	14.7	20.1	19.0	18.2	18.1	18.1	18.6	18.5	18.2
15 Real estate	72.4	111.9	121.1	121.6	121.9	124.2	120.9	125.2	127.1
16 One- to four-family	n.a.	52.1	59.0	61.5	62.4	65.2	62.3	65.9	68.6
17 Other	n.a.	30.5	28.9	28.1	28.1	28.1	27.5	28.5	28.7
Securitized real estate assets[4]									
18 One- to four-family	n.a.	28.9	33.0	31.8	31.2	30.7	30.9	30.6	29.7
19 Other	n.a.	0.4	0.2	0.2	0.2	0.2	0.1	0.1	0.1
20 Business	331.2	347.2	366.1	372.7	376.7	378.6	379.7	371.5	374.0
21 Motor vehicles	66.5	67.1	63.5	67.8	68.2	69.1	68.4	61.1	62.5
22 Retail loans	21.8	25.1	25.6	27.3	28.3	29.3	29.2	29.2	29.6
23 Wholesale loans[5]	36.6	33.0	27.7	30.2	29.5	29.5	28.2	21.0	22.0
24 Leases	8.0	9.0	10.2	10.2	10.4	10.4	11.0	10.9	10.9
25 Equipment	8.0	9.0	10.2	206.5	207.8	209.3	212.8	212.8	212.0
26 Loans	8.0	9.0	10.2	50.8	51.2	51.3	52.7	51.6	51.8
27 Leases	8.0	9.0	10.2	155.7	156.7	158.0	160.2	161.2	160.2
28 Other business receivables[6]	8.0	9.0	10.2	51.6	54.0	54.3	53.7	54.5	57.0
Securitized assets[4]									
29 Motor vehicles	8.0	9.0	10.2	32.1	31.6	31.0	29.1	26.3	25.9
30 Retail loans	8.0	9.0	10.2	2.0	1.9	1.9	2.3	2.2	2.1
31 Wholesale loans	8.0	9.0	10.2	30.0	29.6	29.2	26.7	24.1	23.8
32 Leases	8.0	9.0	10.2	0.0	0.0	0.0	0.0	0.0	0.0
33 Equipment	8.0	9.0	10.2	10.5	10.3	10.2	10.5	11.5	11.4
34 Loans	8.0	9.0	10.2	4.2	4.1	4.0	4.1	5.1	4.9
35 Leases	8.0	9.0	10.2	6.3	6.2	6.2	6.4	6.4	6.4
36 Other business receivables[6]	8.0	9.0	10.2	4.2	4.7	4.7	5.3	5.4	5.2

NOTE. This table has been revised to incorporate several changes resulting from the benchmarking of finance company receivables to the June 1996 Survey of Finance Companies. In that benchmark survey, and in the monthly surveys that have followed, more detailed breakdowns have been obtained for some components. In addition, previously unavailable data on securitized real estate loans are now included in this table. The new information has resulted in some reclassification of receivables among the three major categories (consumer, real estate, and business) and in discontinuities in some component series between May and June 1996.

Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data in this table also appear in the Board's G.20 (422) monthly statistical release. For ordering address, see inside front cover.

1. Owned receivables are those carried on the balance sheet of the institution. Managed receivables are outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator. Data are shown before deductions for unearned income and losses. Components may not sum to totals because of rounding.

2. Excludes revolving credit reported as held by depository institutions that are subsidiaries of finance companies.

3. Includes personal cash loans, mobile home loans, and loans to purchase other types of consumer goods such as appliances, apparel, boats, and recreation vehicles.

4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

5. Credit arising from transactions between manufacturers and dealers, that is, floor plan financing.

6. Includes loans on commercial accounts receivable, factored commercial accounts, and receivable dealer capital; small loans used primarily for business or farm purposes; and wholesale and lease paper for mobile homes, campers, and travel trailers.

1.53 MORTGAGE MARKETS Mortgages on New Homes

Millions of dollars except as noted

Item	1995	1996	1997	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Terms[1]										
1 Purchase price (thousands of dollars)	175.8	182.4	180.1	191.7	189.5	195.6	193.7	208.7	191.5	192.7
2 Amount of loan (thousands of dollars)	134.5	139.2	140.3	149.5	147.1	150.2	151.0	160.1	150.4	150.8
3 Loan-to-price ratio (percent)	78.6	78.2	80.4	81.0	80.4	79.1	81.0	78.7	81.3	80.9
4 Maturity (years)	27.7	27.2	28.2	28.3	28.4	28.3	28.3	28.5	28.6	28.7
5 Fees and charges (percent of loan amount)[2]	1.21	1.21	1.02	0.95	0.87	0.85	0.85	0.90	0.87	0.85
Yield (percent per year)										
6 Contract rate[1]	7.65	7.56	7.57	7.03	7.05	7.05	7.03	6.99	6.95	6.85
7 Effective rate[1,3]	7.85	7.77	7.73	7.17	7.19	7.18	7.16	7.13	7.09	6.98
8 Contract rate (HUD series)[4]	8.05	8.03	7.76	7.16	7.20	7.11	7.08	7.05	6.86	6.64
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (Section 203)[5]	8.18	8.19	7.89	7.09	7.37	7.07	7.07	7.05	7.03	6.53
10 GNMA securities[6]	7.57	7.48	7.26	6.66	6.63	6.63	6.54	6.48	6.42	6.05
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	253,511	287,052	316,678	327,025	333,571	343,922	349,249	359,827	366,890	375,665
12 FHA/VA insured	28,762	30,592	31,925	31,965	32,734	32,771	32,896	33,036	32,929	32,903
13 Conventional	224,749	256,460	284,753	295,060	300,837	311,151	316,353	326,791	333,961	342,762
14 Mortgage transactions purchased (during period)	56,598	68,618	70,465	12,095	14,668	17,423	11,916	17,326	14,316	15,681
Mortgage commitments (during period)										
15 Issued[7]	56,092	65,859	69,965	14,057	17,556	10,612	16,921	13,217	17,016	16,282
16 To sell[8]	360	130	1,298	92	0	0	0	419	233	249
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
17 Total	107,424	137,755	164,421	185,928	189,471	192,603	196,634	202,582	206,856	216,522
18 FHA/VA insured	267	220	177	166	162	158	422	456	489[r]	490
19 Conventional	107,157	137,535	164,244	185,762	189,309	192,445	196,212	202,126	206,367[r]	216,032
Mortgage transactions (during period)										
20 Purchases	98,470	125,103	117,401	21,011	25,132	23,743	22,394	22,605[r]	21,507	25,365
21 Sales	85,877	119,702	114,258	19,085	24,479	23,338	21,133	22,263	20,634[r]	24,294
22 Mortgage commitments contracted (during period)[9]	118,659	128,995	120,089	23,060	24,468	26,100	20,008	23,528	24,694	23,375

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups for purchase of newly built homes; compiled by the Federal Housing Finance Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rate on loans closed for purchase of newly built homes, assuming prepayment at the end of ten years.
4. Average contract rate on new commitments for conventional first mortgages; from U.S. Department of Housing and Urban Development (HUD). Based on transactions on the first day of the subsequent month.
5. Average gross yield on thirty-year, minimum-downpayment first mortgages insured by the Federal Housing Administration (FHA) for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month.
6. Average net yields to investors on fully modified pass-through securities backed by mortgages and guaranteed by the Government National Mortgage Association (GNMA), assuming prepayment in twelve years on pools of thirty-year mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
7. Does not include standby commitments issued, but includes standby commitments converted.
8. Includes participation loans as well as whole loans.
9. Includes conventional and government-underwritten loans. The Federal Home Loan Mortgage Corporation's mortgage commitments and mortgage transactions include activity under mortgage securities swap programs, whereas the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING[1]

Millions of dollars, end of period

Type of holder and property	1994	1995	1996	1997			1998	
				Q2	Q3	Q4	Q1	Q2[p]
1 **All holders**	**4,393,545**	**4,604,609**	**4,930,487**	**5,062,766**	**5,180,917**	**5,279,333**	**5,380,907**	**5,505,783**
By type of property								
2 One- to four-family residences	3,355,868	3,530,400	3,761,560	3,860,763	3,956,815	4,029,268	4,102,830	4,195,738
3 Multifamily residences	271,823	281,788	300,665	305,963	308,418	314,590	320,237	326,527
4 Nonfarm, nonresidential	682,883	707,861	781,129	807,361	825,923	845,058	866,414	890,538
5 Farm	82,971	84,561	87,134	88,680	89,760	90,417	91,425	92,980
By type of holder								
6 Major financial institutions	1,819,806	1,894,420	1,979,114	2,033,599	2,068,002	2,086,721	2,119,279	2,124,259
7 Commercial banks[2]	1,012,711	1,090,189	1,145,389	1,196,461	1,227,131	1,244,108	1,270,032	1,280,732
8 One- to four-family	615,861	669,434	698,508	733,694	752,323	762,531	779,927	784,929
9 Multifamily	39,346	43,837	46,675	49,116	49,166	50,642	51,790	52,175
10 Nonfarm, nonresidential	334,953	353,088	375,322	387,588	398,841	403,957	410,859	415,311
11 Farm	22,551	23,830	24,883	26,063	26,801	26,978	27,456	28,316
12 Savings institutions[3]	596,191	596,763	628,335	629,062	631,444	631,822	637,012	629,882
13 One- to four-family	477,626	482,353	513,712	516,521	519,564	520,672	527,036	520,276
14 Multifamily	64,343	61,987	61,570	60,070	60,348	59,543	59,074	58,704
15 Nonfarm, nonresidential	53,933	52,135	52,723	52,132	51,187	51,252	50,532	50,519
16 Farm	289	288	331	338	346	354	369	383
17 Life insurance companies	210,904	207,468	205,390	208,077	209,426	210,792	212,235	213,645
18 One- to four-family	7,018	7,316	6,772	6,842	7,080	7,186	7,321	7,488
19 Multifamily	23,902	23,435	23,197	23,499	23,615	23,755	23,902	24,038
20 Nonfarm, nonresidential	170,421	167,095	165,399	167,548	168,374	169,377	170,423	171,393
21 Farm	9,563	9,622	10,022	10,188	10,358	10,473	10,589	10,726
22 Federal and related agencies	315,580	306,774	300,935	292,966	291,410	292,581	293,499	294,547
23 Government National Mortgage Association	6	2	2	7	7	8	8	8
24 One- to four-family	6	2	2	7	7	8	8	8
25 Multifamily	0	0	0	0	0	0	0	0
26 Farmers Home Administration[4]	41,781	41,791	41,596	41,400	41,332	41,195	40,972	40,921
27 One- to four-family	18,098	17,705	17,303	17,239	17,458	17,253	17,160	17,059
28 Multifamily	11,319	11,617	11,685	11,706	11,713	11,720	11,714	11,722
29 Nonfarm, nonresidential	5,670	6,248	6,841	7,135	7,246	7,370	7,369	7,497
30 Farm	6,694	6,221	5,768	5,321	4,916	4,852	4,729	4,644
31 Federal Housing and Veterans' Administrations	10,964	9,809	6,244	4,200	3,462	3,821	3,694	3,631
32 One- to four-family	4,753	5,180	3,524	2,299	1,437	1,767	1,641	1,610
33 Multifamily	6,211	4,629	2,719	1,900	2,025	2,054	2,053	2,021
34 Resolution Trust Corporation	10,428	1,864	0	0	0	0	0	0
35 One- to four-family	5,200	691	0	0	0	0	0	0
36 Multifamily	2,859	647	0	0	0	0	0	0
37 Nonfarm, nonresidential	2,369	525	0	0	0	0	0	0
38 Farm	0	0	0	0	0	0	0	0
39 Federal Deposit Insurance Corporation	7,821	4,303	2,431	1,816	1,476	724	786	564
40 One- to four-family	1,049	492	365	272	221	109	118	85
41 Multifamily	1,595	428	413	309	251	123	134	96
42 Nonfarm, nonresidential	5,177	3,383	1,653	1,235	1,004	492	534	384
43 Farm	0	0	0	0	0	0	0	0
44 Federal National Mortgage Association	174,312	176,824	174,556	170,386	168,458	167,722	166,670	167,202
45 One- to four-family	158,766	161,665	160,751	157,729	156,363	156,245	155,876	156,769
46 Multifamily	15,546	15,159	13,805	12,657	12,095	11,477	10,794	10,433
47 Federal Land Banks	28,555	28,428	29,602	29,963	30,346	30,657	31,005	31,352
48 One- to four-family	1,671	1,673	1,742	1,763	1,786	1,804	1,824	1,845
49 Farm	26,885	26,755	27,860	28,200	28,560	28,853	29,181	29,507
50 Federal Home Loan Mortgage Corporation	41,712	43,753	46,504	45,194	46,329	48,454	50,364	50,869
51 One- to four-family	38,882	39,901	41,758	40,092	40,953	42,629	44,440	44,597
52 Multifamily	2,830	3,852	4,746	5,102	5,376	5,825	5,924	6,272
53 Mortgage pools or trusts[5]	1,730,004	1,863,210	2,064,882	2,145,995	2,202,549	2,272,999	2,330,674	2,442,603
54 Government National Mortgage Association	450,934	472,283	506,340	520,938	529,867	536,810	533,011	537,586
55 One- to four-family	441,198	461,438	494,158	507,618	516,217	523,156	519,152	523,243
56 Multifamily	9,736	10,845	12,182	13,320	13,650	13,654	13,859	14,343
57 Federal Home Loan Mortgage Corporation	490,851	515,051	554,260	567,187	569,920	579,385	583,144	609,791
58 One- to four-family	487,725	512,238	551,513	564,445	567,340	576,846	580,715	607,469
59 Multifamily	3,126	2,813	2,747	2,742	2,580	2,539	2,429	2,322
60 Federal National Mortgage Association	530,343	582,959	650,780	673,931	690,919	709,582	730,832	761,359
61 One- to four-family	520,763	569,724	633,210	654,826	670,677	687,981	708,125	737,631
62 Multifamily	9,580	13,235	17,570	19,105	20,242	21,601	22,707	23,728
63 Farmers Home Administration[4]	19	11	3	2	2	2	2	2
64 One- to four-family	3	2	0	0	0	0	0	0
65 Multifamily	0	0	0	0	0	0	0	0
66 Nonfarm, nonresidential	9	5	0	0	0	0	0	0
67 Farm	7	4	3	2	2	2	2	2
68 Private mortgage conduits	257,857	292,906	353,499	383,937	411,841	447,219	483,685	533,865
69 One- to four-family[6]	208,500	227,800	261,900	279,450	299,400	318,000	336,824	364,316
70 Multifamily	11,744	15,584	21,967	24,355	25,655	29,264	33,477	38,144
71 Nonfarm, nonresidential	37,613	49,522	69,633	80,132	86,786	99,955	113,384	131,405
72 Farm	0	0	0	0	0	0	0	0
73 Individuals and others[7]	528,155	540,206	585,556	590,206	618,955	627,033	637,455	644,375
74 One- to four-family	368,749	372,786	376,341	377,966	405,990	413,082	422,663	428,413
75 Multifamily	69,686	73,719	81,389	82,081	81,702	82,392	82,379	82,529
76 Nonfarm, nonresidential	72,738	75,859	109,558	111,591	112,486	112,655	113,312	114,031
77 Farm	16,983	17,841	18,268	18,567	18,777	18,904	19,100	19,402

1. Multifamily debt refers to loans on structures of five or more units.
2. Includes loans held by nondeposit trust companies but not loans held by bank trust departments.
3. Includes savings banks and savings and loan associations.
4. FmHA-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:Q4 because of accounting changes by the Farmers Home Administration.
5. Outstanding principal balances of mortgage-backed securities insured or guaranteed by the agency indicated.
6. Includes securitized home equity loans.
7. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and finance companies.

SOURCE. Based on data from various institutional and government sources. Separation of nonfarm mortgage debt by type of property, if not reported directly, and interpolations and extrapolations, when required for some quarters, are estimated in part by the Federal Reserve. Line 69 from Inside Mortgage Securities and other sources.

1.55 CONSUMER CREDIT[1]

Millions of dollars, amounts outstanding, end of period

Holder and type of credit	1995	1996	1997	1998 Mar.	Apr.	May	June	July[r]	Aug.
	Seasonally adjusted								
1 **Total**	***1,095,711***	***1,181,913***	***1,233,099***	***1,246,016***	***1,249,950***	***1,251,874***	***1,260,676***	***1,266,189***	***1,270,809***
2 Automobile	364,209	392,321	413,369	419,811	421,378	422,806	425,736	427,949	431,789
3 Revolving	443,183	499,486	531,140	539,674	542,213	541,656	545,920	543,723	545,918
4 Other[2]	288,319	290,105	288,590	286,530	286,359	287,412	289,020	294,517	293,102
	Not seasonally adjusted								
5 **Total**	**1,122,828**	**1,211,590**	**1,264,103**	**1,234,714**	**1,239,310**	**1,240,755**	**1,253,893**	**1,259,328**	**1,271,013**
By major holder									
6 Commercial banks	501,963	526,769	512,563	492,213	500,207	497,389	491,509	491,777	498,775
7 Finance companies	152,123	152,391	160,022	156,480	154,328	153,556	154,275	156,366	160,151
8 Credit unions	131,939	144,148	152,362	149,334	149,119	149,784	149,383	150,667	151,203
9 Savings institutions	40,106	44,711	47,172	47,087	47,500	47,915	48,329	48,744	49,158
10 Nonfinancial business[3]	85,061	77,745	78,927	72,754	65,102	65,238	65,278	65,495	66,026
11 Pools of securitized assets[4]	211,636	265,826	313,057	316,846	323,054	326,873	345,119	346,279	345,700
By major type of credit[5]									
12 Automobile	367,069	395,609	416,962	415,524	416,138	418,425	425,453	429,551	434,470
13 Commercial banks	151,437	157,047	155,254	153,926	151,278	151,677	150,877	153,203	155,508
14 Finance companies	81,073	86,690	87,015	86,834	90,564	89,569	89,948	91,741	95,257
15 Pools of securitized assets[4]	44,635	51,719	64,950	65,057	63,737	65,988	71,615	72,470	70,766
16 Revolving	464,134	522,860	555,858	534,420	535,976	536,043	540,147	537,458	542,751
17 Commercial banks	210,298	228,615	219,826	201,316	209,171	207,318	200,901	197,646	200,424
18 Finance companies	28,460	32,493	38,608	36,613	30,398	30,495	29,893	29,605	30,155
19 Nonfinancial business[3]	53,525	44,901	44,966	41,246	33,487	33,412	33,544	33,807	34,009
20 Pools of securitized assets[4]	147,934	188,712	221,465	226,226	233,668	235,347	245,635	246,031	247,422
21 Other	291,625	293,121	291,283	284,770	287,196	286,287	288,293	292,319	293,792
22 Commercial banks	140,228	141,107	137,483	136,971	139,758	138,394	139,731	140,928	142,843
23 Finance companies	42,590	33,208	34,399	33,033	33,366	33,492	34,434	35,020	34,739
24 Nonfinancial business[3]	31,536	32,844	33,961	31,508	31,615	31,826	31,734	31,688	32,017
25 Pools of securitized assets[4]	19,067	25,395	26,642	25,563	25,649	25,538	27,869	27,778	27,512

1. The Board's series on amounts of credit covers most short- and intermediate-term credit extended to individuals. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.
2. Comprises mobile home loans and all other loans that are not included in automobile or revolving credit, such as loans for education, boats, trailers, or vacations. These loans may be secured or unsecured.
3. Includes retailers and gasoline companies.
4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.
5. Totals include estimates for certain holders for which only consumer credit totals are available.

1.56 TERMS OF CONSUMER CREDIT[1]

Percent per year except as noted

Item	1995	1996	1997	1998 Feb.	Mar.	Apr.	May	June	July	Aug.
INTEREST RATES										
Commercial banks[2]										
1 48-month new car	9.57	9.05	9.02	8.87	n.a.	n.a.	8.69	n.a.	n.a.	8.71
2 24-month personal	13.94	13.54	13.90	14.01	n.a.	n.a.	13.76	n.a.	n.a.	13.45
Credit card plan										
3 All accounts	15.90	15.63	15.77	15.65	n.a.	n.a.	15.67	n.a.	n.a.	15.83
4 Accounts assessed interest	15.64	15.50	15.57	15.33	n.a.	n.a.	15.62	n.a.	n.a.	15.85
Auto finance companies										
5 New car	11.19	9.84	7.12	6.98	5.94	6.20	6.07	6.02	6.25	6.00
6 Used car	14.48	13.53	13.27	12.87	12.79	12.76	12.73	12.63	12.51	12.68
OTHER TERMS[3]										
Maturity (months)										
7 New car	54.1	51.6	54.1	52.6	51.5	50.7	50.8	50.9	51.7	53.0
8 Used car	52.2	51.4	51.0	52.5	52.6	52.9	52.9	54.0	54.1	54.1
Loan-to-value ratio										
9 New car	92	91	92	92	92	91	93	91	92	93
10 Used car	99	100	99	97	97	98	99	100	100	101
Amount financed (dollars)										
11 New car	16,210	16,987	18,077	18,825	18,932	18,922	18,793	18,878	19,084	19,068
12 Used car	11,590	12,182	12,281	12,356	12,431	12,716	12,607	12,698	12,733	12,407

1. The Board's series on amounts of credit covers most short- and intermediate-term credit extended to individuals. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.
2. Data are available for only the second month of each quarter.
3. At auto finance companies.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS[1]

Billions of dollars; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1993	1994	1995	1996	1997	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
						Nonfinancial sectors						
1 **Total net borrowing by domestic nonfinancial sectors**	**588.0**	**572.2**	**701.6**	**725.8**	**768.4**	**642.2**	**674.5**	**614.4**	**829.6**	**954.9**	**919.1**	**935.0**
By sector and instrument												
2 Federal government	256.1	155.9	144.4	145.0	23.1	112.3	64.9	−43.5	30.3	40.8	−31.3	−69.6
3 Treasury securities	248.3	155.7	142.9	146.6	23.2	115.6	66.3	−43.8	31.2	39.0	−28.9	−68.1
4 Budget agency securities and mortgages	7.8	.2	1.5	−1.6	−.1	−3.3	−1.4	.2	−.9	1.7	−2.4	−1.4
5 Nonfederal	331.9	416.4	557.1	580.8	745.3	530.0	609.6	658.0	799.3	914.2	950.4	1,004.5
By instrument												
6 Commercial paper	10.0	21.4	18.1	−.9	13.7	−24.1	7.2	20.3	14.5	12.8	53.9	6.6
7 Municipal securities and loans	74.8	−35.9	−48.2	2.6	71.4	54.8	34.1	59.6	88.9	103.2	116.7	86.1
8 Corporate bonds	75.2	23.3	73.3	72.5	90.7	89.9	79.4	86.1	122.9	74.4	157.2	160.8
9 Bank loans n.e.c.	6.4	75.2	102.3	66.2	107.6	27.8	140.7	118.1	31.6	140.0	56.0	170.1
10 Other loans and advances	−18.9	34.0	67.2	33.8	68.2	3.2	34.2	19.3	79.2	140.1	80.7	34.5
11 Mortgages	123.7	173.4	205.5	318.0	341.1	331.5	251.5	295.1	411.9	405.8	434.3	487.8
12 Home	156.2	178.5	174.5	264.9	267.7	248.4	217.5	210.5	333.6	309.3	330.3	367.9
13 Multifamily residential	−6.8	−1.2	8.1	12.6	11.4	15.3	3.9	12.7	6.5	22.3	19.9	22.5
14 Commercial	−26.7	−6.1	21.2	37.9	58.7	66.1	28.0	67.7	67.5	71.6	80.1	91.1
15 Farm	1.0	2.2	1.6	2.6	3.3	1.6	2.1	4.1	4.3	2.6	4.0	6.2
16 Consumer credit	60.7	124.9	138.9	88.8	52.5	46.8	62.5	59.5	50.3	37.8	51.7	58.6
By borrowing sector												
17 Household	207.8	311.4	349.0	372.8	351.6	306.6	324.7	317.3	368.3	396.2	435.9	476.7
18 Nonfinancial business	57.9	151.3	259.6	214.8	337.6	177.7	268.0	298.2	358.4	425.7	420.2	463.0
19 Corporate	52.1	143.6	232.7	165.5	267.8	108.6	215.2	223.6	287.1	345.1	334.9	363.4
20 Nonfarm noncorporate	3.2	3.3	23.9	44.5	63.5	61.4	47.8	68.6	65.8	71.6	77.4	92.2
21 Farm	2.6	4.4	2.9	4.8	6.4	7.6	4.9	6.0	5.5	9.0	7.9	7.4
22 State and local government	66.2	−46.2	−51.5	−6.8	56.1	45.7	16.9	42.5	72.6	92.3	94.3	64.9
23 Foreign net borrowing in United States	69.8	−14.0	71.1	76.9	56.9	93.6	31.2	61.7	92.5	42.3	68.8	68.5
24 Commercial paper	−9.6	−26.1	13.5	11.3	3.7	4.4	15.5	10.4	−11.6	.7	56.0	−24.8
25 Bonds	82.9	12.2	49.7	55.8	46.7	84.5	15.5	38.7	100.3	32.4	14.3	89.8
26 Bank loans n.e.c.	.7	1.4	8.5	9.1	8.5	7.8	−.7	11.5	7.3	15.7	5.5	7.9
27 Other loans and advances	−4.2	−1.5	−.5	.8	−2.0	−3.1	.9	1.2	−3.5	−6.5	−7.0	−4.4
28 **Total domestic plus foreign**	**657.8**	**558.2**	**772.7**	**802.7**	**825.3**	**735.8**	**705.7**	**676.1**	**922.2**	**997.2**	**987.9**	**1,003.5**
						Financial sectors						
29 **Total net borrowing by financial sectors**	**294.4**	**468.4**	**456.4**	**556.2**	**644.4**	**674.1**	**336.5**	**659.0**	**594.0**	**987.9**	**840.3**	**1,016.2**
By instrument												
30 Federal government-related	165.3	287.5	204.1	231.5	212.8	252.8	105.7	286.2	161.0	298.1	227.3	413.4
31 Government-sponsored enterprise securities	80.6	176.9	105.9	90.4	98.4	123.3	−8.9	198.1	46.4	157.9	142.5	166.4
32 Mortgage pool securities	84.7	115.4	98.2	141.1	114.4	129.6	114.6	88.1	114.6	140.3	84.8	247.0
33 Loans from U.S. government	.0	−4.8	.0	.0	.0	.0	0	.0	.0	.0	.0	.0
34 Private	129.1	180.9	252.3	324.7	431.6	421.3	230.9	372.9	433.0	689.8	613.0	602.8
35 Open market paper	−5.5	40.5	42.7	92.2	166.7	162.1	176.6	77.0	168.8	244.2	237.4	134.8
36 Corporate bonds	123.1	121.8	196.7	179.7	208.1	199.0	61.7	231.4	193.4	345.8	316.0	376.8
37 Bank loans n.e.c.	−14.4	−13.7	3.9	16.9	13.6	24.0	6.5	−6.0	23.2	30.7	18.9	7.2
38 Other loans and advances	22.4	22.6	3.4	27.9	35.6	31.2	−20.1	63.0	37.5	61.7	32.7	76.0
39 Mortgages	3.6	9.8	5.6	7.9	7.8	4.9	6.2	7.5	10.1	7.3	8.0	8.0
By borrowing sector												
40 Commercial banking	13.4	20.1	22.5	13.0	46.1	26.9	14.4	76.4	32.5	61.0	83.5	95.9
41 Savings institutions	11.3	12.8	2.6	25.5	19.7	23.0	−16.8	31.9	22.3	41.7	10.6	31.2
42 Credit unions	.2	.2	−.1	.1	.1	.3	−.2	.2	.2	.3	.5	.2
43 Life insurance companies	.2	.3	−.1	1.1	.2	2.0	.8	.1	.2	−.3	.0	−.6
44 Government-sponsored enterprises	80.6	172.1	105.9	90.4	98.4	123.3	−8.9	198.1	46.4	157.9	142.5	166.4
45 Federally related mortgage pools	84.7	115.4	98.2	141.1	114.4	129.6	114.6	88.1	114.6	140.3	84.8	247.0
46 Issuers of asset-backed securities (ABSs)	83.6	72.9	141.1	153.6	204.6	157.3	85.8	122.7	224.7	385.0	255.0	363.5
47 Finance companies	−1.4	48.7	50.2	45.9	48.7	38.1	5.6	120.5	8.9	59.6	80.1	101.8
48 Mortgage companies	.0	−11.5	.4	12.4	−1.3	12.1	−.7	−12.2	3.6	4.2	5.2	−5.5
49 Real estate investment trusts (REITs)	3.4	13.7	5.7	11.0	24.8	15.2	15.1	19.8	32.0	32.1	36.3	33.9
50 Brokers and dealers	12.0	.5	−5.0	−2.0	8.1	4.9	−2.9	34.9	−6.9	7.0	−1.0	20.0
51 Funding corporations	6.3	23.1	34.9	64.1	80.7	141.6	129.7	−21.5	115.4	99.2	142.8	−37.6

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS[1]—Continued

Transaction category or sector	1993	1994	1995	1996	1997	1996	1997				1998	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2
	All sectors											
52 **Total net borrowing, all sectors**	**952.2**	**1,026.6**	**1,229.0**	**1,358.9**	**1,469.7**	**1,409.9**	**1,042.2**	**1,335.1**	**1,516.2**	**1,985.1**	**1,828.2**	**2,019.6**
53 Open market paper	−5.1	35.7	74.3	102.6	184.1	142.4	199.3	107.7	171.7	257.7	347.3	116.6
54 U.S. government securities	421.4	448.1	348.5	376.5	235.9	365.1	170.6	242.6	191.3	338.9	196.0	343.8
55 Municipal securities	74.8	−35.9	−48.2	2.6	71.4	54.8	34.1	59.6	88.9	103.2	116.7	86.1
56 Corporate and foreign bonds	281.2	157.3	319.6	308.0	345.5	373.4	156.6	356.1	416.6	452.6	487.5	627.4
57 Bank loans n.e.c.	−7.2	62.9	114.7	92.1	129.7	59.7	146.5	123.6	62.2	186.4	80.4	185.3
58 Other loans and advances	−.8	50.3	70.2	62.5	101.8	31.3	15.0	83.4	113.3	195.3	106.4	106.1
59 Mortgages	127.3	183.2	211.1	325.9	348.8	336.4	257.7	302.6	422.0	413.1	442.3	495.8
60 Consumer credit	60.7	124.9	138.9	88.8	52.5	46.8	62.5	59.5	50.3	37.8	51.7	58.6
	Funds raised through mutual funds and corporate equities											
61 **Total net issues**	**429.7**	**125.2**	**143.9**	**231.8**	**191.9**	**162.3**	**181.9**	**183.9**	**248.6**	**153.0**	**218.0**	**194.2**
62 Corporate equities	137.7	24.6	−3.5	−5.8	−73.3	−20.4	−67.7	−66.2	−51.3	−108.0	−103.4	−118.2
63 Nonfinancial corporations	21.3	−44.9	−58.3	−64.2	−114.6	−56.0	−90.4	−100.0	−124.0	−144.1	−138.0	−129.2
64 Foreign shares purchased by U.S. residents	63.4	48.1	50.4	60.0	41.3	42.2	46.6	54.4	64.3	−.3	13.6	4.0
65 Financial corporations	53.0	21.4	4.4	−1.6	.1	−6.7	−23.9	−20.6	8.4	36.5	21.0	7.1
66 Mutual fund shares	292.0	100.6	147.4	237.6	265.1	182.8	249.6	250.1	299.9	261.0	321.4	312.4

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.2 through F.4. For ordering address, see inside front cover.

1.58 SUMMARY OF FINANCIAL TRANSACTIONS[1]

Billions of dollars except as noted; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1993	1994	1995	1996	1997	1996	1997				1998	
						Q4	Q1	Q2	Q3	Q4	Q1	Q2
NET LENDING IN CREDIT MARKETS[2]												
1 **Total net lending in credit markets**	**952.2**	**1,026.6**	**1,229.0**	**1,358.9**	**1,469.7**	**1,409.9**	**1,042.2**	**1,335.1**	**1,516.2**	**1,985.1**	**1,828.2**	**2,019.6**
2 Domestic nonfederal nonfinancial sectors	41.6	238.7	−93.8	9.5	−88.8	−141.2	−221.7	−50.5	−138.0	55.0	−206.4	378.9
3 Household	1.0	275.5	1.6	13.8	−106.1	−46.6	−273.5	−48.3	−131.5	28.6	−196.5	297.4
4 Nonfinancial corporate business	9.1	17.7	−8.8	15.0	14.9	−16.9	78.7	−46.7	31.7	−4.1	−5.5	19.8
5 Nonfarm noncorporate business	−1.1	.6	4.7	4.4	2.7	4.4	2.5	2.7	2.8	2.9	3.0	3.2
6 State and local governments	32.6	−55.0	−91.4	−23.7	−.3	−82.1	−29.5	41.8	−41.0	27.5	−7.4	58.5
7 Federal government	−18.4	−27.5	−.2	−7.7	4.9	−4.3	1.7	5.7	3.3	9.0	15.5	12.8
8 Rest of the world	129.3	132.3	273.9	414.7	312.1	586.6	330.6	307.0	404.1	206.5	234.9	309.2
9 Financial sectors	799.7	683.0	1,049.1	942.4	1,241.5	968.8	931.7	1,072.9	1,246.8	1,714.7	1,784.2	1,318.8
10 Monetary authority	36.2	31.5	12.7	12.3	38.3	6.9	34.4	42.9	22.9	52.9	27.4	7.7
11 Commercial banking	142.2	163.4	265.9	187.5	324.8	245.4	316.0	290.0	226.2	467.1	293.7	147.8
12 U.S.-chartered banks	149.6	148.1	186.5	119.6	274.9	152.4	206.1	286.7	220.7	386.2	260.8	143.1
13 Foreign banking offices in United States	−9.8	11.2	75.4	63.3	40.2	84.1	101.7	−3.6	4.6	58.2	12.0	17.2
14 Bank holding companies	.0	.9	−.3	3.9	5.4	10.5	2.2	5.1	−5.0	19.4	15.3	−17.6
15 Banks in U.S.-affiliated areas	2.4	3.3	4.2	.7	4.2	−1.6	6.1	1.8	5.8	3.2	5.6	5.1
16 Savings institutions	−23.3	6.7	−7.6	19.9	−4.7	−47.9	−5.3	23.8	−35.3	−2.0	10.1	−11.9
17 Credit unions	21.7	28.1	16.2	25.5	16.8	25.8	20.5	25.2	13.6	7.7	19.6	24.9
18 Bank personal trusts and estates	9.5	7.1	−8.3	−7.7	7.6	−2.5	3.4	10.7	7.3	8.8	2.4	3.1
19 Life insurance companies	100.9	66.7	99.2	72.5	101.0	124.5	88.3	174.4	106.0	35.3	108.9	116.2
20 Other insurance companies	27.7	24.9	21.5	22.5	25.2	27.7	6.0	28.0	32.0	34.7	23.4	28.1
21 Private pension funds	49.5	45.5	61.3	48.3	67.6	34.1	55.0	58.5	66.2	90.7	72.6	105.5
22 State and local government retirement funds	22.7	22.3	27.5	45.9	36.6	38.1	23.2	34.6	79.1	9.5	81.7	72.7
23 Money market mutual funds	20.4	30.0	86.5	88.8	87.5	81.1	58.2	26.1	121.5	144.2	172.0	200.1
24 Mutual funds	159.5	−7.1	52.5	48.9	80.9	25.7	63.9	90.0	108.0	61.8	143.6	115.9
25 Closed-end funds	20.0	−3.7	10.5	2.2	1.2	2.2	2.7	1.3	.3	.4	.6	.2
26 Government-sponsored enterprises	87.8	117.8	84.7	92.0	95.0	137.1	44.9	119.9	55.8	159.2	166.0	143.4
27 Federally related mortgage pools	84.7	115.4	98.2	141.1	114.4	129.6	114.6	88.1	114.6	140.3	84.8	247.0
28 Asset-backed securities issuers (ABSs)	81.0	65.8	119.3	123.4	166.1	108.2	62.3	107.8	162.2	332.2	195.8	332.4
29 Finance companies	−20.9	48.3	49.9	18.4	21.9	−3.6	39.8	.9	68.3	−21.4	28.6	27.1
30 Mortgage companies	.0	−24.0	−3.4	8.2	16.4	4.1	−1.3	−24.4	82.9	8.3	10.4	−11.0
31 Real estate investment trusts (REITs)	.6	4.7	2.2	2.0	−2.0	−2.1	−2.1	−2.1	−2.1	−1.7	−2.0	−2.0
32 Brokers and dealers	14.8	−44.2	90.1	−15.7	13.7	82.7	−14.5	−11.7	15.8	65.3	250.4	−188.6
33 Funding corporations	−35.3	−16.2	−29.7	6.5	33.4	−48.4	21.5	−10.9	1.7	121.2	94.1	−40.1
RELATION OF LIABILITIES TO FINANCIAL ASSETS												
34 **Net flows through credit markets**	**952.2**	**1,026.6**	**1,229.0**	**1,358.9**	**1,469.7**	**1,409.9**	**1,042.2**	**1,335.1**	**1,516.2**	**1,985.1**	**1,828.2**	**2,019.6**
Other financial sources												
35 Official foreign exchange	.8	−5.8	8.8	−6.3	.7	.7	−17.6	.4	2.4	17.5	1.0	8.1
36 Special drawing rights certificates	.0	.0	2.2	−.5	−.5	.0	−2.1	.0	.0	.0	.0	.0
37 Treasury currency	.4	.7	.6	.1	.0	−2.4	.4	.2	1.3	−1.9	.3	.2
38 Foreign deposits	−18.5	52.9	35.3	85.9	107.4	120.1	186.7	23.9	116.1	103.0	−45.3	44.2
39 Net interbank transactions	50.5	89.8	9.9	−51.6	−45.8	10.2	−78.4	−57.0	−31.5	−16.2	21.2	−22.7
40 Checkable deposits and currency	117.3	−9.7	−12.7	15.8	41.5	−47.3	81.8	50.6	−38.4	71.9	65.9	110.6
41 Small time and savings deposits	−70.3	−39.9	96.6	97.2	97.1	91.1	151.5	34.0	47.0	156.0	152.0	46.6
42 Large time deposits	−23.5	19.6	65.6	114.0	122.5	136.5	56.3	174.7	188.4	70.8	118.5	−30.9
43 Money market fund shares	20.2	43.3	142.3	145.8	157.6	188.2	157.6	98.9	226.2	147.8	248.0	186.4
44 Security repurchase agreements	71.3	78.2	110.4	40.0	115.2	72.9	32.7	218.9	111.2	98.1	250.5	−59.6
45 Corporate equities	137.7	24.6	−3.5	−5.8	−73.3	−20.4	−67.7	−66.2	−51.3	−108.0	−103.4	−118.2
46 Mutual fund shares	292.0	100.6	147.4	237.6	265.1	182.8	249.6	250.1	299.9	261.0	321.4	312.4
47 Trade payables	52.2	94.0	100.7	72.3	94.5	110.4	63.4	56.0	121.0	137.7	79.6	63.0
48 Security credit	61.4	−.1	26.7	52.4	110.1	131.1	110.4	127.5	90.6	111.9	168.8	−110.3
49 Life insurance reserves	36.0	34.5	44.9	43.6	52.9	66.7	49.8	62.5	62.8	36.6	47.8	38.5
50 Pension fund reserves	255.6	246.2	233.2	230.8	296.8	281.1	256.6	318.9	326.9	284.8	259.9	265.4
51 Taxes payable	11.4	2.6	6.2	16.2	15.1	22.1	21.7	12.4	29.6	−3.4	44.1	−7.7
52 Investment in bank personal trusts	.9	17.8	4.0	−8.6	75.0	−4.2	68.8	71.8	80.8	78.4	50.3	57.5
53 Noncorporate proprietors' equity	25.5	55.6	71.5	47.1	41.2	29.4	50.1	48.0	49.7	16.8	41.0	12.5
54 Miscellaneous	340.0	252.0	449.4	415.8	586.7	465.4	668.2	527.8	621.6	529.4	868.6	399.6
55 **Total financial sources**	**2,312.9**	**2,083.6**	**2,768.5**	**2,900.8**	**3,529.6**	**3,244.3**	**3,082.2**	**3,288.5**	**3,770.5**	**3,977.4**	**4,418.4**	**3,215.3**
Liabilities not identified as assets (−)												
56 Treasury currency	−.2	−.2	−.5	−.9	−.6	−3.1	−.3	−.5	.7	−2.4	−.2	−.3
57 Foreign deposits	−5.7	43.0	25.1	59.4	107.4	51.7	176.9	10.6	93.9	148.3	−94.6	60.3
58 Net interbank liabilities	4.2	−2.7	−3.1	−3.3	−19.8	1.5	30.3	−26.7	−50.0	−32.6	107.2	21.9
59 Security repurchase agreements	46.4	69.4	22.9	−.7	72.6	110.4	−107.3	185.3	23.4	188.9	187.6	−56.3
60 Taxes payable	15.8	16.6	21.1	20.4	17.7	24.8	19.3	27.6	14.7	9.4	41.2	1.5
61 Miscellaneous	−170.8	−150.4	−221.3	−122.6	−303.3	−140.4	25.1	−485.0	−137.8	−615.5	−207.6	−256.6
Floats not included in assets (−)												
62 Federal government checkable deposits	−1.5	−4.8	−6.0	.5	−2.7	−12.4	−4.6	−8.3	10.0	−7.9	7.5	−41.8
63 Other checkable deposits	−1.3	−2.8	−3.8	−4.0	−3.9	−3.8	−3.3	−4.3	−3.0	−5.0	−4.0	−3.0
64 Trade credit	−4.0	1.5	−12.5	−31.5	9.7	−9.8	−5.2	−53.8	39.4	58.5	5.9	−3.4
65 **Total identified to sectors as assets**	**2,429.9**	**2,114.0**	**2,946.7**	**2,983.7**	**3,652.5**	**3,225.3**	**2,951.3**	**3,643.7**	**3,779.1**	**4,235.7**	**4,375.5**	**3,493.0**

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.1 and F.5. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING[1]

Billions of dollars, end of period

Transaction category or sector	1994	1995	1996	1997	1996	1997				1998	
					Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Nonfinancial sectors										
1 **Total credit market debt owed by domestic nonfinancial sectors**	**13,014.5**	**13,716.0**	**14,441.8**	**15,208.7**	**14,441.8**	**14,608.9**	**14,727.4**	**14,931.4**	**15,208.7**	**15,439.6**	**15,634.4**
By sector and instrument											
2 Federal government	3,492.3	3,636.7	3,781.8	3,804.9	3,781.8	3,829.8	3,760.6	3,771.2	3,804.9	3,830.4	3,749.0
3 Treasury securities	3,465.6	3,608.5	3,755.1	3,778.3	3,755.1	3,803.5	3,734.3	3,745.1	3,778.3	3,804.5	3,723.4
4 Budget agency securities and mortgages	26.7	28.2	26.6	26.5	26.6	26.3	26.3	26.1	26.5	25.9	25.6
5 Nonfederal	9,522.2	10,079.3	10,660.1	11,403.8	10,660.1	10,779.1	10,966.8	11,160.2	11,403.8	11,609.2	11,885.5
By instrument											
6 Commercial paper	139.2	157.4	156.4	168.6	156.4	168.7	179.3	176.6	168.6	193.1	202.5
7 Municipal securities and loans	1,341.7	1,293.5	1,296.0	1,367.5	1,296.0	1,305.1	1,326.8	1,340.2	1,367.5	1,397.1	1,425.8
8 Corporate bonds	1,253.0	1,326.3	1,398.8	1,489.5	1,398.8	1,418.7	1,440.2	1,470.9	1,489.5	1,528.8	1,569.0
9 Bank loans n.e.c.	759.9	862.1	928.3	1,035.9	928.3	964.5	1,000.2	1,000.1	1,035.9	1,052.0	1,100.6
10 Other loans and advances	669.6	736.9	770.6	838.8	770.6	784.4	788.2	802.8	838.8	864.6	871.9
11 Mortgages	4,374.8	4,580.3	4,898.3	5,239.3	4,898.3	4,951.3	5,027.1	5,142.7	5,239.3	5,338.9	5,461.8
12 Home	3,355.9	3,530.4	3,761.6	4,029.3	3,761.6	3,806.1	3,860.8	3,956.8	4,029.3	4,102.8	4,195.7
13 Multifamily residential	265.6	273.8	290.0	301.4	290.0	291.0	294.2	295.8	301.4	306.4	312.0
14 Commercial	670.3	691.6	759.5	818.3	759.5	766.5	783.5	800.4	818.3	838.3	861.1
15 Farm	83.0	84.6	87.1	90.4	87.1	87.7	88.7	89.8	90.4	91.4	93.0
16 Consumer credit	983.9	1,122.8	1,211.6	1,264.1	1,211.6	1,186.4	1,205.0	1,226.7	1,264.1	1,234.7	1,253.9
By borrowing sector											
17 Household	4,452.8	4,806.8	5,150.9	5,505.2	5,150.9	5,182.8	5,271.2	5,383.0	5,505.2	5,562.4	5,689.3
18 Nonfinancial business	3,947.6	4,202.3	4,445.8	4,779.2	4,445.8	4,527.4	4,609.6	4,681.7	4,779.2	4,902.4	5,028.8
19 Corporate	2,683.6	2,911.4	3,105.7	3,369.2	3,105.7	3,176.8	3,236.8	3,291.1	3,369.2	3,473.9	3,571.8
20 Nonfarm noncorporate	1,121.8	1,145.8	1,190.2	1,253.7	1,190.2	1,202.2	1,219.3	1,235.2	1,253.7	1,273.1	1,296.1
21 Farm	142.2	145.1	149.9	156.3	149.9	148.3	153.4	155.4	156.3	155.4	160.9
22 State and local government	1,121.7	1,070.2	1,063.4	1,119.5	1,063.4	1,069.0	1,086.1	1,095.5	1,119.5	1,144.3	1,167.3
23 **Foreign credit market debt held in United States**	**370.8**	**441.9**	**518.8**	**569.6**	**518.8**	**524.3**	**539.2**	**557.7**	**569.6**	**584.1**	**602.1**
24 Commercial paper	42.7	56.2	67.5	65.1	67.5	69.3	71.3	64.3	65.1	76.7	71.4
25 Bonds	242.3	291.9	347.7	394.4	347.7	351.6	361.2	386.3	394.4	398.0	420.5
26 Bank loans n.e.c.	26.1	34.6	43.7	52.1	43.7	43.5	46.4	48.2	52.1	53.5	55.5
27 Other loans and advances	59.8	59.3	60.0	58.0	60.0	59.9	60.3	58.9	58.0	55.9	54.8
28 **Total credit market debt owed by nonfinancial sectors, domestic and foreign**	**13,385.3**	**14,158.0**	**14,960.7**	**15,778.3**	**14,960.7**	**15,133.2**	**15,266.6**	**15,489.1**	**15,778.3**	**16,023.7**	**16,236.5**
	Financial sectors										
29 **Total credit market debt owed by financial sectors**	**3,822.2**	**4,281.2**	**4,837.3**	**5,448.7**	**4,837.3**	**4,916.5**	**5,085.3**	**5,205.4**	**5,448.7**	**5,653.7**	**5,912.5**
By instrument											
30 Federal government-related	2,172.7	2,376.8	2,608.3	2,821.0	2,608.3	2,634.7	2,706.2	2,746.5	2,821.0	2,877.9	2,981.2
31 Government-sponsored enterprise securities	700.6	806.5	896.9	995.3	896.9	894.7	944.2	955.8	995.3	1,030.9	1,072.5
32 Mortgage pool securities	1,472.1	1,570.3	1,711.4	1,825.8	1,711.4	1,740.0	1,762.1	1,790.7	1,825.8	1,847.0	1,908.7
33 Loans from U.S. government	.0	.0	.0	.0	.0	0	.0	.0	.0	.0	.0
34 Private	1,649.5	1,904.4	2,229.1	2,627.6	2,229.1	2,281.8	2,379.1	2,458.9	2,627.6	2,775.8	2,931.3
35 Open market paper	441.6	486.9	579.1	745.7	579.1	623.0	642.5	684.7	745.7	804.9	838.9
36 Corporate bonds	1,008.8	1,205.4	1,385.1	1,560.1	1,385.1	1,396.5	1,458.1	1,478.2	1,560.1	1,634.9	1,733.5
37 Bank loans n.e.c.	48.9	52.8	69.7	83.3	69.7	70.6	69.2	74.8	83.3	87.3	89.3
38 Other loans and advances	131.6	135.0	162.9	198.5	162.9	157.9	173.7	183.0	198.5	206.6	225.6
39 Mortgages	18.7	24.3	32.2	40.0	32.2	33.8	35.6	38.2	40.0	42.0	44.0
By borrowing sector											
40 Commercial banks	94.5	102.6	113.6	140.6	113.6	115.3	125.7	130.0	140.6	148.7	159.7
41 Bank holding companies	133.6	148.0	150.0	168.6	150.0	151.6	160.5	164.0	168.6	181.2	194.5
42 Savings institutions	112.4	115.0	140.5	160.3	140.5	136.3	144.3	149.8	160.3	162.9	170.7
43 Credit unions	.5	.4	.4	.6	.4	.4	.4	.5	.6	.7	.8
44 Life insurance companies	.6	.5	1.6	1.8	1.6	1.8	1.8	1.9	1.8	1.8	1.6
45 Government-sponsored enterprises	700.6	806.5	896.9	995.3	896.9	894.7	944.2	955.8	995.3	1,030.9	1,072.5
46 Federally related mortgage pools	1,472.1	1,570.3	1,711.4	1,825.8	1,711.4	1,740.0	1,762.1	1,790.7	1,825.8	1,847.0	1,908.7
47 Issuers of asset-backed securities (ABSs)	579.0	720.1	873.8	1,089.4	873.8	889.9	918.4	989.2	1,089.4	1,147.4	1,236.1
48 Brokers and dealers	34.3	29.3	27.3	35.3	27.3	26.6	35.3	33.6	35.3	35.1	40.1
49 Finance companies	433.7	483.9	529.8	554.5	529.8	528.4	557.8	532.7	554.5	571.9	596.9
50 Mortgage companies	18.7	19.1	31.5	30.3	31.5	31.4	28.3	29.2	30.3	31.6	30.2
51 Real estate investment trusts (REITs)	31.1	36.8	47.8	72.6	47.8	51.6	56.6	64.6	72.6	81.7	90.1
52 Funding corporations	211.0	248.6	312.7	373.8	312.7	348.6	350.0	363.4	373.8	412.9	410.7
	All sectors										
53 **Total credit market debt, domestic and foreign**	**17,207.5**	**18,439.2**	**19,798.0**	**21,227.0**	**19,798.0**	**20,049.7**	**20,351.9**	**20,694.5**	**21,227.0**	**21,677.4**	**22,149.1**
54 Open market paper	623.5	700.4	803.0	979.4	803.0	861.1	893.1	925.7	979.4	1,074.8	1,112.7
55 U.S. government securities	5,665.0	6,013.6	6,390.0	6,625.9	6,390.0	6,464.5	6,466.8	6,517.7	6,625.9	6,708.3	6,730.2
56 Municipal securities	1,341.7	1,293.5	1,296.0	1,367.5	1,296.0	1,305.1	1,326.8	1,340.2	1,367.5	1,397.1	1,425.8
57 Corporate and foreign bonds	2,504.0	2,823.6	3,131.7	3,444.1	3,131.7	3,166.8	3,259.5	3,335.4	3,444.1	3,561.8	3,723.0
58 Bank loans n.e.c.	834.9	949.6	1,041.7	1,171.3	1,041.7	1,078.6	1,115.8	1,123.1	1,171.3	1,192.8	1,245.4
59 Other loans and advances	860.9	931.1	993.6	1,095.3	993.6	1,002.3	1,022.1	1,044.8	1,095.3	1,127.1	1,152.4
60 Mortgages	4,393.5	4,604.6	4,930.5	5,279.3	4,930.5	4,985.0	5,062.8	5,180.9	5,279.3	5,380.9	5,505.8
61 Consumer credit	983.9	1,122.8	1,211.6	1,264.1	1,211.6	1,186.4	1,205.0	1,226.7	1,264.1	1,234.7	1,253.9

1 Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.2 through L.4. For ordering address, see inside front cover.

1.60 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES[1]

Billions of dollars except as noted, end of period

Transaction category or sector	1994	1995	1996	1997	1996	1997				1998	
					Q4	Q1	Q2	Q3	Q4	Q1	Q2
CREDIT MARKET DEBT OUTSTANDING[2]											
1 **Total credit market assets**	**17,207.5**	**18,439.2**	**19,798.0**	**21,227.0**	**19,798.0**	**20,049.7**	**20,351.9**	**20,694.5**	**21,227.0**	**21,677.4**	**22,149.1**
2 Domestic nonfederal nonfinancial sectors	3,038.9	2,903.8	2,953.4	2,814.6	2,953.4	2,891.2	2,842.4	2,789.4	2,814.6	2,759.7	2,812.8
3 Household	1,982.2	1,942.6	2,005.9	1,849.7	2,005.9	1,951.7	1,898.6	1,848.1	1,849.7	1,819.1	1,846.8
4 Nonfinancial corporate business	289.2	280.4	286.0	300.9	286.0	286.8	276.9	285.9	300.9	280.0	286.9
5 Nonfarm noncorporate business	37.6	42.3	46.7	49.4	46.7	47.4	48.0	48.7	49.4	50.2	51.0
6 State and local governments	729.9	638.6	614.8	614.5	614.8	605.4	618.9	606.6	614.5	610.5	628.2
7 Federal government	203.4	203.2	195.5	200.4	195.5	195.9	197.3	198.2	200.4	204.3	207.5
8 Rest of the world	1,216.0	1,530.3	1,931.2	2,258.4	1,931.2	2,019.4	2,094.6	2,196.3	2,258.4	2,322.5	2,398.5
9 Financial sectors	12,749.2	13,801.8	14,717.9	15,953.6	14,717.9	14,943.2	15,217.6	15,510.7	15,953.6	16,391.0	16,730.3
10 Monetary authority	368.2	380.8	393.1	431.4	393.1	397.1	412.4	412.7	431.4	433.8	440.3
11 Commercial banking	3,254.3	3,520.1	3,707.7	4,032.5	3,707.7	3,775.7	3,856.8	3,912.9	4,032.5	4,094.1	4,140.1
12 U.S.-chartered banks	2,869.6	3,056.1	3,175.8	3,450.7	3,175.8	3,218.1	3,295.2	3,351.9	3,450.7	3,505.1	3,546.8
13 Foreign banking offices in United States	337.1	412.6	475.8	516.1	475.8	499.5	501.8	501.0	516.1	518.0	525.5
14 Bank holding companies	18.4	18.0	22.0	27.4	22.0	22.5	23.8	22.5	27.4	31.2	26.8
15 Banks in U.S.-affiliated areas	29.2	33.4	34.1	38.3	34.1	35.6	36.1	37.5	38.3	39.7	41.0
16 Savings institutions	920.8	913.3	933.2	928.5	933.2	931.9	937.8	929.0	928.5	931.0	928.1
17 Credit unions	246.8	263.0	288.5	305.3	288.5	291.2	299.9	303.9	305.3	307.5	316.4
18 Bank personal trusts and estates	248.0	239.7	232.0	239.5	232.0	232.8	235.5	237.3	239.5	240.1	240.9
19 Life insurance companies	1,482.6	1,581.8	1,654.3	1,755.2	1,654.3	1,680.2	1,724.1	1,750.4	1,755.2	1,786.3	1,815.6
20 Other insurance companies	446.4	468.7	491.2	515.3	491.2	491.6	498.6	506.6	515.3	521.1	528.2
21 Private pension funds	656.9	718.2	766.5	834.2	766.5	780.3	794.9	811.5	834.2	852.3	878.7
22 State and local government retirement funds	455.8	483.3	529.2	565.8	529.2	531.6	542.7	562.0	565.8	582.5	603.2
23 Money market mutual funds	459.0	545.5	634.3	721.9	634.3	659.0	656.5	678.7	721.9	775.0	815.9
24 Mutual funds	718.8	771.3	820.2	901.1	820.2	838.5	861.3	890.4	901.1	939.3	968.5
25 Closed-end funds	86.0	96.4	98.7	99.8	98.7	99.3	99.7	99.7	99.8	100.0	100.0
26 Government-sponsored enterprises	663.3	748.0	813.6	908.6	813.6	824.3	854.8	868.7	908.6	949.5	985.9
27 Federally related mortgage pools	1,472.1	1,570.3	1,711.4	1,825.8	1,711.4	1,740.0	1,762.1	1,790.7	1,825.8	1,847.0	1,908.7
28 Asset-backed securities issuers (ABSs)	541.7	661.0	784.4	950.5	784.4	794.6	819.4	863.4	950.5	993.7	1,074.6
29 Finance companies	476.2	526.2	544.5	566.4	544.5	552.4	553.1	564.4	566.4	572.0	579.0
30 Mortgage companies	36.5	33.0	41.2	57.6	41.2	40.9	34.8	55.5	57.6	60.2	57.4
31 Real estate investment trusts (REITs)	13.3	15.5	17.5	15.5	17.5	17.0	16.5	15.9	15.5	15.0	14.5
32 Brokers and dealers	93.3	183.4	167.7	181.4	167.7	164.1	161.2	165.1	181.4	244.0	196.9
33 Funding corporations	109.3	82.2	88.7	117.4	88.7	100.6	95.6	91.8	117.4	146.5	137.4
RELATION OF LIABILITIES TO FINANCIAL ASSETS											
34 **Total credit market debt**	**17,207.5**	**18,439.2**	**19,798.0**	**21,227.0**	**19,798.0**	**20,049.7**	**20,351.9**	**20,694.5**	**21,227.0**	**21,677.4**	**22,149.1**
Other liabilities											
35 Official foreign exchange	53.2	63.7	53.7	48.9	53.7	46.3	46.7	46.1	48.9	48.2	50.1
36 Special drawing rights certificates	8.0	10.2	9.7	9.2	9.7	9.2	9.2	9.2	9.2	9.2	9.2
37 Treasury currency	17.6	18.2	18.3	18.3	18.3	18.4	18.4	18.7	18.3	18.4	18.4
38 Foreign deposits	373.9	418.8	516.1	619.4	516.1	562.8	568.8	597.8	619.4	608.1	619.2
39 Net interbank liabilities	280.1	290.7	240.8	193.3	240.8	210.9	197.1	186.9	193.3	188.4	186.4
40 Checkable deposits and currency	1,242.0	1,229.3	1,245.1	1,286.6	1,245.1	1,220.0	1,265.3	1,234.2	1,286.6	1,259.5	1,321.4
41 Small time and savings deposits	2,183.2	2,279.7	2,377.0	2,474.1	2,377.0	2,427.1	2,432.3	2,438.8	2,474.1	2,524.5	2,532.7
42 Large time deposits	411.2	476.9	590.9	713.4	590.9	606.0	646.7	696.1	713.4	744.0	733.5
43 Money market fund shares	602.9	745.3	891.1	1,048.7	891.1	950.8	952.4	1,005.1	1,048.7	1,130.7	1,153.7
44 Security repurchase agreements	549.5	659.9	699.9	815.1	699.9	713.8	766.7	795.4	815.1	881.4	865.4
45 Mutual fund shares	1,477.3	1,852.8	2,342.4	2,989.4	2,342.4	2,410.6	2,717.5	2,973.6	2,989.4	3,340.2	3,456.0
46 Security credit	279.0	305.7	358.1	468.2	358.1	380.0	414.8	432.2	468.2	505.3	481.0
47 Life insurance reserves	505.3	550.2	593.8	646.7	593.8	606.2	621.9	637.6	646.7	658.7	668.3
48 Pension fund reserves	4,870.5	5,588.7	6,314.7	7,398.2	6,314.7	6,401.5	6,906.7	7,289.8	7,398.2	7,955.8	8,093.9
49 Trade payables	1,140.6	1,241.4	1,313.6	1,408.2	1,313.6	1,297.3	1,317.1	1,347.0	1,408.2	1,395.4	1,416.9
50 Taxes payable	101.4	107.6	123.8	138.8	123.8	137.3	133.5	142.6	138.8	158.6	149.2
51 Investment in bank personal trusts	699.4	803.0	871.7	1,082.8	871.7	888.7	982.9	1,058.9	1,082.8	1,179.3	1,207.2
52 Miscellaneous	5,331.3	5,697.7	5,982.5	6,452.7	5,982.5	6,227.1	6,199.9	6,409.2	6,452.7	6,650.9	6,720.1
53 **Total liabilities**	**37,334.1**	**40,778.7**	**44,341.1**	**49,039.1**	**44,341.1**	**45,163.9**	**46,549.8**	**48,013.6**	**49,039.1**	**50,934.0**	**51,831.5**
Financial assets not included in liabilities (+)											
54 Gold and special drawing rights	21.1	22.1	21.4	21.1	21.4	20.9	21.1	21.0	21.1	21.2	21.0
55 Corporate equities	6,237.9	8,331.3	10,062.4	12,776.0	10,062.4	10,063.5	11,627.0	12,649.4	12,776.0	14,397.6	14,556.1
56 Household equity in noncorporate business	3,422.4	3,649.7	3,868.8	4,188.6	3,868.8	3,963.3	4,053.9	4,119.5	4,188.6	4,188.6	4,165.5
Liabilities not identified as assets (−)											
57 Treasury currency	−5.4	−5.8	−6.7	−7.3	−6.7	−6.8	−6.9	−6.7	−7.3	−7.4	−7.4
58 Foreign deposits	325.4	360.2	431.2	534.5	431.2	475.4	478.0	501.5	534.5	510.8	525.9
59 Net interbank transactions	−6.5	−9.0	−10.6	−32.1	−10.6	−1.6	−8.1	−22.1	−32.1	−2.0	4.7
60 Security repurchase agreements	67.8	90.7	90.0	162.6	90.0	68.1	108.6	124.9	162.6	213.0	193.7
61 Taxes payable	48.8	62.4	76.9	92.0	76.9	74.8	77.1	87.4	92.0	96.5	100.5
62 Miscellaneous	−1,039.5	−1,332.5	−1,749.4	−2,204.8	−1,749.4	−1,628.4	−1,743.9	−1,735.8	−2,204.8	−2,190.0	−2,189.2
Floats not included in assets (−)											
63 Federal government checkable deposits	3.4	3.1	−1.6	−8.1	−1.6	−9.7	−6.8	−7.8	−8.1	−10.4	−16.1
64 Other checkable deposits	38.0	34.2	30.1	26.2	30.1	25.6	27.9	19.5	26.2	21.4	24.2
65 Trade credit	−245.9	−258.4	−289.9	−291.2	−289.9	−344.0	−369.8	−377.8	−291.2	−342.4	−354.9
66 **Total identified to sectors as assets**	**47,829.3**	**53,836.9**	**59,723.7**	**67,753.1**	**59,723.7**	**60,558.2**	**63,695.6**	**66,220.5**	**67,753.1**	**71,251.9**	**72,292.8**

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.1 and L.5. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

Monthly data seasonally adjusted, and indexes 1992=100, except as noted

Measure	1995	1996	1997	1998								
				Jan.	Feb.	Mar.	Apr.	May	June	July[r]	Aug.[r]	Sept.
1 **Industrial production**[1]	**114.5**	**118.5**	**124.5**	**127.8**	**127.3**	**128.0**	**128.4**	**128.8**	**127.5**	**127.0**	**129.0**	**128.7**
Market groupings												
2 Products, total	110.6	113.7	118.5	121.3	120.6	121.3	121.8	122.2	121.2	120.5	122.6	122.0
3 Final, total	111.3	114.6	119.6	122.6	121.5	122.6	123.2	123.3	122.3	121.2	124.0	123.4
4 Consumer goods	109.9	111.8	114.4	116.6	115.1	116.0	116.5	116.7	115.3[r]	114.4	116.6	116.1
5 Equipment	113.8	119.6	128.8	133.1	133.1	134.3	135.0	135.2	134.7[r]	133.4	137.2	136.3
6 Intermediate	108.3	110.8	115.1	117.4	117.6	117.3	117.5	118.6	117.9[r]	118.1	118.3	118.0
7 Materials	120.8	126.2	134.1	138.2	138.2	138.7	139.1	139.6	137.5	137.5	139.4	139.3
Industry groupings												
8 Manufacturing	116.0	120.2	127.0	131.1	130.6	130.8	131.6	131.7	130.0[r]	129.5	131.9	131.3
9 Capacity utilization, manufacturing (percent)[2]	82.8	81.4	81.7	82.1	81.4	81.2	81.4	81.1	79.7	79.1	80.3	79.6
10 Construction contracts[3]	122.1[r]	130.8	141.9[r]	146.0[r]	147.0[r]	142.0[r]	148.0[r]	148.0[r]	145.0[r]	147.0	140.0	136.0
11 Nonagricultural employment, total[4]	114.9	117.2	119.9	122.3	122.4	122.5	122.8	123.2	123.3	123.5	123.8	123.8
12 Goods-producing, total	98.3	99.0	100.3	102.5	102.6	102.4	102.7	102.5	102.6	101.9	102.4	102.2
13 Manufacturing, total	97.5	97.2	97.6	99.1	99.1	99.1	99.1	99.0	98.9	97.9	98.4	98.3
14 Manufacturing, production workers	99.0	98.4	98.9	100.5	100.6	100.5	100.4	100.1	99.9	98.4	99.1	99.3
15 Service-producing	120.2	123.0	126.2	128.6	128.8	128.9	129.3	129.7	130.0	130.4	130.6	130.7
16 Personal income, total	156.1	165.2	174.5	179.2	180.2	180.9	181.4	182.2	182.7	183.5	184.4	n.a.
17 Wages and salary disbursements	150.9	159.8	171.2	177.8	178.9	179.5	180.3	181.5	181.8	182.8	184.2	n.a.
18 Manufacturing	130.3	135.7	144.7	150.6	151.0	151.2	151.0	151.5	150.5	149.5	151.3	n.a.
19 Disposable personal income[5]	156.4	164.0	171.7	175.2	176.0	176.7	177.0	177.5	177.9	178.6	179.5	n.a.
20 Retail sales[5]	151.5	159.6	166.9	170.8	172.2	172.4	173.7	175.8	176.0	174.8	174.9	175.4
Prices[6]												
21 Consumer (1982–84=100)	152.4	156.9	160.5	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6
22 Producer finished goods (1982=100)	127.9	131.3	131.8	130.3	130.2	130.1	130.4	130.6[r]	130.6	130.9	130.6	130.6

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in December 1997. The recent annual revision is described in an article in the February 1998 issue of the *Bulletin*. For a description of the aggregation methods for industrial production and capacity utilization, see "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67–92. For details about the construction of individual industrial production series, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol 76 (April 1990), pp. 187–204.

2. Ratio of index of production to index of capacity. Based on data from the Federal Reserve, DRI McGraw-Hill, U.S. Department of Commerce, and other sources.

3. Index of dollar value of total construction contracts, including residential, nonresidential, and heavy engineering, from McGraw-Hill Information Systems Company, F.W. Dodge Division.

4. Based on data from U.S. Department of Labor, *Employment and Earnings*. Series covers employees only, excluding personnel in the armed forces.

5. Based on data from U.S. Department of Commerce, *Survey of Current Business*.

6. Based on data not seasonally adjusted. Seasonally adjusted data for changes in the price indexes can be obtained from the U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*.

NOTE. Basic data (not indexes) for series mentioned in notes 4 and 5, and indexes for series mentioned in notes 3 and 6, can also be found in the *Survey of Current Business*

Figures for industrial production for the latest month are preliminary, and many figures for the three months preceding the latest month have been revised. See "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pp. 411–35. See also "Industrial Production Capacity and Capacity Utilization since 1987," *Federal Reserve Bulletin*, vol. 79 (June 1993), pp. 590–605.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data seasonally adjusted

Category	1995	1996	1997	1998							
				Feb.	Mar	Apr.	May	June	July[r]	Aug.[r]	Sept.
HOUSEHOLD SURVEY DATA[1]											
1 Civilian labor force[2]	132,304	133,943	126,297	137,557	137,523	137,242	137,364	137,447	137,296	137,415	138,075
Employment											
2 Nonagricultural industries[3]	121,460	123,264	126,159	127,829	127,862	128,033	128,118	127,867	127,626	127,640	128,247
3 Agriculture	3,440	3,443	3,399	3,335	3,132	3,350	3,335	3,343	3,441	3,529	3,518
Unemployment											
4 Number	7,404	7,236	6,739	6,393	6,529	5,859	5,910	6,237	6,230	6,247	6,310
5 Rate (percent of civilian labor force)	5.6	5.4	4.9	4.6	4.7	4.3	4.3	4.5	4.5	4.5	4.6
ESTABLISHMENT SURVEY DATA											
6 **Nonagricultural payroll employment**[4]	**117,191**	**119,523**	**122,257**	**124,832**	**124,914**	**125,234**	**125,562**	**125,751**	**125,869**	**126,178**	**126,247**
7 Manufacturing	18,524	18,457	18,538	18,822	18,829	18,827	18,805	18,780	18,594	18,693	18,677
8 Mining	581	574	573	590	587	582	579	578	571	571	571
9 Contract construction	5,160	5,400	5,627	5,902	5,860	5,930	5,917	5,946	5,970	5,991	5,971
10 Transportation and public utilities	6,132	6,261	6,426	6,494	6,504	6,513	6,534	6,538	6,550	6,572	6,578
11 Trade	27,565	28,108	28,788	29,052	29,042	29,133	29,238	29,269	29,374	29,371	29,422
12 Finance	6,806	6,899	7,053	7,232	7,258	7,289	7,311	7,333	7,370	7,372	7,395
13 Service	33,117	34,377	35,597	37,020	37,106	37,196	37,350	37,494	37,614	37,693	37,717
14 Government	19,305	19,447	19,655	19,720	19,728	19,764	19,828	19,813	19,826	19,915	19,916

1. Beginning January 1994, reflects redesign of current population survey and population controls from the 1990 census.

2. Persons sixteen years of age and older, including Resident Armed Forces. Monthly figures are based on sample data collected during the calendar week that contains the twelfth day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures.

3. Includes self-employed, unpaid family, and domestic service workers

4. Includes all full- and part-time employees who worked during, or received pay for, the pay period that includes the twelfth day of the month: excludes proprietors, self-employed persons, household and unpaid family workers, and members of the armed forces. Data are adjusted to the March 1992 benchmark, and only seasonally adjusted data are available at this time.

SOURCE. Based on data from U.S. Department of Labor, *Employment and Earnings*

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION[1]

Seasonally adjusted

Series	1997 Q4	1998 Q1	1998 Q2[r]	1998 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3
	Output (1992=100)				Capacity (percent of 1992 output)				Capacity utilization rate (percent)[2]			
1 **Total industry**	**127.3**	**127.7**	**128.2**	**128.2**	**153.0**	**154.8**	**156.5**	**158.1**	**83.2**	**82.5**	**82.0**	**81.1**
2 Manufacturing	130.1	130.8	131.1	130.9	158.3	160.4	162.4	164.2	82.2	81.6	80.7	79.7
3 Primary processing[3]	119.8	120.2	119.9	119.5	139.2	140.4	141.4	142.5	86.0	85.6	84.8	83.9
4 Advanced processing[4]	135.3	136.2	136.7	136.6	168.1	170.7	173.1	175.5	80.4	79.8	79.0	77.9
5 Durable goods	147.2	148.2	149.1	149.8	180.6	184.1	187.6	190.9	81.5	80.5	79.5	78.5
6 Lumber and products	114.7	115.7	117.3	118.0	141.3	142.2	142.6	143.1	81.2	81.3	82.2	82.5
7 Primary metals	127.8	128.2	125.4	122.7	138.5	140.1	141.8	143.5	92.3	91.5	88.5	85.5
8 Iron and steel	126.5	127.2	123.4	118.5	137.9	139.4	141.3	143.1	91.8	91.3	87.4	82.8
9 Nonferrous	129.4	129.3	127.8	127.7	138.9	140.6	142.1	143.6	93.2	92.0	89.9	88.9
10 Industrial machinery and equipment	177.6	181.2	188.3	192.5	210.0	215.8	221.4	226.7	84.6	84.0	85.1	84.9
11 Electrical machinery	246.0	254.0	257.5	260.0	301.9	315.4	328.6	341.8	81.5	80.5	78.4	76.1
12 Motor vehicles and parts	144.0	137.2	132.9	133.5	186.7	188.8	190.8	192.8	77.1	72.7	69.7	69.2
13 Aerospace and miscellaneous transportation equipment	98.6	101.3	101.1	102.3	124.8	125.5	126.3	127.2	79.0	80.7	80.0	80.4
14 Nondurable goods	112.6	113.1	112.7	111.7	135.7	136.4	137.0	137.6	82.9	82.9	82.2	81.2
15 Textile mill products	111.5	110.1	109.6	109.6	132.3	132.8	133.2	133.4	84.3	82.9	82.3	82.1
16 Paper and products	113.5	113.1	112.7	113.9	126.7	127.4	128.1	128.7	89.6	88.8	88.0	88.5
17 Chemicals and products	117.1	118.0	118.1	116.8	147.5	148.6	149.4	150.2	79.4	79.4	79.1	77.8
18 Plastics materials	131.4	130.8	131.0	132.2	141.9	143.6	145.0	146.3	92.6	91.1	90.4	90.4
19 Petroleum products	109.8	113.0	113.5	113.7	115.7	116.2	117.2	118.2	94.9	97.2	96.8	96.2
20 Mining	105.9	108.4	107.3	105.6	118.2	118.4	118.6	119.0	89.6	91.6	90.5	88.8
21 Utilities	115.5	110.4	115.3	118.7	127.1	127.4	127.7	128.0	90.9	86.6	90.3	92.7
22 Electric	115.7	112.1	117.8	120.9	125.4	125.7	126.1	126.4	92.3	89.2	93.5	95.7

Series	1973 High	1975 Low	Previous cycle[5] High	Previous cycle[5] Low	Latest cycle[6] High	Latest cycle[6] Low	1997 Sept.	1998 Apr.	1998 May	1998 June[r]	1998 July[r]	1998 Aug.	1998 Sept.[p]
	Capacity utilization rate (percent)[2]												
1 **Total industry**	**89.2**	**72.6**	**87.3**	**71.1**	**85.4**	**78.1**	**82.7**	**82.4**	**82.4**	**81.2**	**80.6**	**81.6**	**81.1**
2 Manufacturing	88.5	70.5	86.9	69.0	85.7	76.6	81.6	81.4	81.1	79.7	79.1	80.3	79.6
3 Primary processing[3]	91.2	68.2	88.1	66.2	88.9	77.7	85.7	85.4	84.9	84.0	84.3	84.1	83.3
4 Advanced processing[4]	87.2	71.8	86.7	70.4	84.2	76.1	79.7	79.6	79.4	77.8	76.9	78.7	78.0
5 Durable goods	89.2	68.9	87.7	63.9	84.6	73.1	81.0	80.3	80.1	78.2	77.1	79.7	78.7
6 Lumber and products	88.7	61.2	87.9	60.8	93.6	75.5	80.7	81.9	82.3	82.5	82.4	83.4	81.6
7 Primary metals	100.2	65.9	94.2	45.1	92.7	73.7	91.5	90.8	88.6	86.0	85.7	86.7	84.2
8 Iron and steel	105.8	66.6	95.8	37.0	95.2	71.8	90.8	89.9	87.8	84.5	84.0	84.2	80.2
9 Nonferrous	90.8	59.8	91.1	60.1	89.3	74.2	92.5	92.1	89.7	87.9	87.9	89.7	89.0
10 Industrial machinery and equipment	96.0	74.3	93.2	64.0	85.4	72.3	84.2	84.9	85.0	85.3	85.5	85.1	84.2
11 Electrical machinery	89.2	64.7	89.4	71.6	84.0	75.0	81.0	79.4	78.4	77.3	76.9	76.0	75.3
12 Motor vehicles and parts	93.4	51.3	95.0	45.5	89.1	55.9	76.2	72.7	73.5	62.8	54.5	77.9	75.2
13 Aerospace and miscellaneous transportation equipment	78.4	67.6	81.9	66.6	87.3	79.2	77.9	79.9	80.3	79.9	80.4	80.7	80.2
14 Nondurable goods	87.8	71.7	87.5	76.4	87.3	80.7	82.3	82.7	82.4	81.6	81.7	81.1	80.8
15 Textile mill products	91.4	60.0	91.2	72.3	90.4	77.7	84.5	82.1	83.5	81.3	81.7	81.9	82.7
16 Paper and products	97.1	69.2	96.1	80.6	93.5	85.0	90.1	88.5	88.0	87.4	89.4	87.8	88.1
17 Chemicals and products	87.6	69.7	84.6	69.9	86.2	79.3	78.8	79.5	78.9	78.7	78.5	77.9	76.9
18 Plastics materials	102.0	50.6	90.9	63.4	97.0	74.8	93.6	91.8	90.2	89.1	92.3	90.7	88.3
19 Petroleum products	96.7	81.1	90.0	66.8	88.5	85.1	95.4	97.9	96.3	96.3	97.5	96.8	94.3
20 Mining	94.3	88.2	96.0	80.3	88.0	87.0	90.1	90.6	91.4	89.4	89.5	88.7	88.2
21 Utilities	96.2	82.9	89.1	75.9	92.6	83.4	90.8	87.6	90.4	92.8	92.0	92.4	93.8
22 Electric	99.0	82.7	88.2	78.9	95.0	87.1	92.5	90.7	94.3	95.5	94.7	95.2	97.2

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in December 1997. The recent annual revision is described in an article in the February 1998 issue of the *Bulletin*. For a description of the aggregation methods for industrial production and capacity utilization, see "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67–92. For details about the construction of individual industrial production series, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.

2. Capacity utilization is calculated as the ratio of the Federal Reserve's seasonally adjusted index of industrial production to the corresponding index of capacity.

3. Primary processing includes textiles; lumber; paper; industrial chemicals; synthetic materials; fertilizer materials; petroleum products; rubber and plastics; stone, clay, and glass; primary metals; and fabricated metals.

4. Advanced processing includes foods; tobacco; apparel; furniture and fixtures; printing and publishing; chemical products such as drugs and toiletries; agricultural chemicals; leather and products; machinery; transportation equipment; instruments; and miscellaneous manufactures.

5. Monthly highs, 1978–80; monthly lows, 1982.

6. Monthly highs, 1988–89; monthly lows, 1990–91.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]

Monthly data seasonally adjusted

Group	1992 pro-por-tion	1997 avg.	1997 Sept.	1997 Oct.	1997 Nov.	1997 Dec.	1998 Jan.	1998 Feb.	1998 Mar.	1998 Apr.	1998 May	1998 June[r]	1998 July[r]	1998 Aug.	1998 Sept.[p]
			Index (1992 = 100)												
MAJOR MARKETS															
1 **Total index**	**100.0**	**124.5**	**125.6**	**126.5**	**127.5**	**127.9**	**127.8**	**127.3**	**128.0**	**128.4**	**128.8**	**127.5**	**127.0**	**129.0**	**128.7**
2 Products	60.5	118.5	119.1	120.2	121.2	121.0	121.3	120.6	121.3	121.8	122.2	121.2	120.5	122.6	122.0
3 Final products	46.3	119.6	120.3	121.5	122.5	122.2	122.6	121.5	122.6	123.2	123.3	122.3	121.2	124.0	123.4
4 Consumer goods, total	29.1	114.4	114.5	115.9	116.7	115.9	116.6	115.1	116.0	116.5	116.7	115.3	114.4	116.6	116.1
5 Durable consumer goods	6.1	131.3	131.9	131.4	136.5	134.7	135.6	134.3	135.2	136.3	138.0	130.4	124.0	139.6	137.4
6 Automotive products	2.6	129.9	132.8	131.2	138.4	133.8	132.6	131.0	132.4	134.5	136.7	122.1	107.1	142.2	138.5
7 Autos and trucks	1.7	136.5	140.9	139.7	147.8	142.7	139.9	137.2	137.7	140.2	142.4	117.6	92.5	151.1	143.8
8 Autos, consumer	.9	115.2	119.9	115.2	120.3	113.9	116.0	105.7	107.4	108.3	109.3	94.6	76.5	125.6	129.5
9 Trucks, consumer	.7	159.1	166.5	168.6	179.8	175.7	168.2	172.7	172.0	176.0	179.4	144.1	111.6	181.5	163.6
10 Auto parts and allied goods	.9	119.3	120.1	117.9	123.8	120.1	120.9	121.0	123.7	125.3	127.5	127.1	125.8	129.2	130.4
11 Other	3.5	132.3	131.1	131.5	135.0	135.3	138.0	136.9	137.4	137.8	139.0	137.1	137.8	137.1	136.2
12 Appliances, televisions, and air conditioners	1.0	168.6	166.0	169.4	177.2	178.7	186.4	188.6	192.5	193.8	192.5	188.6	199.1	199.3	193.2
13 Carpeting and furniture	.8	117.0	116.2	116.5	122.1	116.8	122.5	117.7	116.5	117.1	122.3	119.3	118.5	119.6	119.6
14 Miscellaneous home goods	1.6	120.0	119.4	118.6	119.2	122.1	121.0	120.7	120.8	120.7	120.6	120.2	118.4	116.7	117.0
15 Nondurable consumer goods	23.0	110.2	110.2	112.1	111.8	111.3	112.0	110.4	111.3	111.6	111.5	111.5	111.8	111.1	111.0
16 Foods and tobacco	10.3	109.3	108.6	109.7	110.7	110.0	113.0	111.8	111.3	111.9	112.0	110.1	110.6	109.9	110.0
17 Clothing	2.4	95.9	96.0	96.4	95.1	95.1	95.2	93.5	94.7	94.8	93.3	93.6	93.2	91.4	92.0
18 Chemical products	4.5	119.1	119.4	123.0	121.3	121.8	122.9	121.8	122.2	124.1	123.3	123.6	122.5	121.7	120.5
19 Paper products	2.9	109.3	110.1	111.3	111.7	110.1	110.2	107.8	106.2	106.7	105.8	105.3	107.1	106.7	106.9
20 Energy	2.9	111.3	112.4	116.2	113.9	113.5	107.4	104.6	112.6	110.2	111.6	117.4	118.1	118.1	118.0
21 Fuels	.8	109.3	110.8	112.0	106.7	109.3	110.5	110.0	111.3	111.7	111.0	111.9	113.3	112.8	109.8
22 Residential utilities	2.1	112.0	112.8	117.8	117.1	115.1	105.4	101.5	112.8	109.0	111.5	119.7	120.0	120.2	121.6
23 Equipment	17.2	128.8	130.6	131.3	132.8	133.4	133.1	133.1	134.3	135.0	135.2	134.7	133.4	137.2	136.3
24 Business equipment	13.2	141.9	144.4	145.5	147.5	148.6	147.3	146.8	148.7	150.2	150.4	150.7	149.1	154.3	153.4
25 Information processing and related	5.4	168.1	172.9	174.3	174.7	176.0	175.4	178.0	179.7	182.9	184.2	184.9	184.8	186.9	186.7
26 Computer and office equipment	1.1	385.6	414.6	420.3	427.3	440.1	457.1	476.1	499.2	518.2	532.4	546.4	559.6	577.7	592.6
27 Industrial	4.0	133.3	133.8	135.9	136.3	137.8	136.4	134.2	137.4	137.6	136.3	140.2	141.1	141.5	138.4
28 Transit	2.5	111.2	114.2	113.0	119.9	121.2	119.8	117.9	117.8	118.9	120.5	114.4	105.6	127.7	126.5
29 Autos and trucks	1.2	119.7	120.2	117.0	128.2	124.6	121.1	116.4	117.1	119.4	120.1	107.1	85.9	131.6	128.9
30 Other	1.3	135.0	135.1	137.5	137.3	136.2	133.6	132.7	135.2	136.2	134.7	136.3	139.8	128.6	134.2
31 Defense and space equipment	3.3	75.2	74.7	74.7	74.5	74.5	75.7	75.9	75.3	75.1	75.4	75.0	74.9	75.5	75.2
32 Oil and gas well drilling	.6	149.7	153.1	149.1	150.0	145.9	154.0	158.9	158.6	150.5	148.1	137.5	132.1	128.1	124.7
33 Manufactured homes	.2	139.1	137.2	136.9	138.1	132.4	144.0	148.6	145.4	146.9	148.6	142.9	153.2	149.0	145.0
34 Intermediate products, total	14.2	115.1	115.2	116.3	117.3	117.4	117.4	117.6	117.3	117.5	118.6	117.9	118.1	118.3	118.0
35 Construction supplies	5.3	121.8	120.4	121.3	123.6	123.2	125.2	126.2	124.2	124.7	126.7	126.5	127.6	128.5	127.6
36 Business supplies	8.9	111.1	112.2	113.4	113.5	113.9	112.9	112.6	113.2	113.2	113.7	112.9	112.5	112.3	112.3
37 Materials	39.5	134.1	136.1	136.7	137.7	138.9	138.2	138.2	138.7	139.1	139.6	137.5	137.5	139.4	139.3
38 Durable goods materials	20.8	158.2	161.3	163.2	165.0	166.5	166.2	165.8	166.4	167.6	167.7	164.1	163.5	168.3	167.8
39 Durable consumer parts	4.0	139.2	140.7	141.8	142.3	146.9	138.5	139.3	139.3	141.0	143.2	129.2	126.7	145.0	143.5
40 Equipment parts	7.6	221.9	229.6	233.3	237.9	240.9	245.5	245.7	247.7	249.6	250.3	249.3	250.3	252.5	253.6
41 Other	9.2	125.5	126.6	127.8	128.8	128.3	128.8	127.7	127.8	128.4	127.5	126.8	126.3	126.7	125.9
42 Basic metal materials	3.1	120.6	121.7	122.5	124.9	122.2	125.0	125.4	122.8	122.8	121.4	119.2	118.7	120.6	118.0
43 Nondurable goods materials	8.9	113.0	113.3	113.1	114.4	116.0	114.5	114.8	113.5	113.9	113.2	113.0	114.1	113.0	112.6
44 Textile materials	1.1	109.3	111.4	111.9	111.0	112.5	107.9	108.5	107.6	107.6	107.6	106.9	107.2	107.4	107.9
45 Paper materials	1.8	112.6	112.7	113.4	112.2	113.7	112.3	114.0	111.8	111.9	111.1	112.0	113.8	111.6	112.7
46 Chemical materials	3.9	115.2	115.6	115.0	116.5	119.1	119.2	117.6	116.6	117.2	116.2	115.7	117.0	115.9	114.2
47 Other	2.1	110.3	109.5	109.0	113.7	113.3	109.4	112.5	111.5	111.7	111.6	111.0	111.6	110.4	111.3
48 Energy materials	9.7	103.9	105.5	104.7	103.9	104.2	103.7	103.7	106.0	105.0	107.2	106.2	106.1	105.9	106.8
49 Primary energy	6.3	101.7	102.2	101.7	101.4	100.7	102.8	103.0	104.0	103.3	104.4	103.2	104.4	103.8	104.8
50 Converted fuel materials	3.3	108.3	111.8	110.6	108.6	110.9	105.5	105.0	109.6	108.3	112.6	111.9	109.2	109.8	110.7
SPECIAL AGGREGATES															
51 Total excluding autos and trucks	97.1	124.3	125.4	126.5	127.2	127.7	127.7	127.3	128.0	128.4	128.8	127.9	128.1	128.6	128.4
52 Total excluding motor vehicles and parts	95.1	123.8	124.8	125.9	126.6	127.0	127.3	126.9	127.5	127.9	128.3	127.8	128.1	128.0	127.8
53 Total excluding computer and office equipment	98.2	121.9	122.9	123.8	124.8	125.1	124.9	124.3	124.8	125.2	125.6	124.1	123.6	125.5	125.1
54 Consumer goods excluding autos and trucks	27.4	113.2	113.0	114.6	115.0	114.4	115.4	113.9	114.8	115.2	115.3	115.0	115.3	114.8	114.7
55 Consumer goods excluding energy	26.2	114.8	114.7	115.9	117.0	116.2	117.9	116.5	116.4	117.3	117.3	115.0	113.9	116.4	115.9
56 Business equipment excluding autos and trucks	12.0	144.5	147.3	149.0	149.7	151.5	150.5	150.5	152.6	153.9	154.1	156.0	157.1	156.8	156.2
57 Business equipment excluding computer and office equipment	12.1	129.1	130.8	131.8	133.5	134.4	132.7	131.7	133.0	134.0	133.8	133.7	132.0	136.6	135.5
58 Materials excluding energy	29.8	143.7	145.8	147.0	148.6	150.2	149.4	149.3	149.2	150.1	150.0	147.5	147.6	150.2	149.7

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]—Continued

Group	SIC code[2]	1992 proportion	1997 avg.	1997 Sept.	1997 Oct.	1997 Nov.	1997 Dec.	1998 Jan.	1998 Feb.	1998 Mar.	1998 Apr.	1998 May	1998 June[r]	1998 July[r]	1998 Aug.	1998 Sept.[p]
				Index (1992 = 100)												
MAJOR INDUSTRIES																
59 **Total index**	.	**100.0**	**124.5**	**125.6**	**126.5**	**127.5**	**127.9**	**127.8**	**127.3**	**128.0**	**128.4**	**128.8**	**127.5**	**127.0**	**129.0**	**128.7**
60 Manufacturing	..	85.4	127.0	128.0	129.1	130.4	130.9	131.1	130.6	130.8	131.6	131.7	130.0	129.5	131.9	131.3
61 Primary processing	...	26.5	118.1	118.6	118.9	120.0	120.5	120.6	120.1	119.8	120.5	120.1	119.1	119.9	119.8	119.0
62 Advanced processing	...	58.9	131.4	132.7	134.1	135.5	136.1	136.4	135.8	136.3	137.2	137.5	135.4	134.3	138.0	137.5
63 Durable goods	...	45.0	142.3	144.4	145.5	147.7	148.6	148.3	147.8	148.6	149.7	150.2	147.6	146.3	152.1	151.1
64 Lumber and products	24	2.0	114.9	113.3	112.9	117.0	114.4	114.8	116.7	115.6	116.7	117.3	117.9	117.8	119.3	116.8
65 Furniture and fixtures	25	1.4	122.5	122.0	123.0	124.1	124.4	122.5	120.4	123.0	122.3	121.9	123.1	121.4	120.9	120.8
66 Stone, clay, and glass products	32	2.1	120.5	121.2	121.0	122.1	123.4	122.3	121.4	120.7	120.2	120.4	119.2	120.7	122.8	122.5
67 Primary metals	33	3.1	124.5	125.9	127.4	128.9	127.2	129.3	128.1	127.1	128.2	125.5	122.4	122.5	124.4	121.3
68 Iron and steel	331,2	1.7	122.8	124.5	126.4	127.0	126.1	127.9	127.0	126.7	126.4	124.0	119.9	119.7	120.6	115.3
69 Raw steel	331PT	.1	115.9	119.2	117.7	120.9	119.2	122.8	123.7	119.5	122.8	122.3	115.9	117.2	120.4	112.8
70 Nonferrous	333–6,9	1.4	126.4	127.7	128.6	131.1	128.5	131.0	129.4	127.5	130.4	127.4	125.4	125.8	128.9	128.3
71 Fabricated metal products	34	5.0	122.9	122.7	124.4	124.7	126.7	125.6	124.3	125.0	125.6	126.4	125.7	125.5	124.3	124.8
72 Industrial machinery and equipment	35	8.0	171.4	173.7	176.5	177.7	178.6	180.3	179.4	183.8	186.3	188.2	190.5	192.3	192.9	192.3
73 Computer and office equipment	357	1.8	382.3	412.0	418.0	425.7	438.3	457.1	476.6	500.5	520.1	535.1	550.0	563.9	582.9	598.3
74 Electrical machinery	36	7.3	231.5	237.5	240.8	247.4	249.9	252.9	254.1	254.9	257.5	257.5	257.4	259.5	259.8	260.6
75 Transportation equipment	37	9.5	115.6	118.8	118.3	121.6	123.4	119.9	118.8	118.7	119.4	120.7	110.8	103.8	126.1	123.7
76 Motor vehicles and parts	371	4.9	137.2	141.2	139.6	145.9	146.6	138.3	136.7	136.6	138.3	140.2	120.2	104.7	150.2	145.5
77 Autos and light trucks	371PT	2.6	128.3	132.3	130.4	137.7	132.5	130.8	126.7	127.4	129.5	131.4	109.4	86.5	141.5	136.7
78 Aerospace and miscellaneous transportation equipment	372–6,9	4.6	94.4	96.8	97.3	97.9	100.6	101.8	101.1	101.0	100.7	101.4	101.1	102.1	102.6	102.2
79 Instruments	38	5.4	108.0	108.9	109.7	109.5	109.0	109.0	109.6	109.9	110.4	110.6	109.3	108.6	109.4	109.3
80 Miscellaneous	39	1.3	125.9	126.1	126.5	126.2	128.5	128.0	128.4	128.5	129.1	127.3	126.8	127.0	125.5	125.5
81 Nondurable goods	...	40.4	111.1	111.3	112.2	112.6	112.9	113.6	113.0	112.6	113.2	112.9	112.0	112.2	111.6	111.3
82 Foods	20	9.4	109.6	108.6	109.2	110.9	110.9	112.9	112.0	111.4	112.2	112.3	110.5	110.8	109.8	110.3
83 Tobacco products	21	1.6	112.7	112.0	118.8	115.9	110.1	116.9	115.9	114.7	114.0	114.0	112.5	113.9	115.0	112.3
84 Textile mill products	22	1.8	109.6	111.4	111.6	112.5	110.4	111.8	109.6	108.9	109.2	111.2	108.3	109.0	109.3	110.4
85 Apparel products	23	2.2	99.6	99.1	99.3	98.6	99.3	99.3	97.7	98.2	98.3	97.0	97.4	97.2	95.5	95.8
86 Paper and products	26	3.6	112.9	113.7	112.8	113.6	114.1	112.4	114.6	112.4	113.2	112.7	112.1	114.9	113.1	113.7
87 Printing and publishing	27	6.7	104.9	105.1	106.7	107.4	107.1	106.5	105.6	105.0	104.8	104.5	103.2	102.4	101.9	102.1
88 Chemicals and products	28	9.9	115.3	115.6	116.7	116.5	118.2	118.7	117.6	117.7	118.7	118.0	117.8	117.7	117.0	115.7
89 Petroleum products	29	1.4	109.4	110.1	111.2	108.6	109.7	112.3	111.9	114.8	114.4	112.8	113.1	114.9	114.4	111.7
90 Rubber and plastic products	30	3.5	126.4	127.6	127.4	129.6	129.3	129.3	129.4	129.7	131.9	131.5	130.9	130.9	131.4	131.4
91 Leather and products	31	.3	73.7	70.9	72.4	71.0	71.3	69.4	70.8	69.4	67.7	67.3	66.3	66.3	66.0	66.3
92 Mining	.	6.9	106.0	106.5	105.9	106.1	105.7	108.4	108.8	108.0	107.4	108.4	106.1	106.4	105.5	105.0
93 Metal	10	.5	106.9	105.3	111.1	113.2	103.8	105.3	119.5	105.5	103.0	104.7	105.3	101.7	105.5	104.1
94 Coal	12	1.0	109.9	109.5	109.6	111.2	117.4	116.0	108.4	109.4	110.6	118.2	112.0	116.3	112.7	116.0
95 Oil and gas extraction	13	4.8	103.2	104.3	103.1	102.6	101.7	105.0	105.9	106.5	105.3	104.6	102.3	102.3	101.2	100.3
96 Stone and earth minerals	14	.6	118.8	117.7	116.2	119.2	120.2	124.3	122.6	117.2	120.8	125.6	127.7	127.0	128.9	126.9
97 Utilities	..	7.7	112.5	115.1	116.9	115.3	114.3	108.7	108.2	114.3	111.8	115.5	118.6	117.6	118.3	120.2
98 Electric	491,493PT	6.2	113.1	115.7	118.1	114.7	114.2	110.2	110.6	115.6	114.2	118.8	120.5	119.5	120.3	123.0
99 Gas	492,493PT	1.6	111.0	112.7	111.9	117.8	115.0	103.0	99.0	109.5	102.4	102.4	111.2	110.2	110.6	109.6
SPECIAL AGGREGATES																
100 Manufacturing excluding motor vehicles and parts	...	80.5	126.4	127.3	128.4	129.4	130.0	130.7	130.2	130.5	131.2	131.2	130.6	131.0	130.8	130.5
101 Manufacturing excluding office and computing machines	.	83.6	124.1	124.9	125.9	127.2	127.6	127.8	127.1	127.2	127.9	127.9	126.1	125.5	127.8	127.2
				Gross value (billions of 1992 dollars, annual rates)												
MAJOR MARKETS																
102 **Products, total**	.	**2,001.9**	**2,373.2**	**2,396.9**	**2,416.1**	**2,442.2**	**2,435.3**	**2,442.8**	**2,427.7**	**2,442.6**	**2,454.7**	**2,461.1**	**2,431.2**	**2,405.8**	**2,484.7**	**2,468.5**
103 Final	.	1,552.1	1,855.8	1,875.6	1,890.6	1,911.0	1,904.9	1,911.9	1,895.0	1,911.5	1,922.9	1,924.5	1,896.7	1,868.8	1,948.5	1,934.9
104 Consumer goods	.	1,049.6	1,195.5	1,203.3	1,215.9	1,224.1	1,215.7	1,224.6	1,209.6	1,219.2	1,225.3	1,224.8	1,202.8	1,188.3	1,230.1	1,221.9
105 Equipment	.	502.5	660.0	672.3	674.5	686.9	689.4	687.3	685.5	692.6	697.9	700.1	694.5	680.8	719.3	713.9
106 Intermediate	.	449.9	518.1	522.2	526.5	532.3	531.4	532.0	533.3	532.1	533.0	537.4	534.9	536.5	537.9	535.1

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For the ordering address, see the inside front cover. The latest historical revision of the industrial production index and the capacity utilization rates was released in December 1997. The recent annual revision is described in an article in the February 1998 issue of the *Bulletin*. For a description of the aggregation methods for industrial production and capacity utilization, see "Industrial Production and Capacity Utilization: Historical Revision and Recent Developments," *Federal Reserve Bulletin*, vol. 83 (February 1997), pp. 67–92. For details about the construction of individual industrial production series, see "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76, (April 1990), pp. 187–204.

2. Standard industrial classification.

2.14 HOUSING AND CONSTRUCTION

Monthly figures at seasonally adjusted annual rates except as noted

Item	1995	1996	1997	1997		1998							
				Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July[r]	Aug.
	Private residential real estate activity (thousands of units except as noted)												
NEW UNITS													
1 Permits authorized	1,333	1,426	1,442	1,475	1,467	1,553	1,635	1,569	1,517	1,543	1,517	1,581	1,618
2 One-family	997	1,070	1,056	1,102	1,094	1,142	1,176	1,136	1.145	1,152	1,128	1,173	1,180
3 Two-family or more	335	356	387	373	373	411	459	433	372	391	389	408	438
4 Started	1,354	1,477	1,474	1,523	1,540	1,545	1,616	1,585	1,546	1,538	1,620	1,704	1,616
5 One-family	1,076	1,161	1,134	1,167	1,130	1,225	1,263	1,239	1,237	1,224	1,269	1,300	1,253
6 Two-family or more	278	316	340	356	410	320	353	346	309	314	351	404	363
7 Under construction at end of period[1]	776	820	834	862	872	888	907	911	911	917	930	938	944
8 One-family	554	584	570	575	580	593	609	616	619	627	639	643	646
9 Two-family or more	222	235	264	287	292	295	298	295	292	290	291	295	298
10 Completed	1,319	1,405	1,407	1,432	1,413	1.314	1,461	1,486	1,509	1,458	1,484	1,547	1,507
11 One-family	1,073	1,123	1,122	1,145	1,094	1,007	1,142	1,130	1,198	1,112	1.166	1,216	1,160
12 Two-family or more	247	283	285	287	319	307	319	356	311	346	318	331	347
13 Mobile homes shipped	341	361	354	352	353	362	377	374	370	374	362	380	368
Merchant builder activity in one-family units													
14 Number sold	667	757	803	875	805	853	878	836	892	892[r]	922	877	838
15 Number for sale at end of period[1]	374	326	287	280	282	281	281	285	286	287[r]	287	286	289
Price of units sold (thousands of dollars)[2]													
16 Median	133.9	140.0	145.9	145.0	145.9	148.0	156.0	152.0	148.0	153.2[r]	146.7	149.3	151.0
17 Average	158.7	166.4	175.8	175.4	175.8	178.6	181.6	178.9	176.7	183.5	175.4	176.6	183.1
EXISTING UNITS (one-family)													
18 Number sold	3,812	4,087	4,215	4,390	4,370	4,370	4,770	4,890	4,770	4,830	4,740	4,910	4,730
Price of units sold (thousands of dollars)[2]													
19 Median	113.1	118.2	124.1	124.3	125.9	126.1	124.5	127.1	128.2	130.5	134.0	133.8	132.9
20 Average	139.1	145.5	154.2	155.0	157.5	156.8	153.9	157.2	159.7	162.3	169.2	168.4	165.9
	Value of new construction (millions of dollars)[3]												
CONSTRUCTION													
21 **Total put in place**	**538,158**	**581,813**	**618,051**	**623,068**	**626,290**	**633,714**	**638,180**	**639,913**	**645,974[r]**	**635,396[r]**	**650,341**	**650,897**	**651,607**
22 Private	408,012	444,743	470,969	475,340	478,363	487,807	490,896	494,333	500,078[r]	496,495[r]	503,592	503,938	503,725
23 Residential	231,191	255,570	265,536	268,893	273,020	278,956	282,496	286,045	289,666[r]	288,003[r]	291,907	296,635	296,182
24 Nonresidential	176,821	189,173	205,433	206,447	205,343	208,851	208,400	208,288	210,412[r]	208,492[r]	211,685	207,303	207,543
25 Industrial buildings	32,535	32,563	31,417	30,075	29,794	31,055	30,936	31,474	31,457[r]	29,642[r]	30,067	27,891	28,596
26 Commercial buildings	68,245	75,722	83,727	83,601	83,214	85,807	84,152	83,981	86,064[r]	86,321[r]	88,480	85,598	83,786
27 Other buildings	27,084	30,637	37,382	38,341	39,275	37,694	39,151	37,812	39,168[r]	37,678[r]	37,334	37,453	38,039
28 Public utilities and other	48,957	50,252	52,906	54,430	53,060	54,295	54,161	55,021	53,723[r]	54.851[r]	55,804	56,361	57,122
29 Public	130,147	137,070	147,082	147,728	147,927	145,907	147,284	145,580	145,896[r]	138,901[r]	146,749	146,958	147,881
30 Military	2.983	2,639	2.625	2,889	2,342	2,474	2,916	2,818	2,850[r]	2,471[r]	2,659	3,309	2,871
31 Highway	38,126	41,326	45,246	47,416	45,306	46,067	45,561	45,559	46,175[r]	42,030[r]	44,541	44,105	44,828
32 Conservation and development	6,371	5,926	5,628	5,068	6,422	5,281	6,305	5,488	4,985[r]	5,146[r]	5,989	5,485	5,428
33 Other	82,667	87,179	93,583	92,355	93,857	92,085	92,502	91,715	91,886[r]	89,254[r]	93,560	94,059	94,754

1. Not at annual rates.
2. Not seasonally adjusted.
3. Recent data on value of new construction may not be strictly comparable with data for previous periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes, see *Construction Reports* (C–30–76–5), issued by the Census Bureau in July 1976.

SOURCE. Bureau of the Census estimates for all series except (1) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (2) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from the originating agency. Permit authorizations are those reported to the Census Bureau from 19,000 jurisdictions beginning in 1994.

2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (annual rate)				Change from 1 month earlier					Index level, Sept. 1998[1]
	1997 Sept.	1998 Sept.	1997 Dec.	1998 Mar.	1998 June	1998 Sept.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.	
CONSUMER PRICES[2] (1982–84=100)												
1 **All items**	**2.2**	**1.5**	**1.5**	**.2**	**2.5**	**1.5**	**.3**	**.1**	**.2**	**.2**	**.0**	**163.6**
2 Food	2.1	2.0	1.5	1.3	3.0	2.0	.6	1	.2	.2	.0	161.1
3 Energy items	2.0	−9.8	−7.7	−21.1	−1.9	−8.7	.3	− 7	.0	−1.0	−1.3	102.7
4 All items less food and energy	2.2	2.5	2.4	2.4	2.6	2.3	.2	.1	.2	.2	.2	174.2
5 Commodities	.4	.8	.6	.8	1.1	1.1	.1	.0	.1	2	− 1	143.2
6 Services	2.9	3.1	3.3	3.0	3.2	3.0	.3	.2	.2	3	3	191.8
PRODUCER PRICES (1982=100)												
7 Finished goods	.0	−.9	−1.2	−3.0	.0	.6	.1[r]	−.2[r]	.2	−.4	.3	130.6
8 Consumer foods	−.7	.5	1.5	−1.8	.6	2.1	−.4	.0[r]	.4	−.4	.4	135.4
9 Consumer energy	.0	−11.6	−5.7	−27.0	−3.1	−8.3	.8	−1.7	.3	−2.3	−.1	75.4
10 Other consumer goods	.6	2.1	−.3	3.9	1.4	3.3	.1[r]	.0[r]	.3	.0	.5	147.4
11 Capital equipment	− 1	−.5	−2.0	.0	−.9	.6	−.1	.0	.1	−.3	.4	136.5
Intermediate materials												
12 Excluding foods and feeds	−.2	−2.1	−.6	−4.4	−1.6	−1.6	−.1[r]	−.4[r]	.0	−.2	−.2	123.5
13 Excluding energy	3	−.8	.0	−.9	−1.2	−1.5	−.1	−.1	.0	−.1	−.3	133.2
Crude materials												
14 Foods	−11.4	−8.8	4.1	−14.3	−3.0	−20.9	−.9[r]	.0[r]	−2.8	−1.1	−1.9	100.9
15 Energy	2.7	−22.8	5.4	−53.5	−2.3	−25.9	.0[r]	−4.8[r]	−.6	−5.1	−1.7	64.2
16 Other	1.6	−11.5	−8.2	−13.6	−5.0	−18.8	.1[r]	−.3[r]	−1.8	−2.0	−1.3	138.1

1 Not seasonally adjusted.

2. Figures for consumer prices are for all urban consumers and reflect a rental-equivalence measure of homeownership.

SOURCE. U.S. Department of Labor, Bureau of Labor Statistics.

2.16 GROSS DOMESTIC PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1995	1996	1997	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
GROSS DOMESTIC PRODUCT								
1 **Total**	**7,269.6**	**7,661.6**	**8,110.9**	**8,063.4**	**8,170.8**	**8,254.5**	**8,384.2**	**8,440.6**
By source								
2 Personal consumption expenditures	4,953.9	5,215.7	5,493.7	5,438.8	5,540.3	5,593.2	5,676.5	5,773.7
3 Durable goods	611.0	643.3	673.0	659.9	681.2	682.2	705.1	720.1
4 Nondurable goods	1,473.6	1,539.2	1,600.6	1,588.2	1,611.3	1,613.2	1,633.1	1,655.2
5 Services	2,869.2	3,033.2	3,220.1	3,190.7	3,247.9	3,297.8	3,338.2	3,398.4
6 Gross private domestic investment	1,043.2	1,131.9	1,256.0	1,259.9	1,265.7	1,292.0	1,366.6	1,345.0
7 Fixed investment	1,012.5	1,099.8	1,188.6	1,176.4	1,211.1	1,220.1	1,271.1	1,305.8
8 Nonresidential	727.7	787.9	860.7	850.5	882.3	882.8	921.3	941.9
9 Structures	201.3	216.9	240.2	234.3	243.8	246.4	245.0	245.4
10 Producers' durable equipment	526.4	571.0	620.5	616.2	638.5	636.4	676.3	696.6
11 Residential structures	284.8	311.8	327.9	325.9	328.8	337.4	349.8	363.8
12 Change in business inventories	30.7	32.1	67.4	83.5	54.6	71.9	95.5	39.2
13 Nonfarm	40.1	24.5	63.1	77.2	47.3	66.9	90.5	31.5
14 Net exports of goods and services	−83.9	−91.2	−93.4	−86.8	−94.7	−98.8	−123.7	−159.3
15 Exports	819.4	873.8	965.4	961.1	981.7	988.6	973.3	949.6
16 Imports	903.3	965.0	1,058.8	1,047.9	1,076.4	1,087.4	1,097.1	1,108.9
17 Government consumption expenditures and gross investment	1,356.4	1,405.2	1,454.6	1,451.5	1,459.5	1,468.1	1,464.9	1,481.2
18 Federal	509.1	518.4	520.2	522.9	521.0	520.1	511.6	520.7
19 State and local	847.3	886.8	934.4	928.6	938.5	947.9	953.3	960.4
By major type of product								
20 Final sales, total	7,238.9	7,629.5	8,043.5	7,979.9	8,116.2	8,182.6	8,288.7	8,401.3
21 Goods	2,644.9	2,780.3	2,911.2	2,883.6	2,944.3	2,948.7	3,005.8	3,025.3
22 Durable	1,143.4	1,228.8	1,310.1	1,293.6	1,337.1	1,334.3	1,376.9	1,380.8
23 Nondurable	1,501.5	1,551.6	1,601.0	1,589.9	1,607.2	1,614.4	1,628.8	1,644.4
24 Services	3,974.9	4,179.5	4,414.1	4,386.9	4,448.0	4,501.2	4,538.4	4,619.5
25 Structures	619.1	669.7	718.3	709.4	723.9	732.7	744.6	756.6
26 Change in business inventories	30.7	32.1	67.4	83.5	54.6	71.9	95.5	39.2
27 Durable goods	32.4	20.8	33.6	48.8	19.9	34.0	49.9	4.5
28 Nondurable goods	−1.7	11.4	33.8	34.6	34.7	37.9	45.6	34.7
MEMO								
29 **Total GDP in chained 1992 dollars**	**6,761.7**	**6,994.8**	**7,269.8**	**7,236.5**	**7,311.2**	**7,364.6**	**7,464.7**	**7,498.6**
NATIONAL INCOME								
30 **Total**	**5,923.7**	**6,256.0**	**6,646.5**	**6,604.5**	**6,704.8**	**6,767.9**	**6,875.0**	**6,945.5**
31 Compensation of employees	4,208.9	4,409.0	4,687.2	4,649.2	4,715.5	4,798.0	4,882.8	4,945.2
32 Wages and salaries	3,441.9	3,640.4	3,893.6	3,859.2	3,919.3	3,993.6	4,065.9	4,121.6
33 Government and government enterprises	622.7	640.9	664.2	661.6	666.7	671.4	679.5	685.8
34 Other	2,819.2	2,999.5	3,229.4	3,197.6	3,252.6	3,322.2	3,386.4	3,435.8
35 Supplement to wages and salaries	767.0	768.6	793.7	790.0	796.2	804.4	816.8	823.5
36 Employer contributions for social insurance	365.3	381.7	400.7	398.4	402.7	407.4	414.1	417.9
37 Other labor income	401.6	387.0	392.9	391.5	393.6	397.0	402.8	405.7
38 Proprietors' income[1]	488.1	527.7	551.2	549.9	556.5	558.0	564.2	571.7
39 Business and professional[1]	465.6	488.8	515.8	512.1	520.2	526.6	536.8	544.0
40 Farm[1]	22.4	38.9	35.5	37.8	36.3	31.4	27.4	27.7
41 Rental income of persons[2]	133.7	150.2	158.2	158.0	158.6	158.8	158.3	161.0
42 Corporate profits[1]	672.4	750.4	817.9	815.5	840.9	820.8	829.2	820.6
43 Profits before tax[3]	635.6	680.2	734.4	729.8	758.9	736.4	719.1	723.5
44 Inventory valuation adjustment	−22.6	−1.2	6.9	10.3	4.8	4.3	25.3	7.8
45 Capital consumption adjustment	59.4	71.4	76.6	75.5	77.2	80.1	84.9	89.4
46 Net interest	420.6	418.6	432.0	431.8	433.3	432.4	440.5	447.1

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.
3. For after-tax profits, dividends, and the like, see table 1.48.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1995	1996	1997	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**6,072.1**	**6,425.2**	**6,784.0**	**6,743.6**	**6,820.9**	**6,904.9**	**7,003.9**	**7,081.9**
2 Wage and salary disbursements	3,428.5	3,631.1	3,889.8	3,855.5	3,915.5	3,989.9	4,061.9	4,117.6
3 Commodity-producing industries	863.9	909.0	975.0	965.4	979.4	1,003.7	1,019.0	1,023.2
4 Manufacturing	647.9	674.6	719.5	712.0	722.3	741.3	750.4	750.8
5 Distributive industries	782.9	823.3	879.8	870.2	886.3	904.5	918.9	932.2
6 Service industries	1,158.9	1,257.9	1,370.8	1,358.3	1,383.2	1,410.2	1,444.5	1,476.4
7 Government and government enterprises	622.7	640.9	664.2	661.6	666.7	671.4	679.5	685.8
8 Other labor income	401.6	387.0	392.9	391.5	393.6	397.0	402.8	405.7
9 Proprietors' income[1]	488.1	527.7	551.2	549.9	556.5	558.0	564.2	571.7
10 Business and professional[1]	465.6	488.8	515.8	512.1	520.2	526.6	536.8	544.0
11 Farm[1]	22.4	38.9	35.5	37.8	36.3	31.4	27.4	27.7
12 Rental income of persons[2]	133.7	150.2	158.2	158.0	158.6	158.8	158.3	161.0
13 Dividends	192.8	248.2	260.3	259.9	260.4	261.3	261.6	262.1
14 Personal interest income	704.9	719.4	747.3	745.7	750.5	753.0	757.0	763.0
15 Transfer payments	1,015.9	1,068.0	1,110.4	1,106.8	1,114.0	1,120.5	1,139.0	1,145.8
16 Old-age survivors, disability, and health insurance benefits	507.8	538.0	565.9	563.9	568.3	572.2	581.6	585.0
17 LESS: Personal contributions for social insurance	293.6	306.3	326.2	323.7	328.2	333.6	340.9	345.1
18 EQUALS: Personal income	6,072.1	6,425.2	6,784.0	6,743.6	6,820.9	6,904.9	7,003.9	7,081.9
19 LESS: Personal tax and nontax payments	795.0	890.5	989.0	975.8	999.0	1,025.5	1,066.8	1,092.9
20 EQUALS: Disposable personal income	5,277.0	5,534.7	5,795.1	5,767.9	5,821.8	5,879.4	5,937.1	5,988.9
21 LESS: Personal outlays	5,097.2	5,376.2	5,674.1	5,616.0	5,723.3	5,781.2	5,864.0	5,963.3
22 EQUALS: Personal saving	179.8	158.5	121.0	151.9	98.5	98.2	73.0	25.6
MEMO								
Per capita (chained 1992 dollars)								
23 Gross domestic product	25,690.5	26,335.7	27,136.2	27,052.3	27,260.4	27,398.2	27,718.8	27,783.0
24 Personal consumption expenditures	17,498.4	17,893.0	18,340.9	18,215.6	18,445.2	18,530.5	18,771.1	19,007.8
25 Disposable personal income	18,640.0	18,989.0	19,349.0	19,315.0	19,385.0	19,478.0	19,632.0	19,719.0
26 Saving rate (percent)	3.4	2.9	2.1	2.6	1.7	1.7	1.2	.4
GROSS SAVING								
27 **Gross saving**	**1,187.4**	**1,274.5**	**1,406.3**	**1,416.3**	**1,427.0**	**1,428.0**	**1,482.5**	**1,448.5**
28 Gross private saving	1,106.2	1,114.5	1,141.6	1,169.5	1,139.0	1,131.6	1,130.1	1,079.0
29 Personal saving	179.8	158.5	121.0	151.9	98.5	98.2	73.0	25.6
30 Undistributed corporate profits[1]	256.1	262.4	296.7	299.0	311.5	295.0	312.0	300.9
31 Corporate inventory valuation adjustment	−22.6	−1.2	6.9	10.3	4.8	4.3	25.3	7.8
Capital consumption allowances								
32 Corporate	431.1	452.0	477.3	473.7	480.8	487.7	492.5	497.8
33 Noncorporate	225.9	232.3	242.8	241.3	244.4	247.0	248.6	250.7
34 Gross government saving	81.2	160.0	264.7	246.9	288.0	296.4	352.4	369.4
35 Federal	−103.7	−39.6	49.5	36.1	70.0	72.3	128.7	143.9
36 Consumption of fixed capital	70.7	70.6	70.6	70.9	70.3	70.2	69.9	69.5
37 Current surplus or deficit (−), national accounts	−174.4	−110.3	−21.1	−34.8	−.3	2.2	58.8	74.4
38 State and local	184.8	199.7	215.2	210.7	218.0	224.1	223.7	225.6
39 Consumption of fixed capital	73.2	77.1	81.1	80.6	81.4	82.7	83.5	84.3
40 Current surplus or deficit (−), national accounts	111.7	122.6	134.1	130.1	136.6	141.4	140.2	141.3
41 **Gross investment**	**1,160.9**	**1,242.3**	**1,350.5**	**1,368.6**	**1,361.9**	**1,360.7**	**1,428.4**	**1,362.7**
42 Gross private domestic investment	1,043.2	1,131.9	1,256.0	1,259.9	1,265.7	1,292.0	1,366.6	1,345.0
43 Gross government investment	218.4	229.7	235.4	232.6	237.3	236.5	237.4	232.5
44 Net foreign investment	−100.6	−119.2	−140.9	−123.9	−141.0	−167.8	−175.6	−214.8
45 **Statistical discrepancy**	**−26.5**	**−32.2**	**−55.8**	**−47.7**	**−65.1**	**−67.3**	**−54.1**	**−85.7**

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data seasonally adjusted except as noted[1]

Item credits or debits	1995	1996	1997	1997			1998	
				Q2	Q3	Q4	Q1	Q2[p]
1 Balance on current account	−115,254	−134,915	−155,215	−35,090	−38,094	−45,043	−46,735	−56,525
2 Merchandise trade balance[2]	−173,729	−191,337	−197,954	−49,096	−49,296	−49,839	−55,698	−64,831
3 Merchandise exports	575,845	611,983	679,325	169,240	172,302	174,284	171,469	164,666
4 Merchandise imports	−749,574	−803,320	−877,279	−218,336	−221,598	−224,123	−227,167	−229,497
5 Military transactions, net	4,769	4,684	6,781	2,191	1,945	1,103	1,527	1,036
6 Other service transactions, net	69,069	78,079	80,967	20,390	20,246	20,277	19,164	19,842
7 Investment income, net	19,275	14,236	−5,318	460	−1,544	−4,247	−2,248	−3,238
8 U.S. government grants	−11,170	−15,023	−12,090	−2,274	−2,362	−5,213	−2,266	−2,060
9 U.S. government pensions and other transfers	−3,433	−4,442	−4,193	−1,055	−1,056	−1,069	−1,126	−1,130
10 Private remittances and other transfers	−20,035	−21,112	−23,408	−5,706	−6,027	−6,055	−6,088	−6,144
11 Change in U.S. government assets other than official reserve assets, net (increase, −)	−589	−708	174	−269	436	29	−388	−496
12 Change in U.S. official reserve assets (increase, −)	−9,742	6,668	−1,010	−236	−730	−4,524	−444	−1,945
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	−808	370	−350	−133	−139	−150	−182	72
15 Reserve position in International Monetary Fund	−2,466	−1,280	−3,575	54	−463	−4,221	−85	−1,031
16 Foreign currencies	−6,468	7,578	2,915	−157	−128	−153	−177	−986
17 Change in U.S. private assets abroad (increase, −)	−317,122	−374,761	−477,666	−86,101	−123,023	−118,946	−44,816	−95,049
18 Bank-reported claims[3]	−75,108	−91,555	−147,439	−26,625	−29,577	−27,539	3,074	−24,979
19 Nonbank-reported claims	−45,286	−86,333	−120,403	−9,825	−24,791	−47,907	−6,596	...
20 U.S. purchases of foreign securities, net	−100,074	−115,801	−87,981	−23,263	−41,167	−8,030	−6,973	−23,446
21 U.S. direct investments abroad, net	−96,654	−81,072	−121,843	−26,388	−27,488	−35,470	−34,321	−40,261
22 Change in foreign official assets in United States (increase, +)	109,768	127,344	15,817	−5,411	21,258	−26,979	11,324	−10,483
23 U.S. Treasury securities	68,977	115,671	−7,270	−11,689	6,686	−24,578	11,336	−20,317
24 Other U.S. government obligations	3,735	5,008	4,334	827	2,667	86	2,610	254
25 Other U.S. government liabilities[4]	−217	−362	−2,521	−523	−1,167	−244	−1,059	−422
26 Other U.S. liabilities reported by U.S. banks[3]	34,008	5,704	21,928	5,043	12,439	−3,250	−607	9,170
27 Other foreign official assets[5]	3,265	1,323	−654	931	633	1,007	−956	832
28 Change in foreign private assets in United States (increase, +)	355,681	436,013	717,624	155,184	160,180	247,470	84,205	173,908
29 U.S. bank-reported liabilities[3]	30,176	16,478	148,059	28,067	12,606	89,643	−50,497	40,888
30 U.S. nonbank-reported liabilities	59,637	39,404	107,779	5,274	26,275	47,390	32,707	...
31 Foreign private purchases of U.S. Treasury securities, net	99,548	154,996	146,710	42,614	35,432	35,301	−1,701	25,715
32 Foreign purchases of other U.S. securities, net	96,367	130,151	196,845	54,258	60,327	36,783	77,019	69,531
33 Foreign direct investments in United States, net	57,653	77,622	93,449	20,149	18,964	28,453	25,931	22,036
34 Allocation of special drawing rights	0	0	0	0	0	0	0	0
35 Discrepancy	−22,742	−59,641	−99,724	−28,077	−20,027	−52,007	−3,146	−9,410
36 Due to seasonal adjustment	...	...	...	685	−10,018	3,528	6,217	1,562
37 Before seasonal adjustment	−22,742	−59,641	−99,724	−28,762	−10,009	−55,535	−9,363	−10,972
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	−9,742	6,668	−1,010	−236	−730	−4,524	−444	−1,945
39 Foreign official assets in United States, excluding line 25 (increase, +)	109,985	127,706	18,338	−4,888	22,425	−26,735	12,383	−10,061
40 Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22)	4,239	14,911[r]	10,822[r]	1,970	3,031	−1,282	−968	−350

1. Seasonal factors are not calculated for lines 12–16, 18–20, 22–34, and 38–40.
2. Data are on an international accounts basis. The data differ from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise trade data and are included in line 5.
3. Reporting banks include all types of depository institutions as well as some brokers and dealers.
4. Associated primarily with military sales contracts and other transactions arranged with or through foreign official agencies.
5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business.*

3.11 U.S. FOREIGN TRADE[1]

Millions of dollars; monthly data seasonally adjusted

Item	1995	1996	1997	1998						
				Feb.[r]	Mar.[r]	Apr.[r]	May[r]	June[r]	July	Aug.[p]
1 Goods and services, balance	−101,857	−111,040	−113,684	−11,614	−13,497	−14,148	−15,777	−13,639	−14,547	−16,775
2 Merchandise	−173,560	−191,170	−198,975	−18,120	−20,503	−21,335	−22,578	−20,530	−21,029	−23,202
3 Services	71,703	80,130	85,291	6,506	7,006	7,187	6,801	6,891	6,482	6,427
4 Goods and services, exports	794,610	848,833	931,370	77,813	79,058	77,515	76,399	76,375	75,101	74,839
5 Merchandise	575,871	612,069	678,150	56,350	57,217	55,335	54,719	54,767	53,825	53,698
6 Services	218,739	236,764	253,220	21,463	21,841	22,180	21,680	21,608	21,276	21,141
7 Goods and services, imports	−896,467	−959,873	−1,045,054	−89,427	−92,555	−91,663	−92,176	−90,014	−89,648	−91,614
8 Merchandise	−749,431	−803,239	−877,125	−74,470	−77,720	−76,670	−77,297	−75,297	−74,854	−76,900
9 Services	−147,036	−156,634	−167,929	−14,957	−14,835	−14,993	−14,879	−14,717	−14,794	−14,714

1. Data show monthly values consistent with quarterly figures in the U.S. balance of payments accounts.

SOURCE. *FT900,* U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Asset	1995	1996	1997	1998							
				Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.[p]
1 **Total**	**85,832**	**75,090**	**69,954**	**70,632**	**69,354**	**70,328**	**70,723**	**71,161**	**72,264**	**73,544**	**75,676**
2 Gold stock, including Exchange Stabilization Fund[1]	11,050	11,049	11,050	11,050	11,050	11,048	11,049	11,047	11,046	11,046	11,044
3 Special drawing rights[2,3]	11,037	10,312	10,027	10,217	10,108	10,188	10,296	10,001	9,586	9,891	10,106
4 Reserve position in International Monetary Fund[2]	14,649	15,435	18,071	18,135	17,976	18,218	18,957	18,945	20,780	21,161	21,644
5 Foreign currencies[4]	49,096	38,294	30,809	31,230	30,220	30,874	30,421	31,168	30,852	31,446	32,882

1. Gold held "under earmark" at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13, line 3. Gold stock is valued at $42.22 per fine troy ounce.

2. Special drawing rights (SDRs) are valued according to a technique adopted by the International Monetary Fund (IMF) in July 1974. Values are based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, sixteen currencies were used; since January 1981, five currencies have been used. U.S. SDR holdings and reserve positions in the IMF also have been valued on this basis since July 1974.

3. Includes allocations of SDRs by the International Monetary Fund on Jan. 1 of the year indicated, as follows: 1970—$867 million; 1971—$717 million; 1972—$710 million; 1979—$1,139 million; 1980—$1,152 million; 1981—$1,093 million; plus net transactions in SDRs.

4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS[1]

Millions of dollars, end of period

Asset	1995	1996	1997	1998							
				Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.[p]
1 **Deposits**	**386**	**167**	**457**	**243**	**167**	**162**	**156**	**200**	**161**	**161**	**347**
Held in custody											
2 U.S. Treasury securities[2]	522,170	638,049	620,885	621,956	630,602	622,220	622,557	616,569	613,893	588,337	578,403
3 Earmarked gold[3]	11,702	11,197	10,763	10,705	10,664	10,651	10,641	10,617	10,586	10,510	10,457

1. Excludes deposits and U.S. Treasury securities held for international and regional organizations.

2. Marketable U.S. Treasury bills, notes, and bonds and nonmarketable U.S. Treasury securities, in each case measured at face (not market) value.

3. Held in foreign and international accounts and valued at $42.22 per fine troy ounce; not included in the gold stock of the United States.

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1996	1997	1998						
			Feb.	Mar.	Apr.	May	June	July	Aug.[p]
1 **Total**[1]	**758,624**	**778,538**	**780,393**	**790,921**	**788,310**	**786,184**	**781,067**	**775,154**	**760,245**
By type									
2 Liabilities reported by banks in the United States[2]	113,098	135,326	139,739	134,719	144,929	142,658	144,097	142,157	143,501
3 U.S. Treasury bills and certificates[3]	198,921	148,301	144,324	153,335	138,418	137,652	134,324	131,089	130,398
U.S. Treasury bonds and notes									
4 Marketable	379,497	423,456	423,509	429,642	430,804	431,702	428,216	428,685	411,765
5 Nonmarketable[4]	5,968	5,994	6,069	6,110	6,149	6,189	6,229	6,269	6,311
6 U.S. securities other than U.S. Treasury securities[5]	61,140	65,461	66,752	67,115	68,010	67,983	68,201	66,954	68,270
By area									
7 Europe[1]	257,915	263,103	261,133	259,053	268,848	269,178	264,637	270,175	266,605
8 Canada	21,295	18,749	19,065	20,280	20,254	20,122	19,396	19,963	16,387
9 Latin America and Caribbean	80,623	97,616	99,381	98,028	101,191	101,792	100,829	100,801	98,450
10 Asia	385,484	382,423	385,378	397,283	382,027	379,188	378,154	367,752	363,969
11 Africa	7,379	10,118	10,518	11,440	11,281	10,574	11,552	11,901	11,498
12 Other countries	5,926	6,527	4,916	4,835	4,707	5,328	6,497	4,560	3,334

1. Includes the Bank for International Settlements.
2. Principally demand deposits, time deposits, bankers acceptances, commercial paper, negotiable time certificates of deposit, and borrowings under repurchase agreements.
3. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
4. Excludes notes issued to foreign official nonreserve agencies. Includes current value of zero-coupon Treasury bond issues to foreign governments as follows: Mexico, beginning March 1988, 20-year maturity issue and beginning March 1990, 30-year maturity issue; Venezuela, beginning December 1990, 30-year maturity issue; Argentina, beginning April 1993, 30-year maturity issue.
5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.

SOURCE. Based on U.S. Department of the Treasury data and on data reported to the department by banks (including Federal Reserve Banks) and securities dealers in the United States, and on the 1989 benchmark survey of foreign portfolio investment in the United States.

3.16 LIABILITIES TO, AND CLAIMS ON, FOREIGNERS Reported by Banks in the United States[1] Payable in Foreign Currencies

Millions of dollars, end of period

Item	1994	1995	1996	1997		1998	
				Sept.	Dec.	Mar.	June
1 Banks' liabilities	89,258	109,713	103,383	120,105	117,524	100,342	90,119
2 Banks' claims	60,711	74,016	66,018	91,158	83,038	81,977	68,095
3 Deposits	19,661	22,696	22,467	32,154	28,661	27,934	27,213
4 Other claims	41,050	51,320	43,551	59,004	54,377	54,043	40,882
5 Claims of banks' domestic customers[2]	10,878	6,145	10,978	10,090	8,191	7,926	7,354

1. Data on claims exclude foreign currencies held by U.S. monetary authorities.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of the domestic customers

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. dollars

Millions of dollars, end of period

Item	1995	1996	1997	1998						
				Feb.	Mar.	Apr.	May	June	July	Aug.[p]
BY HOLDER AND TYPE OF LIABILITY										
1 **Total, all foreigners**	**1,099,549**	**1,162,148**	**1,283,686**	**1,283,675**	**1,255,075**	**1,270,626**	**1,260,273**	**1,287,968[r]**	**1,305,757**	**1,340,871**
2 Banks' own liabilities	753,461	758,998	883,639	879,686	843,906	861,727	852,052	884,741[r]	896,872	928,048
3 Demand deposits	24,448	27,034	32,104	29,691	32,588	32,107	31,201	36,246[r]	30,928	32,997
4 Time deposits[2]	192,558	186,910	198,470	183,285	183,109	185,948	185,160	186,693[r]	187,956	183,469
5 Other[3]	140,165	143,510	168,013	189,527	188,425	204,294	192,167	183,451	192,536	190,531
6 Own foreign offices[4]	396,290	401,544	485,052	477,183	439,784	439,378	443,524	478,351[r]	485,452	521,051
7 Banks' custodial liabilities[5]	346,088	403,150	400,047	403,989	411,169	408,899	408,221	403,227[r]	408,885	412,823
8 U.S. Treasury bills and certificates[6]	197,355	236,874	193,239	186,564	191,571	174,256	173,873	169,225[r]	164,274	163,598
9 Other negotiable and readily transferable instruments[7]	52,200	72,011	93,641	99,402	96,364	111,398	107,797	112,527	116,802	121,351
10 Other	96,533	94,265	113,167	118,023	123,234	123,245	126,551	121,475	127,809	127,874
11 Nonmonetary international and regional organizations[8]	11,039	13,972	11,690	16,184	15,246	14,894	14,186	14,079	14,181	15,052
12 Banks' own liabilities	10,347	13,355	11,486	15,855	14,925	14,478	13,559	13,441	12,088	13,584
13 Demand deposits	21	29	16	74	98	365	229	226	19	59
14 Time deposits[2]	4,656	5,784	5,466	5,316	5,957	6,646	7,029	6,784	6,254	6,152
15 Other[3]	5,670	7,542	6,004	10,465	8,870	7,467	6,301	6,431	5,815	7,373
16 Banks' custodial liabilities[5]	692	617	204	329	321	416	627	638	2,093	1,468
17 U.S. Treasury bills and certificates[6]	350	352	69	149	247	344	359	338	349	490
18 Other negotiable and readily transferable instruments[7]	341	265	133	180	72	72	268	298	1,744	976
19 Other	1	0	2	0	2	0	0	2	0	2
20 Official institutions[9]	275,928	312,019	283,627	284,063	288,054	283,347	280,310	278,421	273,246	273,899
21 Banks' own liabilities	83,447	79,406	101,910	109,959	104,006	105,731	104,358	102,256	102,040	100,973
22 Demand deposits	2,098	1,511	2,314	1,910	2,051	2,532	2,052	2,582	3,560	3,452
23 Time deposits[2]	30,717	33,336	41,420	37,242	40,265	38,865	36,060	36,068	36,358	35,618
24 Other[3]	50,632	44,559	58,176	70,807	61,690	64,334	66,246	63,606	62,122	61,903
25 Banks' custodial liabilities[5]	192,481	232,613	181,717	174,104	184,048	177,616	175,952	176,165	171,206	172,926
26 U.S. Treasury bills and certificates[6]	168,534	198,921	148,301	144,324	153,335	138,418	137,652	134,324	131,089	130,398
27 Other negotiable and readily transferable instruments[7]	23,603	33,266	33,211	29,643	30,183	38,745	38,010	41,178	39,809	41,773
28 Other	344	426	205	137	530	453	290	663	308	755
29 Banks[10]	691,412	694,835	816,064	799,943	763,349	776,269	782,828	809,206[r]	825,175	853,855
30 Banks' own liabilities	567,834	562,898	642,324	623,213	585,083	596,509	601,967	633,032[r]	643,982	673,792
31 Unaffiliated foreign banks	171,544	161,354	157,272	146,030	145,299	157,131	158,443	154,681	158,530	152,741
32 Demand deposits	11,758	13,692	17,527	16,084	18,350	17,152	16,111	20,772[r]	15,097	16,045
33 Time deposits[2]	103,471	89,765	83,433	75,255	70,060	72,703	74,018	75,231[r]	78,252	74,219
34 Other[3]	56,315	57,897	56,312	54,691	56,889	67,276	68,314	58,678	65,181	62,477
35 Own foreign offices[4]	396,290	401,544	485,052	477,183	439,784	439,378	443,524	478,351[r]	485,452	521,051
36 Banks' custodial liabilities[5]	123,578	131,937	173,740	176,730	178,266	179,760	180,861	176,174[r]	181,193	180,063
37 U.S. Treasury bills and certificates[6]	15,872	23,106	31,915	30,620	28,499	26,650	26,920	25,337[r]	22,929	20,694
38 Other negotiable and readily transferable instruments[7]	13,035	17,027	35,333	35,107	34,962	37,942	38,186	38,077	39,133	40,110
39 Other	94,671	91,804	106,492	111,003	114,805	115,168	115,755	112,760	119,131	119,259
40 Other foreigners	121,170	141,322	172,305	183,485	188,426	196,116	182,949	186,262[r]	193,155	198,065
41 Banks' own liabilities	91,833	103,339	127,919	130,659	139,892	145,009	132,168	136,012[r]	138,762	139,699
42 Demand deposits	10,571	11,802	12,247	11,623	12,089	12,058	12,809	12,666	12,252	13,441
43 Time deposits[2]	53,714	58,025	68,151	65,472	66,827	67,734	68,053	68,610[r]	67,092	67,480
44 Other[3]	27,548	33,512	47,521	53,564	60,976	65,217	51,306	54,736	59,418	58,778
45 Banks' custodial liabilities[5]	29,337	37,983	44,386	52,826	48,534	51,107	50,781	50,250	54,393	58,366
46 U.S. Treasury bills and certificates[6]	12,599	14,495	12,954	11,471	9,490	8,844	8,942	9,226	9,907	12,016
47 Other negotiable and readily transferable instruments[7]	15,221	21,453	24,964	34,472	31,147	34,639	31,333	32,974	36,116	38,492
48 Other	1,517	2,035	6,468	6,883	7,897	7,624	10,506	8,050	8,370	7,858
MEMO										
49 Negotiable time certificates of deposit in custody for foreigners	9,103	14,573	16,083	20,823	22,416	22,503	23,440	21,229	22,847	24,712

1. Reporting banks include all types of depository institutions as well as some brokers and dealers. Excludes bonds and notes of maturities longer than one year.
2. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
3. Includes borrowing under repurchase agreements.
4. For U.S. banks, includes amounts owed to own foreign branches and foreign subsidiaries consolidated in quarterly Consolidated Reports of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of amounts owed to the head office or parent foreign bank, and to foreign branches, agencies, or wholly owned subsidiaries of the head office or parent foreign bank.
5. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks for foreign customers.
6. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
7. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
8. Principally the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Asian Development Bank. Excludes "holdings of dollars" of the International Monetary Fund.
9. Foreign central banks, foreign central governments, and the Bank for International Settlements.
10. Excludes central banks, which are included in "Official institutions."

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]—Continued

Item	1995	1996	1997	1998 Feb.	Mar.	Apr.	May	June	July	Aug.^{p}
AREA										
50 **Total, all foreigners**	**1,099,549**	**1,162,148**	**1,283,686**	**1,283,675**	**1,255,075**	**1,270,626**	**1,260,273**	**1,287,968^{r}**	**1,305,757**	**1,340,871**
51 **Foreign countries**	**1,088,510**	**1,148,176**	**1,271,996**	**1,267,491**	**1,239,829**	**1,255,732**	**1,246,087**	**1,273,889^{r}**	**1,291,576**	**1,325,819**
52 Europe	362,819	376,590	420,438	420,018	390,750	406,391	405,348	402,090^{r}	431,763	457,467
53 Austria	3,537	5,128	2,717	2,774	2,375	2,957	3,012	2,268	2,602	2,671
54 Belgium and Luxembourg	24,792	24,084	41,007	38,178	33,244	38,530	35,518	35,454	33,845	35,086
55 Denmark	2,921	2,565	1,514	1,215	1,094	2,588	1,443	1,989	2,013	2,128
56 Finland	2,831	1,958	2,246	2,136	1,549	1,768	1,365	1,438	1,211	1,350
57 France	39,218	35,078	46,607	44,990	44,027	48,468	47,869	46,162^{r}	47,140	48,328
58 Germany	24,035	24,660	23,737	23,290	20,971	24,895	26,452	25,470	23,730	28,751
59 Greece	2,014	1,835	1,552	1,695	2,020	2,383	2,610	2,429	2,784	2,941
60 Italy	10,868	10,946	11,378	9,804	9,631	10,600	11,127	11,509^{r}	11,114	10,625
61 Netherlands	13,745	11,110	7,385	7,043	8,208	8,051	7,265	6,845	7,097	9,239
62 Norway	1,394	1,288	317	845	346	514	774	607	1,179	1,469
63 Portugal	2,761	3,562	2,262	1,437	1,426	2,279	2,160	2,334	2,823	2,424
64 Russia	7,948	7,623	7,968	6,118	6,466	5,381	3,952	4,654	6,398	2,718
65 Spain	10,011	17,707	18,989	20,137	16,315	18,071	15,520	11,649^{r}	12,079	14,283
66 Sweden	3,246	1,623	1,628	2,055	1,967	1,785	2,197	3,148	2,198	1,769
67 Switzerland	43,625	44,538	39,172	37,157	35,463	32,341	33,893	39,078^{r}	44,861	39,362
68 Turkey	4,124	6,738	4,054	4,047	4,154	4,340	4,467	4,875	5,058	4,298
69 United Kingdom	139,183	153,420	181,904	191,181	174,198	172,829	178,185	176,703^{r}	196,859	219,147
70 Yugoslavia[11]	177	206	239	244	236	246	270	234	322	242
71 Other Europe and other former U.S.S.R.[12]	26,389	22,521	25,762	25,672	27,060	28,365	27,269	25,244^{r}	28,450	30,636
72 Canada	30,468	38,920	28,341	29,470	27,121	27,398	26,021	28,864^{r}	29,526	27,844
73 Latin America and Caribbean	440,213	467,529	536,365	533,907	529,446	552,896	550,714	568,208^{r}	563,818	556,482
74 Argentina	12,235	13,877	20,199	18,278	18,835	17,766	16,938	18,501^{r}	21,009	21,654
75 Bahamas	94,991	88,895	112,217	110,900	109,041	112,510	114,222	116,435^{r}	115,309	113,543
76 Bermuda	4,897	5,527	6,911	8,283	8,273	6,657	7,142	7,769	7,216	7,332
77 Brazil	23,797	27,701	31,037	33,026	34,017	36,777	38,463	35,343^{r}	34,290	27,824
78 British West Indies	239,083	251,465	276,389	273,464	261,542	273,565	277,929	295,321^{r}	289,797	290,900
79 Chile	2,826	2,915	4,072	4,450	3,975	4,330	4,230	4,349	4,981	4,719
80 Colombia	3,659	3,256	3,652	3,908	4,200	4,212	4,383	4,805^{r}	4,023	4,104
81 Cuba	8	21	66	58	55	57	59	63	63	62
82 Ecuador	1,314	1,767	2,078	1,998	1,814	1,737	1,783	1,606	1,756	1,588
83 Guatemala	1,276	1,282	1,494	1,382	1,438	1,478	1,353	1,363	1,273	1,239
84 Jamaica	481	628	450	437	431	449	438	522	519	550
85 Mexico	24,560	31,240	33,972	33,611	35,708	37,623	37,682	38,044^{r}	38,554	38,087
86 Netherlands Antilles	4,673	6,099	5,085	5,417	11,351	17,569	7,447	6,861	8,922	8,340
87 Panama	4,264	4,099	4,241	4,087	3,958	4,211	4,106	3,723	3,596	3,676
88 Peru	974	834	893	912	878	878	964	925	984	900
89 Uruguay	1,836	1,890	2,382	2,247	2,228	2,097	1,991	1,982	2,097	2,091
90 Venezuela	11,808	17,363	21,601	21,891	21,474	20,696	21,600	20,442	19,492	20,127
91 Other	7,531	8,670	9,626	9,558	10,228	10,284	9,984	10,154^{r}	9,937	9,746
92 Asia	240,595	249,083	269,299	267,957	275,173	251,423	244,779	254,408^{r}	247,947	266,482
China										
93 Mainland	33,750	30,438	18,252	18,575	20,701	20,122	20,209	21,558	18,919	18,506
94 Taiwan	11,714	15,995	11,760	12,942	13,619	13,776	12,648	11,619	11,333	11,290
95 Hong Kong	20,197	18,789	17,722	17,797	17,825	19,762	18,106	19,720	15,826	18,349
96 India	3,373	3,930	4,567	5,265	5,586	4,813	4,882	4,821	4,678	6,437
97 Indonesia	2,708	2,298	3,554	2,989	4,015	4,266	3,197	3,848^{r}	3,938	5,645
98 Israel	4,041	6,051	6,281	7,197	7,589	7,348	6,251	6,095	5,969	5,296
99 Japan	109,193	117,316	143,401	140,426	137,700	113,283	111,623	118,669	123,167	131,376
100 Korea (South)	5,749	5,949	13,060	12,530	11,233	13,711	14,010	13,269	12,713	12,498
101 Philippines	3,092	3,378	3,250	2,872	3,009	2,870	2,802	3,418	2,609	2,777
102 Thailand	12,279	10,912	6,501	4,676	9,073	7,928	8,876	7,148	6,780	7,869
103 Middle Eastern oil-exporting countries[13]	15,582	16,285	14,959	15,952	16,217	17,095	15,296	13,825	13,897	14,535
104 Other	18,917	17,742	25,992	26,736	28,606	26,449	26,879	30,418^{r}	28,118	31,904
105 Africa	7,641	8,116	10,347	9,670	11,385	11,160	10,965	10,732	10,785	10,559
106 Egypt	2,136	2,012	1,663	1,670	1,449	1,236	1,460	1,523	1,319	1,459
107 Morocco	104	112	138	73	88	131	115	84	74	76
108 South Africa	739	458	2,158	1,825	2,547	2,556	2,465	2,642	2,446	2,428
109 Zaire	10	10	10	4	10	3	5	5	7	35
110 Oil-exporting countries[14]	1,797	2,626	3,060	3,479	4,275	4,332	4,079	3,552	3,893	3,684
111 Other	2,855	2,898	3,318	2,619	3,016	2,902	2,841	2,926	3,046	2,877
112 Other	6,774	7,938	7,206	6,469	5,954	6,464	8,260	9,587	7,737	6,985
113 Australia	5,647	6,479	6,304	5,466	4,989	5,450	7,416	8,510	6,490	5,931
114 Other	1,127	1,459	902	1,003	965	1,014	844	1,077	1,247	1,054
115 Nonmonetary international and regional organizations	11,039	13,972	11,690	16,184	15,246	14,894	14,186	14,079	14,181	15,052
116 International[15]	9,300	12,099	10,517	14,591	14,331	13,431	12,509	12,548	11,120	12,725
117 Latin American regional[16]	893	1,339	424	1,217	536	762	830	670	717	685
118 Other regional[17]	846	534	749	376	379	701	847	861	2,344	1,642

11. Since December 1992, has excluded Bosnia, Croatia, and Slovenia.
12. Includes the Bank for International Settlements. Since December 1992, has included all parts of the former U.S.S.R. (except Russia), and Bosnia, Croatia, and Slovenia.
13. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
14. Comprises Algeria, Gabon, Libya, and Nigeria.
15. Principally the International Bank for Reconstruction and Development. Excludes "holdings of dollars" of the International Monetary Fund.
16. Principally the Inter-American Development Bank.
17. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Area or country	1995	1996	1997	1998						
				Feb.	Mar.	Apr.	May	June	July	Aug.[p]
1 **Total, all foreigners**	**532,444**	**599,925**	**708,272**	**703,988**	**687,648**	**700,035**	**703,532**	**728,673[r]**	**740,258**	**764,033**
2 **Foreign countries**	**530,513**	**597,321**	**705,809**	**701,233**	**684,700**	**696,742**	**701,140**	**725,758[r]**	**735,848**	**759,643**
3 Europe	132,150	165,769	199,880	212,307	205,528	207,154	208,567	223,986[r]	229,928	226,830
4 Austria	565	1,662	1,354	1,934	1,566	1,827	2,130	1,259	1,892	1,856
5 Belgium and Luxembourg	7,624	6,727	6,641	6,021	6,148	5,482	6,115	7,782	8,459	6,779
6 Denmark	403	492	980	907	895	968	1,286	1,198	933	1,374
7 Finland	1,055	971	1,233	1,554	1,686	1,018	931	1,146	1,032	1,161
8 France	15,033	15,246	16,239	18,963	18,206	17,383	16,276	15,474	14,421	17,314
9 Germany	9,263	8,472	12,676	10,752	13,047	16,931	15,301	15,751	11,327	12,029
10 Greece	469	568	402	504	503	442	428	364	450	530
11 Italy	5,370	6,457	6,230	5,974	6,601	6,938	6,533	6,435	6,345	8,617
12 Netherlands	5,346	7,117	6,141	5,447	6,618	5,851	3,980	5,763	5,642	4,321
13 Norway	665	808	555	1,296	850	662	736	680	553	1,110
14 Portugal	888	418	777	533	589	935	1,496	888	1,156	725
15 Russia	660	1,669	1,248	1,143	1,115	1,133	1,117	1,057	1,345	1,207
16 Spain	2,166	3,211	2,942	6,255	5,778	7,458	6,218	5,560	6,424	5,233
17 Sweden	2,080	1,739	1,854	2,184	2,798	2,975	3,181	3,069	4,553	4,456
18 Switzerland	7,474	19,798	28,846	29,006	31,306	25,069	29,317	34,970	49,359	49,258
19 Turkey	803	1,109	1,558	1,675	1,914	2,324	2,386	2,414	2,010	1,990
20 United Kingdom	67,784	85,234	103,143	110,357	97,588	101,772	102,889	110,464[r]	104,397	98,308
21 Yugoslavia[2]	147	115	52	53	61	59	19	53	79	53
22 Other Europe and other former U.S.S.R.[3]	4,355	3,956	7,009	7,749	8,259	7,927	8,228	9,659	9,551	10,509
23 Canada	20,874	26,436	27,176	24,872	29,827	25,785	24,961	32,703	36,007	41,402
24 Latin America and Caribbean	256,944	274,153	343,820	345,643	338,909	354,302	361,082	365,836[r]	359,299	379,087
25 Argentina	6,439	7,400	8,924	9,402	8,726	8,540	8,207	8,518[r]	8,421	8,707
26 Bahamas	58,818	71,871	89,379	84,982	77,585	82,711	78,083	77,595[r]	78,770	77,895
27 Bermuda	5,741	4,129	8,782	8,917	8,997	9,462	8,890	9,452[r]	10,622	9,629
28 Brazil	13,297	17,259	21,696	23,987	25,283	26,033	25,354	24,552	24,187	23,541
29 British West Indies	124,037	105,510	145,471	149,520	147,910	159,649	168,124	176,825	166,203	192,036
30 Chile	4,864	5,136	7,913	8,249	8,171	8,444	8,482	8,497	8,434	8,305
31 Colombia	4,550	6,247	6,945	6,729	6,783	6,772	7,208	7,102	6,914	6,915
32 Cuba	0	0	0	0	0	0	0	0	0	0
33 Ecuador	825	1,031	1,311	1,398	1,476	1,522	1,498	1,430	1,649	1,519
34 Guatemala	457	620	886	868	904	955	955	932	911	950
35 Jamaica	323	345	424	401	364	373	385	320	335	318
36 Mexico	18,024	18,425	19,518	21,107	20,680	20,913	21,215	20,393	20,084	20,099
37 Netherlands Antilles	9,229	25,209	17,838	15,594	17,618	14,073	17,352	14,294	16,278	12,939
38 Panama	3,008	2,786	4,364	4,232	4,108	4,422	4,393	4,233	4,308	4,157
39 Peru	1,829	2,720	3,491	3,550	3,538	3,644	3,792	3,965	4,009	4,111
40 Uruguay	466	589	629	594	920	773	807	959	1,154	1,055
41 Venezuela	1,661	1,702	2,129	2,334	2,169	2,194	2,381	2,495	2,436	2,648
42 Other	3,376	3,174	4,120	3,779	3,677	3,822	3,956	4,274	4,584	4,263
43 Asia	115,336	122,478	125,063	109,045	101,353	99,183	96,813	94,804[r]	100,196	102,378
China										
44 Mainland	1,023	1,401	1,579	1,988	2,762	2,921	2,934	1,989	1,679	2,703
45 Taiwan	1,713	1,894	921	820	740	939	723	835	595	661
46 Hong Kong	12,821	12,802	13,990	13,520	12,628	10,162	12,884	12,871	11,045	13,821
47 India	1,846	1,946	2,200	2,172	1,927	1,807	1,913	1,972	1,822	1,878
48 Indonesia	1,696	1,762	2,634	2,270	2,291	2,210	2,099	2,098[r]	2,010	2,031
49 Israel	739	633	768	987	812	874	893	954	1,116	907
50 Japan	61,468	59,967	59,540	51,891	46,660	44,970	42,071	43,010	45,566	44,813
51 Korea (South)	13,975	18,901	18,162	12,812	11,520	10,852	11,936	11,001	12,863	11,508
52 Philippines	1,318	1,697	1,689	1,645	1,813	1,561	1,614	1,541	1,243	1,258
53 Thailand	2,612	2,679	2,259	2,138	2,144	1,971	1,906	1,889	1,820	1,883
54 Middle Eastern oil-exporting countries[4]	9,639	10,424	10,790	9,101	8,921	11,028	9,338	8,448	11,207	12,136
55 Other	6,486	8,372	10,531	9,701	9,135	9,888	8,502	8,196	9,230	8,779
56 Africa	2,742	2,776	3,530	3,403	3,567	3,337	3,693	2,484	3,497	3,575
57 Egypt	210	247	247	304	289	294	281	283	294	279
58 Morocco	514	524	511	514	518	483	490	430	471	426
59 South Africa	465	584	805	573	559	490	859	653	630	653
60 Zaire	1	0	0	0	0	0	0	0	0	0
61 Oil-exporting countries[5]	552	420	1,212	1,219	1,364	1,194	1,078	308	1,331	1,046
62 Other	1,000	1,001	755	793	837	876	985	810	771	1,171
63 Other	2,467	5,709	6,340	5,963	5,516	6,981	6,024	5,945	6,921	6,371
64 Australia	1,622	4,577	5,299	5,139	5,011	6,513	5,704	5,439	6,067	5,999
65 Other	845	1,132	1,041	824	505	468	320	506	854	372
66 Nonmonetary international and regional organizations[6]	1,931	2,604	2,463	2,755	2,948	3,293	2,392	2,915	4,410	4,390

1. Reporting banks include all types of depository institutions as well as some brokers and dealers.
2. Since December 1992, has excluded Bosnia, Croatia, and Slovenia.
3. Includes the Bank for International Settlements. Since December 1992, has included all parts of the former U.S.S.R. (except Russia), and Bosnia, Croatia, and Slovenia.
4. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
5. Comprises Algeria, Gabon, Libya, and Nigeria.
6. Excludes the Bank for International Settlements, which is included in "Other Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1995	1996	1997	1998						
				Feb.	Mar.	Apr.	May	June[r]	July	Aug.[p]
1 **Total**	**655,211**	**743,919**	**852,899**	...	**842,461**	..	..	**881,949**	.	.
2 Banks' claims	532,444	599,925	708,272	703,988	687,648	700,035	703,532	728,673	740,258	764,033
3 Foreign public borrowers	22,518	22,216	20,660	27,041	28,232	32,465	28,986	27,802	35,656	29,779
4 Own foreign offices[2]	307,427	341,574	431,685	421,733	402,387	409,955	415,175	435,201	446,536	465,153
5 Unaffiliated foreign banks	101,595	113,682	109,224	106,600	107,794	104,622	105,501	108,234	101,777	105,906
6 Deposits	37,771	33,826	31,042	26,559	25,657	24,324	21,282	22,843	23,283	24,593
7 Other	63,824	79,856	78,182	80,041	82,137	80,298	84,219	85,391	78,494	81,313
8 All other foreigners	100,904	122,453	146,703	148,614	149,235	152,993	153,870	157,436	156,289	163,195
9 Claims of banks' domestic customers[3]	122,767	143,994	144,627	.	154,813	.	..	153,276	...	.
10 Deposits	58,519	77,657	73,110	.	85.406	.	..	86,408	...	.
11 Negotiable and readily transferable instruments[4]	44,161	51,207	53,967	.	51,594	..	...	52,171	...	.
12 Outstanding collections and other claims	20,087	15,130	17,550	.	17,813	.	.	14,697	...	...
MEMO 13 Customer liability on acceptances	8,410	10,388	9,624	.	7,496	...	...	6,604	...	..
14 Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[5]	30,717	39,661	34,046	36,741	31,958	31,633	32,172	25,287	30,067	26,196

1. For banks' claims, data are monthly; for claims of banks' domestic customers, data are for quarter ending with month indicated.
Reporting banks include all types of depository institution as well as some brokers and dealers.
2. For U.S. banks, includes amounts due from own foreign branches and foreign subsidiaries consolidated in quarterly Consolidated Reports of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of amounts due from the head office or parent foreign bank, and from foreign branches, agencies, or wholly owned subsidiaries of the head office or parent foreign bank.
3. Assets held by reporting banks in the accounts of their domestic customers.
4. Principally negotiable time certificates of deposit, bankers acceptances, and commercial paper.
5. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Maturity, by borrower and area[2]	1994	1995	1996	1997		1998	
				Sept.	Dec.	Mar.	June
1 **Total**	**202,282**	**224,932**	**258,106**	**281,000**	**276,597**	**285,518**	**293,055**
By borrower							
2 Maturity of one year or less	170,411	178,857	211,859	217,981	205,859	214,822	211,029
3 Foreign public borrowers	15,435	14,995	15,411	20,123	12,069	16,952	17,023
4 All other foreigners	154,976	163,862	196,448	197,858	193,790	197,870	194,006
5 Maturity of more than one year	31,871	46,075	46,247	63,019	70,738	70,696	82,026
6 Foreign public borrowers	7,838	7,522	6,790	8,752	8,525	11,310	10,673
7 All other foreigners	24,033	38,553	39,457	54,267	62,213	59.386	71.353
By area							
Maturity of one year or less							
8 Europe	56,381	55,622	55,690	69,204	58,294	69,245	73,787
9 Canada	6,690	6,751	8,339	8,460	9,917	9,304	8,766
10 Latin America and Caribbean	59,583	72,504	103,254	99,929	97,277	101,013	99,294
11 Asia	40,567	40,296	38,078	34,650	33,972	28,748	23.569
12 Africa	1,379	1,295	1,316	2,157	2,211	2,228	1,116
13 All other[3]	5,811	2,389	5,182	3,581	4,188	4.284	4,497
Maturity of more than one year							
14 Europe	4,358	4,995	6,965	11,202	13,240	15,118	16,315
15 Canada	3,505	2,751	2,645	3,842	2,512	2,752	2,573
16 Latin America and Caribbean	15,717	27,681	24,943	34,988	42,069	39,337	47,903
17 Asia	5,323	7,941	9,392	10,393	10,198	10,731	12,569
18 Africa	1,583	1,421	1,361	1,236	1,236	1,254	1,259
19 All other[3]	1,385	1.286	941	1,358	1,483	1.504	1,407

1. Reporting banks include all types of depository institutions as well as some brokers and dealers.
2. Maturity is time remaining until maturity.
3. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. and Foreign Offices of U.S. Banks[1]

Billions of dollars, end of period

Area or country	1994	1995	1996 June	1996 Sept.	1996 Dec.	1997 Mar.	1997 June	1997 Sept.	1997 Dec.	1998 Mar.	1998 June
1 **Total**	**499.5**	**551.9**	**612.8**	**586.2**	**645.3**	**647.5**	**678.8**	**711.0**	**725.9**	**739.2[r]**	**747.4**
2 G-10 countries and Switzerland	191.2	206.0	226.9	220.0	228.3	231.4	250.0	247.7	242.8	249.1[r]	275.7
3 Belgium and Luxembourg	7.2	13.6	11.4	11.3	11.7	14.1	9.4	11.4	11.0	11.2	13.1
4 France	19.1	19.4	18.0	17.4	16.6	19.7	17.9	20.2	15.4	15.6	20.5
5 Germany	24.7	27.3	31.4	33.9	29.8	32.1	34.1	34.7	28.6	25.5	28.7
6 Italy	11.8	11.5	14.9	15.2	16.0	14.4	20.2	19.3	15.5	19.7	19.5
7 Netherlands	3.6	3.7	4.7	5.9	4.0	4.5	6.4	7.2	6.2	7.3	8.3
8 Sweden	2.7	2.7	2.7	3.0	2.6	3.4	3.6	4.1	3.3	4.8	3.1
9 Switzerland	5.1	6.7	6.3	6.3	5.3	6.0	5.4	4.8	7.2	5.6	6.9
10 United Kingdom	85.8	82.4	101.6	90.5	104.7	99.2	110.6	108.3	113.4	120.1[r]	135.6
11 Canada	10.0	10.3	12.2	14.8	14.0	16.3	15.7	15.1	13.7	13.5	16.5
12 Japan	21.1	28.5	23.6	21.7	23.7	21.7	26.8	22.6	28.6	25.8	23.7
13 Other industrialized countries	45.7	50.2	55.5	62.1	65.7	66.4	71.7	73.8	64.5	74.3	72.0
14 Austria	1.1	.9	1.2	1.0	1.1	1.9	1.5	1.7	1.5	1.7	1.9
15 Denmark	1.3	2.6	3.3	1.7	1.5	1.7	2.8	3.7	2.4	2.0	2.1
16 Finland	.9	.8	.6	.6	.8	.7	1.4	1.9	1.3	1.5	1.4
17 Greece	4.5	5.7	5.6	6.1	6.7	6.3	6.1	6.2	5.1	6.1	5.8
18 Norway	2.0	3.2	2.3	3.0	8.0	5.3	4.7	4.6	3.6	4.0	3.4
19 Portugal	1.2	1.3	1.6	1.4	.9	1.0	1.1	1.4	.9	.7	1.3
20 Spain	13.6	11.6	13.6	16.1	13.2	14.4	15.4	13.9	11.7	16.5	15.1
21 Turkey	1.6	1.9	2.3	2.8	2.7	2.8	3.4	4.4	4.5	4.9	6.5
22 Other Western Europe	3.2	4.7	3.4	4.8	4.7	6.3	5.5	6.1	8.2	9.9	9.6
23 South Africa	1.0	1.2	2.0	1.7	2.0	1.9	1.9	1.9	2.2	3.7	5.0
24 Australia	15.4	16.4	19.6	22.8	24.0	24.4	27.8	28.1	23.1	23.2	20.0
25 OPEC[2]	24.1	22.1	20.1	19.2	19.7	21.8	22.3	22.9	26.0	25.7	25.3
26 Ecuador	.5	.7	.9	.9	1.1	1.1	.9	1.2	1.3	1.3	1.2
27 Venezuela	3.7	2.7	2.3	2.3	2.4	1.9	2.1	2.2	2.5	3.3	3.2
28 Indonesia	3.8	4.8	4.9	5.4	5.2	4.9	5.6	6.5	6.7	5.5	5.1
29 Middle East countries	15.3	13.3	11.5	10.2	10.7	13.2	12.5	11.8	14.4	14.3	15.5
30 African countries	.9	.6	.5	.4	.4	.7	1.2	1.1	1.2	1.4	.3
31 Non-OPEC developing countries	96.0	112.6	126.5	124.4	130.3	128.1	140.6	137.0	138.7	147.4[r]	144.4
Latin America											
32 Argentina	11.2	12.9	14.1	15.0	14.3	14.3	16.4	17.1	18.4	19.3	20.2
33 Brazil	8.4	13.7	21.7	17.8	20.7	22.0	27.3	26.1	28.6	32.4	29.9
34 Chile	6.1	6.8	6.7	6.6	7.0	6.8	7.6	8.0	8.7	9.0	9.1
35 Colombia	2.6	2.9	2.8	3.1	4.1	3.7	3.3	3.4	3.4	3.3	3.6
36 Mexico	18.4	17.3	15.4	16.3	16.2	17.2	16.6	16.4	17.4	17.7	17.9
37 Peru	.5	.8	1.2	1.3	1.6	1.6	1.4	1.8	2.0	2.1	2.2
38 Other	2.7	2.8	3.0	3.0	3.3	3.4	3.4	3.6	4.1	4.0	4.4
Asia											
China											
39 Mainland	1.1	1.8	2.9	2.6	2.5	2.7	3.6	4.3	3.2	4.2	3.9
40 Taiwan	9.2	9.4	9.8	10.4	10.3	10.5	10.6	9.7	9.0	11.7	11.3
41 India	4.2	4.4	4.2	3.8	4.3	4.9	5.3	4.9	4.9	5.0	4.9
42 Israel	.4	.5	.6	.5	.5	.6	.8	1.0	.7	.7	.9
43 Korea (South)	16.2	19.1	21.7	21.9	21.5	14.6	16.3	16.2	15.6	16.2[r]	14.5
44 Malaysia	3.1	4.4	5.3	5.5	6.0	6.5	6.4	5.6	5.1	4.5	4.7
45 Philippines	3.3	4.1	4.7	5.4	5.8	6.0	7.0	5.7	5.7	5.0	5.4
46 Thailand	2.1	4.9	5.4	4.8	5.7	6.8	7.3	6.2	5.4	5.5	4.9
47 Other Asia	4.7	4.5	4.8	4.1	4.1	4.3	4.7	4.5	4.3	4.2	3.7
Africa											
48 Egypt	.3	.4	.5	.6	.7	.9	1.1	.9	.9	1.0	1.5
49 Morocco	.6	.7	.8	.7	.7	.6	.7	.7	.6	.6	.6
50 Zaire	.0	.0	.0	.0	.1	.0	.0	.0	.0	.0	.0
51 Other Africa[3]	.8	.9	.8	1.0	.9	.9	.9	.9	.8	1.1	.8
52 Eastern Europe	2.7	4.2	5.1	5.3	6.9	8.9	7.1	9.8	9.1	12.0[r]	10.9
53 Russia[4]	.8	1.0	1.0	1.8	3.7	3.5	4.2	5.1	5.1	7.5[r]	6.8
54 Other	1.9	3.2	4.1	3.5	3.2	5.4	2.9	4.7	4.0	4.6	4.1
55 Offshore banking centers	72.9	99.2	106.1	105.2	134.7	131.3	129.6	138.9	145.7	129.3	123.5
56 Bahamas	10.2	11.0	17.3	14.2	20.3	20.9	16.1	19.8	29.9	29.2	22.7
57 Bermuda	8.4	6.3	4.1	4.0	4.5	6.7	7.9	9.8	9.8	9.0	9.3
58 Cayman Islands and other British West Indies	21.4	32.4	26.1	32.0	37.2	32.8	35.1	45.7	43.4	24.9	33.9
59 Netherlands Antilles	1.6	10.3	13.2	11.7	26.1	19.9	15.8	21.7	14.6	14.0	10.5
60 Panama[5]	1.3	1.4	1.7	1.7	2.0	2.0	2.6	2.1	3.1	3.2	3.3
61 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
62 Hong Kong, China	20.0	25.0	27.6	26.0	27.9	30.8	35.2	27.2	32.2	33.8	30.0
63 Singapore	10.1	13.1	15.9	15.5	16.7	17.9	16.7	12.7	12.7	15.0	13.5
64 Other[6]	.1	.1	.1	.1	.1	.1	.3	.1	.1	.1	.2
65 Miscellaneous and unallocated[7]	66.9	57.6	72.7	50.0	59.6	59.6	57.6	80.8	99.1	101.3[r]	95.6

1. The banking offices covered by these data include U.S. offices and foreign branches of U.S. banks, including U.S. banks that are subsidiaries of foreign banks. Offices not covered include U.S. agencies and branches of foreign banks. Beginning March 1994, the data include large foreign subsidiaries of U.S. banks. The data also include other types of U.S. depository institutions as well as some types of brokers and dealers. To eliminate duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution.

These data are on a gross claims basis and do not necessarily reflect the ultimate country risk or exposure of U.S. banks. More complete data on the country risk exposure of U.S. banks are available in the quarterly Country Exposure Lending Survey published by the Federal Financial Institutions Examination Council.

2. Organization of Petroleum Exporting Countries, shown individually; other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates); and Bahrain and Oman (not formally members of OPEC).

3. Excludes Liberia. Beginning March 1994 includes Namibia.

4. As of December 1992, excludes other republics of the former Soviet Union.

5. Includes Canal Zone.

6. Foreign branch claims only.

7. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States

Millions of dollars, end of period

Type of liability, and area or country	1994	1995	1996	1997				1998	
				Mar.	June	Sept.	Dec.	Mar.	June[p]
1 **Total**	**54,309**	**46,448**	**54,798**	**58,667**	**56,501**	**55,891**	**59,618**	**56,741**	**52,022**
2 Payable in dollars	38,298	33,903	38,956	39,861	38,651	39,746	41,888	42,237	40,914
3 Payable in foreign currencies	16,011	12,545	15,842	18,806	17,850	16,145	17,730	14,504	11,108
By type									
4 Financial liabilities	32,954	24,241	26,065	29,633	28,263	26,461	29,113	26,751	22,669
5 Payable in dollars	18,818	12,903	11,327	11,847	11,442	11,487	12,975	13,547	12,634
6 Payable in foreign currencies	14,136	11,338	14,738	17,786	16,821	14,974	16,138	13,204	10,035
7 Commercial liabilities	21,355	22,207	28,733	29,034	28,238	29,430	30,505	29,990	29,353
8 Trade payables	10,005	11,013	12,720	11,432	11,040	10,885	10,904	10,107	9,842
9 Advance receipts and other liabilities	11,350	11,194	16,013	17,602	17,198	18,545	19,601	19,883	19,511
10 Payable in dollars	19,480	21,000	27,629	28,014	27,209	28,259	28,913	28,690	28,280
11 Payable in foreign currencies	1,875	1,207	1,104	1,020	1,029	1,171	1,592	1,300	1,073
By area or country									
Financial liabilities									
12 Europe	21,703	15,622	16,195	20,081	18,530	18,019	19,238	19,008	15,722
13 Belgium and Luxembourg	495	369	632	769	238	89	186	127	75
14 France	1,727	999	1,091	1,205	1,280	1,334	1,684	1,795	1,965
15 Germany	1,961	1,974	1,834	1,589	1,765	1,730	2,018	2,578	2,441
16 Netherlands	552	466	556	507	466	507	494	472	484
17 Switzerland	688	895	699	694	591	645	776	345	189
18 United Kingdom	15,543	10,138	10,177	13,863	12,968	12,165	12,318	11,846	8,463
19 Canada	629	632	1,401	602	1,616	651	2,392	1,045	539
20 Latin America and Caribbean	2,034	1,783	1,668	1,876	1,285	1,067	1,386	965	1,320
21 Bahamas	101	59	236	293	124	10	141	17	6
22 Bermuda	80	147	50	27	55	64	229	86	49
23 Brazil	207	57	78	75	97	52	143	91	76
24 British West Indies	998	866	1,030	965	775	669	604	517	845
25 Mexico	0	12	17	16	15	76	26	21	51
26 Venezuela	5	2	1	1	1	1	1	1	1
27 Asia	8,403	5,988	6,423	6,370	6,248	6,239	5,394	5,024	4,408
28 Japan	7,314	5,436	5,869	5,794	5,668	5,725	5,085	4,767	3,869
29 Middle Eastern oil-exporting countries[1]	35	27	25	72	39	23	32	23	0
30 Africa	135	150	38	29	29	33	60	33	29
31 Oil-exporting countries[2]	123	122	0	0	0	0	0	0	0
32 All other[3]	50	66	340	675	555	452	643	676	651
Commercial liabilities									
33 Europe	6,773	7,700	9,767	9,524	8,683	9,343	10,228	9,951	9,924
34 Belgium and Luxembourg	241	331	479	639	736	703	666	565	557
35 France	728	481	680	679	708	782	764	840	612
36 Germany	604	767	1,002	1,043	845	945	1,274	1,068	1,219
37 Netherlands	722	500	766	551	288	452	439	443	485
38 Switzerland	327	413	624	480	429	400	375	407	349
39 United Kingdom	2,444	3,568	4,303	4,158	3,818	3,829	4,086	4,041	3,743
40 Canada	1,037	1,040	1,090	1,068	1,136	1,150	1,175	1,347	1,511
41 Latin America and Caribbean	1,857	1,740	2,574	2,562	2,500	2,224	2,176	2,051	2,285
42 Bahamas	19	1	63	43	33	38	16	27	14
43 Bermuda	345	205	297	479	397	180	203	174	209
44 Brazil	161	98	196	200	225	233	220	249	246
45 British West Indies	23	56	14	14	26	23	12	5	27
46 Mexico	574	416	665	633	594	562	565	520	557
47 Venezuela	276	221	328	318	304	322	261	219	196
48 Asia	10,741	10,421	13,422	13,915	13,875	14,628	14,966	14,672	13,611
49 Japan	4,555	3,315	4,614	4,465	4,430	4,553	4,500	4,372	3,995
50 Middle Eastern oil-exporting countries[1]	1,576	1,912	2,168	2,495	2,420	2,984	3,111	3,138	3,194
51 Africa	428	619	1,040	1,037	941	929	874	833	921
52 Oil-exporting countries[2]	256	254	532	479	423	504	408	376	354
53 Other[3]	519	687	840	928	1,103	1,156	1,086	1,136	1,101

1. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
2. Comprises Algeria, Gabon, Libya, and Nigeria.
3. Includes nonmonetary international and regional organizations.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States

Millions of dollars, end of period

	Type of claim, and area or country	1994	1995	1996	1997				1998	
					Mar.	June	Sept.	Dec.	Mar.	June[p]
1	**Total**	**57,888**	**52,509**	**63,642**	**68,102**	**68,266**	**70,760**	**70,077**	**72,837**	**64,020**
2	Payable in dollars	53,805	48,711	58,630	62,126	62,082	64,144	62,173	65,359	58,463
3	Payable in foreign currencies	4,083	3,798	5,012	5,976	6,184	6,616	7,904	7,478	5,557
	By type									
4	Financial claims	33,897	27,398	35,268	40,547	40,717	42,059	38,908	42,134	33,120
5	Deposits	18,507	15,133	21,404	22,150	24,308	24,125	23,139	21,030	15,922
6	Payable in dollars	18,026	14,654	20,631	20,499	22,817	22,566	21,290	19,322	14,244
7	Payable in foreign currencies	481	479	773	1,651	1,491	1,559	1,849	1,708	1,678
8	Other financial claims	15,390	12,265	13,864	18,397	16,409	17,934	15,769	21,104	17,198
9	Payable in dollars	14,306	10,976	12,069	15,381	13,152	14,621	11,576	16,814	14,567
10	Payable in foreign currencies	1,084	1,289	1,795	3,016	3,257	3,313	4,193	4,290	2,631
11	Commercial claims	23,991	25,111	28,374	27,555	27,549	28,701	31,169	30,703	30,900
12	Trade receivables	21,158	22,998	25,751	24,801	24,858	25,110	27,536	26,888	26,817
13	Advance payments and other claims	2,833	2,113	2,623	2,754	2,691	3,591	3,633	3,815	4,083
14	Payable in dollars	21,473	23,081	25,930	26,246	26,113	26,957	29,307	29,223	29,652
15	Payable in foreign currencies	2,518	2,030	2,444	1,309	1,436	1,744	1,862	1,480	1,248
	By area or country									
	Financial claims									
16	Europe	7,936	7,609	9,282	13,076	12,904	15,862	16,948	16,020	14,047
17	Belgium and Luxembourg	86	193	185	119	203	360	406	378	518
18	France	800	803	694	760	680	1,112	1,015	902	796
19	Germany	540	436	276	324	281	352	427	393	290
20	Netherlands	429	517	493	567	519	764	677	911	975
21	Switzerland	523	498	474	570	447	448	434	401	403
22	United Kingdom	4,649	4,303	6,119	9,837	9,814	11,254	12,286	11,122	9,595
23	Canada	3,581	2,851	3,445	4,917	6,422	4,279	3,313	4,688	3,035
24	Latin America and Caribbean	19,536	14,500	19,577	19,742	18,725	19,176	15,543	18,207	12,775
25	Bahamas	2,424	1,965	1,452	1,894	2,064	2,442	2,459	1,316	1,310
26	Bermuda	27	81	140	157	188	190	108	66	48
27	Brazil	520	830	1,468	1,404	1,617	1,501	1,313	1,408	1,394
28	British West Indies	15,228	10,393	15,182	15,176	13,553	12,957	10,311	13,551	8,153
29	Mexico	723	554	457	517	497	508	537	967	1,089
30	Venezuela	35	32	31	22	21	15	36	47	57
31	Asia	1,871	1,579	2,221	2,068	1,934	2,015	2,133	2,174	2,376
32	Japan	953	871	1,035	831	766	999	823	791	886
33	Middle Eastern oil-exporting countries[1]	141	3	22	12	20	15	11	9	12
34	Africa	373	276	174	182	179	174	319	325	155
35	Oil-exporting countries[2]	0	5	14	14	15	16	15	16	15
36	All other[3]	600	583	569	562	553	553	652	720	732
	Commercial claims									
37	Europe	9,540	9,824	10,443	9,863	9,603	10,486	12,120	12,854	12,935
38	Belgium and Luxembourg	213	231	226	364	327	331	328	232	216
39	France	1,881	1,830	1,644	1,514	1,377	1,642	1,796	1,939	1,955
40	Germany	1,027	1,070	1,337	1,364	1,229	1,395	1,614	1,670	1,757
41	Netherlands	311	452	562	582	613	573	597	534	492
42	Switzerland	557	520	642	418	389	381	554	476	418
43	United Kingdom	2,556	2,656	2,946	2,626	2,836	2,904	3,660	4,828	4,654
44	Canada	1,988	1,951	2,165	2,381	2,464	2,649	2,660	2,882	2,779
45	Latin America and Caribbean	4,117	4,364	5,276	5,067	5,241	5,028	5,750	5,481	6,082
46	Bahamas	9	30	35	40	29	22	27	13	12
47	Bermuda	234	272	275	159	197	128	244	238	359
48	Brazil	612	898	1,303	1,216	1,136	1,101	1,162	1,128	1,183
49	British West Indies	83	79	190	127	98	98	109	88	110
50	Mexico	1,243	993	1,128	1,102	1,140	1,219	1,392	1,302	1,462
51	Venezuela	348	285	357	330	451	418	576	441	585
52	Asia	6,982	7,312	8,376	8,348	8,460	8,576	8,713	7,638	7,367
53	Japan	2,655	1,870	2,003	2,065	2,079	2,048	1,976	1,713	1,757
54	Middle Eastern oil-exporting countries[1]	708	974	971	1,078	1,014	987	1,107	987	1,127
55	Africa	454	654	746	718	618	764	680	613	657
56	Oil-exporting countries[2]	67	87	166	100	81	207	119	122	116
57	Other[3]	910	1,006	1,368	1,178	1,163	1,198	1,246	1,235	1,080

1. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Comprises Algeria, Gabon, Libya, and Nigeria.

3. Includes nonmonetary international and regional organizations.

3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transaction, and area or country	1996	1997	1998 Jan.–Aug.	1998 Feb.	Mar.	Apr.	May	June[r]	July	Aug.[p]
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	590,714	1,097,958	1,047,705	106,988	136,184	134,177	129,528	146,147	152,833	141,566
2 Foreign sales	578,203	1,028,361	998,030	97,501	122,769	130,628	121,355	142,591	150,308	139,722
3 **Net purchases, or sales (–)**	**12,511**	**69,597**	**49,675**	**9,487**	**13,415**	**3,549**	**8,173**	**3,556**	**2,525**	**1,844**
4 **Foreign countries**	**12,585**	**69,754**	**50,000**	**9,477**	**13,419**	**3,570**	**8,193**	**3,581**	**2,739**	**1,843**
5 Europe	5,367	62,688	63,569	9,088	11,144	5,511	10,670	7,227	6,983	5,459
6 France	–2,402	6,641	6,218	–40	1,480	–260	650	1,734	199	988
7 Germany	1,104	9,059	9,077	768	627	1,453	1,834	1,020	1,503	1,326
8 Netherlands	1,415	3,831	4,293	140	557	161	564	830	1,265	163
9 Switzerland	2,715	7,848	9,284	1,132	1,956	974	2,234	1,490	1,092	–277
10 United Kingdom	4,478	22,478	17,948	4,576	3,402	595	2,968	695	1,154	1,740
11 Canada	2,226	–1,406	–2,919	–461	566	55	–506	–1,600	–443	–276
12 Latin America and Caribbean	5,816	5,203	3,710	2,183	2,110	–3,689	–1,333	1,798	–614	610
13 Middle East[1]	–1,600	383	–500	–273	–170	346	–234	286	–134	–157
14 Other Asia	918	2,072	–13,846	–944	–202	1,563	–611	–3,949	–2,905	–4,112
15 Japan	–372	4,787	–3,486	–667	–1,422	555	–208	–540	–306	214
16 Africa	–85	472	882	13	83	128	275	204	–14	159
17 Other countries	–57	342	–896	–129	–112	–344	–68	–385	–134	160
18 **Nonmonetary international and regional organizations**	**–74**	**–157**	**–325**	**10**	**–4**	**–21**	**–20**	**–25**	**–214**	**1**
BONDS[2]										
19 Foreign purchases	393,953	610,116	550,538	67,420	70,079	76,452	65,495	74,100	72,850	66,594
20 Foreign sales	268,487	475,958	423,460	49,991	50,208	52,225	52,584	53,167	62,213	58,678
21 **Net purchases, or sales (–)**	**125,466**	**134,158**	**127,078**	**17,429**	**19,871**	**24,227**	**12,911**	**20,933**	**10,637**	**7,916**
22 **Foreign countries**	**125,295**	**133,595**	**126,590**	**17,360**	**19,732**	**24,097**	**12,853**	**20,834**	**10,714**	**7,878**
23 Europe	77,570	71,631	76,410	8,253	12,669	19,024	5,555	12,117	8,489	4,878
24 France	4,460	3,300	2,440	272	727	33	–17	667	451	233
25 Germany	4,439	2,742	3,804	419	249	1,727	–133	302	812	139
26 Netherlands	2,107	3,576	1,669	199	364	523	532	344	108	32
27 Switzerland	1,170	187	3,688	266	358	772	794	404	234	100
28 United Kingdom	60,509	54,134	55,304	6,194	9,833	14,346	4,585	8,696	4,489	2,989
29 Canada	4,486	6,264	4,600	114	400	363	628	607	640	439
30 Latin America and Caribbean	17,737	34,733	34,639	5,514	4,835	2,256	6,703	6,371	2,029	1,592
31 Middle East[1]	1,679	2,155	1,743	820	522	69	109	162	171	–188
32 Other Asia	23,762	16,996	8,438	2,428	1,166	2,078	–106	1,266	–588	1,709
33 Japan	14,173	9,357	4,040	886	742	2,904	460	527	–511	–10
34 Africa	624	1,005	137	36	–72	45	–31	82	–48	–17
35 Other countries	–563	811	623	195	212	262	–5	229	21	–535
36 **Nonmonetary international and regional organizations**	**171**	**563**	**488**	**69**	**139**	**130**	**58**	**99**	**–77**	**38**
	Foreign securities									
37 Stocks, net purchases, or sales (–)	–59,268	–40,942	–1,419	–1,209	–1,689	–137	–3,393	2,535	–3,166	5,552
38 Foreign purchases	450,365	756,015	620,441	68,832	81,360	80,736	80,941	88,508	82,074	74,358
39 Foreign sales	509,633	796,957	621,860	70,041	83,049	80,873	84,334	85,973	85,240	68,806
40 Bonds, net purchases, or sales (–)	–51,369	–48,171	–31,973	–5,003	–4,559	–12,158	–1,882	–12,355	3,065	1,018
41 Foreign purchases	1,114,035	1,451,704	967,558	100,043	128,396	118,296	110,403	151,477	118,890	139,341
42 Foreign sales	1,165,404	1,499,875	999,531	105,046	132,955	130,454	112,285	163,832	115,825	138,323
43 **Net purchases, or sales (–), of stocks and bonds**	**–110,637**	**–89,113**	**–33,392**	**–6,212**	**–6,248**	**–12,295**	**–5,275**	**–9,820**	**–101**	**6,570**
44 **Foreign countries**	**–109,766**	**–88,921**	**–33,323**	**–6,170**	**–6,220**	**–12,331**	**–5,443**	**–9,794**	**–30**	**6,587**
45 Europe	–57,139	–29,874	–10,601	–2,587	2,898	–1,457	–2,035	–7,240	2,678	1,211
46 Canada	–7,685	–3,085	3,219	742	–1,783	–475	–1,335	214	2,195	2,631
47 Latin America and Caribbean	–11,507	–25,258	–13,797	527	618	–6,108	–1,092	–2,548	–4,864	–1,205
48 Asia	–27,831	–25,123	–10,033	–4,800	–7,902	–3,520	–779	516	–64	4,227
49 Japan	–5,887	–10,001	–5,770	–3,584	–7,118	1,265	–681	–38	–316	1,741
50 Africa	–1,517	–3,293	–1,201	–146	–152	–302	–79	–32	–269	–122
51 Other countries	–4,087	–2,288	–910	94	101	–469	–123	–704	294	–155
52 **Nonmonetary international and regional organizations**	**–871**	**–192**	**–69**	**–42**	**–28**	**36**	**168**	**–26**	**–71**	**–17**

1. Comprises oil-exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

2. Includes state and local government securities and securities of U.S. government agencies and corporations. Also includes issues of new debt securities sold abroad by U.S. corporations organized to finance direct investments abroad.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions[1]

Millions of dollars; net purchases, or sales (−) during period

Area or country	1996	1997	1998 Jan.– Aug.	1998 Feb.	Mar.	Apr.	May	June	July	Aug.[p]
1 **Total estimated**	**232,241**	**184,171**	**21,045**	**9,959**	**−4,091**	**6,078**	**21,267**	**1,674[r]**	**−3,578**	**−15,776**
2 Foreign countries	234,083	183,688	20,252	10,093	−5,287	6,769	21,116	1,978[r]	−3,631	−15,776
3 Europe	118,781	144,921	23,482	6,798	−857	6,530	788	715[r]	−5,903	−2,804
4 Belgium and Luxembourg	1,429	3,427	1,640	252	704	−165	176	−513	215	667
5 Germany	17,980	22,471	−1,962	1,096	1,897	−829	−143	−1,181	82	−1,799
6 Netherlands	−582	1,746	−4,266	−792	−1,733	130	341	731	−265	−3,081
7 Sweden	2,242	−465	456	−430	400	−202	184	335	239	−152
8 Switzerland	328	6,028	1,360	1,690	170	−483	44	−973[r]	−827	−680
9 United Kingdom	65,658	98,253	17,938	5,875	−3,705	5,785	−2,720	−1,426	−5,769	8,019
10 Other Europe and former U.S.S.R.	31,726	13,461	8,316	−893	1,410	2,294	2,906	3,742	422	−5,778
11 Canada	2,331	−811	−1,741	266	−517	1,457	−223	−66	−569	−2,088
12 Latin America and Caribbean	20,785	−2,554	−238	2,125	−8,383	−7,981	20,033	2,578[r]	949	−5,940
13 Venezuela	−69	655	−515	99	−128	14	−339	693	450	−1,308
14 Other Latin America and Caribbean	8,439	−549	13,414	2,949	−11	−632	−335	3,513[r]	2,305	3,914
15 Netherlands Antilles	12,415	−2,660	−13,137	−923	−8,244	−7,363	20,707	−1,628	−1,806	−8,546
16 Asia	89,735	39,567	1,852	1,348	3,522	7,966	1,455	−1,153	1,327	−3,856
17 Japan	41,366	20,360	626	764	−168	6,301	1,582	−2,442	774	299
18 Africa	1,083	1,524	466	176	154	−18	13	145	−23	62
19 Other	1,368	1,041	−3,569	−620	794	−1,185	−950	−241	588	−1,150
20 Nonmonetary international and regional organizations	−1,842	483	793	−134	1,196	−691	151	−304	53	0
21 International	−1,390	621	354	−223	900	−715	136	−226	47	−10
22 Latin American regional	−779	170	208	−29	10	−4	−1	0	192	8
MEMO										
23 Foreign countries	234,083	183,688	20,252	10,093	−5,287	6,769	21,116	1,978[r]	−3,631	−15,776
24 Official institutions	85,807	43,959	−11,691	1,242	6,133	1,162	898	−3,486	469	−16,920
25 Other foreign	148,276	139,729	31,943	8,851	−11,420	5,607	20,218	5,464[r]	−4,100	1,144
Oil-exporting countries										
26 Middle East[2]	10,232	7,636	−8,232	409	1,325	−380	951	−1,388	−2,578	−4,160
27 Africa[3]	1	−12	2	0	0	0	0	0	0	1

1. Official and private transactions in marketable U.S. Treasury securities having an original maturity of more than one year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS[1]

Percent per year, averages of daily figures

Country	Rate on Oct. 31, 1998 Percent	Rate on Oct. 31, 1998 Month effective	Country	Rate on Oct. 31, 1998 Percent	Rate on Oct. 31, 1998 Month effective
Austria	2.5	Apr. 1996	Germany	2.5	Apr. 1996
Belgium	2.75	Oct. 1997	Italy	4.0	Oct. 1998
Canada	5.5	Oct. 1998	Japan	.5	Sept. 1995
Denmark	4.25	Sept. 1998	Netherlands	2.5	Apr. 1996
France[2]	3.3	Oct. 1997	Switzerland	1.0	Sept. 1996

1. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper or government securities for commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood that the central bank transacts the largest proportion of its credit operations.

2. Since February 1981, the rate has been that at which the Bank of France discounts Treasury bills for seven to ten days.

3.27 FOREIGN SHORT-TERM INTEREST RATES[1]

Percent per year, averages of daily figures

Type or country	1995	1996	1997	1998 Apr.	May	June	July	Aug.	Sept.	Oct.
1 Eurodollars	5.93	5.38	5.61	5.56	5.57	5.57	5.57	5.56	5.39	5.17
2 United Kingdom	6.63	5.99	6.81	7.41	7.37	7.61	7.67	7.61	7.35	7.11
3 Canada	7.14	4.49	3.59	4.94	5.09	5.10	5.10	5.35	5.66	5.43
4 Germany	4.43	3.21	3.24	3.56	3.55	3.49	3.46	3.42	3.40	3.50
5 Switzerland	2.94	1.92	1.58	1.39	1.52	1.81	1.98	1.68	1.43	1.20
6 Netherlands	4.30	2.91	3.25	3.52	3.53	3.51	3.46	3.43	3.33	3.28
7 France	6.43	3.81	3.35	3.50	3.50	3.47	3.44	3.44	3.43	3.45
8 Italy	10.43	8.79	6.86	5.09	4.98	4.99	4.75	4.78	4.86	4.40
9 Belgium	4.73	3.19	3.40	3.69	3.67	3.62	3.59	3.48	3.42	3.41
10 Japan	1.20	.58	.58	.66	.56	.57	.67	.69	.45	.49

1. Rates are for three-month interbank loans, with the following exceptions: Canada, finance company paper; Belgium, three-month Treasury bills; and Japan, CD rate.

3.28 FOREIGN EXCHANGE RATES AND INDEXES OF THE FOREIGN EXCHANGE VALUE OF THE U.S. DOLLAR[1]

Currency units per dollar except as noted

Item	1995	1996	1997	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.	1998 Oct.
				Exchange Rates					
COUNTRY/CURRENCY UNIT									
1 Australia/dollar[2]	74.07	78.28	74.37	63.12	60.46	61.80	58.88	58.89	61.79
2 Austria/schilling	10.076	10.589	12.206	12.491	12.615	12.650	12.574	11.955	11.524
3 Belgium/franc	29.47	30.97	35.81	36.62	36.98	37.07	36.85	35.05	33.81
4 Brazil/real	0.9162	1.0051	1.0779	1.1475	1.1543	1.1614	1.1717	1.1805	1.1889
5 Canada/dollar	1.3725	1.3638	1.3849	1.4452	1.4655	1.4869	1.5346	1.5218	1.5452
6 China, P.R./yuan	8.3700	8.3389	8.3193	8.3084	8.3100	8.3100	8.3100	8.3055	8.2778
7 Denmark/krone	5.5999	5.8003	6.6092	6.7662	6.8294	6.8499	6.8067	6.4717	6.2294
8 Finland/markka	4.3763	4.5948	5.1956	5.3966	5.4503	5.4653	5.4340	5.1734	4.9845
9 France/franc	4.9864	5.1158	5.8393	5.9528	6.0118	6.0280	5.9912	5.6969	5.4925
10 Germany/deutsche mark	1.4321	1.5049	1.7348	1.7753	1.7928	1.7976	1.7869	1.6990	1.6381
11 Greece/drachma	231.68	240.82	273.28	307.22	304.24	299.35	301.21	292.47	281.64
12 Hong Kong/dollar	7.7357	7.7345	7.7431	7.7490	7.7471	7.7483	7.7494	7.7480	7.7483
13 India/rupee	32.42	35.51	36.36	40.47	42.37	42.61	42.84	42.58	42.39
14 Ireland/pound[2]	160.35	159.95	151.63	141.74	140.51	139.88	140.37	147.24	152.21
15 Italy/lira	1,629.45	1,542.76	1,703.81	1,750.79	1,766.32	1,772.42	1,763.01	1,678.92	1,620.96
16 Japan/yen	93.96	108.78	121.06	134.90	140.33	140.79	144.68	134.48	121.05
17 Malaysia/ringgit	2.5073	2.5154	2.8173	3.8204	4.0006	4.1591	4.2036	3.8050	3.8000
18 Mexico/peso	6.447	7.600	7.918	8.585	8.920	8.899	9.371	10.219	10.159
19 Netherlands/guilder	1.6044	1.6863	1.9525	2.0005	2.0208	2.0267	2.0148	1.9169	1.8479
20 New Zealand/dollar[2]	65.63	68.77	66.25	53.88	51.23	51.85	50.11	50.44	52.13
21 Norway/krone	6.3355	6.4594	7.0857	7.4539	7.5785	7.6246	7.7248	7.5564	7.4294
22 Portugal/escudo	149.88	154.28	175.44	181.87	183.58	183.93	182.99	174.19	168.01
23 Singapore/dollar	1.4171	1.4100	1.4857	1.6374	1.6941	1.7085	1.7571	1.7226	1.6378
24 South Africa/rand	3.6284	4.3011	4.6072	5.0927	5.3910	6.2285	6.3198	6.0966	5.7991
25 South Korea/won	772.69	805.00	950.77	1,399.05	1,397.77	1,295.76	1,314.29	1,375.54	1,344.14
26 Spain/peseta	124.64	126.68	146.53	150.81	152.18	152.58	151.72	144.33	139.23
27 Sri Lanka/rupee	51.047	55.289	59.026	64.261	65.150	65.908	66.642	66.260	66.345
28 Sweden/krona	7.1406	6.7082	7.6446	7.7026	7.9174	7.9942	8.1282	7.8816	7.8395
29 Switzerland/franc	1.1812	1.2361	1.4514	1.4790	1.4949	1.5136	1.4933	1.4000	1.3373
30 Taiwan/dollar	26.496	27.468	28.775	33.466	34.553	34.387	34.731	34.646	33.121
31 Thailand/baht	24.921	25.359	31.072	39.198	42.332	41.300	41.720	40.402	38.118
32 United Kingdom/pound[2]	157.85	156.07	163.76	163.82	165.04	164.37	163.42	168.23	169.44
33 Venezuela/bolivar	174.85	417.19	488.39	537.26	543.82	558.47	571.88	583.85	570.68
				Indexes[3]					
NOMINAL									
34 G-10 (March 1973=100)[4]	84.25	87.34	96.38	99.61	100.90	101.38	101.80	97.17	93.69
35 Broad (January 1997=100)[5]	92.52[r]	97.43[r]	104.47	115.16	117.87	118.17	120.14	118.85	115.46
36 Major currencies (March 1973=100)[6]	81.40	85.22	91.85	96.88	98.68	99.31	100.96	96.99	93.46
37 Other important trading partners (January 1997=100)[7]	92.51[r]	98.25[r]	104.67	122.28	125.97	125.64	127.77	131.38	129.02
REAL									
38 Broad (March 1973=100)[5]	88.66	90.70	95.56	103.10	105.49	105.86	107.47	105.66	102.55
39 Major currencies (March 1973=100)[6]	80.78	85.83	93.20	98.40[r]	100.42[r]	101.41[r]	103.21[r]	99.05[r]	95.55
40 Other important trading partners (March 1973=100)[7]	109.80	106.57	107.84	119.69	122.91	122.32	123.75	125.62	122.91

1. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) monthly statistical release. For ordering address, see inside front cover.
2. Value in U.S. cents.
3. For more information on the indexes of the foreign exchange value of the dollar, see *Federal Reserve Bulletin*, vol. 84 (October 1998), pp. 811–18.
4. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of the other G-10 countries. The weight for each of the ten countries is the 1972–76 average world trade of that country divided by the average world trade of all ten countries combined. Series revised as of August 1978 (see *Federal Reserve Bulletin*, vol. 64 (August 1978), p. 700).
5. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners. The weight for each currency is computed as an average of U.S. bilateral import shares from and export shares to the issuing country and of a measure of the importance to U.S. exporters of that country's trade in third country markets.
6. Weighted average of the foreign exchange value of the U.S. dollar against a subset of broad index currencies that circulate widely outside the country of issue. The weight for each currency is its broad index weight scaled so that the weights of the subset of currencies in the index sum to one.
7. Weighted average of the foreign exchange value of the U.S. dollar against a subset of broad index currencies that do not circulate widely outside the country of issue. The weight for each currency is its broad index weight scaled so that the weights of the subset of currencies in the index sum to one.

Guide to Statistical Releases and Special Tables

STATISTICAL RELEASES—List Published Semiannually, with Latest Bulletin *Reference*

SPECIAL TABLES—Data Published Irregularly, with Latest Bulletin *Reference*

Index to Statistical Tables

References are to pages A3–A62 although the prefix "A" is omitted in this index

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FAMILY FINANCES IN THE U.S.: RECENT EVIDENCE FROM THE SURVEY OF CONSUMER FINANCES. January 1997.

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Release number and title	Annual USPS rate	Annual fax rate	Approximate release days[1]	Period or date to which data refer	Corresponding *Bulletin* table numbers[2]
Weekly Releases					
H.2. Actions of the Board: Applications and Reports Received	$55.00	n.a.	Friday	Week ended previous Saturday	. . .
H.3. Aggregate Reserves of Depository Institutions and the Monetary Base[3]	$20.00	n.a.	Thursday	Week ended previous Wednesday	1.20
H.4.1. Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks[3]	$20.00	n.a.	Thursday	Week ended previous Wednesday	1.11, 1.18
H.6. Money Stock, Liquid Assets, and Debt Measures[3]	$35.00	n.a.	Thursday	Week ended Monday of previous week	1.21
H.8. Assets and Liabilities of Commercial Banks in the United States[3]	$30.00	n.a.	Friday	Week ended previous Wednesday	1.26A–E
H.10. Foreign Exchange Rates[3]	$20.00	$20.00	Monday	Week ended previous Friday	3.28
H.15. Selected Interest Rates[3]	$20.00	$20.00	Monday	Week ended previous Friday	1.35
Monthly Releases					
G.5. Foreign Exchange Rates[3]	$ 5.00	$ 5.00	First of month	Previous month	3.28
G.13. Selected Interest Rates	$ 5.00	$ 5.00	First Tuesday of month	Previous month	1.35
G.15. Research Library—Recent Acquisitions	No charge	n.a.	First of month	Previous month	. . .
G.17. Industrial Production and Capacity Utilization[3]	$15.00	n.a.	Midmonth	Previous month	2.12, 2.13
G.19. Consumer Credit[3]	$ 5.00	$ 5.00	Fifth working day of month	Second month previous	1.55, 1.56
G.20. Finance Companies	$ 5.00	n.a.	Fifth working day of month	Second month previous	1.51, 1.52

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Quarterly Releases					
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1. Please note that for some releases there is normally a certain variability in the release date because of reporting or processing procedures. Moreover, for all series unusual circumstances may, from time to time, result in a release date being later than anticipated.
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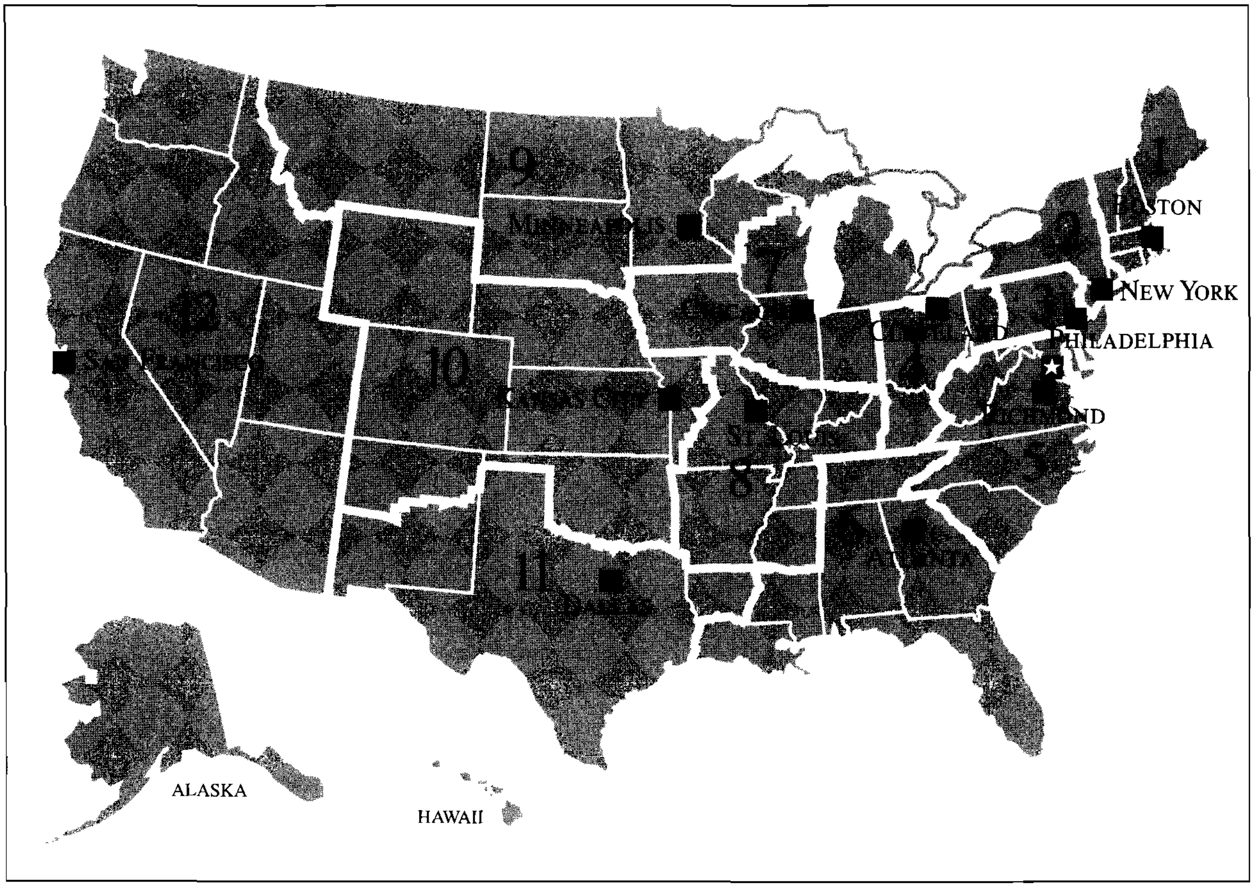

LEGEND

Both pages

- ■ Federal Reserve Bank city
- ⊡ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

- • Federal Reserve Branch city
- — Branch boundary

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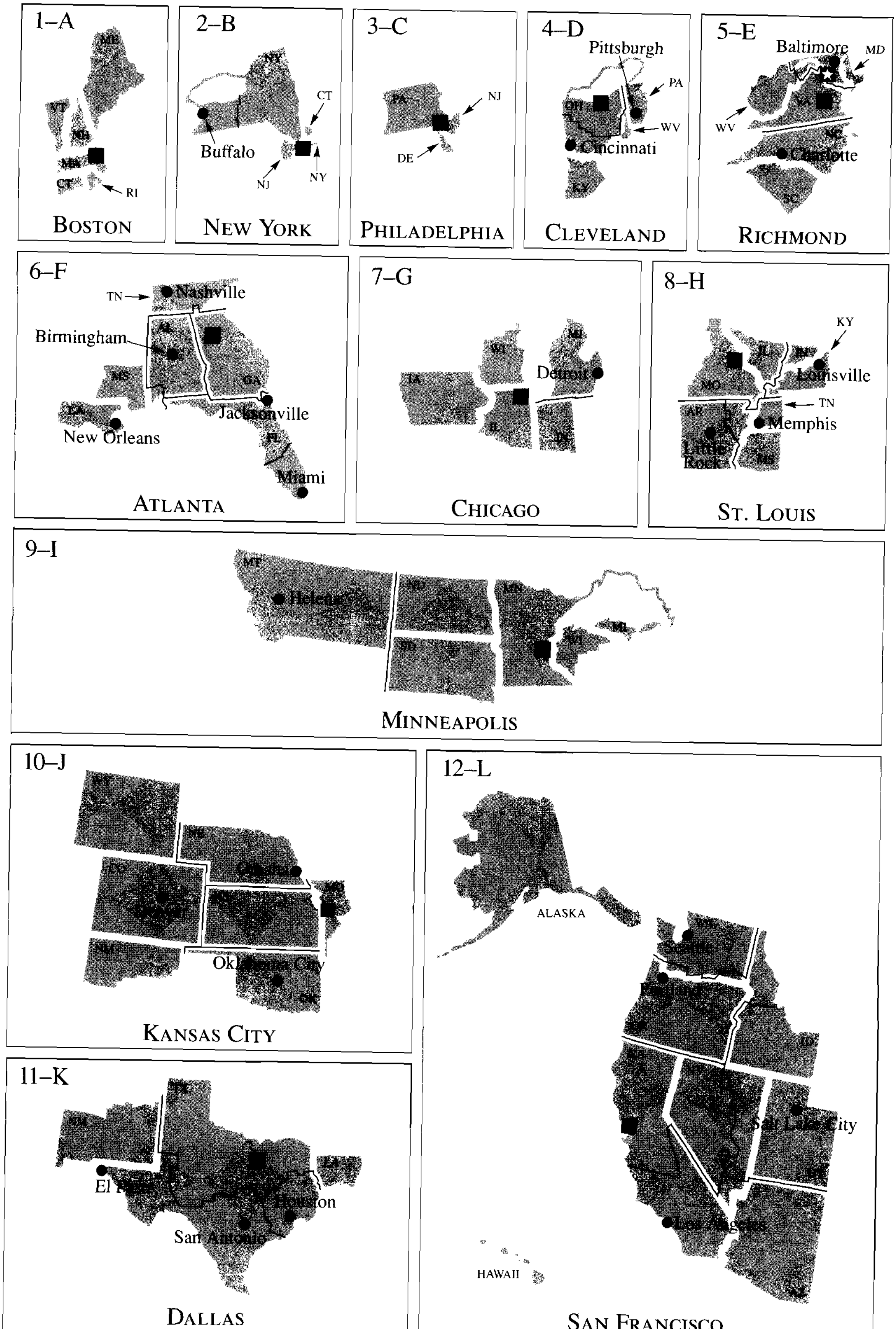
The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System most recently in February 1996.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SC
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6–F
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AL
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ATLANTA
7–G
WI
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IL
IN
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8–H
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Index to Volume 84

GUIDE TO PAGE REFERENCES IN MONTHLY ISSUES

Issue	Text	"A" Pages	Index to tables	Issue	Text	"A" pages	Index to tables
January	1– 76	1–76	66	July	517– 584	1–80	66
February	77–154	1–86	76	August	585– 702	1–86	76
March	155–240	1–78	66	September	703– 810	1–96	80
April	241–308	1–80	64	October	811– 896	1–78	66
May	309–390	1–90	74	November	897–1024	1–92	76
June	391–516	1–78	64	December	1025–1132	1–88	64

The "A" pages consist of statistical tables and reference information.

Statistical tables are indexed separately (see p. A64 of this issue).