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The Federally Sponsored Credit Agencies: An Overview

This article was prepared by Michael J. Moran of the Board's Division of Research and Statistics. Michael Maryn provided research assistance.

One of the hallmarks of a sophisticated financial system is a well-developed set of financial intermediaries. In the United States, such institutions as commercial banks, savings and loan associations, insurance companies, pension funds, and investment companies promote the efficient allocation of capital by offering people financial instruments with features they could not obtain by investing directly with the ultimate users of the funds. The advantages of investing through a financial intermediary include a more desirable combination of risk and return, greater liquidity, lower transaction costs, smaller denominations for initial savings balances, and greater flexibility for subsequent additions to these balances. Borrowers and equity issuers, in turn, find a larger and more readily available pool of funds to support their spending plans. In the U.S. economy, an average of roughly 75 percent of net funds supplied and raised each year are channeled through financial intermediaries.

The federal government has established five privately owned intermediaries to channel funds to particular sectors of the economy that are deemed worthy of special support. These institutions are known collectively as the federally sponsored credit agencies:

- Federal Home Loan Banks
- Federal Home Loan Mortgage Corporation
- Federal National Mortgage Association
- Farm Credit Banks
- Student Loan Marketing Association.

The Congress established the first three intermediaries to broaden the flow of credit to the mortgage and housing markets, and the last two to provide funds to support agriculture and higher education respectively.

The sponsored agencies are expected to facilitate a more desirable outcome at times when market forces might allocate credit in ways that are not socially optimal. For example, mortgage originators and smaller commercial banks might be unable to attract sufficient deposits to meet the demands of potential homeowners and farmers—at least at interest rates that are deemed to be, in some sense, appropriate. Similarly, private lenders may be reluctant to make loans for higher education because of their long maturities or their complex servicing requirements. In other instances, lenders and borrowers in these markets may be mismatched geographically. In the first examples, the federally sponsored credit agencies can channel funds from the money and capital markets to the targeted sector; in the last example, the sponsored agencies serve to transfer funds to the place they are needed and in short supply.

Rather than lending directly to the ultimate borrowers, most of the federally sponsored credit agencies provide funds that private institutions make available to individuals and businesses. The sponsored agencies obtain funds by selling either debt or pass-through securities in the money and capital markets; they channel these funds to private lending institutions either through loan agreements or by buying the assets of the private lenders and thus providing them with funds to make new loans. With these methods, the sponsored credit agencies represent a second layer of intermediation that is built upon the financial structure in the private sector.

Many programs under the direction of the federal government serve an intermediary function, but two features of the federally sponsored credit agencies set them apart. First, the sponsored agencies are wholly owned by the private sector. Although they have certain unique ties with the federal government—such as board members appointed by the President and borrowing privileges from the Treasury Department—ultimately it is the stockholders or the borrowers (all private) that stand to benefit or lose from their activities. As private entities, these institutions are not subject to the appropriations process of the federal budget, nor does the Congress directly influence their financing activity or rate of growth. Second, these intermediaries borrow directly in the financial markets to raise funds, whereas other lenders under the direction of the federal government obtain their funds from the Federal Financing Bank, which, in turn, borrows from the Treasury Department. Because the sponsored agencies are privately owned, their debt securities are not guaranteed by the federal government.

One organization that frequently is associated with the federally sponsored credit agencies, but is quite different, is the Government National Mortgage Association—often referred to as GNMA, or Ginnie Mae. This organization is part of the Department of Housing and Urban Development and currently does not issue debt in the money and capital markets. The popular Ginnie Mae securities that trade in the market place are actually mortgage pass-through certificates issued by mortgage originators, but Ginnie Mae guarantees the timely payment of interest and principal. This institution is not discussed further in this article.

The article next reviews the role of the federally sponsored credit agencies in the U.S. economy, including their growth over the long run and their effectiveness in channeling funds to their respective credit markets. It then discusses the financing activity of the sponsored agencies in the money and capital markets, and reviews their net income performance. The article concludes with a discussion of the future role of these intermediaries in light of some important changes unfolding in the financial system.

THE GROWTH AND CONTRIBUTION OF THE FEDERALLY SPONSORED CREDIT AGENCIES

The simplified balance sheet for each federally sponsored agency presented in table 1 reveals the size and nature of their activities. In general, the sponsored agencies are large participants in the U.S. financial system. The combined assets of all five sponsored agencies are about one-third the size of those of the entire savings and loan industry and about one-half the size of those of private pension funds. The Federal Home Loan Banks (FHLBs), the Federal National Mortgage Association (FNMA, or Fannie Mae), and the Farm Credit Banks (FCBs), taken alone, have assets much larger than those of the largest thrift institution and about the same size as those of the third largest commercial bank. The Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac) holds a much smaller volume of total assets than does each of the three largest sponsored agencies, but, as explained more fully later, the balance sheet understates the magnitude of its activities in the financial markets. The Student Loan Marketing Association (SLMA, or Sallie Mae) is the smallest of the federally sponsored credit agencies, but is still a substantial factor in the credit markets.

The federally sponsored credit agencies hold primarily two types of assets: loans granted to private lending institutions and loans to individuals or businesses that were purchased from private lending institutions or originated directly. The Federal Home Loan Banks issue loans (called advances) to member savings and loan associations and mutual savings banks. These advances, which can have maturities of up to 20 years, are used by the depository institutions to meet short-term liquidity needs and to expand their asset portfolios. The Student Loan Marketing Association grants loans (called warehousing advances) to many types of lenders, including commercial banks, thrift institutions, educational institutions, and state lending agencies. Warehousing advances must be used to maintain or expand the size of a lender's student loan portfolio. The Farm Credit Banks lend directly to individuals and businesses as well as to farm associations and cooperatives. The latter groups, in turn, either lend to agricultural and aquatic producers or provide services to the agricultural sector.

The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation provide secondary markets for mortgage loans; that is, they purchase mortgage loans from originating institutions. In addition to providing funds for loan originations, these programs have

1. Balance sheets of federally sponsored credit [illegible] 1984

Millions of dollars

Agency	Assets			Total assets, or total liabilities plus equity	Liabilities		Equity
	Loans purchased from private lenders	Loans made to private lenders	Other assets		Credit market debt	Other liabilities	
Federal Home Loan Banks	...	74,616.0	22,376.6	96,992.6	65,085.4	23,203.2	8,704.0
Federal National Mortgage Association.........	84,429.5	...	3,929.3	88,358.8	83,719.5	3,431.2	1,208.1
Federal Home Loan Mortgage Corporation	10,008.4	...	3,144.6	13,153.0	10,185.9	2,360.5	606.6
Farm Credit Banks......	...	77,089.0[1]	7,742.5	84,831.5	72,936.3	2,652.9	9,242.3
Student Loan Marketing Association.........	5,572.9	4,230.1	1,817.2	11,620.2	10,544.9	498.8	576.6

1. This amount includes loans made directly to individuals and businesses.

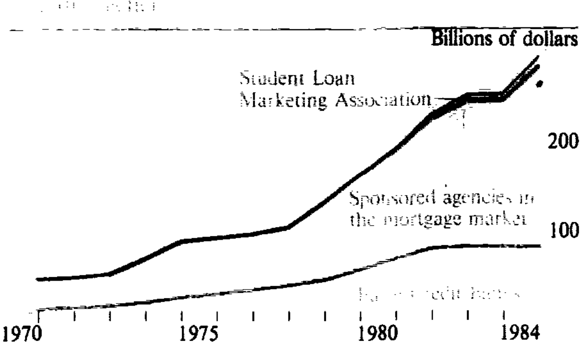
served to standardize the terms on conventional mortgage loans. Fannie Mae holds a large portion of the purchased mortgages in its portfolio, while Freddie Mac usually packages them into pass-through certificates and in effect sells them to other investors in the financial markets. Because the issuance of these pass-through securities represents the sale of the underlying mortgages, the total assets of Freddie Mac are not large, and its balance sheet thus understates its role in transferring funds from the money and capital markets to mortgage lenders. Fannie Mae also sells pass-through certificates to investors.

The Student Loan Marketing Association also purchases student loans from private lenders, making it the only sponsored agency to provide both lending and secondary market facilities. Most of the loans it purchases are guaranteed either directly or indirectly by the federal government under the Guaranteed Student Loan Program.

This brief description of the federally sponsored credit agencies outlines their role only in general terms. The appendix provides a more complete discussion.

The Growth of the Federally Sponsored Credit Agencies

Since 1970, the combined assets of the federally sponsored credit agencies have grown at a compound annual rate of 13½ percent. For purposes of comparison, nominal gross national product and total debt of nonfinancial sectors expanded at compound annual rates of 9¾ and 10¾ percent respectively over this period. As chart 1 shows, the growth of the sponsored agencies has not been smooth. The total assets of the Farm Credit Banks, for example, trended upward during the mid-1970s and accelerated beginning in 1979, but they have shown essentially no growth in recent years. The combined assets of the three sponsored agencies in the mortgage market have alternated between rapid growth and no growth, in movements associated closely with cyclical fluctuations in the housing sector. Sallie Mae experienced its strongest growth in 1981, a period of heavy demand for student loans and the



Data are for the year-end.

The sponsored agencies in the mortgage market are the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

year in which it began a transition from financing itself with government loans to borrowing in the financial markets.

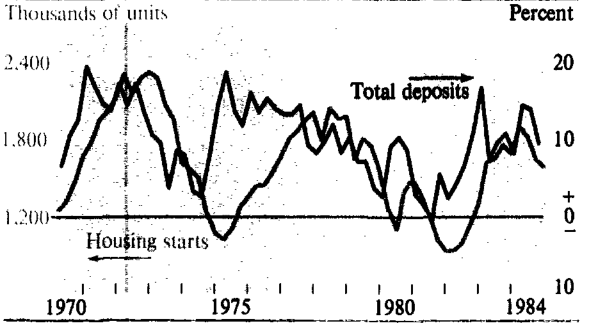
Farm Credit Banks. The growth of total assets at the Farm Credit Banks since 1970 has been closely correlated with conditions in the agricultural sector. In 1972 and 1973, prices of farm commodities increased sharply, paving the way for strong growth in farm income and large gains in the value of the farmland that frequently serves as collateral for farm credit. In this environment, farmers began to take on larger volumes of debt, reflected in the upward trend in the total assets of the Farm Credit Banks. Prices of farm commodities surged again in 1978 and 1979, and in consequence farm debt accelerated.

Beginning in 1980, farm prices began to stabilize while overall prices continued to climb. The weakening in farm income caused many farmers difficulty in servicing their debts. The high levels of interest rates in the early 1980s exacerbated the problems of farmers with short-term or variable-rate debt. As expectations for farm prices and income were revised downward in the 1980s, the value of farmland began to decline, with sharp reductions realized each year from 1981 through 1984. Given the conditions confronting them in the early part of this decade, farmers were unwilling or unable to incur new debt, so that the total assets of the Farm Credit Banks leveled off. (A more complete discussion of conditions in the agricultural sector is provided by Emanuel Melichar, "A Financial Perspective on Agriculture," FEDERAL RESERVE BULLETIN, January 1984.)

Sponsored Agencies in the Mortgage Market. Over the last 14 years, the sponsored agencies serving the housing market have experienced three periods of rapid growth. The first two periods, which began in 1973 and 1978, occurred near peaks in housing and mortgage activity and at times of diminishing growth in deposits at thrift institutions (see chart 2). This confluence of events suggests that the sponsored agencies in the mortgage market were attempting to cushion the cyclical swings in housing activity, which is heavily dependent upon thrift institutions.

On the surface, the rapid growth of the sponsored agencies in the mortgage markets in 1984 closely resembles that in earlier episodes: assets began to expand rapidly near the peak in housing activity, thus helping to cushion the fall. Last year, however, saw some important differences. First, deposit growth at thrift institutions, although volatile, tended to be at much higher levels than in previous years. Thus arguments that the sponsored agencies were forestalling problems of credit availability may be difficult to make. Second, much of the expansion in the assets of the mortgage agencies last year represented FHLB advances to ease the liquidity problems of some financially weak institutions. Finally, a small portion of the expansion of Fannie Mae represented the acquisition of second mortgages, an asset that often supports consumer spending rather than housing activity.

2. Growth of total deposits at thrift institutions, and housing starts



Quarterly data at annual rates.

Student Loan Marketing Association. The Student Loan Marketing Association experienced its most rapid rate of growth in the early 1980s: total assets increased from $2.8 billion at the end of 1980 to $9.1 billion at the end of 1983. Rising tuition costs and high levels of interest rates increased the demand for the subsidized student loans guaranteed by the federal government. The average volume of new originations in the Guaranteed Student Loan Program increased from about $2 billion in 1979 and 1980 to about $6 billion over the next three years. (Most of the loans purchased by Sallie Mae are issued under this program.) Sallie Mae's purchases were large as many private lenders elected not to hold these loans in their portfolios.

This burst in the growth of Sallie Mae's assets was associated with a shift in its method of financing. In its early years, the Sallie Mae financed its activities with loans from the Federal Financing Bank. In March 1981, however, Sallie Mae and the Treasury agreed that its level of debt at the Federal Financing Bank would not exceed $5 billion and that it could not take down new loans from this source after 1982. Sallie Mae quickly moved to its limit with the Federal Financing Bank and in 1981 issued debt in the money and capital markets for the first time to finance its rapid expansion.

Effectiveness as Financial Intermediaries

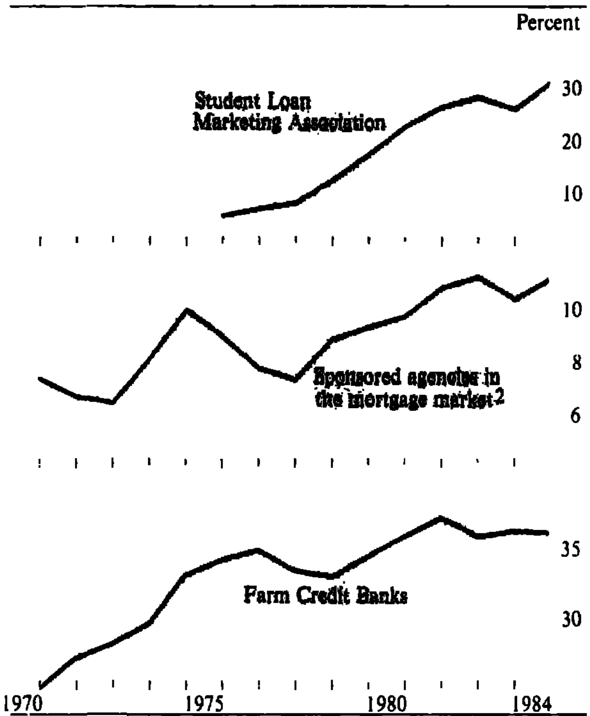
The size and growth of the federally sponsored credit agencies suggest that they are important participants in the U.S. financial system. One measure of their contributions to their specific credit markets is presented in chart 3. This chart shows that the participation of these intermediaries has trended upward over the last 14 years; currently they account for sizable portions of the total volume of outstanding credit in their respective markets.

Although these intermediaries maintain a substantial presence in the financial markets, their net long-run impact on the total volume of funds allocated to each sector is open to question. Changes in the behavior of other lenders and borrowers in the private sector may mean that the credit flows generated by the sponsored agencies supplant rather than supplement funds from other sources. Furthermore, even if the sponsored agencies were successful in channeling funds to a particular credit market, real economic activity in that sector might not be affected. For example, if the sponsored agencies in the mortgage market were able to increase the volume of mortgage credit, housing construction would not increase if households financed their homes with less equity and more debt than they otherwise would have or if they substituted the mortgage credit for other types of borrowing to finance the purchase of consumer goods.

The credit flows generated by the federally sponsored credit agencies may have been offset by disintermediation in the 1960s and 1970s. Commercial banks and thrift institutions frequently had to constrain their lending activity as they experienced weak or negative deposit growth when market rates rose above their interest rate ceilings. The sponsored agencies channeled funds from the money and capital markets to these private lenders to limit the number of displaced borrowers. Over time, however, this assistance may well have been partially negated because the issuance of debt securities by the federally sponsored credit agencies could itself have put further upward pressure on market rates, contributing to slower deposit inflows.

This pattern was especially prevalent in the mortgage market because thrift institutions usually suffered heavy deposit outflows when market rates increased. As charts 1 and 2 make clear, the rapid growth in the assets of the mortgage agencies in 1973 and 1978 was associated with

Contributions of federally sponsored credit agencies[1]



1. The curves, based on year-end data, are defined as follows:
The top panel shows the ratio of outstanding SLMA advances and loans purchased to outstanding guaranteed student loans; the middle panel shows the ratio of outstanding FHLB advances plus total Fannie Mae and Freddie Mac mortgage assets to total residential mortgage debt outstanding; the bottom panel shows the ratio of outstanding loans from the Farm Credit Banks to total farm debt outstanding.

2. This graph understates the contribution of the sponsored agencies in the mortgage market because the pass-through securities issued by Freddie Mac and Fannie Mae are not included.

weak deposit growth at thrift institutions. This weakness probably was exacerbated as the heavy volume of activity by the sponsored agencies maintained upward pressure on market interest rates and thus drew funds out of thrift institutions.

Because interest rate ceilings on nearly all types of deposit accounts now have been removed, disintermediation, per se, will not compromise the efficacy of the sponsored agencies. However, responses of borrowers and of other lenders to the changes in relative interest rates associated with the financing activities of the sponsored agencies still will influence the ultimate amount of funds allocated to each sector. At the simplest level, the issuance of debt in the capital markets and the use of the proceeds in a particular sector will lower interest rates in the targeted area relative to those in the financial markets. In such circumstances, lenders in the private sector will tend to reduce investments in the targeted area and purchase the relatively more attractive instruments in the money and capital markets. This shift will offset the credit flows provided by the federally sponsored agencies.

The sensitivity of borrowers in the targeted sectors to changes in interest rates also affects the ultimate impact of the sponsored agencies on credit flows. If individuals and businesses increase their borrowing only a little as the sponsored agencies exert downward pressure on interest rates in a particular market, the change in the volume of credit in the sector will be slight. In this case, even though the sponsored agencies may shift large amounts of funds to a particular market, the interest rate in the market would have to fall sharply to establish a new equilibrium and more private lenders will switch to other markets. Alternatively, if borrowers are very sensitive to changes in rates, they will readily absorb most of the new funds advanced by the sponsored agencies and the offsets will be slight.

The ultimate change in credit flows generated by the activity of the sponsored credit agencies is thus uncertain. The final outcome depends upon the responses of borrowers and lenders to interest rates on the targeted type of credit and on other instruments in the economy. In general, if private lenders are prompt to alter their portfolios in response to changes in relative interest rates, and if borrowers in the targeted market are insensitive to changes in interest rates, then the sponsored agencies, on balance, will have little impact. If the reverse holds—that is, if private lenders are not sensitive to interest rate changes and borrowers are—then the sponsored agencies could direct large amounts of credit to a particular sector. Whether or not a broadened flow of credit will influence the level of real economic activity in that sector depends upon the amount of debt that borrowers are willing to bear and the degree of fungibility between credit of different types.

In the mortgage market, borrowers seem highly sensitive to interest rates, so that the sponsored agencies may have an important influence on credit flows. However, other lenders in this market—such as commercial banks and life insurance companies—probably would alter their portfolios quickly as relative rates changed. Thrift institutions also may now shift larger amounts of their assets out of mortgages as interest rates change because their investment powers have been expanded in recent years. The Farm Credit Banks probably will have a greater long-run effect on credit flows in their sector than will the sponsored agencies in the mortgage sector because some agricultural lenders, such as commercial banks in rural areas, are less likely to shift away from their accustomed loans to other instruments.

Sallie Mae may be expected to have an appreciable impact on the volume of student loans. The increases in the supply of funds for student lending generated by this sponsored agency will not depress interest rates because a subsidy by the federal government ties the return to lenders of guaranteed student loans to the rate on Treasury bills. Thus, as Sallie Mae expands its activity, private lenders will not have that kind of incentive to switch to other assets. Also, the liquidity that this sponsored agency provides will make lenders more willing to write student loans. Of course, Sallie Mae's activities might not expand college enrollments: students may simply substitute the government-guaranteed loans for others, or they may finance their education with more debt than they would otherwise, or they may attend a more expensive college.

The Market for the Securities of the Federally Sponsored Credit Agencies

Federally sponsored credit agencies finance their loan programs and secondary market purchases primarily by issuing debt in the money and capital markets. These securities are not guaranteed by the federal government, but because of the ties of the sponsored agencies to the government, they are afforded certain privileges not available to most other issues:

- exemption from the requirement to register the issue with the Securities and Exchange Commission
- exemption of interest income from state and local taxes (except for issues of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation)
- eligibility as collateral when commercial banks and thrift institutions borrow from the Federal Reserve's discount window and when thrift institutions borrow from a Federal Home Loan Bank
- eligibility for purchase by the Federal Reserve in open market operations
- eligibility as collateral for public deposits, including Treasury tax and loan accounts
- favorable status in the portfolios of depository institutions; for example, the shorter-term securities may be used to meet the liquidity requirements of thrift institutions belonging to the Federal Home Loan Bank System, and national banks may invest and deal in these securities without limit.

Because of these advantages, as well as the perception that the sponsored agencies are highly creditworthy, the securities are well received by a broad range of investors, including depository institutions, pension funds, insurance companies, and mutual funds. Individual investors also hold these securities, but their direct participation in the market is not great.

The sponsored agencies issue short-term securities known as discount notes in the money market, and they tap the longer-term markets through bonds. Those securities are sold in the marketplace with the assistance of a fiscal agent, which recommends to the sponsored agencies the offering rates on the securities and allocates the notes and bonds to securities dealers. Those dealers, in turn, distribute the securities to the public. The sponsored agencies meet the bulk of their financing needs through the issuance of discount notes and bonds, but they also have used some of the more innovative techniques that have emerged in the U.S. financial system in recent years.

Discount Notes and Bonds

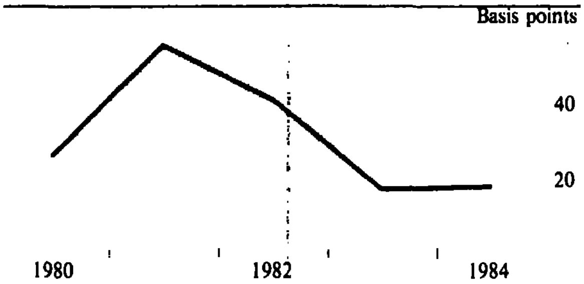
Discount notes are short-term debt instruments resembling commercial paper. They have maturities ranging from overnight to 360 days, depending upon their uses. The sponsored agencies use discount notes for several purposes, such as financing short-term loans, bridging gaps that can arise between cash outflows and inflows, and delaying the issuance of longer-term debt until market conditions seem more favorable. Discount notes are offered to investors on a daily basis at interest rates that typically are 15 to 25 basis points higher than those on Treasury bills of similar maturity. At the end of 1984, the sponsored agencies had about $33 billion of discount notes outstanding, accounting for 14 percent of their credit market debt.

The sponsored agencies fill their longer-term financing needs with bonds. The Federal Home Loan Banks, the Farm Credit Banks, and the Federal National Mortgage Association offer bonds to the public each month according to a fixed schedule, and they occasionally bring to market unscheduled offerings as well. The Student Loan Marketing Association recently started to offer floating-rate notes on a monthly basis; the issuance by the Federal Home Loan Mortgage Corporation is irregular. Some of these securities have very short maturities. The Farm Credit Banks, for example, issue six- and nine-month bonds each month, and the other sponsored agencies also occasionally issue bonds with maturities under one year. Most of the longer-term securities issued by the sponsored agencies, however, are in the range of two to ten years; maturities in excess of that are infrequent. Most of the sponsored agencies issue debt with maturities that approximately match those of their assets so that they are not exposed to substantial interest rate risk.

The interest rates on intermediate-term bonds issued by the sponsored agencies usually are 15 to 30 basis points higher than the rate on Treasury securities of similar maturity (chart 4). These spreads typically are narrower than those between Treasury securities and the highest-rated corporate bonds with intermediate maturities. The lower rates on the securities of the sponsored agencies result partly from their unique features and partly from the strong financial condition of their issuers. In addition, the sponsored agencies, either directly or indirectly, have lines of credit with the Treasury Department (at the discretion of its secretary) should they experience difficulty meeting their obligations. (The appendix lists the amounts of these credit lines.) Beyond these factors, some investors believe that, although there is no explicit guarantee, the federal government would not allow a sponsored agency to default on a debt issue.

Nevertheless, the confidence of investors in the quality of sponsored-agency securities was shaken in 1981 and early 1982, so that the interest rate spreads over Treasury securities widened (chart 4). The trigger was the weakening in the net income of the Federal National Mortgage Association (discussed below) and reports from investment analysts that the securities of Fannie Mae carried greater credit risk than previously perceived. Interest rate spreads over Treasury securities on Fannie Mae's debt averaged about 90 basis points in 1981, and some issues came to market with spreads as high as 150 basis points. The risk consciousness of investors during this

4. Average spread between yields on federally sponsored agency securities and on Treasury securities of corresponding maturity



Data are yearly averages for intermediate-term securities, which have maturities of more than one year up to five years.

period affected the other sponsored agencies, and their interest rate spreads widened some even though their financial position was sound. The concerns of investors were allayed in subsequent years as lower levels of interest rates and new strategies adopted by Fannie Mae improved its prospects for profitability. Fannie Mae securities still sell at slightly higher interest rates than do those of the other sponsored agencies, reflecting some residual investor concern and the fact that the interest income on FNMA's securities is taxable at the state and local level.

Innovative Financing

While the federally sponsored credit agencies meet the bulk of their financing needs through the traditional offerings of discount notes and bonds, they also have been involved in innovative transactions in an effort to broaden their investor base and to lower their overall interest expense.

Large current interest savings for some of the sponsored agencies have come from the issuance of long-term, zero-coupon securities. These securities do not provide periodic interest payments to investors; rather, they are sold at a substantial discount from the face value that is paid at maturity. In 1984, Fannie Mae, Freddie Mac, and Sallie Mae were able to offer these securities to investors at interest rates as much as 2½ percentage points below the rates on long-term Treasury bonds because foreign investors, especially the Japanese, were keenly interested in them. Japanese investors could avoid paying taxes on the income from foreign zero-coupon securities if they sold them before maturity. The Ministry of Finance in Japan, however, does not permit its investors to hold securities that have been altered in any way, so they cannot purchase the popular zero-coupon securities that are formed by stripping apart Treasury debt (although it appears that they will be permitted to purchase zero-coupon securities under the Treasury's new STRIPS program). The issues of the sponsored agencies last year thus represented the highest quality zero-coupon security available. Late last year the Ministry of Finance indicated that it was reviewing the tax treatment of such securities, and in March of this year the Japanese legislature voted to subject the gains on the sale of those securities to ordinary income tax rates. The sponsored agencies ceased issuing zero-coupon securities last year after the tax treatment was questioned by the Japanese government.

The sponsored agencies have made other efforts to broaden their investor base by issuing securities in foreign countries. In 1984, Fannie Mae and the Federal Home Loan Banks together issued $500 million of debt in the Eurobond market. Like many U.S. corporations, these sponsored agencies were able to issue debt denominated in dollars in foreign countries at interest rates below those in the U.S. market. Fannie Mae's Eurobond issue was sold with an interest rate that was 7 basis points higher than that on a Treasury security of comparable maturity; in the domestic market, a similar issue probably would have yielded at least 25 basis points more than a Treasury security. In subsequent trading in the secondary markets, however, the yields on these securities moved to higher levels, and since then the sponsored agencies have not attempted to issue dollar-denominated debt in foreign countries.

Yet the federally sponsored credit agencies have not avoided the foreign markets entirely. Earlier this year, Fannie Mae and Sallie Mae issued abroad securities that were denominated in Japanese yen. Like the dollar-denominated debt sold in foreign countries, these securities resulted in substantial interest savings. To protect themselves from the risks of exchange rate fluctuations from such an issue, Sallie Mae and Fannie Mae utilized another innovative financing technique, a currency swap.

Currency swaps involve two parties that issue debt in each other's currencies, then exchange their payment obligations so that each services debt in its home currency. In the case of the recent Sallie Mae and Fannie Mae yen issues, those sponsored agencies could exchange their interest payment obligations with a Japanese firm that issued a comparable amount of debt denominated in dollars. This technique allows a borrower to raise funds in the market in which its interest expenses are lowest, regardless of the currency used in that market, without exposure to exchange rate fluctuations.

The currency swap is similar to the interest rate swap used extensively by Sallie Mae and to a lesser extent by Fannie Mae. An interest rate swap is a transaction in which two parties, one with fixed-rate debt and the other with variable-rate debt, agree to exchange interest-payment obligations, thereby converting their type of payment from fixed-rate to variable-rate or vice versa. With this type of transaction, the two parties usually find that their overall funding costs are lower than they would have been had they issued their preferred fixed- or variable-rate instrument directly. Sallie Mae, a pioneer in the technique in the United States, wished to issue variable-rate debt because most of its assets carry variable interest rates. However, it had issued so much debt of that type that investors were willing to increase their holdings only at higher rates. Sallie Mae found that it could keep its funding costs low and still be protected from interest rate risk by issuing fixed-rate debt and engaging in an interest rate swap. Many types of borrowers, such as savings and loan associations and nonfinancial corporations, would be interested in being a counterparty to obtain fixed-rate financing.

Perhaps the most important innovation in the sponsored-agency market is the collateralized mortgage obligation (CMO) introduced by the Federal Home Loan Mortgage Corporation. As its name implies, this security is simply a debt issue backed with mortgages or mortgage-backed securities. The unique feature introduced by Freddie Mac was the division of an issue into various classes, differing from one another in the way principal value is repaid. Table 2 presents an example. The investors in the class A-1 securities receive interest payments as well as all of the scheduled repayments and prepayments on the underlying mortgages; the investors in the other classes receive only interest payments until all the class A-1 securities are retired. Because initially the class A-1 securities receive the repayments on the underlying mortgages, their expected life is relatively short. After the class A-1 bonds are retired, the class A-2 bonds receive both interest payments and mortgage repayments while the class A-3 bonds continue to

2. Characteristics of collateralized mortgage obligations of the Federal Home Loan Mortgage Corporation, Series A, June 1983

Characteristic	Class		
	A-1	A-2	A-3
Amount sold (millions of dollars)	215	350	435
Maximum average life (years)	3.2	8.6	20.4
Quoted yield (percent)	10.70	11.37	11.98
Spread over yield on comparable Treasury securities (basis points)[1]	39	52	84

1. Spread over closest Treasury constant-maturity yield on June 7, 1983.

receive only interest payments. After class A-2 is retired, class A-3 receives both interest payments and mortgage repayments.

This innovation reduces (though it does not eliminate) the major disadvantage of uncertainty about maturity that is associated with mortgage pass-through securities. Because all interest and principal repayments on an underlying pool of mortgages flow through to the holders of pass-through securities, these securities will be retired earlier than expected if prepayments accelerate. Moreover, mortgage prepayments and the paydown of pass-through securities frequently increase when interest rates drop, precisely the time when investors wish to hold longer-term, fixed-rate assets. When a mortgage-related security is divided into various maturity classes, investors have a clearer expectation of when their security will be repaid.

This financing technique has been widely imitated by other issuers in the financial markets. Securities firms, for example, have issued large volumes of bonds collateralized by Ginnie Mae pass-through securities. They found that they could buy the Ginnie Mae pass-throughs in the secondary markets, package them into CMOs, and issue them at lower rates because of the enhanced certainty of maturity. These firms retained as profit the difference between the yield on the Ginnie Mae pass-through securities and the yield on the CMO. As they began buying Ginnie Mae securities in volume, yields fell sharply: Ginnie Maes were trading 1¾ to 2 percentage points over Treasury securities before CMOs were introduced, but subsequently the spread narrowed to less than 1 percentage point.

Construction firms also have issued collateralized mortgage obligations. Many homebuilders have established finance subsidiaries in order to offer mortgage loans to potential buyers. After originating these mortgages, they frequently use them as collateral for both straight bond issues and CMOs. (These issues are referred to as builder bonds in the marketplace.) Savings and loan associations have also started to use this instrument as a source of funds.

FINANCIAL PERFORMANCE

For the most part, the financial performance of the federally sponsored credit agencies, as measured by their net income, has been quite good. They are able to issue debt in the financial markets at attractive rates, and because most of them do not expose themselves to substantial interest rate risk, they have realized strong, stable earnings. The Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Farm Credit Banks, and the Student Loan Marketing Association carefully match the maturities of their debt liabilities and of their assets, so that their positive interest rate spreads are not wiped out by interest rate fluctuations. As table 3 shows, these sponsored agencies have consistently earned high income, as measured by the ratio of net income to average assets. For purposes of comparison, this same aftertax income measure has ranged from 0.50 to 0.60 for the commercial banking industry in the early 1980s.

The net income of the Farm Credit Banks has receded some in the last two years. Because these banks are owned by farm cooperatives, the only purpose of profits is to add to capital as total assets increase so as to maintain the same relative cushion for potential loan losses. With asset growth flat, the Farm Credit Banks could reduce earnings. Their borrowers, many of them undergoing financial strain, consequently received some interest rate relief. Increases in loan losses and in nonperforming loans, however, also reduced profitability and limited the extent of interest rate relief.

The Federal Home Loan Mortgage Corporation has reported remarkably strong income in the last two years. The favorable performance of

3. Ratio of net income to average assets of federally sponsored credit agencies

Percent

Year	Federal Home Loan Banks	Federal National Mortgage Association	Federal Home Loan Mortgage Corporation	Farm Credit Banks	Student Loan Marketing Association
1978...	1.30	.54	.69	.82	.78
1979...	1.29	.34	.86	.86	.50
1980...	.83	.03	.67	1.12	.43
1981...	.82	−.32	.53	1.13	.45
1982...	1.24	−.16	.97	1.19	.60
1983...	.96	.10	2.13	.64	.80
1984...	1.04	−.07	2.42	.52	.96

Freddie Mac in 1983 and 1984 is partly the result of higher fee income. In 1981, the Federal Home Loan Mortgage Corporation introduced its "guarantor program," which led to a sharp increase in the issuance of its pass-through certificates as well as in its fees for guaranteeing these securities. (The guarantor program is explained in the appendix.) A more important factor behind this income growth has been the corporation's issuance of collateralized mortgage obligations. Freddie Mac earns as income the spread between the yields on the underlying pool of mortgages and on collateralized mortgage obligations.

Fannie Mae has experienced earnings problems because the maturities of its assets and liabilities are mismatched. In general terms, the balance sheet of this sponsored agency resembles that of a typical thrift institution: its assets are concentrated in long-term, fixed-rate mortgages and they are financed primarily with shorter-term debt. As a result, Fannie Mae has experienced the same earnings difficulties as thrift institutions: in the late 1970s and early 1980s, interest expenses increased sharply as market rates moved to high levels while interest income grew much more slowly because of the long maturities of its assets. Fannie Mae's income weakened in 1979 and 1980, and it turned sharply negative in 1981 and 1982. The earnings performance improved in 1983 and 1984 as interest rates moved to lower levels, but this sponsored agency continues to be burdened with a large volume of long-term mortgages carrying relatively low yields.

The lower level of interest rates in effect over the last two years has been an important factor in easing Fannie Mae's losses, but its management also has launched an aggressive campaign to improve its long-run earnings potential. For example, fee income has increased sharply since 1981, primarily because of the issuance of a large volume of pass-through securities. Also, Fannie Mae has shifted its new asset purchases toward interest-sensitive instruments such as adjustable-rate mortgages and second mortgages. Last year, these types of mortgages accounted for nearly 40 percent of Fannie Mae's new purchases, compared with 5 percent in 1981. Finally, as explained above, Fannie Mae has adopted some innovative financing techniques, such as zero-coupon bonds, interest rate swaps, and debt issuance in foreign countries, to help reduce its cost of funds.

The Future Role of the Federally Sponsored Credit Agencies

Some analysts have speculated that the role of the federally sponsored credit agencies in the economy will shrink as important structural changes in the financial system lessen the need for intervention to support the credit flows to particular sectors. As regulatory constraints are removed and as new instruments are developed, market participants in the private sector can assume a more active role in efficiently allocating credit.

Beginning in 1978, federal regulators allowed depository institutions to offer accounts with interest rate ceilings tied to the rates on certain Treasury securities, and in 1980, they began to dismantle the interest rate ceilings on deposits at commercial banks and thrift institutions. Currently, nearly all categories of deposits can be offered without interest rate limits. Thus depository institutions have greater control over their deposit flows. Faced with large demands for credit, they can offer higher rates to depositors, thereby attracting the necessary funds; if they have exhausted their profitable lending opportunities, they can lower their deposit rates, thus discouraging their own inflows and allowing funds to flow to institutions or regions with greater credit demands. In this deregulated environment, depository institutions themselves can perform one of the important functions of the sponsored agencies—namely, transferring funds from capital-surplus areas to capital-deficient areas.

The need for the sponsored credit agencies to redistribute funds geographically also will be lessened with the erosion of the barriers to interstate banking. Recently, regulators have approved several interstate mergers involving financially weak institutions. In addition, some states have approved laws that allow out-of-state bank holding companies to acquire banks within their borders, and others are considering that step. Finally, the initiative of the private sector in moving toward interstate banking has been evident in the development of so-called nonbank banks, institutions that do not provide the full array of banking services and therefore have won approval in some cases to operate in different states. In light of these developments, the Federal Reserve Board recently advocated that the Congress establish a program to move gradually toward interstate banking.

Other recent developments are making mortgage originators less dependent on the sponsored agencies for funds. Depository institutions servicing the mortgage market now have greater direct access to the capital markets through new financial instruments. For example, savings and loan associations are holding larger amounts of mortgage-backed securities as assets, which can readily serve as collateral for new borrowing. The sponsored agencies are still important here, however, because many of these mortgage-backed securities were obtained by exchanging mortgage loans for pass-through certificates with Freddie Mac and Fannie Mae. Also, the collateralized mortgage obligation has been widely accepted by investors, and thrift institutions are beginning to issue their own mortgage-backed bonds as a source of funds. Even institutions that are not large enough to issue collateralized mortgage obligations by themselves can form consortiums to sell these securities in the financial markets. To the extent that depository institutions can tap the money and capital markets directly, the need is lessened for the federally sponsored credit agencies to channel funds to certain areas.

While these developments in financial markets narrow the distinctive role of the sponsored credit agencies, one of their unique attributes remains—namely, the implicit subsidy that their sponsored status confers in the form of lower costs. This implicit subsidy has the effect of raising borrowing costs, to some degree, both to private sectors that are not the beneficiaries of sponsored-agency activities and to the Treasury. With strong demands for credit by the federal government and heightened emphasis on resource allocation through private markets, it is not surprising that this subsidy has come under question.

Most of the attention in this debate has focused on the sponsored agencies serving the mortgage market. In public testimony and in budget proposals, the Reagan administration has advocated the complete privatization of Fannie Mae and Freddie Mac. Thus far it has not vigorously sought to cut the ties of Fannie Mae and Freddie Mac to the government; rather, it has concentrated on developing policies that improve the competitive position of private firms servicing the secondary mortgage market. The major effort to date was the passage last year of the Secondary Mortgage Market Enhancement Act. Several provisions of this law make it easier for private firms to market mortgage-backed securities, and it limits to some extent the participation of Fannie Mae and Freddie Mac in this market.

A more recent proposal by the administration that would further alter the competitive position of all the sponsored agencies is a provision in the 1986 budget to impose one-time origination fees on their issuance of new debt and of pass-through securities. In the latest form of the proposal, the fees would be phased in beginning with 0.01 percent (1 basis point) of the amount of debt issued in 1986 and eventually increasing to 0.05 percent in 1990. The administration views the fee as a payment for special privileges that the sponsored agencies or their securities receive because of their affiliation with the federal government. Thus far, the Congress has not authorized these fees, but they remain an issue in discussions of deficit reduction measures.

CONCLUSION

The federally sponsored credit agencies were created to alter the flow of funds in cases in which, it was believed, the private markets were not allocating resources to their optimal use. For a long time, however, analysts have questioned the ability of the sponsored agencies to alter appreciably the ultimate allocation of financial capital and real resources. In a system that permits credit to flow with few impediments, private lenders and borrowers can negate the effects of the government-sponsored intermediation. As the U.S. financial system becomes less regulated, the ability of the sponsored agencies to influence the allocation of resources by serving as intermediaries may become even more dubious. If the resulting market solution to resource allocation is still viewed as suboptimal from a social point of view, some form of direct subsidy may be necessary to achieve the desired outcome.

For the time being, the sponsored agencies must be regarded as important participants in the money and capital markets. Their financial resources are substantial, they have developed expertise in their areas, and they are well established among the borrowers and lenders in the credit markets that they serve. Their activities enhance the liquidity in these markets and foster the integration of the various components of the financial system. □

Appendix: Description of the Federally Sponsored Credit Agencies

The appendix table summarizes the organizational characteristics of the federally sponsored credit agencies whose activities are discussed in the text. The following paragraphs examine each agency in greater detail.

The Federal Home Loan Banks

The Congress established the Federal Home Loan Bank System in 1932 to supervise federally chartered savings and loan associations and to provide a credit facility for thrift institutions. The system originally comprised only the Federal Home Loan Bank Board, which serves primarily as a regulatory agency, and 12 regional Federal Home Loan Banks, which carry out the policies of the Board and provide the credit facilities and other services for member institutions. The Federal Savings and Loan Insurance Corporation and the Federal Home Loan Mortgage Corporation were added to the system later, in 1934 and 1970 respectively.

The Federal Home Loan Banks are wholly owned by the financial institutions that join the system. The 12 banks operate individually, but they must observe guidelines established by the board. The most important activity of the banks is to provide credit to members in the form of loans (called advances). The Federal Home Loan Banks finance their advances primarily by selling debt securities in the money and capital markets and by accepting deposits from member institutions. The debt securities are sold on a consolidated basis—that is, they are the joint obligations of all 12 banks. The Federal Home Loan Banks are the only sponsored agency that issues deposit liabilities. Overnight accounts are the largest category of deposit liability at the banks, as they are used by member institutions to invest funds temporarily that otherwise might lie idle. The banks also issue demand and time deposits to their members.

Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation also belongs to the Federal Home Loan Bank System but performs a different function than the 12 Home Loan Banks do. Freddie Mac provides a secondary market for mainly conventional mortgage loans—that is, mortgages that are not insured by the Federal Housing Administration or guaranteed by the Veterans Administration. When the corporation was established in 1970, secondary market facilities for government-insured and -guaranteed mortgages already were in place, but support for conventional home loans was lacking. Freddie Mac was created to fill this gap in the secondary market. It typically purchases mortgages from institutions originating the loans, thereby replenishing lenders' cash positions so they can write new loans.

To a small extent, the Federal Home Loan Mortgage Corporation purchases mortgage loans to hold in its portfolio. More commonly, Freddie Mac purchases mortgage loans, places them in pools, and issues pass-through certificates backed by these loans. When it issues pass-through certificates, the ownership of the underlying mortgage pool is transferred to a trustee, who distributes the cash flow from the pool to the certificate holders. Because Freddie Mac is not the owner of the pool of mortgages, these loans do not appear on its balance sheet. Thus the $10 billion of mortgage holdings shown in table 1 in the text greatly understates Freddie Mac's participation in the secondary market.

The volume of pass-through securities issued by Freddie Mac has increased sharply in the last three years because of the introduction of its guarantor program in 1981. Under this program, mortgage investors can exchange whole mortgage loans for FHLMC participation certificates. The interest rates on these pass-through securities are one-half percentage point below the rate on the underlying mortgage loans; the difference represents a fee to Freddie Mac for guaranteeing the pass-through security. These transactions are commonly referred to as mortgage swaps. From 1982 to 1984, about 85 percent of the new participation certificates issued by Freddie Mac were associated with swaps. Mortgage investors engage in these transactions because the participation certificate has greater liquidity. Also, the participation certificate can serve as collateral in a repurchase agreement; thus mortgage investors expand their borrowing capabilities by holding the Freddie Mac pass-through securities rather than mortgage loans.

The common stock of Freddie Mac is owned by the 12 Federal Home Loan Banks. Recognizing that ultimately the thrift institutions that are members of the Federal Home Loan Bank System have a claim on its income, Freddie Mac issued $600 million of participating preferred stock to these institutions in January 1985. The distribution of this stock will be retroactive so it can boost the earnings and net worth position of thrift institutions for 1984; it also will allow a direct payment of Freddie Mac dividends to those institutions in future years.

The Federal National Mortgage Association

The Congress established the Federal National Mortgage Association in 1938 to provide a secondary market for federally underwritten mortgages. Fannie Mae was once part of the federal government, but it was separated in 1968 and now is fully owned by private investors (its shares are traded on the New York Stock Exchange). For many years Fannie Mae could deal only in mortgages underwritten by the Federal Housing Administration or guaranteed by the Veterans Administration; but in 1970, it received authority to buy and sell conventional mortgage loans, and it made its first purchase in 1972.

At the end of 1984, Fannie Mae held $84 billion in mortgages, making it the largest single investor in home loans in the country. This sponsored agency also has issued a large amount of pass-through securities, which are not reflected on its balance sheet. Most of its issuance of pass-throughs is associated with a swap program similar to that of the Federal Home Loan Mortgage Corporation.

Farm Credit Banks

The Farm Credit System has the most complex organizational structure of the five federally sponsored credit agencies. The System is divided geographically into 12 districts. Each district has a Federal Land Bank, a Federal Intermediate Credit Bank, and a Bank for Cooperatives. In addition, a Central Bank for Cooperatives participates in large loans or loans that span more than one district. These 37 banks, along with a large number of cooperative associations that own the banks, form the heart of the Farm Credit System. The Farm Credit Administration, an independent agency of the federal government, provides supervision at the national level.

The Farm Credit System is the oldest of the federally sponsored credit agencies, dating back to 1917, when the Federal Land Banks were established. The other types of Farm Credit Banks followed later: the Federal Intermediate Credit Banks in 1923, and the Banks for Cooperatives in 1933. The underlying purpose of all these banks is the same: to provide an adequate flow of credit to the agricultural sector.

The three types of Farm Credit Banks and their lending associations differ in the types of loans they make. The Federal Land Banks, through a total of about 435 land bank associations, issue primarily longer-term loans for the purchase of farms, farm equipment, or rural real estate. Most of these loans have variable interest rates. The Federal Land Banks account for about 65 percent of the total assets of the Farm Credit System. The Federal Intermediate Credit Banks advance funds to about 370 production credit associations and to other financing institutions,

Characteristics of federally sponsored credit agencies

Agency	Stockholders	Influence of the administration	Line of credit with Treasury	Federal tax on income of sponsored agency[1]	State and local tax on interest income of investors
Federal Home Loan Banks	Owned by member thrift institutions but operated by the Federal Home Loan Bank Board	President selects all 3 members of the FHLBB	$4.0 billion	No	No
Federal National Mortgage Association	Owned entirely by private stockholders	President selects 5 of 18 board members; subject to general supervision by HUD	$2.25 billion	Yes	Yes
Federal Home Loan Mortgage Corporation	Nonvoting common stock owned by 12 FHLBs; participating preferred stock issued to member thrift institutions	Same as FHLBs	Indirect line of credit through the FHLBs	Yes[2]	Yes
Farm Credit Banks	Owned by farm cooperatives and credit associations	President selects 12 Board members; Secretary of Agriculture, 1	$112 million for Federal Intermediate Credit Banks; $149 million for Banks for Cooperatives; secretary may deposit $6 million in Federal Land Banks	No	No
Student Loan Marketing Association	Lenders under the Guaranteed Student Loan Program may hold voting common stock; individual investors may hold nonvoting common and preferred stock	President selects 7 of 21 Board members including the chairman	$1.0 billion[3]	Yes	No

1. Interest on all debt of the sponsored agencies is subject to federal taxation.
2. Effective January 1, 1985.
3. Sallie Mae also has the authority to sell to the Federal Financing Bank securities backed by student loans.

such as commercial banks, that make primarily short-term loans for production or operating purposes. They also write a small volume of loans for farm and rural homes and for farm-related businesses. The Federal Intermediate Credit Banks account for about 23 percent of the total assets of the Farm Credit System.

The Banks for Cooperatives make loans of all types directly to cooperative organizations providing agricultural services. The services include marketing farm products, purchasing farm supplies, or operating public utilities. As with the other Farm Credit Banks, the Banks for Cooperatives are owned by the cooperative organizations that borrow from them.

At one time, the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives each issued their own debt in the financial markets. In 1977, they issued their first consolidated debt (that is, a security that was the joint obligation of all 37 Farm Credit Banks), and since 1979 all debt issuance has been on a consolidated basis. The Farm Credit Banks tap the short-term markets for a large proportion of their funds because most of their loans have either short terms or variable interest rates.

Student Loan Marketing Association

The Student Loan Marketing Association was created by the Congress in 1972 to provide a secondary market for student loans guaranteed by the federal government. Sallie Mae also encourages the flow of credit to higher education by providing loans to institutions, known as warehousing advances, so that they can write additional student loans.

Most of the student loans purchased by Sallie Mae are granted under the Guaranteed Student Loan Program. These loans are originated by private lending institutions (such as commercial banks, thrift institutions, and educational institutions), and they are guaranteed either directly or indirectly by the federal government. The return on the loans to the holders is adjusted quarterly and set at 3½ percentage points above the interest rate on three-month Treasury bills (bond-equivalent basis). The federal government makes the entire interest payment while the students are in school; after graduation the students begin repaying the loans based on a fixed interest rate stated at the outset and the federal government makes a "special allowance" payment to bring the return to 3½ percentage points above the Treasury bill rate. Sallie Mae also purchases loans granted under other federal programs for higher education, such as the HEAL program (Health Education Assistance Loans) and the PLUS program (loans to parents of dependent undergraduate students and to independent students).

Sallie Mae is considerably smaller than other federally sponsored credit agencies, but its rate of growth over the last five years has been rapid. In addition to acquiring a large volume of new assets, Sallie Mae has broadened its array of services by offering forward purchase commitments, developing special credit plans for law and medical students, and issuing letters of credit to back student loan revenue bonds issued by state or local government agencies. In the summer of 1984, Sallie Mae acquired a savings and loan association in North Carolina to assist in providing its education-related financial services. The Congress at one time considered legislation that would prohibit this type of activity by Sallie Mae, but no legislation is currently pending.

The Growth of Consumer Debt

This article was prepared by Charles A. Luckett and James D. August of the Board's Division of Research and Statistics, with assistance from Janice S. Westfall.

The surge in consumer installment credit during the 1983–84 economic upswing has raised concerns that household indebtedness could inhibit future spending—either directly, by diverting income into debt service, or indirectly, by provoking greater caution on the part of lenders. In this article, we review recent consumer borrowing and the burden of household debt from the broad perspective of experience since World War II. We examine factors underlying past and current developments and identify influences that may be most likely to affect the future course of consumer credit.

In brief, several factors suggest that indebtedness has not yet become a serious problem. Through the end of last year, the expansion of consumer installment debt was apparently quite consistent with past relationships between consumption and new borrowing and between repayments and the stock of debt. Moreover, household survey information strongly suggests that upper-income households, which should be best equipped to handle debt, have accounted for a large part of the growth in consumer debt.

Several other influences together may be pushing up the measured rate of credit growth a notch or two without implying a proportional increase in the true burden of debt. One factor is the growing use of credit for "convenience" purposes. Many consumers use credit cards primarily as a convenient alternative to cash or checks rather than as a means of borrowing, but both borrowing and convenience use are counted in the aggregate consumer credit series. Another factor that may be giving a false picture of consumer debt is some lengthening in maturities of new consumer loans, which initially reduces the volume of scheduled repayments and thereby makes for faster growth in the stock of debt than would occur under the shorter maturity.

Factors that may be contributing to credit growth that has more significance for the burden of debt are the increased lending efforts of savings and loan associations, the relaxation of usury ceilings, and the introduction of adjustable-rate financing.

The growth of outstanding installment debt is apt to slow during 1985, notwithstanding its exceptional strength during the first two months of the year. Repayment of debt associated with earlier heavy borrowing is likely to increase more rapidly than new gross borrowing (estimated from administration projections of consumption expenditures), thus curbing net additions to the stock of consumer debt.

At the same time that growth of debt slackens, however, the ratio of consumer installment debt to disposable income—sometimes used as a measure of "debt burden" on household budgets—could rise further, perhaps to a new high. Given the earlier fast pace of debt expansion, even a reduced rate of growth in debt could exceed the rate of income growth. Nevertheless, a further rise in the debt-to-income ratio would not necessarily violate the easing in that ratio's long-run rate of increase, an easing that has persisted since the mid-1950s.

In any case, additional considerations limit the analytical significance of the debt-to-income ratio as a precise measure of the financial situation of the household sector. These aspects include the paucity of information about the underlying distribution of aggregate consumer debt, the inadequacy of outstanding debt (which is usually repayable over several years) as a measure of near-term constraint on budgets, and the impact of structural changes in consumer credit markets such as the lengthening of maturities and the development of new uses of credit.

Postwar Growth of Consumer Installment Credit

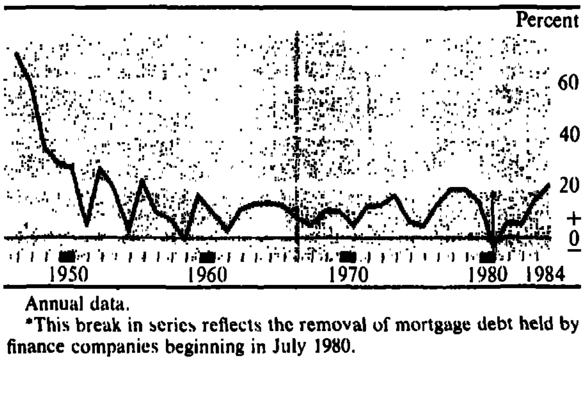
Starting from a base of less than $3 billion at the end of 1945, consumer installment credit expanded rapidly through the mid-1950s, frequently recording annual increases greater than 20 percent (chart 1). Following this initial upsurge came a 20-year period during which growth of consumer credit fluctuated cyclically but generally remained within a range of 5 to 15 percent per year. Since 1976, consumer credit growth has pushed above this range by 3 to 5 percentage points during two periods of major economic upswing—1977–78 and 1983–84. In 1984, consumer debt rose 20 percent, the highest rate for a full year since 1955.

The pattern of growth for consumer debt since World War II—a rapid increase followed by a long period of more subdued growth—has been repeated in the movement of installment debt relative to disposable personal income. This ratio rose from less than 2 percent in 1945 to nearly 11 percent in 1955 (chart 2), a trend that many observers at the time feared was incompatible with continued prosperity. But after its initial sharp climb, the debt-to-income ratio advanced at a decelerating pace to reach 15 percent by the mid-1960s, leveled off for several years, then marked a new high of 17.8 percent in 1979. In early 1985 the ratio was approaching 18 percent again.

Rapid Growth, 1946–55

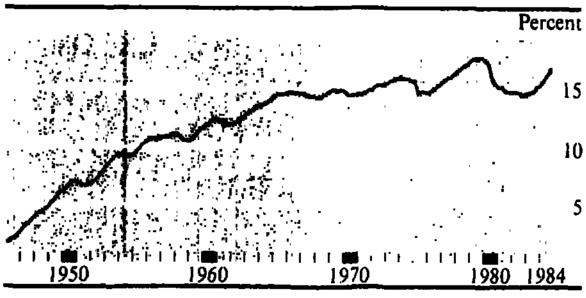
Several factors contributed to the powerful upsurge in consumer borrowing during the immediate postwar decade. Because of wartime controls on production and credit, stocks of consumer durable goods were at artificially low levels at the war's end. The backlog of demands for such goods and for the credit to help finance them played a major role in the ensuing rapid expansion of debt. A sharply higher rate of family formation during that period further stimulated outlays for consumer durables, which increased almost 11 percent per year in nominal terms from 1946 to 1955.

1. Growth in consumer installment credit outstanding



Annual data.
*This break in series reflects the removal of mortgage debt held by finance companies beginning in July 1980.

2. Ratio of installment credit outstanding to disposable personal income



Quarterly data.

The strong uptrends in consumer spending and borrowing also reflected changing attitudes on the part of both borrowers and creditors. Goods that consumers once treated as luxuries were increasingly viewed as necessities, and consumers began to use installment debt for a wider variety of purposes. At the same time, creditors were reassessing the risks of consumer lending in light of favorable industry experience with such credit. Before World War II most consumer credit was supplied by finance companies; after the war commercial banks competed more aggressively. Banks were especially attracted to the market for automobile loans, in which both the projected volume of business and the soundness of the collateral created attractive profit potential.

A substantial lengthening of maturities on new loans contributed to the growth of outstanding debt in the early postwar years. Other things equal, a lengthening of maturity reduces the amount of repayments to be made during a given period of time; with debt thereby staying on the books longer, the stock of debt becomes larger than it otherwise would have been. Moreover, because smaller monthly payments lighten the current debt burden on household budgets, demand for loans tends to rise when maturities lengthen rapidly. Most observers regarded the rapid adoption of the 36-month car loan (the previous standard was 24 months) to have been a principal spur to the boom in new-car sales in 1955.

Moderate Growth, 1956–75

The deceleration in the rate of expansion in consumer debt from the mid-1950s through the mid-1970s in large part reflected a moderation in the fundamental forces that initially stimulated the earlier postwar surge. By the mid-1950s, households had accumulated substantial stocks of durables, the formation of new families had begun to slow perceptibly, and average loan maturities were lengthening at a progressively slower pace.

Other factors also played a role. During the Vietnam War, inflation began to raise the fears of consumers about the economic future. These fears apparently led households to increase their desired levels of liquid asset holdings and reduce their borrowing.[1] On the supply side, higher costs of lending in the face of statutory ceilings on consumer loan rates may have tightened the supply of credit in the early 1970s, though not nearly so much as would the profit squeeze to come a few years later.

Resurgence, 1977–78

The growth of consumer borrowing during 1977–78 exceeded the 5 to 15 percent range that had prevailed for 20 years. Population trends and social developments probably played a positive but very limited role in this upsurge. The marriages of the original "baby boomers" created something of a demographic echo effect during the period, but as with any echo, the secondary effect was muted compared with the original impact.[2]

Inflation accelerated after 1975, eventually reaching double digits. In the 1960s, consumers responded to the onset of inflation by reducing spending and attempting to build liquid assets. By 1977–78 the rapidity of inflation and the perceived likelihood of its continuation overrode consumers' caution, driving them to shun financial assets and buy goods in advance of further price increases. During the last half of the 1970s, the climb in housing prices, which considerably exceeded the increase in the general level of prices, provided further stimulus to consumer borrowing.[3]

In the mid-1970s, maturities on new consumer loans again began to lengthen considerably, a trend best documented for new-car loans. At commercial banks, for instance, the proportion of new-car loans with maturities exceeding 36 months rose from about 5 percent in 1973, to 25 percent in 1976, to 61 percent in 1979.

The growing use of credit cards as a convenience in transactions that could have been made with cash or checks probably added to the stock of consumer debt measured in Federal Reserve statistics.[4] Several features of credit cards make them an attractive medium of transaction: they permit their users to carry less cash and to economize on checking account balances, they serve as a record of purchase and as leverage in disputes over purchases, and they provide users with free credit for short periods of time (up to nearly 60 days, depending on the timing of a purchase).

1. For example, in the 1962 *Survey of Consumer Finances*, conducted by the Survey Research Center of the University of Michigan, 50 percent of the respondents felt that their holdings of liquid assets were inadequate; in the 1969 survey, 60 percent expressed that attitude.

2. Between 1970 and 1977, the 25–34 age group, which carries a high level of debt, increased its share of population by 3 percentage points. However, the oldest age group, which uses credit sparingly, also increased its share of population, primarily at the expense of the 35–54 age group, which is a relatively heavy user of consumer credit.

3. Much of the borrowing against inflated housing equity was accomplished through mortgage instruments instead of consumer loans. It is possible that the substitution of mortgage credit for traditional forms of consumer credit held down growth of the latter more than the increased wealth of homeowners (in illiquid form) stimulated it. There is little question, however, that total household borrowing was boosted by the enormous swelling of equity in homes.

4. Convenience use of credit cards reflects innovations in payments technology and practices more than it does a fundamental shift in consumers' acquisition of debt. Nonetheless, all credit card charges that are on an institution's books at month-end are treated in the statistics as consumer installment debt, regardless of the amount of those obligations that will be paid in a lump sum before interest charges begin to accrue.

Slow Growth, 1980–82

After the sharp credit expansion of 1977–78 came an extended period of sluggish growth associated with a slack economy. Installment credit advanced by a still-robust 14 percent in 1979 but the rate tapered off rapidly toward the end of the year. In each of the three years 1980 through 1982, growth of consumer debt was less than 6 percent, the longest period of growth at such low rates since World War II. Reduced demands for consumer durables during the back-to-back recessions of the period contributed importantly to slowing the growth of credit, but the market for consumer credit in 1980–82 was also noteworthy for supply constraints that were probably the most stringent of the postwar period.

The increasing costs of funds in the late 1970s and early 1980s severely squeezed profits from consumer lending as state usury laws kept rates on consumer loans from rising as much as free-market rates. For example, the rate for prime business loans at banks, usually several percentage points below the rate for new-car loans, reached 21 percent near the end of 1980, while ceilings held the most common rate for auto loans at banks to an average of only about 15 percent.

The various state ceilings began to restrict lending broadly in 1979, causing virtually every state to revamp its rate-control laws within the next three years; some states acted more than once. Constraints on the supply of consumer credit were probably greatest in 1980 and 1981, when market rates were at their highest and ceilings on rates for consumer loans were still being adjusted.[5] In addition, the consumer portion of the administration's 1980 program of credit control provided lenders an opportunity to impose annual user fees on credit cards and to adopt other restrictive measures with minimum resistance from customers.

5. Commercial banks, the largest and most diversified presence in the consumer credit market, reduced their lending more sharply than any other source. With just under 50 percent of total installment debt at the end of 1979, commercial banks cut their holdings by $3½ billion during the 1980–82 period, a drop in market share of 7 percentage points. By contrast, finance companies increased their holdings by $30 billion and their market share by 6 percentage points during the same period, in large part as a result of automobile finance companies acting as lenders of last resort for buyers of their parent companies' products.

A Closer Look at the Debt-to-Income Ratio

High levels of consumer debt relative to income imply that many borrowers might have trouble meeting payment obligations, which in turn could mean larger losses on loans and lower net returns to creditors. Historically, creditor solvency has generally not been a problem; instead, the concern has been that, with high debt burdens and rising loan losses, lenders simply will curtail the availability of credit, thereby causing consumer expenditures to weaken. However, the chief economic problem attributed to a high aggregate debt burden appears to be its direct impact on spending, not its indirect effect via the supply of credit. Elevated debt levels, in this view, operate as a constraint on spending by deflecting an increasing part of household income flows into the servicing of debt rather than into current consumption. Any sharp increase in debt burden, particularly to a level higher than previously reached, provokes concern about its effects on spending.

Quantitative Estimates

It is interesting to note that the historical trend of the debt-to-income ratio is consistent with that predicted by a simple model devised by Alain Enthoven in 1957.[6] Enthoven's article was writ-

6. Alain Enthoven, "The Growth of Installment Credit and the Future of Prosperity," *American Economic Review*, vol. 47 (December 1957), pp. 913–29. Enthoven argued that the postwar rise was a normal, essentially benign adjustment from a level of debt artificially depressed by wartime controls and was stimulated by rapidly rising incomes and the large segment of the population that was in the heavy-borrowing phase of its life cycle. Enthoven's model was more an illustrative exercise than a behavioral model, but one of its important implications was that linear extrapolation of the postwar trend of the debt-to-income ratio was erroneous—that even with no shift in borrowing habits, the debt burden ratio should tend toward some approximate ceiling determined by the long-term growth in income and propensities to borrow. The actual trend of measured debt burden from the late 1950s to the present has been quite consistent with Enthoven's expectations.

ten at a time when the ratio had increased rapidly from its postwar low, and many observers were voicing concern over the potentially damaging economic consequences of a continued sharp rise. But Enthoven anticipated a leveling off of the ratio as it approached some upper limit governed by the model's parameters. Replication of the Enthoven model using historical data suggests that the normal upper bound for the ratio of installment debt to income is between 20 and 22 percent. Taking this rough estimate at face value, it appears that the ratio still has some margin for further increase.

Analytical Limitations

There is little to justify heavy reliance on such an upper bound figure to estimate a precise ceiling for debt burden that would be invariant over time. It would be particularly questionable to read the calculated boundary as a critical value above which households would be overburdened with debt. Changes in several parameters, such as the structure of debt maturity, can alter the implied ceiling for the debt-to-income ratio, and practical problems of statistical measurement also qualify the interpretation of the ratio. Some of the major limitations on the usefulness of the debt-to-income ratio are reviewed below.

Distribution of Debt. The aggregate ratio of debt to income provides no information on the distribution of debt among households. Problems of repayment arising when a relatively limited number of borrowers take on more debt might well differ from those arising when a broader range of households are borrowing. Similarly, the aggregate ratio does not categorize income and asset holdings of debtors, yet it seemingly would make considerable difference whether it is low-income, low-asset households or relatively affluent consumers who are building up debts.

Relative Significance of Outstanding Debt and Repayments. If consumer debt is of analytical concern mainly as a near-term constraint on household budgets, a measure of scheduled payment obligations per month or per year would be preferable to a figure for total debt outstanding. The size of the monthly payment is generally more important to decisions on spending than is the size of the total debt, which may be payable over several years. However, only amounts outstanding are now available; the repayments series were discontinued at the end of 1982 for all lenders except finance companies.

Although the repayments estimates were dropped, in part to reduce the reporting required of lenders, they also gave a misleading measure of the burden of debt payments. In particular, they represented actual repayments rather than scheduled or minimum required payments,[7] and they were subject to distortions associated with fluctuations in refinancing.[8]

Incomplete Coverage of Household Indebtedness. Shifts among installment credit, noninstallment credit, and mortgage credit can reduce the relevance of a measure that includes only installment debt. On the other hand, a consumer debt series incorporating all these types may not be any more useful. The stock of mortgage debt is a particularly ambiguous proxy for budget constraint, partly because of the much longer maturity of mortgage debt compared with installment debt. The home mortgage debt of all households equals more than 50 percent of aggregate disposable income, but only a small fraction of the stock of such debt is due within a year. Moreover, the mix in the stock between fixed-rate mortgages and those whose scheduled payments may fluctuate with interest rate movements further hinders interpretation.

As for noninstallment debt, a lack of good sources of data makes it a difficult component to measure, and a large portion of it could be considered convenience credit, which is of little

7. Thus early payoffs of debt, which might stem from a strong household balance sheet, would have the effect of raising the measured repayments-to-income ratio; increased delinquencies, reflecting repayment problems, would lower the measured ratio.

8. When an existing loan was refinanced, often in the process of borrowing additional funds, the repayment series usually treated the amount of the old loan as being repaid and the entire amount of the new loan as new borrowing. With the refinanced portion of the loan thus included in both extensions and repayments, the net flow of debt and the total stock were unaffected, but estimates of repayments would fluctuate with the (unknown) volume of refinancing activity.

analytical import.[9] Historically, because noninstallment debt has closely followed the path of installment debt, its omission from the debt-to-income ratio appears to be unimportant for cyclical analysis. However, there has been some secular shifting from noninstallment to installment debt, especially through the long-term trend in retail stores to shift from 30-day "charge account" credit to optional-payment "revolving" credit.

Other Factors. All of the factors discussed earlier that may affect the use of debt or its measurement would naturally affect the ratio of debt to income. Thus the spreading practice of using credit cards for their convenience in place of cash or checks gives an upward nudge to the debt-to-income ratio. The lengthening of maturities, which lowers the ratio of repayments to income in the short run, raises the ratio of outstanding debt to income in both the short and the long run.

On balance, the ratio of installment debt to income is a rather crude measure of the extent to which debt obligations constrain current spending. Sharp and sustained increases in the ratio or a surge to a level considerably higher than the peak in the preceding credit cycle should not be dismissed lightly but cannot be taken as definitive evidence of a dangerously overburdened consumer sector.

A Detailed Look at 1983–84

We have discussed the major factors underlying the growth of consumer credit from the end of World War II through 1982. Here we examine the 1983–84 growth phase for its consistency with movements in consumer spending, offer evidence from surveys on the distribution of debt by income of households, and identify several special factors that may help explain the data.

Consistency with Consumption Spending

The rate of advance in consumer installment credit during 1983–84 was well above the growth paths in any other upswing since 1955. Moreover, the rapid gains during the latest recovery occurred despite a much slower pace of inflation than attended the 1977–78 credit boom. Installment credit growth soared to an annual rate of 24 percent in 1984:2, more than 3 percentage points higher than the rate in any other quarter in the past 30 years. From mid-1984 to year's end, credit growth ebbed, but it remained as strong as it was at the peaks of many earlier credit expansions.

Credit growth has been exceptionally strong even though spending increases have not been as rapid as in some earlier periods of advance. It is likely that repayments have provided an uncommonly low offset to new borrowing, which would explain much of this seeming anomaly between credit and spending growth.

The net growth of consumer credit is the difference between gross new borrowing (extensions) and repayments of old debt. Since debt repayments can be regarded as a function of the credit extensions that took place in preceding months (with the precise relationship determined by the original loan maturities and the propensities of borrowers to prepay their debts), repayments will be relatively large or small depending on the strength of new borrowings during a relevant period of time—about three to four years in the case of consumer credit.[10]

As discussed earlier, the 1980–82 period marked the longest sustained weakness of new borrowing by consumers since World War II. Thus, for much of 1983–84, the rate of growth in outstanding debt was probably boosted by the comparatively small volume of repayments flowing from the weak earlier extensions. More recently, the robust recovery in extensions during 1983–84 has no doubt begun to enlarge the stream of repayments, a process that should retard credit growth as 1985 progresses.

In the absence of data on extensions and repayments after 1982, we projected historical

9. Noninstallment credit includes amounts owed to utility companies and providers of services, such as doctors and dentists. The largest component—single-payment loans at banks—covers such uses as "bridge loans," which temporarily finance the purchase of one home while another is being sold, and loans that may be used for financial investments instead of consumption.

10. Most consumer loans mature in three to four years.

1. Ratio of extensions to consumption and of repayments to outstanding debt, 1979–82[1]

Year and quarter	Extensions as percent of consumption	Repayments as percent of outstanding debt
1979:1	22.1	101.3
2	21.9	101.3
3	21.7	100.9
4	20.6	98.1
1980:1	20.1	98.7
2[2]	16.7	94.7
3	18.6	100.7
4	18.4	101.3
1981:1	19.0	102.7
2	18.9	101.5
3	18.2	98.7
4	17.1	97.1
1982:1	17.0	98.1
2	18.2	100.7
3	17.2	98.6
4	18.1	100.7

1. Extensions, consumption, and repayments are quarterly totals at seasonally adjusted annual rates. Outstanding debt is the stock of installment debt at the end of the previous quarter. Collection of data on extensions and repayments of consumer installment credit was discontinued beginning in 1983.
2. The credit controls program was in force during this period.

patterns of extensions relative to consumption and of repayments relative to outstanding debt into the period 1983:1–1984:4; we used these projections together with observed consumption outlays to generate a simulated path of growth in the stock of debt. Values for the ratios of extensions to consumption and of repayments to outstanding debt for 1979–82 are shown in table 1, and the simulated patterns of extensions, repayments, and net growth in credit outstanding are presented in table 2.[11]

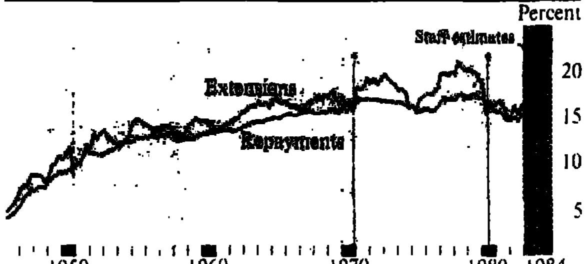
Comparisons of simulated credit expansion (table 2, column 6) with actual credit growth (column 8), and of simulated outstanding debt (column 7) with actual outstanding debt (column 9), suggest that recent credit growth was consistent with the growth of consumption expenditures, based on historical patterns of consumption and credit. After eight quarters of calculations, the constructed debt total differed by only $2 billion from the published total.

The paths of historical and simulated extensions and repayments relative to disposable income are shown in chart 3. If the constructed series are reasonably accurate estimates of underlying extensions and repayments, the two ratios were approaching previous highs toward the end of 1984.

The analysis can be carried a step further to examine reasonable expectations for consumer credit growth during 1985, based on implicit administration estimates for consumption expenditures (table 3). For instance, if the ratios of extensions to consumption and of repayments to outstanding debt were increased gradually to their previous cyclical highs, the net change in consumer credit would slide to about $50 billion by 1985:4, equivalent to a 10 percent annualized growth rate.

Several alternative projections (not shown here) were based on somewhat different but historically realistic assumptions about ratios of extensions to consumption and of repayments to outstanding debt; none of the alternative growth paths varied by more than 2 percentage points from that of table 3. Of course, substantial devi-

3. Ratios of extensions and repayments of consumer installment credit to disposable personal income



Data are quarterly through 1982; data plotted in the shaded area are staff estimates.

*Two breaks in the series occur: the first reflects the inclusion of gasoline companies after 1970; the second reflects the removal of mortgage debt held by finance companies beginning in July 1980.

11. To simulate extensions for the period from 1983:1 to 1984:4, we assumed that the extensions-to-consumption ratio would pick up gradually in early 1983 and accelerate toward the top of its historical range as the economic recovery gathered force. By applying this pattern to the actual figures for consumption, simulated estimates of extensions were calculated. To generate reasonable values for repayments, the ratio of repayments to outstanding debt was begun at approximately the 1982:4 level and increased gradually toward the upper end of its recent range. As extensions and repayments for each quarter were derived, a resulting calculation for outstanding debt was made that provided a base upon which to estimate the next period's outstanding debt. In this manner, estimates of extensions, repayments, net change, and outstanding debt could be made for each quarter and would be consistent with historical relationships among these series themselves and with consumption.

2. Consumer credit aggregates, simulated and actual[1]

Billions of dollars, seasonally adjusted annual rate, except as noted

Year and quarter	Simulation							Actual	
	Consumer spending	Ratio of extensions to consumption (percent)	Extensions	Repayment ratio (percent)	Repayments	Net change	Outstanding	Net change	Outstanding
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1983:1	2,070.4	17.5	362.3	101.5	333.2	29.1	335.6	28.0	335.3
2	2,141.6	17.8	381.2	101.5	340.6	40.6	345.8	38.8	345.0
3	2,181.4	18.3	399.2	101.7	351.7	47.5	357.7	50.8	357.7
4	2,230.2	19.0	423.7	101.7	363.8	59.9	372.7	73.6	376.1
1984:1	2,276.5	20.0	455.3	102.0	380.2	75.1	391.5	69.2	393.4
2	2,332.7	21.0	489.9	102.2	400.1	89.8	414.0	92.0	416.4
3	2,361.4	21.2	500.6	102.4	423.9	76.7	433.2	69.6	433.8
4	2,397.4	21.4	513.0	102.6	444.5	68.5	450.3	74.4	452.4

SOURCES. Col. 1: actual consumption expenditures, Bureau of Economic Analysis.
Col. 2: authors' estimates based on historical relationships between extensions and consumption.
Col. 3: col. 1 times col. 2.
Col. 4: authors' estimates based on historical relationships between repayments and outstandings.
Col. 5: col. 4 times col. 7, previous period.
Col. 6: col. 3 minus col. 5.
Col. 7: col. 6 at quarterly rate plus col. 7, previous period.
Cols. 8 and 9: Federal Reserve Board, G.19 statistical release.

ations from these calculated paths of credit expansion could develop if, for instance, actual consumption diverged significantly from its assumed path, or if marked shifts from historical norms occurred in the underlying debt ratios.

3. Illustrative projections of consumer installment credit, 1985

Billions of dollars

Period	Extensions	Repayments	Net change	Outstanding	Growth rate
1985:1	526.6	464.5	62.1	467.9	13.7
2	540.0	481.5	58.5	482.5	12.5
3	551.0	497.0	54.0	496.0	11.2
4	561.6	510.9	50.7	508.7	10.2

Distribution of Consumer Debt

One problem in interpreting the aggregate debt-to-income ratio is that it contains no information about the distribution of the debt among households of differing economic characteristics. Two major surveys of consumers, sponsored by the Federal Reserve Board and conducted by the Survey Research Center of the University of Michigan in 1977 and 1983, help to address this issue.

One important survey result is that a large part of the growth in installment debt between the two years apparently was accounted for by households in the highest income quintile (see table 4). The lowest income group also increased its share of debt somewhat, but that share nevertheless remained quite small. The top 20 percent of households by income level owed about 45 percent of the debt in 1983, compared with 36

4. Proportion of households in debt and share of total debt, by income quintile, 1970, 1977, and 1983[1]

Percent

Year	Income quintile				
	Lowest	Second	Third	Fourth	Highest
	Proportion of households in debt				
1970	22.9	46.6	60.9	67.4	47.2
1977	30.0	50.5	62.7	64.9	57.5
1983	31.9	51.3	67.2	73.7	72.0
	Share of total debt in survey				
1970	3.8	15.2	31.4	27.9	21.7
1977	4.3	11.7	19.7	27.7	36.5
1983	4.8	14.1	16.3	19.4	45.5

1. Includes credit card debt.

SOURCES. *Consumer Credit Survey*, 1970 and 1977, and 1983 *Survey of Consumer Finances*.

percent in 1977.[12] Those in the lowest income bracket held 5 percent of the debt covered in the 1983 survey, compared with 4½ percent in 1977. The proportion of households in debt rose in all income groups, with particularly sizable gains in the two highest groups.

To some extent, then, these six-year trends tend to allay concerns that the rapid rise in debt during 1983–84 has overburdened the household sector with debt. An overburdening seems less likely if, as the surveys suggest, the financially better-off households are doing most of the borrowing and outstanding debt is more widely distributed among households than before.

Factors Influencing Current and Future Growth of Consumer Credit

That credit expansion during 1983–84 has been consistent with consumer expenditure patterns perhaps makes a search for a special explanation of the expansion less imperative. However, various possible influences on the rate of growth in credit may provide clues to the prospects for future variations from the postwar paths of debt and debt burden.

Convenience Use of Credit Cards. The expanding use of credit cards for their convenience in transactions rather than for borrowing over a period of months has biased upward the measures of debt and debt burden in recent years. Convenience credit continues to be an important issue for the future, as well, because it is plausible that convenience credit could either expand or contract substantially.[13]

Revolving credit has been the fastest growing component of installment debt during the 1983–84 period. Over the 12 months through February 1985, revolving credit increased 26 percent, compared with 20 percent for automobile credit and 20 percent for the large "other" credit category. However, little hard evidence is available on what proportion of credit card debt outstanding represents convenience use.

An approximation of convenience use—represented by the proportion of card users who pay in full within the billing period—is provided by two household surveys. In each of the large Board-sponsored surveys of 1977 and 1983, approximately 50 percent of the card-using respondents said that they "almost always" pay credit card bills in full. Industry estimates of this proportion have generally been lower—more on the order of 35 to 40 percent.[14] But even at the lower estimates, it seems that a substantial number of people behave as convenience users.

The survey finding that the proportion of card users that pay bills in full has not changed much between 1977 and 1983 might suggest that convenience use may have been a constant share of total debt for several years. However, such proportions do not translate easily into the share of debt attributable to convenience users because the size of their average balances relative to those of other card users is not known and may change over time. It is entirely possible that convenience users have been increasing their activity relative to borrowers without increasing in relative numbers.

Nevertheless, a rough estimate was made of the impact of convenience use on the aggregate debt-to-income ratio in recent years. Starting from 1977:1 (the point at which data on retail revolving credit became available as a component separate from the "other" category), we assumed that the growth in convenience credit was a constant 40 percent of the growth in total revolving credit throughout the period—roughly equivalent to the proportion of convenience users in the card-holding population. We estimated "convenience-adjusted" trends of revolving and total debt by subtracting out all growth in convenience credit after 1977:1, thus holding the abso-

12. This result continued a trend that carried back at least to 1970, when the highest income quintile owed 25 percent of the debt.

13. For instance, if financial institutions were to impose interest charges from date of purchase to date of payment on bills paid in full, the long-term trend toward greater convenience use of credit cards might be sharply reversed; the development of debit cards could also lower the convenience use of credit cards.

14. Industry estimates are more frequently based on actual account activity during a given period. Since, for any particular month, some proportion of those who "almost always" pay in full will not in fact do so, the measured proportion of accounts paid in full will be smaller than the share of card holders that usually pays in full.

lute volume of convenience use to its 1977:1 level.

Although such calculations are merely hypothetical, they suggest some reasonable magnitudes for the impact of convenience credit on the installment debt series. Actual figures and estimates for total installment debt and the debt-to-income ratio are shown in table 5. The convenience-adjusted growth rate in installment credit is about ½ to 1¼ percentage points lower than the reported rate in recent quarters, and the adjusted debt-to-income ratio by 1984:4 is about 1 percentage point below its actual level. In other words, because the reported series reflect convenience use of credit, debt growth has been somewhat faster recently and the debt burden is now 1 percentage point higher than it otherwise would have been.

Lengthening of Maturities. For some types of closed-end loans, maturities have begun to lengthen recently. In the case of new-car loans at major auto finance companies, the increasing use of five-year car loans has extended the average maturity to 50.2 months as of December 1984, compared with 46.3 months at the end of 1983; the average maturity continued to lengthen in early 1985. Between the end of 1979 and 1983, in contrast, the average maturity at these companies had lengthened by just two months. Qualitative information indicates that an increasing proportion of commercial banks and credit unions also are making some five-year car loans.

The four-month increase in average maturity for all newly originated auto loans during 1984 probably had a rather small impact on total installment credit. Such a maturity shift could have accounted for about ¼ percentage point of the overall rise in the stock of debt in 1984.[15]

The impact of lengthening maturities will become more pronounced if the trend continues, but a precise estimate for 1985 and beyond is problematic. Since a shift from 48 months to 60 months would represent a smaller percentage change in maturity than, say, the earlier shift from 24 to 36 months, the resulting enlargement of the debt stock would be proportionately smaller. Likewise, the direct effect on the demand for cars might be more moderate than before in view of the smaller percentage reduction of monthly payment size. On balance, however, it appears that the debt stock should continue to receive at

5. Growth of consumer installment debt, actual and adjusted for convenience credit[1]

Percent

Year and quarter	Annual rate of growth in outstanding debt		Ratio of outstanding debt to disposable personal income	
	Actual	Convenience-adjusted	Actual	Convenience-adjusted
1977:1	18.1	18.5	15.9	15.9
2	17.6	16.3	16.2	16.1
3	15.6	15.6	16.3	16.2
4	17.5	15.9	16.5	16.4
1978:1	16.7	16.0	16.8	16.6
2	20.8	19.8	17.2	16.9
3	16.0	14.8	17.3	17.0
4	15.8	15.1	17.5	17.1
1979:1	17.5	16.0	17.7	17.3
2	13.7	12.2	17.9	17.4
3	13.2	12.0	17.9	17.4
4	10.4	9.5	17.9	17.4
1980:1	7.4	8.3	17.7	17.2
2	−8.3	−9.7	17.1	16.6
3	(2)	(2)	16.0[2]	15.5[2]
4	2.2	1.8	15.5	15.0
1981:1	6.9	6.3	15.3	14.8
2	6.9	5.9	15.3	14.8
3	7.8	7.6	15.0	14.5
4	.4	.1	14.9	14.3
1982:1	5.0	4.5	14.9	14.3
2	6.5	5.8	14.8	14.3
3	2.8	2.5	14.7	14.2
4	5.0	4.9	14.7	14.1
1983:1	8.6	8.0	14.8	14.2
2	11.6	10.6	15.0	14.3
3	14.7	14.4	15.1	14.4
4	20.4	19.2	15.5	14.7
1984:1	18.5	17.4	15.7	14.9
2	23.4	22.0	16.3	15.4
3	16.8	16.3	16.6	15.7
4	17.1	16.3	17.1	16.2

1. "Convenience-adjusted" debt is actual debt minus an estimate of the cumulative growth in convenience credit. Thus the difference between the actual observations (which include convenience use) and the convenience-adjusted estimates (which hold convenience use to its level in 1977:1) indicates the overall impact of convenience use on the growth rate and the debt-burden measure.

2. The discontinuity in these series reflects the removal of mortgage debt held by finance companies beginning in July 1980.

15. For auto loans of typical size and interest rate, a maturity of 50 months would leave an outstanding balance at the end of the first year 2¾ percent higher than the corresponding balance on a 46-month loan. However, newly made loans constitute only one-third to one-fourth of the auto loan stock, which in turn constitutes about one-third of total installment debt. Thus, the first-year impact of a four-month increase in the average maturity on new auto loans would be diluted considerably in the aggregate.

least a moderate boost over the next few years from a stretching out of maturities, particularly in the auto loan area, where some lengthening is clearly in process.

Demographic Factors. Population trends have probably had a slightly positive effect on the growth of consumer credit in the last two years. The movement of the baby boom generation into the age groups characterized by high rates of family formation, spending, and borrowing was approaching a crest as the 1983–84 period got under way. Whereas in 1977–78 the proportion of people in the 35–44 age group had been declining for several years, it was on the rise at the beginning of 1983. The 25–34 age group was still expanding as well. Together these two groups represented 29 percent of the population in 1982, compared with 26 percent in 1977 (and 23½ percent in 1970). Further growth in the oldest age category, which uses debt sparingly, offset this trend to some extent.

In 1983 (the latest year for which data are available) 42 percent of the nation's households were headed by persons between 25 and 44. According to survey responses, households headed by these persons ranked highest in the proportion of households in debt (table 6). In addition, borrowers in the 35–44 age bracket also had the highest mean level of debt of any age category.

We estimated the overall impact of changes in the age distribution by calculating what the average amount of debt for all households would be using 1977 and 1983 age distributions in conjunction with 1983 average levels of debt within age categories, as shown in table 6. We weighted the average amounts of debt for each age group in 1983 (including those with no debt) by the proportion of the households headed by a person within that age group for each of the two years and computed two weighted-average means. The 1983-weighted estimate of debt was $2,693, 0.5 percent larger than the 1977-weighted average of $2,679. This result suggests that the aggregate level of debt in 1983 was 0.5 percent higher than it would have been had there been no change at all in the structure of the population between 1977 and 1983.

Marriage rates and birth rates rose 5–10 percent from 1977 to 1982, reinforcing the conclusion that demographic trends have been stimulating debt expansion during 1983–84. These rates are still well below peaks in the late 1950s—births, for instance, occurred at the rate of 25 per 1,000 people in 1955 and only 16 per 1,000 in 1982. But current trends appear to be unmistakably upward and should continue to foster consumer credit demands to a small degree.

Credit Market Innovations. Innovations in lending to households can affect the growth of the consumer installment credit series, positively in some cases and negatively in others. An innovation may consist of a new credit instrument, revival of an "old" instrument, a new source of credit, or some change in the characteristics of loan contracts. The impacts of several such factors are mentioned below, but we do not make a detailed evaluation.

6. Effect of age on amount of debt outstanding

Age of head of household (years)	Distribution of households by age of head (percent)		Percent in debt, 1983	Mean amount of debt, 1983[1] (dollars)	Contribution of age groups to overall average debt (dollars)	
	1977	1983			1977	1983
	(1)	(2)	(3)	(4)	(5) = (1) × (4)	(6) = (2) × (4)
Under 25	8.1	6.8	54.1	1,564	127	106
25–34	21.8	22.8	73.6	3,586	782	818
35–44	16.8	19.1	75.9	4,097	688	783
45–54	17.4	14.7	68.6	3,459	602	509
55–64	15.9	15.6	52.5	2,530	402	395
65 and over	20.0	21.1	21.8	388	78	82
All age groups	100.0	100.0	...	...	2,679[2]	2,693[2]

1. Mean is for all households in group, including those with no debt.
2. Population-weighted average amount of debt outstanding, calculated by summing the figures shown for individual age groups.

SOURCES. Bureau of the Census, *Current Population Reports*, series P-20, selected issues; Federal Reserve Board, *Consumer Credit Survey*, 1977 and 1983, data tapes.

• Securities brokerage firms in recent years have begun offering "cash management accounts," which often include a line of credit accessible by a credit card. Because brokerage firms are not included in the official installment credit statistics, this development tends to retard the measured growth of the series to the extent that consumers substitute brokerage credit for credit from banks and other sources covered by the statistics.[16]

• Savings and loan associations are becoming increasingly important suppliers of consumer credit, by virtue of provisions in the Depository Institutions Deregulation and Monetary Control Act of 1980 that widened the asset powers of these institutions. In percentage terms, consumer credit at savings and loan associations grew faster than any other component during 1983–84. Savings and loans held $31.7 billion of consumer debt in February 1985, nearly double the amount at the end of 1982.[17] How much of this gain represents a net addition to household borrowing and how much a replacement of one source by another is uncertain; it seems likely that the additional competition introduced into the market by savings and loans has operated to expand the overall supply of credit, resulting in at least somewhat greater borrowing on somewhat more favorable terms than would otherwise have prevailed.

• Housing equity grew rapidly in the last half of the 1970s, and financial institutions greatly expanded their holdings of junior mortgages in those years. Most junior mortgages properly would be classified as mortgage credit instead of consumer credit.[18] Any expansion in junior mortgage debt that supplants consumer loans would reduce the lending reported in the consumer debt series.

A newer type of lending, secured by real estate and used primarily for consumption, provides an open-ended line of credit backed by housing equity. Several institutions began offering such plans in 1982, when certain changes in federal regulations removed barriers that had made the plans impractical.[19] The volume of receivables under such plans is believed to be comparatively small; it is not known to what extent some institutions may be misreporting such lending as revolving consumer credit rather than as mortgage credit.

On the whole, individuals probably raised more funds by tapping their housing equity during the 1977–78 period, when housing equity had grown enormously, than they did during 1983–84, which followed a period of more slowly rising home prices. Much of the housing equity mobilized in 1977–78 was raised in the process of selling one home and purchasing another, rather than by second mortgages. Undoubtedly, borrowing against home equity partly supplemented traditional types of consumer loans and partly substituted for them. On net, the 1977–78 surge in housing-related borrowing for consumption could partly explain why the reported rate of growth in consumer credit during that period of inflation, when people might have been expected to borrow more, was not as rapid as it was during 1983–84, when prices were more stable.

• Adjustable-rate financing of consumer loans is probably encouraging the growth of consumer credit to some extent. Adjustable-rate contracts, which shift interest rate risk to consumers, have probably increased the willingness of creditors to make consumer loans and to make them with longer maturities. In general, though, any increase in demand for consumer loans because of adjustable rates is likely to be small compared

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16. Many of the credit card plans offered by brokerage firms are operated for the firms by other institutions, which actually carry the receivables. Credit extended under such plans in many cases would be included in the statistical series as receivables held by the ultimate credit source.

17. Savings and loans may soon surpass retail stores—which hold $38 billion of consumer receivables—as the fourth largest supplier of consumer credit. Commercial banks remain by far the largest supplier, with $218 billion of consumer credit outstanding in February. Finance companies hold $99 billion, and credit unions hold $71 billion.

18. As a general principle, loans are classified in the consumer credit statistics by type of collateral rather than by purpose of borrowing, because the ultimate purpose—the marginal endeavor financed by a loan—is rarely knowable to a creditor.

19. The proper handling of sales under open-ended plans secured by real estate was blocked by the right of borrowers, under the Truth in Lending law, to rescind within three days any transaction that mortgages their home and by the duty of sellers to give notice of such right at the time of purchase. The Congress amended the law in 1982 to require that notice of the rescission right need be given only by creditors and only at the time that the account is opened or a change made in its terms or in the credit limit.

with the boost such financing has given to mortgage lending. Because maturities are so much shorter and loan amounts so much smaller in consumer markets, the monthly payment is affected less by initially lower rates on a consumer loan than it is on a mortgage.[20] Thus demand effects are likely minimal.

Given the fairly slow spread of adjustable rates in the consumer market so far—perhaps 10 percent of consumer loans carry an adjustable rate at present—and the questionable power of adjustable rates to generate demand for consumer loans, it appears that their effect on growth in 1983–84 was minor. Still, adjustable rates should exert a net positive influence on the supply of credit over the longer term.

• The further development of secondary markets for consumer loans could stimulate growth of consumer credit. To date, the purchase of consumer loans has been limited primarily to the small segments for home improvement, mobile home, and student loans, but the purchase of auto loans may be on the verge of rapid development. A major investment banking firm has been privately selling "Certificates for Automobile Receivables," representing packages of auto loans, and expects a public market to emerge soon.[21]

In general, secondary markets can bring to a loan sector funds from investors who would not otherwise provide financing for that purpose. The data on consumer credit growth may understate such expansion, however, if it means the transfer of receivables to the books of holders not covered in the consumer credit statistics from originators that are included in the statistics.

• Student loans outstanding have increased strongly over the past decade, to $32 billion in 1984, reflecting the burgeoning costs of education and the expansion of federal guarantee programs.[22] Because growth in this sector has been steady rather than cyclical, it probably has contributed not so much to the 1983–84 upsurge in credit as to a longer-run stimulus.

• "Private label" credit card plans have been expanding rapidly, but this type of credit no doubt represents mainly a substitution of one source of credit for another. Private label credit cards carry the logo of a retail store or supplier of goods (two major computer firms are recent entrants), and promotional materials for the firm are included with monthly bills, but the operation of the plan and the carrying of the receivables are handled by another institution. Private label credit should be reported as consumer credit holdings by the ultimate carrier of the receivables, and for the most part this practice appears to be followed.

• Loans on life insurance policies, now totaling about $55 billion, are a source of credit to consumers not included in the consumer credit statistics. Borrowing against the cash value of insurance policies was much heavier in 1979–81, when low rates of interest were guaranteed in many policies and market interest rates were extraordinarily high, than it apparently was in 1983–84. If it substitutes for consumer credit, an increased volume of policy loans would depress the measure of consumer credit, and a reduced volume would tend to raise it, but the degree of substitution between the two is far from clear. Much of the proceeds of earlier low-rate borrowing was redirected into high-yielding financial assets rather than into consumption. On balance, policy loans do not appear to have had a major impact on the growth rate of consumer credit.

• The deductibility of interest payments in figuring federal income taxes supports consumer credit demands, especially when interest rates are high, as they were in the late 1970s. If enacted, the Treasury Department's proposal to

20. On a typical 48-month car loan, an increase of 1 percentage point in the interest rate raises the monthly payments for interest and principal by $3 to $4. On a typical 30-year home mortgage, a 1 percentage point difference in interest rate could mean a $50 difference in monthly payments.

21. In responding to a 1983 survey by the American Bankers Association, nearly 28 percent of commercial banks with assets of $500 million or more reported selling consumer loans in the secondary market; smaller banks were less active. The dollar volume of such transactions was not reported. ABA, *1984 Retail Bank Credit Report* (Washington: ABA, 1984), table 18.

22. The loans are made by banks and other institutions under the Department of Education's Guaranteed Student Loan Program. The statistics on consumer credit treat student loans as noninstallment credit until regular monthly payments are begun after the student's graduation; at that point the loans become one of many elements of the "other" component in the installment credit category.

limit the deductibility of personal interest expense should have but slight effect on consumer credit demands. Under current law, all such interest is deductible; under the proposal, deductibility would be limited to mortgage interest on the taxpayer's principal residence and an amount equal to net investment income plus $5,000. In the overview to the reform proposal, the Treasury points out that "in 1981, only 3.3 percent of individual tax returns claimed itemized deductions for nonmortgage interest in excess of $5,000." The $5,000 allowance should be sufficient to allow the continued deductibility of interest on loans to buy autos and major appliances and on a sizable amount of other personal indebtedness.

• The development of tax-sheltered savings plans such as individual retirement accounts could lead to a higher volume of borrowing. Such plans are generally quite illiquid and in most cases substitute for other types of saving. Households are more likely to borrow to finance consumption when their savings are in illiquid form. Moreover, some households may find it advantageous for tax reasons simultaneously to build up tax-sheltered savings and borrow for consumption, rather than simply funneling income flows directly into spending.

On the other hand, to the extent that tax-sheltered savings plans promote saving at the expense of consumption, they could provide some deterrent to borrowing. Also, with the recent sharp increase in money market deposit accounts and other highly liquid assets, it is not clear that household savings grew much less liquid, on balance, during the 1983–84 upswing.

• Finally, the use of consumer credit for business needs or other nonconsumer purposes can affect the measured growth of the consumer credit series. No information on this practice has been collected since the early 1950s. At one time, the installment credit series were adjusted to remove an estimate of nonconsumer use based on 1952 relationships. Adjustments for installment credit were small (although noninstallment debt contained a fairly high proportion of nonconsumer use), and were confined mainly to home improvement credit. Such adjustments were eventually discontinued for lack of information. There is no strong reason to believe that nonconsumer use of consumer credit has intensified greatly during 1983–84, but in the absence of relevant data nothing definitive can be said on this point.

CONCLUSION

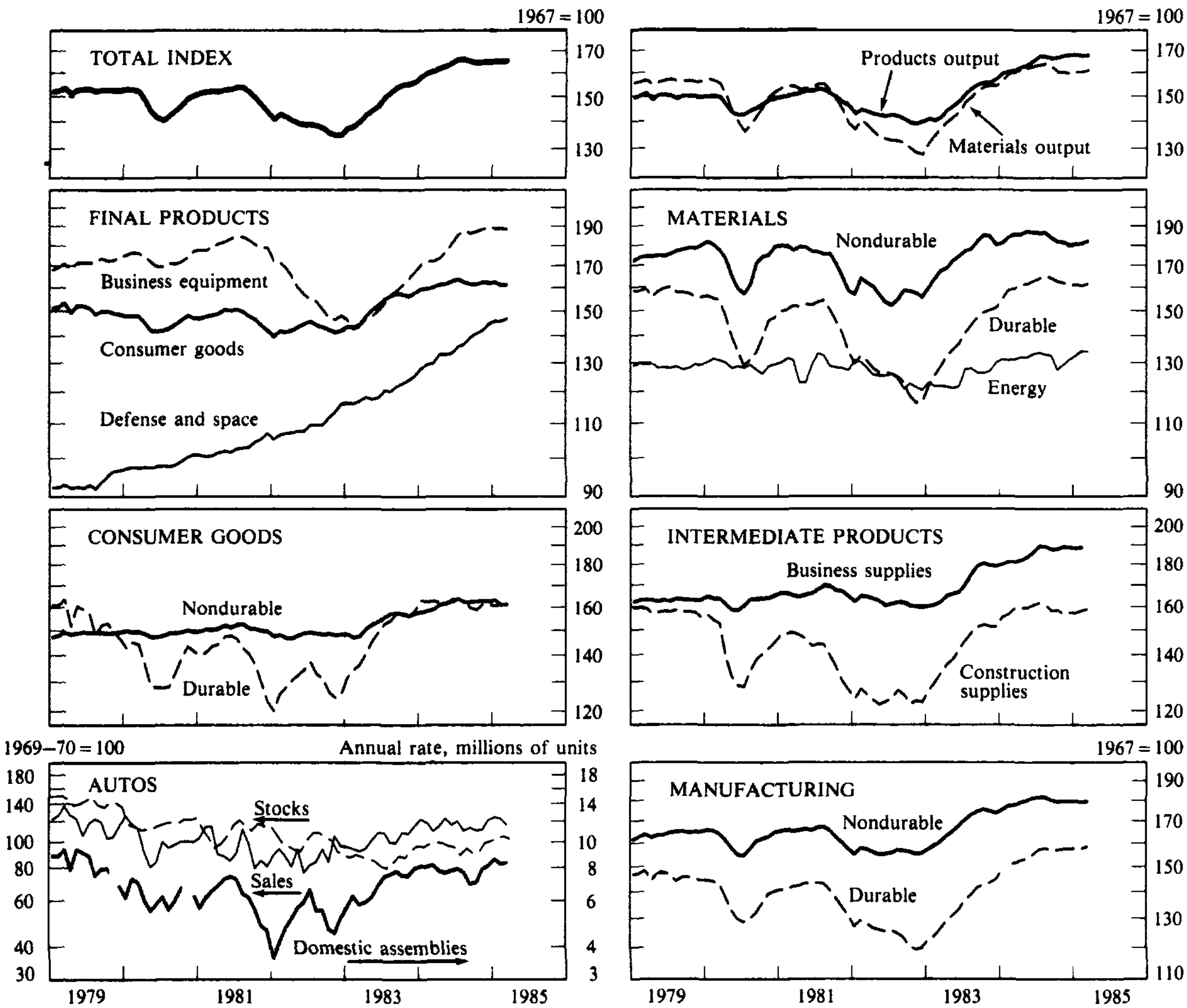
The pace of consumer credit expansion in 1983–84 exceeded that of any period since the years immediately following World War II. This rapid growth, however, appears to be consistent with typical relationships between consumption and borrowing and between repayments and the stock of debt. Several factors in combination may have imparted a moderate upward push to the measured rate of growth of installment debt and the ratio of debt to income, notably some lengthening of loan maturities and a growing volume of convenience use of credit cards. The continuation of normal linkages between consumption and debt expansion points to a slowing of the rate of growth in consumer credit during the near term. A miscellany of special factors may, on balance, add from 1 to 3 percentage points to the anticipated trend.

Industrial Production

Released for publication April 16

Industrial production increased an estimated 0.3 percent in March following a decline of 0.2 percent (revised) in February. At 165.4 percent of the 1967 average, the index was 2.9 percent above a year ago, but remained slightly below its level in the summer of 1984. The preliminary average for the first quarter is about 1 percent higher, at an annual rate, than the fourth quarter of 1984.

In market groupings, output of consumer goods was little changed in March following a 0.9 percent decline in February. Automotive products rose 0.4 percent as autos were assembled at an annual rate of 8.3 million units following a rate of 8.2 million units in February, but output of home goods and nondurable consumer goods



All series are seasonally adjusted and are plotted on a ratio scale.

Auto sales and stocks include imports. Latest figures: March.

Grouping	1967 = 100		Percentage change from preceding month					Percentage change, Mar. 1984 to Mar. 1985
	1985		1984		1985			
	Feb.	Mar.	Nov.	Dec.	Jan.	Feb.	Mar.	
	Major market groupings							
Total industrial production	**164.9**	**165.4**	**.2**	**.0**	**.2**	**−.2**	**.3**	**2.9**
Products, total	167.7	168.0	.5	.2	.1	−.3	.2	4.3
Final products	166.1	166.2	.6	.3	.1	−.5	.1	4.8
Consumer goods	161.1	161.3	.6	−.2	.2	−.9	.1	.7
Durable	161.2	161.5	1.8	−.3	−.2	.3	.2	−1.0
Nondurable	161.1	161.2	.2	−.2	.3	−1.3	.1	1.3
Business equipment	188.9	188.5	.6	.6	−.3	−.1	−.2	9.5
Defense and space	145.9	146.9	.8	1.8	.8	.1	.7	12.9
Intermediate products	173.7	174.5	−.2	.1	−.1	.4	.5	2.5
Construction supplies	158.5	159.2	−1.1	.4	−.1	.7	.4	.1
Materials	160.6	161.3	.0	−.4	.4	.1	.4	.6
	Major industry groupings							
Manufacturing	166.5	167.1	.2	.0	.1	−.2	.4	3.1
Durable	157.7	158.5	.3	.0	.2	−.1	.5	4.7
Nondurable	179.1	179.5	.1	.0	.1	−.3	.2	1.1
Mining	123.1	123.5	1.0	−.3	.6	−1.6	.3	−.2
Utilities	184.6	184.7	2.3	−.5	−.1	.6	.1	2.6

NOTE. Indexes are seasonally adjusted.

changed little. In the equipment group, production of business equipment edged down again in March largely as a result of further reductions in oil and gas well drilling, while defense and space equipment rose 0.7 percent. Output of construction products increased 0.4 percent following a 0.7 percent gain in February. Materials production rose 0.4 percent overall; among durable materials, output rose 0.6 percent, primarily reflecting gains in basic metals. Nondurable materials, including paper and chemicals, also are estimated to have increased in March after small gains in January and February and a series of reductions in the second half of 1984.

In industry groupings, manufacturing output rose 0.4 percent in March as durable manufacturing increased 0.5 percent and nondurable manufacturing, 0.2 percent. Mining output rose 0.3 percent after declining 1.6 percent in February, and the output of utilities was little changed.

Statements to Congress

Statement by E. Gerald Corrigan, President, Federal Reserve Bank of New York, before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 1, 1985.

I welcome the opportunity to appear before this subcommittee to discuss efforts aimed at improving standards of capital adequacy for dealers in U.S. government securities. This and related efforts predate my appointment as President of the Federal Reserve Bank of New York, but I am generally familiar with the background leading to today's hearing. I am also mindful that the events of the past few weeks—growing out of the collapse of a Florida-based government securities firm—have raised broader questions about the operation and the integrity of parts of the government securities market. In that context, I thought it would be useful to review briefly some background relating to the market, including the role of the Federal Reserve Bank of New York in providing a degree of oversight of that market. Having done that, I will turn to the proposed capital standards and conclude with some general observations about the future role of public policy as it pertains to the oversight or regulation of the government securities market.

Background

At the outset, Mr. Chairman, I think it is important to stress again that the market for U.S. government securities is the largest, the most efficient, and the most liquid securities market in the world. More importantly, given the sheer size of the debt of the federal government and the speed with which government debt is being accumulated, we all have a very large stake in seeing to it that those traits of liquidity and efficiency are preserved or, better still, improved. The historic "breadth, depth and resiliency" of the government securities market reflect, in the first instance, the fact that the full faith and credit of the United States stand behind each Treasury bill, note, or bond, thus creating a financial instrument that is "risk free."

While the unique character of the U.S. government security rests fundamentally with the issuer of the security, it is also true that certain institutional factors, which have worked in the direction of enhancing the marketability of U.S. government securities, have developed over time. For example, the primary dealers in government securities—the true market-makers for government debt—clearly help to improve the liquidity and the efficiency of the market by maintaining two-way markets, by directly participating in auctions of new government debt, and by serving as the essential bridge between the Treasury and the vast network of institutions and individuals who are the ultimate holders of government debt. Similarly, the Federal Reserve–Treasury book-entry system for government securities provides a highly efficient method for market participants to hold and to trade in government securities. The resulting speed, efficiency, and relatively low transaction costs associated with secondary market transactions in government securities contribute importantly to the liquidity of the market and to the attractiveness of Treasury securities to investors.

Because Treasury securities are issued by the U.S. government and because of the way the secondary market for such securities has developed over time, the volume of trading in such securities is enormous. For example, it is not uncommon for more than $200 billion in government securities to change hands in a single day via the book-entry system. And even that number does not include the substantial trades that take place outside the Federal Reserve–Treasury book-entry system nor does it include the large volume of trading in derivative instruments such as options and futures in government securities.

As this subcommittee knows, the direct interest of the Federal Reserve Bank of New York in the operation of the government securities market grows out of the fact that day-to-day purchases and sales of government securities—most, I might add, in the form of repurchase agreements—are the primary vehicle used by the Federal Reserve in seeking to influence the growth of money and credit. During 1984, for example, the aggregate value of such transactions conducted by the Fed with the primary dealers was $209 billion. The Fed also acts as agent for more than 100 foreign central banks and other foreign official institutions in the market. Transactions conducted by the Fed on behalf of these institutions in 1984 amounted to $211 billion. All Fed transactions—whether for its own account or for the accounts of foreign official institutions—are conducted with the primary dealers.

The origin of the role of the Federal Reserve Bank of New York in providing a form of surveillance over the primary dealers was, in part, a straightforward business proposition. Indeed, given the enormous volume of public funds associated with the Fed's transactions in the marketplace, it was quite natural that, in conducting such transactions, the New York Fed would be guided by one of the oldest precepts in trading—"know your counterparty."

Of course, the essence of our interest in the workings of the market goes beyond our strict business relationships with the primary dealers. Indeed, the essence of that concern stems from the fact that the government securities market is the market that we use for monetary policy implementation and that the Treasury uses for financing the federal government. Over time and in recognition of the larger public interest considerations associated with the operation of the government market, the New York Fed's role in the market evolved into an informal watch dog function that loosely incorporated some elements of traditional regulatory functions.

This evolution of the Fed's interest in the government securities market took place, however, in a framework in which the Fed had, and has, no statutory authority and in a framework in which the sheer growth of the debt, as well as advances in communications and technology, has made it possible for dozens, if not hundreds, of new firms to enter the government securities business and to operate nationwide from virtually any location in the country.

To summarize, the Fed's initial interest in the safe functioning of the government securities market was one that grew out of the time-honored tradition of knowing those with whom you do business. Over time, that interest gradually took on some of the trappings of a more generalized, but essentially voluntary, system of oversight aimed at the primary dealers. That system of general surveillance over the primary dealers has, in my judgment, served the Treasury, the Fed, and the public well for a long period of time.

More recently, and reflecting in part changes in market structure, the Fed stepped up its efforts to learn more about the activities of nonprimary dealers in government securities. This effort—also entirely voluntary in nature—entailed a very limited form of monthly reporting and efforts aimed at establishing voluntary capital adequacy standards. The current arrangements, especially as extended to the nonprimary dealers with which we do not have a business relationship, are not without problems.

Perhaps the more serious problem is that by having an informal monitoring role, we may create an appearance of providing much greater protection from abuse than it is realistic to assume. Given our present role, we have to be careful in dealing with suspected problems—indeed there may be circumstances in which efforts to move in on a suspected problem could create a difficulty when none existed, or could make a large problem out of a small one. Some danger of this type probably exists with any regulatory function, but it may be especially acute in the case of the government securities market, given the intricate interdependence of that market with so many other parts of the financial structure. Since there can never be a fail-safe system of surveillance or even of regulation, I believe that recognition of these problems must be central to our thinking as we seek ways to guard against the abuses while at the same time seeking to preserve the strength and the dynamism of the market for our government's debt and the market we rely on for the conduct of monetary policy.

THE FED'S VOLUNTARY CAPITAL GUIDELINES

The Fed's initial proposal for a system of voluntary capital guidelines for government securities dealers was the subject of a hearing by this subcommittee in May 1984. Reflecting the proceedings at that hearing, as well as the public comments received on the initial proposal, a revised approach was developed and issued for public comment on February 7, 1985. The public comment period ended on March 31. To date, we have received about 20 comments, and they are summarized in the attached appendix.[1]

At the risk of a gross oversimplification, and in an effort to avoid a morass of technical detail, I believe I can say that there are two major differences in the current proposal relative to the one that was discussed with the subcommittee last year. Those major differences are the following:

1. The current guidelines are targeted at those firms that are not otherwise regulated by federal banking supervisors, are not covered by Securities and Exchange Commission (SEC) restrictions and capital rules, or are not subject to the reporting, the monitoring, and the capital fitness standards of primary dealers. In other words, the capital guidelines are aimed at unregulated and/or unsupervised dealers in government securities. The universe of dealer firms that might be subject to the guidelines is not known, in part, because as dealers in exempt securities they are not subject to a federal registration requirement. Using a narrow definition of what constitutes a dealer, we believe that there may be 100 or so firms in this universe, 30 of which are now providing the limited monthly reports referred to earlier.

2. The second and more substantive change in the proposed guidelines relates to the methodology used to determine risk profiles and corresponding levels of adequate liquid capital. The approach is broadly similar to the financial responsibility rules used by the SEC, but has been tailored to the characteristics associated with positions and trading in government securities and related instruments. The current proposal, while more complex, centers on the more penetrating—and, we think, more realistic—analysis of risks associated with particular instruments and classes of instruments in which dealers trade and take positions. Also, there is greater attention to risk in offsetting positions within maturity categories, and increased recognition of risk reduction embodied in arbitrage and hedging techniques employed by dealers. We have also expanded the number of maturity categories to refine the measurement of risk and have included risk factors that reflect recent price volatility. Analysis of the risk of new instruments has also been added, including treatment of zero coupon securities, futures, and options.

While we believe the guidelines are technically sound and especially well suited to a government dealer operation, the question of how effective the guideline program will be in reducing the probability of new market abuses remains. Applied in the present setting, the program depends on an unsupervised dealer taking action voluntarily to implement the guidelines and to stick with them over time. The dealer must agree to participate and then to monitor the level of risk according to the guideline analysis; the level of risk must be reduced when the dealer's liquid capital falls below calculated requirements. We believe dealers, as a group, will honor the voluntary system and that the presence of the guidelines, reinforced by the certification procedures, will help all market participants, especially primary dealers and clearing banks, and will instill a higher level of discipline and prudence in the marketplace. In the final analysis, however, the voluntary guidelines will provide that added measure of discipline only to the extent that market participants insist that affected dealers comply with the guidelines and are willing to certify to that effect.

Having said that, let me hasten to add that the capital guidelines should not be viewed as anything approaching a panacea. They will help, but by themselves they will not provide ironclad protections against all forms of market and credit risk. And, to be very sure, they will not restrain a dealer willing to practice deception and to certify falsely that it is in compliance. Clearly, there is no regulatory regime that can prevent *all* fraud or deception.

These qualifications notwithstanding, I do not see why the guidelines cannot be in force within

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

a matter of weeks. The speed with which dealers will adopt the guidelines is another matter and will depend on how quickly market participants can be made aware of their existence, on whether participants are prompt in demanding compliance by their counterparties, and on how promptly internal and outside auditors turn to the task of assessing individual firms' conformity to the standards. This hearing, as well as other educational efforts we contemplate, should help to speed the process by focusing public attention on the guidelines. However, the fact that we have had very little direct commentary from those who would be affected by these proposals gives me some concern as to the speed with which the guidelines will, in fact, be put in place.

In considering the utility and the effectiveness of the capital guidelines, an obvious question, of course, is whether the guidelines could have or would have prevented the demise of E.S.M. Government Securities, Inc. (ESM). Given the truly extraordinary circumstances surrounding ESM's operations—including allegations of fraud and wholly inaccurate financial statements—I believe the answer must be that the guidelines would not—in and of themselves—have prevented the problem. On the other hand, as I said earlier, I also believe that a case can be made that the presence of such guidelines can, and should, bring further awareness and discipline to the marketplace and, absent the gross irregularities associated with an ESM-type operation, provide customers and trading partners of these unregulated firms with a vehicle to help them assess the financial position of such firms. And, given the experience at ESM, I would think that any accounting firm would take a long hard look at such financial statements before it was willing to certify the accuracy of such statements. In short, the ESM episode does not lessen the case for the guidelines. Rather, it works in the opposite direction, keeping in mind, of course, that such guidelines cannot eliminate all risks to the marketplace and cannot contain those bent on fraud and deception.

LOOKING TO THE FUTURE

Whatever else may be said of the ESM episode, I think we can all agree that it does bring into even sharper focus the question of whether the current system of some self-regulation of parts of the government securities market is adequate for the future. In seeking to answer that question, there are several aspects of recent experience—experience not limited to ESM—that seem to me highly relevant. Among these are the following:

1. Despite the very troubling problem cases of the recent past, the market as a whole continues to function effectively in fair weather or foul.

2. Government securities dealers—like all economic agents—must follow the dictates of prudence and caution in their affairs. If they fail to do so, they, as others, must be subject to the disciplines of the marketplace, including the ultimate discipline of failure.

3. Because of the nature of their business, problems or failures of government securities dealers raise very difficult issues relating to investor protection and the threat that a particular failure can cascade into a more generalized or systemic problem.

Against this background and the background of the problems of the recent past, there can be little doubt that there are public policy issues of broad importance associated with the safe operation of the government securities market. In these circumstances, it is not surprising to hear increasing calls for some type of more formal regulation of the market backed up by statutory authority vested with one or more government agencies.

The Federal Reserve, in cooperation with the SEC and the Treasury, is taking a fresh look at that question and the results of that review are expected to be made available to the Congress as soon as possible. While I do not want to prejudge the results of that effort, I would stress three points. (1) In these deliberations, particular attention will have to be focused on the universe of nonregulated, nonprimary dealers. Indeed, even when such firms report monthly, as ESM did, the mere presence of such a reporting relationship may work to create a false and unwarranted sense of confidence about such firms. (2) Any effort aimed at reform must take account of the imperative of preserving a smoothly functioning market for government securities. (3) With or without formal regulation, it seems to me that recent experience points to the need for further efforts to reduce the risks of more problems down the road. In that connection, let me mention several areas that seem to me worthy of further effort.

1. We in the Fed plan to step up, in a significant way, our education efforts, especially as they pertain to political jurisdictions and subdivisions. Toward this end, we are developing some new educational material, and—working with trade groups at the national and local level as well as with the other Federal Reserve Banks—we plan to conduct a series of seminars nationwide over the coming months. While this effort can reach only a small fraction of the market participants who might be susceptible to the abuses we have seen, we believe it can play a constructive role in further heightening investor awareness of the potential pitfalls associated with repo (repurchase agreement)-type transactions.

2. I also believe that we may be able to do more through the bank supervisory process to educate further both depository institutions and examiners about risks in repo-type transactions and securities lending. As a first step, we will recommend to the Federal Financial Institutions Examination Council that a coordinated examination program for clearing banks, banks in general, savings and loan associations, and credit unions be developed. With that in progress, we will also bring this area of concern to the Conference of State Bank Supervisors.

3. The Federal Reserve also is investigating whether the operation of the book-entry system for Treasury securities can be adapted in ways that would facilitate steps to improve the safety of repo-type transactions. The transfer of securities, for example, could possibly be earmarked in a way that would identify the securities being held under a repurchase agreement and the parties to such agreements. As an extension of that procedure, consideration might be given to establishing a segregated account for repurchase transactions at each depository institution. While there may be some pay dirt in these areas, I would want to stress at the outset that this is a highly problematic and complex area, with numerous possible technical and legal impediments that may stand in the way of getting useful results.

These potential avenues for improvements should and will be explored; the voluntary capital guidelines should and will be put in place; and the question of a more formal system of regulation of the government securities market should and will be addressed. In the final analysis, however, none of these things can substitute for the good old-time religion of knowing your counterparty; performing rigorous credit checks; limiting trading and position-taking to sound, prudent levels; and resisting the complusion to seek out those few extra basis points at the expense of sound practice. Those disciplines were never easy to instill and to maintain, but in today's markets they are even more elusive. Yet, as we have seen all too dramatically, the temptations in today's markets with their sheer size and speed demand an even stricter adherence to that old-time religion. □

Statement by J. Charles Partee, Governor, Board of Governors of the Federal Reserve System, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, April 2, 1985.

I appreciate the opportunity to appear before this subcommittee today to review some of the concerns of the Federal Reserve Board with respect to evolving changes in the financial structure that serve to link depository institutions and other financial entities. To the extent that previously separate financial services come to be merged with those services that have been traditionally provided by depository institutions, it seems to me eminently reasonable to ask whether safeguards can be put in place to constrain or to eliminate the potential for abuse, without at the same time unduly limiting the benefits of the merged activities. In my remarks, I will focus on both the potential benefits and the costs of these relationships and illustrate some of the problems that may be involved by indicating how we at the Federal Reserve have addressed similar issues and conflicts in the recent past.

The basic framework within which the Board approaches the issues arising from expanded relationships between depository institutions and other financial entities can be summarized as follows: (1) we want to encourage fair competition in the provision of banking services to preserve impartial access to credit; (2) we want to promote efficiency and reduced costs so that customers may benefit in terms of lower prices for existing services and gain from possible new and innovative services; (3) we want to protect against undue concentrations of economic resources that would result in unfair discrimination among customers, conflicts of interest, and other potential abuses; and (4) we want a strong and stable banking system, with continued close attention to safety and soundness of banks and other depository institutions, both as an objective in and of itself and because of the crucial importance of banking stability to the smooth operation of the economy.

These goals will, in some circumstances, be in conflict so that each of the various avenues toward financial consolidation will require an examination of the particular issues raised and a careful balancing of the likely costs and the benefits involved. In approaching that balance, the normal perception for most industries—that one may simply look to the marketplace to promote competition and efficiency—must be tempered by a recognition of the need to maintain confidence in banking institutions and continuity in the provision of money and payments services. In addition, any market perception that diversification into new and riskier activities significantly increases overall banking risk may lead to higher funding costs and hence the cost to the public of bank credit.

Longstanding policy in the United States has been to prevent banking organizations from engaging directly in commercial enterprise. Concern over the commingling of banking and commerce was an important motivation for the Bank Holding Company Act of 1956 and the 1970 amendments to that act. Potential abuses that were of concern to the Congress may be divided into four categories: (1) potential conflicts of interest, (2) decreased or unfair competition, (3) undue concentration of resources, and (4) increased risk to banks that might result from affiliation with risky nonbank enterprises. With respect to potential conflicts of interest and decreased or unfair competition, particular concern has centered on avoiding such anticompetitive practices as the following: (1) tying arrangements involving banking services and nonbank activities, (2) preferential treatment of nonbank affiliates, and (3) unequal access to credit for independent firms competing with the bank's affiliates.

The Board has consistently supported the concept of maintaining the separation of banking and commerce. In this regard, the recent proliferation of "nonbank banks" is a particularly disturbing development. Such institutions are allowed to exist along with conventionally defined banks but, by virtue of a narrow definition of what constitutes a "bank" in the Bank Holding Company Act, may not be subject to that act and to the rules governing holding company relationships. This is the case whenever the nonbank bank is owned by a commercial, an industrial, or a nonbank financial parent. Since by definition these owners do not thereby become bank holding companies, the anti-tie-in provisions of the act do not apply, nor are they subject to the inspection and the enforcement powers of the Federal Reserve. Yet nonbank banks can take different forms of deposits, including transaction accounts, and make consumer loans, as well as a wide variety of other types of credit extensions. By offering insured deposits, nonbank banks could serve to increase the risks faced by the deposit insurance funds since their parents may not be subject to the safeguards embodied in the Bank Holding Company Act.

Concern over conflicts of interest is not limited to issues of separating banking and commerce. It also relates to potential conflicts of interest that may arise from combinations of financial firms and from the diversity of activities allowed within the bank itself. The usual means of addressing these issues in banking are through a system of prohibitions, limitations, and insulation.

An example of this approach is the "Chinese Wall" separation of bank trust departments from the rest of the bank. Besides securities laws against insider trading and laws specifying the fiduciary responsibilities of trustees, the Board issued a policy statement in 1978 that augmented further these prohibitions and limitations for banks. The Board advised that trust personnel should be denied access to commercial credit files; government, agency, and municipal securities underwriting files; and other pertinent records. Greater insulation was also recommended through the physical separation of trust and commercial bank lending and investing personnel. Such prohibitions and limitations on activities between trust and other departments appear to have been successful in preventing abuses of the potential conflicts of interest inherent in a combination of trust and commercial bank activities.

In accordance with this general approach, the Board has supported some expansion of bank holding company powers into other financial activities under appropriate regulatory safeguards. Such activities include the ability to sponsor, control, and distribute the securities of mutual funds; to underwrite and deal in municipal revenue bonds, one- to four-family residential mortgage-backed securities, and commercial paper; and to engage in a limited way in a variety of real estate brokerage, some types of insurance underwriting, and travel products. Certain other activities appear to raise serious risk and conflict-of-interest concerns, and thus the Board has been much less willing to support bank involvement. For example, we recently denied the application of a bank holding company to acquire a national bond rating service because of the pervasive conflicts of interest that would be present in the combination. The Board has similar concerns with respect to proposals to permit banks to underwrite corporate securities.

A related issue is whether a new activity should take place "inside" the bank, as with trust activities, or should be lodged in a separate affiliate of the bank holding company to address better the insulation and the conflict-of-interest concerns. The Board believes that in many cases the latter strategy is the most appropriate. Conduct of a nonbanking activity in a separate subsidiary would permit equivalent ground rules across institutional lines and would also provide a structural basis for at least partial insulation of one activity from another.

An area in which the insulation issue has emerged recently is that of direct equity involvement in real estate activities by banks. Such investments have been suggested as one area in which depository institutions might play a greater role in the future. Proponents argue that permitting depository institutions to make direct equity investments in real estate will permit these institutions to diversify their portfolios, to improve service to their real estate customers, and to enable them to share in the profits of real estate development more directly than through the provision of real estate loans. On the other hand, real estate development has historically been a risky and a highly cyclical activity. And, as often is the case regarding these new activities, diversification benefits could be swamped by increased risks of loss if they are permitted to exceed relatively low levels of concentration. To better insulate the bank, we believe that such activities should be placed in separate affiliates of a bank holding company rather than be undertaken within the bank itself.

Lastly, considering the various ways in which depository institutions in the past have sometimes been weakened by activities of their holding company affiliates, a number of common elements emerge. These elements serve to illustrate possible limitations that could be considered to improve the insulation concept. It may be desirable, for example, to require each subsidiary to maintain capital that is fully adequate to meet its own commitments. Similarly, stricter rules designed to prevent extensive or regular support in the form of loan guarantees on behalf of, preferential financing to, or cross collateralization clauses in financing for affiliates may be desirable. Adherence to all of the formalities of separate incorporation may also be desirable so that the public is not led to believe that holding company affiliates together constitute a single entity, and therefore that losses at one affiliate could spread throughout the organization.

In sum, there are obvious problems in insuring that activities of nonbanking affiliates (and parents) do not unduly affect banks and other depository institutions. When risk is substantial and could threaten the banking entity, we would seek to insulate the bank to protect depositors and the payments system. Quantitative limitations on such investments, perhaps based on the capital of the holding company, might also be usefully employed. Insulation and other efforts to avoid conflicts of interest cannot always be fully successful, and thus some risk will remain. Nevertheless, the marketplace is clearly evolving toward ever-broadening combinations of financial services, and there may well be economies, as well as the convenience and the other benefits of increased competition, to be gained. In each instance of broader corporate powers, whether in banking, insurance, securities, or real estate development, we would urge that these potential benefits be compared with the probable costs, taking into account whether, and what, workable safeguards against injurious potential conflicts need to be imposed. □

Statement by Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, U.S. House of Representatives, April 3, 1985.

I am pleased to appear before this subcommittee to discuss the Federal Reserve's contribution to efforts to ameliorate the problems of the state-chartered, privately insured thrift institutions in Ohio. The situation in Ohio was touched off by reported losses suffered by Home State Savings Bank (Home State) as a result of transactions with E.S.M. Government Securities, Inc. (ESM), a broker-dealer in government securities, but also was related to more systemic weaknesses in the supervision and insurance of some Ohio savings and loan associations. A detailed chronology of the Federal Reserve System's response to events in Ohio is attached to the statement of President Karen Horn of the Federal Reserve Bank of Cleveland. [That statement follows this one.]

As this subcommittee is aware, reports of losses at ESM precipitated a run on Home State that led to its closing. This development subsequently contributed to more generalized deposit outflows at other Ohio Deposit Guarantee Fund (ODGF) savings and loan associations and savings banks in Ohio, and a number of these institutions experienced heavy depositor withdrawals. Faced with this situation, Governor Celeste of Ohio closed, on a temporary basis, all 70 of the remaining ODGF thrift institutions. Subsequently, the state of Ohio adopted a plan that allows certain institutions that were found to qualify for federal insurance to reopen on a full-service basis. Ohio authorities are pursuing other remedial steps, including the potential merger of weak thrift institutions with stronger federally insured institutions, designed to resolve the situation and to promote the safety of depositor funds. At present, all but one of the ODGF thrift institutions have reopened on either a full- or a limited-service basis, although a permanent solution involving the remaining closed thrift institution, Home State, and those thrift institutions that cannot qualify for federal insurance remains to be worked out. The limited service reopenings permit withdrawals of $750 per account per month. The Federal Reserve is lending to the reopened thrift institutions when necessary.

In reviewing this situation, it is helpful at the outset to clarify the Federal Reserve's specific regulatory responsibilities for various types of banking institutions as well as its broader responsibilities as the nation's central bank. The Federal Reserve has primary supervisory responsibility at the federal level for state-chartered banks that are members of the Federal Reserve System and for all bank holding companies. Commercial banks that are members of the Federal Reserve System are insured by the Federal Deposit Insurance Corporation (FDIC), and commercial banks that are subsidiaries of bank holding companies, regardless of membership status, must by law be federally insured. Of course, the Federal Reserve does not have supervisory responsibility for thrift institutions, and the federal regulatory agencies, including the Federal Reserve, generally do not have direct supervisory or regulatory responsibility for state-chartered, nonfederally insured depository institutions, such as the affected ODGF thrift institutions in Ohio. Normally, such institutions are supervised and regulated by state authorities. The Federal Reserve is not an insuring agency and does not have the authority to make direct equity investments in depository institutions. However, the Federal Reserve does have the authority to lend through the discount window and, in its role as the nation's central bank, has a fundamental responsibility to foster the stability and the orderly functioning of the nation's banking and financial system.

Nonmember depository institutions, including the state-chartered thrift institutions in Ohio, became generally eligible for discount window borrowing in 1980 as a result of the enactment in that year of the Monetary Control Act. Under this legislation, the discount window facilities of the Federal Reserve System were made available to all insured or uninsured depository institutions throughout the nation that offer transaction accounts or hold nonpersonal time accounts.

In its capacity as the central bank, the Federal Reserve may assist in efforts to deal with financial disturbances to prevent them from becoming generalized financial crises or causing systemic dislocations. An important policy tool to achieve these ends is the discount window through which the Federal Reserve serves as the ultimate source of liquidity.

Throughout this difficult period in Ohio, the Federal Reserve Bank of Cleveland has been prepared to lend and has loaned through the discount window to the affected thrift institutions under the terms and conditions established by law for such borrowing. Indeed, on March 6, one day after the public disclosure of possible Home State losses, Federal Reserve examiners were dispatched to Cincinnati to meet with Home State officials, to explain borrowing procedures, and to begin to review potential collateral. In addition, the eligibility of state-chartered depository institutions, including thrift institutions, for discount window assistance was stressed in a public statement by the Federal Reserve Bank of Cleveland on March 10. Before the temporary closings of the ODGF institutions, the Federal Reserve Bank of Cleveland provided discount window credit to certain affected institutions, and as the institutions have reopened, they have been eligible for liquidity assistance. The availability of this discount window assistance to reopened institutions was stated publicly by President Horn on March 15 and reiterated by Chairman Volcker on March 20, 1985.

In carrying out its responsibilities as lender of last resort, the supervisory and examination personnel of the Federal Reserve System have worked closely with the affected institutions to inform them of collateral and documentation requirements and to assist them in understanding fully and in meeting these requirements. Discount window loans to affected institutions have been made at the regular discount rate, currently 8 percent, and, as required by the Federal Reserve Act, have been secured by adequate collateral. As is usually the case, this collateral has consisted of government and agency securities, commercial loans, one- to four-family residential mortgage loans, and other loans, and the collateral has been evaluated within normal guidelines. The Federal Reserve has, however, acted in an expeditious manner to facilitate the access of these institutions to the discount window under normal terms and conditions.

Besides these responsibilities as lender of last resort, the Federal Reserve has also played an important role in monitoring events in Ohio and in facilitating cooperative efforts among the various parties involved to resolve the situation, to reestablish public confidence, and to promote the safety of depositors' funds. In this capacity, Federal Reserve officials have held or participated in numerous meetings with government and supervisory officials from the state of Ohio as well as with officials from the Federal Home Loan Bank Board (FHLBB), the Federal Home Loan Bank of Cincinnati, and other federal regulatory agencies. To enhance our understanding of the financial condition of the affected thrift institutions and to assist the state of Ohio and the FHLBB, the Federal Reserve, within a few days of the temporary closings, provided examiners to participate in on-site examinations and asset evaluations of the ODGF institutions. These examinations have helped to determine the availability of collateral for facilitating access to the discount window and, equally important, they have played a critical role in the process of reopening those institutions found to qualify for federal insurance. The information developed in our on-site visits and otherwise has been made available promptly to other federal and state authorities. We hope that these actions have supported and complemented the steps taken by Governor Celeste, the Ohio legislature, and the federal insurance agencies to reopen the affected thrift institutions.

As the primary supervisor of bank holding companies and in response to a request by the state, the Federal Reserve has also been in contact with banking organizations, both within and outside Ohio, to determine their interest, if any, in acquiring or merging with ODGF institutions, including those that may be unable to qualify for federal insurance or to reopen without additional external support. The day after the temporary closings, Reserve Bank officials telephoned the senior managements of bank holding companies throughout the country to inform them of imminent state plans to hold meetings to discuss the possible sale or acquisitions of certain thrift institutions.

As the subcommittee is aware, the state of Ohio has adopted a plan requiring federal insurance for essentially all savings and loan institutions, building and loan associations, and all savings banks in the state. The state has also implemented arrangements to provide depositors at ODGF thrift institutions with limited access to their funds. Further, the Ohio legislature acted promptly to advance $50 million in state funds to shore up the remaining ODGF institutions other than Home State. To facilitate the federal insurance requirement, expedited arrangements have been made for review of applications by the FHLBB, the FDIC, and the Federal Reserve. In this process, the Federal Reserve will continue to make field examination personnel available to the FHLBB and to authorities in Ohio to assist in examinations and to expedite the process of qualifying for federal deposit insurance. We have been informed that as of March 29, 1985, the state of Ohio had authorized 26 institutions to reopen on a full-service basis. Included in this group is a former thrift institution that has converted to commercial bank status and has reopened with FDIC insurance after the Federal Reserve Board acted on a bank holding company application. Also included in this number is a thrift institution acquired by a bank holding company in a transaction approved on an expedited basis by the Federal Reserve Board.

It may take some time for the thrift situation to return to normal in Ohio. A number of ODGF institutions have obtained federal deposit insurance. Others will, apparently, need an injection of capital from present owners or new investors, and still others may need to be acquired by stronger depository institutions. I assure you that the Federal Reserve will continue to provide assistance through the discount window, the provision of examination personnel to assist the FHLBB and state authorities, and the expeditious review and action on applications for mergers or acquisitions that require our approval.

While a longer-range solution with respect to all of the affected thrift institutions remains to be worked out, the events in Ohio underscore the importance of full cooperation among appropriate federal and state supervisory authorities in dealing with any strains or pressures involving depository institutions that could have adverse systemic implications for the banking or financial system. Such adverse developments must be met with timely and effective action to restore confidence and to maintain the stability of the financial system. In the case of the thrift institutions in Ohio, I believe that, in general, the remedial procedures that have been taken should significantly reduce any lasting impacts on financial markets.

One of the questions raised by the recent events in Ohio relates to the role of private deposit insurance funds. Clearly, deposit insurance is an important factor in maintaining public confidence in depository institutions. Indeed, as I have noted, commercial banks that are members of the Federal Reserve System are insured by the FDIC, and all commercial banks that are subsidiaries of bank holding companies are required by law to be federally insured. I believe that it is too early to make a definitive judgment about the role of sole-insurer, private insurance funds and even state-sponsored funds in our financial system.

There may be industry structures that could be adequately supported by private arrangements as sole insurers—structures involving large numbers of small institutions, having a substantial reserve fund not dependent upon deposits by the insured institutions, and featuring adequately strong examinations and auditing procedures. Such a structure might consist of a large number of smaller credit unions. Any such arrangements suffer from a certain degree of confusion as to whether and to what extent the resources of state government are behind the private sole insurers' reserves. However, industry structures consisting in part or in whole of sizable depository institutions, reserve funds dependent upon the deposits of the members, and with an examination and regulatory procedure in part justified to its membership as less rigorous than federal procedures raise substantial questions as to whether the public interest is served thereby. The Board supports the movement of several state legislatures away from private insurance funds. Whatever approaches may ultimately prove feasible, the events in Ohio do serve to remind us of the potential consequences of the loss of public confidence in individual depository institutions and of the celerity with which that loss can spread to other institutions. In view of these concerns, the Federal Reserve System will continue to cooperate fully with the state and the federal authorities in seeking a long-run solution to liquidity problems of thrift institutions in Ohio. □

Statement by Karen N. Horn, President, Federal Reserve Bank of Cleveland, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, U.S. House of Representatives, April 3, 1985.

I am pleased to appear before this subcommittee to discuss the Federal Reserve's response to the recent problems experienced by thrift institutions insured by the Ohio Deposit Guarantee Fund (ODGF). This morning I will be reviewing for you the response of the Federal Reserve Bank of Cleveland. Attached to my statement is a chronology that sets forth the Federal Reserve System's response to recent events in Ohio.[1]

I would like to begin by stating that the role of the Federal Reserve Bank of Cleveland throughout this period has been to assist the state of Ohio and other federal regulators in fashioning a solution. Our initial involvement was to ensure that we could act quickly to provide liquidity assistance at the discount window and to make currency shipments—first to Home State and subsequently to other institutions insured by the Ohio Deposit Guarantee Fund. We have acted at the request of the state of Ohio, and throughout this period the Federal Reserve Bank of Cleveland and the Federal Home Loan Bank (FHLB) of Cincinnati have shared information and staff in a cooperative effort to deal with the problems and to fashion solutions. I would also like to recognize the substantial and supportive role of the correspondent banks in Cincinnati. I believe that the Federal Reserve has been helpful, and we will continue to assist the state of Ohio and other federal regulators until the problem is solved.

The Federal Reserve Bank of Cleveland first became aware of possible financial difficulties at Home State Savings Bank of Cincinnati, Ohio, on March 4, 1985, when an official of Home State telephoned the Federal Reserve Bank of Cleveland to inquire about the procedures that Home State should follow if it needed to borrow at the discount window. The Federal Reserve Bank of Cleveland did not have any financial information on Home State. It is a state-chartered savings and loan association, regulated and examined by the Ohio Division of Savings and Loan Associations, and before this time it had never borrowed at the discount window. We did know that Home State's deposits were insured by the ODGF, but we did not have access to any financial reports on Home State. On March 5, the press reported that Home State might suffer a large loss in connection with the failure of E.S.M. Government Securities, Inc. (ESM), a Florida-based broker–dealer in government securities. The Federal Reserve began an effort to gather information on Home State's situation. Discussions with the FHLB of Cincinnati confirmed that Home State was not a member of the FHLB and that the FHLB also had little financial information on Home State.

Reports from Cincinnati on Wednesday, March 6, indicated a large volume of depositor withdrawals at Home State. On that same day, Federal Reserve examiners entered Home State to examine available collateral in the event that it became necessary for Home State to borrow at the discount window. Depositor withdrawals on Wednesday and Thursday were funded with Home State's own liquidity and lending by the ODGF. The withdrawals on March 6 totaled $55 million. On March 7, a meeting was held at the Cincinnati Branch of the Federal Reserve Bank of Cleveland with representatives from the state of Ohio, ODGF, and Home State to discuss liquidity assistance for Home State from the

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

Federal Reserve Bank of Cleveland. Based on collateral judged to be acceptable by the Federal Reserve Bank, credit was extended on Friday, March 8, and arrangements were put in place to extend further credit.

Depositor withdrawals had continued on March 7 and 8, reaching approximately $100 million for those two days. On Saturday, March 9, Home State did not open for business. Governor Celeste appointed a conservator for Home State and announced on Sunday night, March 10, that Home State would not reopen for business on Monday.

Although the problems at Home State were triggered by unique events growing out of its transactions with ESM, the severity of the public reaction made us concerned about possible deposit withdrawals at other ODGF-insured institutions. As I mentioned earlier, deposits at Home State were insured by the ODGF, a private fund that also insured 70 other state-chartered thrift institutions in Ohio. According to state officials, the insurance fund had assets of about $130 million before the run on Home State. Uncertainty regarding other ODGF-insured institutions was increased by reports on the use of ODGF funds to deal with Home State's heavy deposit withdrawals. Financial information on all ODGF-insured institutions was made available to the Federal Reserve Bank of Cleveland late Friday, March 8. Federal Reserve examiners and discount window staff reviewed and analyzed this information on Saturday and Sunday, March 9 and 10, with the assistance of senior examination personnel from the FHLB of Cincinnati.

Growing concern that other ODGF institutions might confront problems on Monday led us on Saturday, March 9, to develop a plan to monitor and to deal with deposit withdrawals at other ODGF institutions, should they occur. The plan had several dimensions: (1) having a timely and effective mechanism for sensing unusually heavy deposit withdrawals; (2) informing ODGF institutions of collateral and other requirements for borrowing at the discount window; and (3) planning and putting into place the logistics necessary to deliver currency, evaluate collateral, and obtain documents for borrowing at the discount window. The large number of ODGF institutions and the need for prompt and effective action, if action were required, made it imperative that we be prepared to deal with the problem by Monday, March 11, when the ODGF institutions opened. We were fortunate to be able to draw upon staff from other Federal Reserve Banks to assist in the contingency planning and logistics. The weekend planning effort concluded with meetings at 10:00 p.m. on Sunday, March 10, in both Cleveland and Cincinnati to brief Federal Reserve examiners on their role in the contingency plans. These plans called for examiners to be strategically placed near ODGF institutions throughout the state prepared to deliver borrowing documents upon request.

Also, late Sunday evening, March 10, after the Governor's announcement that Home State would not reopen on Monday, the Cleveland Federal Reserve Bank publicly restated its discount window policy: "State-chartered savings and loans and savings banks, like all depository institutions, are eligible for liquidity assistance through the discount window . . . under normal terms and conditions." Our weekend efforts had made it possible to implement the policy, to monitor deposit flows, to lend at the discount window, and to ship cash throughout the weeks that followed to a large number of institutions, most of which had not dealt with our discount window and normally received their currency from other sources.

Public confidence in ODGF institutions continued to decline. As financial institutions opened on Monday, March 11, the evidence of the loss in depositors' confidence was almost immediate. At first the loss of confidence was largely confined to Cincinnati, where Home State is located. As the week progressed, the number of ODGF institutions suffering heavy cash drains increased, and the volume of withdrawals rose sharply. On Thursday, March 14, for example, the seven most affected institutions in the Cincinnati area lost more than $60 million in deposits—almost triple the amount withdrawn on Wednesday. Several institutions had lost one-fifth of their deposits between Monday morning and Thursday night, and there was clear evidence that the crisis was spreading to ODGF-insured institutions in other cities. The more public confidence fell, the more serious the problem became. Federal Reserve examiners were sent upon request to many institutions to begin reviewing collateral as deposit withdrawals and the potential for borrowing at the discount window increased. The Federal Reserve and other commercial banks shipped currency to institutions that were experiencing heavy withdrawals, but cash alone was not enough to restore confidence; without confidence even the strongest financial institution can be severely impacted.

Our active and visible role was to provide liquidity assistance to ODGF institutions at the discount window. In performing this function, the Federal Reserve Bank of Cleveland has not modified the normal eligibility requirements for discount window assistance in any way. The Monetary Control Act of 1980 made the discount window of the Federal Reserve Bank available to any depository institution that holds transaction accounts or nonpersonal time deposits. Regulation A of the Board of Governors, which prescribes standards for the operation of the discount window, provides for lending to eligible depository institutions under two basic programs. One is the adjustment credit program; the other supplies credit for seasonal and other limited purposes for more extended periods. Adjustment credit is available on a short-term basis to assist borrowers in meeting temporary requirements for funds while an orderly adjustment is being made in their assets and deposit liabilities.

All Federal Reserve advances must be secured to the satisfaction of the Reserve Bank providing the credit. Satisfactory collateral includes securities of the U.S. government and of federal agencies, and, if of acceptable quality, residential mortgage notes and other assets. Although collateral is generally held in safekeeping at the Federal Reserve Banks or acceptable third-party custodians, in this instance field warehouses were set up in most ODGF institutions in which collateral was identified, evaluated, and earmarked for possible use in securing discount window borrowings.

The Federal Reserve played another very important role during the ODGF savings and loan problem—we served as a facilitator. During the early morning hours of Friday, March 15, when the full dimensions of the problem became clear, Governor Celeste decided to close all ODGF member institutions for a three-day period. Following that decision, the Governor requested that the Federal Reserve assist him in calling a meeting of large banking and thrift institutions in Ohio to discuss the situation with them and to propose a solution to the problem. A meeting with representatives of 13 depository institutions in Ohio—banks and savings and loan institutions (S&Ls)—was convened that morning at the Federal Reserve Bank of Cleveland. At that meeting Governor Celeste explained his decision to close the ODGF institutions and discussed a legislative proposal that would require the ODGF institutions to obtain federal insurance before reopening. He also presented a proposal for dealing with the ODGF institutions that would not qualify for federal insurance. The state subsequently decided that it would be useful to discuss the situation with out-of-state banks, and two meetings were held with out-of-state institutions at the Federal Reserve Bank of Cleveland—one on Saturday, March 16, at 9:00 p.m. and another on Sunday, March 17, at 11:00 a.m.

In the past two weeks, some elements of a solution have fallen into place. Each ODGF institution was examined on a case-by-case basis to determine its financial condition and the likelihood of its qualifying for federal insurance. The state Superintendent of Savings and Loan Associations requested assistance from the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Ohio Division of Banks in conducting these examinations. This process began on Saturday, March 16, with examiners provided by the Federal Reserve Bank of Cleveland and, eventually, by every other Federal Reserve Bank. Examiners were assigned to each of the ODGF institutions. Virtually all examinations were completed on Sunday, March 17, enabling us to conduct a preliminary review of the condition of each institution to supplement and update the information obtained the previous Friday from the state. The results of the preliminary examinations made it clear that a large number of these institutions were well managed, in sound financial condition, and, consequently, viable candidates for federal deposit insurance. Others, for a variety of reasons, would have difficulty qualifying for federal deposit insurance. The FHLB Board agreed to review on an expedited basis the Federal Savings and Loan Insurance Corporation (FSLIC) insurance applications of ODGF member institutions. Under this arrangement, FSLIC qualification examinations were expedited, using the resources of the

FHLB System and the Federal Reserve. The Federal Reserve offered its assistance to help complete the FSLIC examinations as rapidly as possible. We believed that we could facilitate this process because our examiners were already in place at the ODGF institutions and had gained familiarity with these institutions through the just-completed examinations conducted on March 16 and 17.

As of Friday, March 29, according to the state of Ohio, 26 of the former ODGF institutions had been reopened for the full range of banking functions, most with federal insurance. Confidence in these institutions seems to have been fully restored. There has been no evidence of unusual withdrawals or need for assistance through either the credit facilities of the FHLB of Cincinnati or the Federal Reserve discount window. The federal deposit insurance applications of some ODGF institutions are still being considered. Other ODGF institutions have been informed of the changes and the improvements that will be necessary to enable them to obtain federal insurance.

The state of Ohio is making intense efforts to develop an orderly plan for those institutions that might not qualify for federal insurance. It is my understanding that a final outline of such a plan is not yet complete. A solution may have to involve the sale of some ODGF institutions to other Ohio financial institutions and, perhaps, also to out-of-state institutions. The Federal Reserve Bank of Cleveland has not participated in the discussions involving plans for any single institution except those for which Federal Reserve regulatory approval was required, such as the sale of Metropolitan Savings Bank of Youngstown to FNB Corporation, a Pennsylvania bank holding company, and the conversion of Scioto Savings Association into a state-chartered commercial bank insured by the FDIC under the continuing ownership of its parent company, Society Corporation, an Ohio bank holding company.

While this process is under way, the state has authorized the ODGF institutions not yet qualified to reopen for full business to open for the limited purposes of giving each depositor access to a maximum of $750 per month and pledging assets to and borrowing from correspondent banks or from the Federal Reserve discount window to fund the limited deposit withdrawals. Complete confidence in the ODGF institutions has not been restored, but the atmosphere is much calmer than it was two weeks ago. □

Statement by Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Securities of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, April 4, 1985.

I am pleased to appear before this committee to discuss the recent surge in merger and takeover activity and the potential effect of this activity on credit market conditions.

The magnitude of recent merger trends underscores the importance of assessing the implications of this activity, as you are reviewing in these hearings. The number of completed merger transactions in 1984 totaled more than 2,800, and it seems that almost every day we read in the press of a new combination of firms or a threatened takeover. These figures may not be unprecedented; in the late years of the 1960s, for example, more firms reportedly were involved in merger activity (attachment 1).[1] But the dollar size of recent transactions exceeds by a wide margin any past experience. The largest acquisition in 1984 totaled $13.3 billion, nearly twice as large as any single merger of previous years. Indeed, last year there were 14 mergers that exceeded $1 billion each. These 14 combinations alone accounted for more than $50 billion in activity.

Many other smaller transactions bolstered the total dollar volume of acquisition activity to record levels last year; during 1984, nonfinancial corporations retired an estimated $85 billion of equity through mergers, takeovers, and share repurchases. Included in this total is about $15 billion of equity retired through so-called lever-

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

aged buyouts, which rely heavily on debt financing. In a typical leveraged buyout, an individual or a small group of investors or management purchases a company or a subsidiary of a company with the proceeds of loans collateralized by the assets of the company, and then takes the company private.

In my view, there is a legitimate place in our economy for mergers and takeovers. They can be important mechanisms for redeploying corporate assets to the most profitable—and socially beneficial—uses, and for bringing about better management. We must be careful in attempting to impose the judgment of government authorities about which among thousands of private transactions will be economically productive and which will not; in most instances the parties whose fortunes are at stake are likely to be better judges. Government authorities are obliged to do what they can to ensure that individual risk-taking does not jeopardize the stability of our financial system. As I will discuss later, the Federal Reserve recognizes its responsibilities in this area.

Assessing the implications of merger activity is complex. From the perspective of the Federal Reserve, concerns have focused on the effect that this activity is likely to have on aggregate credit flows and on the risk exposure of financial institutions and markets. We all are aware that a large portion of these merger transactions has been financed, at least initially, with debt, including short-term bank credit. Leveraged buyouts typically entail as much as 80 to 90 percent of debt financing; and among the largest mergers last year, credit sources initially financed about 75 to 80 percent of the equity purchases.

Estimates by Board staff indicate that growth in the domestic nonfinancial debt aggregate—which is one of the aggregates that the Federal Reserve monitors in the course of its monetary policy deliberations—was boosted about 1 to 1½ percentage points in 1984 as a result of merger-related borrowings. Mergers and buyouts appear likely to have had a much more limited impact on the narrow money aggregate, M1. The checking accounts of merger participants may be increased temporarily as a result of the mergers, but proceeds from merger sales are generally reinvested in other assets, so that the effect on M1 tends to be insignificant over periods of time relevant for monetary policy deliberations. The broader aggregates, M2 and M3, may be boosted somewhat more than M1, as some proceeds from stock sales find their way into time deposits, money market mutual funds, or other assets that are included in these aggregates. But relative to the large size of M2 and M3 this effect also would be relatively minor.

The Board is aware of the influence of merger activity and takes it into consideration when evaluating the behavior of the money and debt aggregates. Given our ability to monitor the size and the timing of very large transactions, we can anticipate possible distortions to the aggregates in a particular period and thus avoid inadvertently reacting to these factors in policy deliberations. Moreover, distortions in the credit aggregate, in which the potential problems are largest, are less likely to mislead policy deliberations. In setting monitoring ranges for this aggregate, the Federal Open Market Committee recognizes that numerous factors, including merger activity, may alter the behavior of credit growth relative to gross national product. Thus, I do not believe that mergers present for us a real operational problem that would result in appreciable unintended variations in reserve market pressures. More fundamental determinants of credit demand, including the behavior of the household sector, capital expenditures of businesses, and, of course, the fiscal position of the federal government, exert much more powerful and persistent pressures on credit markets than does takeover activity.

Some members of the public and the Congress have expressed concerns that merger activity absorbs credit that could be used to support other, perhaps more productive, purposes. But this would be true only in unusual circumstances and for temporary periods. Basically, merger and acquisition transactions involve transfers of ownership of existing assets and do not absorb net real savings in the economy. Proceeds from the transactions either are returned to bank accounts or are reinvested in other financial instruments, thereby recycling the funds into the markets. Thus, these transactions should not generate significant lasting reductions in the amounts of financial resources available to other borrowers.

However, mergers may alter the cost or the amount of credit available to some borrowers if banks that extend large amounts of takeover credit are subject to capital or liquidity constraints and reduce their lending to other potential borrowers for a time. In this case, those borrowers with limited access to financial markets would be vulnerable to the potential effects of these transactions. However, in the case of many mergers, corporations have begun to repay loans, frequently within a month or so after the takeover, with funds raised through sales of assets or new equity or by borrowing in the commercial paper or bond markets. More than two-thirds of the $32 billion of bank loans extended to finance the largest mergers last year has been repaid; the bulk of these repayments occurred within six months of the loan extensions. A number of foreign banks also have participated in the financing arrangements of many of the larger mergers, thus expanding the supply of funds in domestic markets. Among the largest transactions completed last year, approximately $7 billion, about one-fifth, of the initial bank financing reportly came from foreign banks. Foreign banks have also purchased merger loans originally made at large U.S. banks, though we have no statistics on the total volume of this activity.

A more pertinent consideration regarding merger financing from the Federal Reserve's perspective is the potential for greater risk exposure of the financial system. The Board of Governors, as bank and bank holding company supervisor and lender of last resort, has responsibility, along with the other regulatory agencies, for maintaining the safety and the soundness of financial institutions and markets. In this regard, we are especially concerned about potential financial risks involved with leveraging and with acquisition activity financed with large amounts of debt. Because many mergers and leveraged buyouts have involved heavy reliance on debt and retirement of existing equity, the surviving firms have had balance sheets that leave them more vulnerable to downturns in earnings or sharp increases in interest rates. When this development occurs, it of course means that the institutions providing the credit may in turn be more exposed to possible loss.

Leveraged buyouts may be of particular concern because these purchases are typically executed using larger proportions of debt and smaller amounts of equity than mergers. In 1984, leveraged buyout deals involving U.S. companies are estimated to have amounted to more than $15 billion, with buyers rarely putting up more than 10 percent of the purchase price. The ability of the firm to service this debt burden depends on the value of the assets and on the company's future earnings and on cash flow prospects. These factors may be particularly difficult to evaluate for buyouts if past operations are not expected to be a guide to future profitability—which is, after all, the economic rationale of many buyouts. Because buyout loans usually involve floating-rate debt, the companies would be particularly vulnerable in the event that interest rates rise substantially and cash flows are not adequate to service heavy debt burdens. But prudent lending practices established by lenders take these possible outcomes into consideration, and thus help to ensure that any failures associated with heavy leveraging would be only isolated events.

The Federal Reserve has actively urged banks to evaluate carefully loans used to finance buyouts and other types of takeover transactions and to apply prudent standards in their credit decisions. Bank examiners have been instructed to review banks' involvement with leveraged buyout financing, and we have issued specific guidelines for the examiners to follow in evaluating loans used for this purpose and for assessing the total exposure of a bank to such lending. A policy directive issued in 1984 to examiners at each of the 12 District Federal Reserve Banks by the Director of the Board's Division of Banking Supervision and Regulation pointed out that the high volume of debt relative to equity that is characteristic of leveraged buyouts reduces the cushion available to the purchased company to withstand unanticipated financial pressures or economic adversity.

The Board policy directive noted the following two financial risks associated with leveraged buyout financing: (1) the possibility that interest rates may rise higher than anticipated and thereby significantly increase the purchased company's debt service burden; and (2) the possibility that the company's earnings and cash flow will decline or fail to meet projections, either because of a general economic recession or because of a downturn in a particular industry or sector of the economy.

The Board directive stated that, given the amount of debt involved in leveraged buyouts, the value of collateral should be emphasized to protect the creditworthiness of these loans. The quality of a purchased company's management is also important and represents another element in the bank's evaluation of leveraged buyouts. Management is important because it must oversee both the special financial risks associated with the leveraged-buyout form of acquisition financing as well as the normal day-to-day affairs and operations of the purchased company's business.

The Board of Governors has expressed its concerns about the potential hazards of mergers and leveraged buyouts with leaders of the banking community through public statements and informal discussions. Members of the banking community have indicated that they are reviewing lending practices to ensure that prudent standards are applied to potential credit extensions for takeovers. Reportedly a number of attempted buyouts have been terminated as a result of difficulties encountered in obtaining needed financing. At least $3 billion of proposed leveraged buyouts were abandoned last year because financing was not available, and we have read in the press recently of two or three sizable buyouts that were terminated for this reason. These reports suggest some selectivity on the part of lenders.

We hope that prudent lending standards will be applied by all lenders, including purchasers of so-called "junk bonds." Junk bonds are low-rated or unrated bond issues, which seem to have gained popularity as a tool for financing mergers and takeover attempts. The large investors who purchase most of these bonds are relatively sophisticated and should be aware of the risks involved. But it would be fair to say that one cannot really be entirely comfortable about such assumptions, especially when the market has not been tested by some significant negative surprises—which inevitably will come at some point. The higher rates paid on the junk bonds suggest that they are perceived by the market to involve greater risks; the question is whether the risk premiums will in fact prove to be adequate.

I should note that, while federally chartered depository institutions may make loans to low-rated borrowers, they are prohibited from acquiring junk bonds in their investment portfolios because they are not considered to be investment-grade securities. But some state-chartered institutions may not be subject to such restrictions, and some state-chartered thrift institutions have purchased these securities. Given the evident sensitivity of financial markets to the fortunes of individual banks and thrift institutions, I think it is incumbent upon supervisors at both the federal and state levels to keep a close eye on developments in this area.

Lending on a prudent basis to finance mergers and acquisitions need not weaken the financial fabric. Although the companies that have been created out of this recent surge in merger activity are still relatively untested, to date we have not seen significant problems for financial markets arising out of this activity. In part, this may reflect the favorable economic and financial environment of the current expansion. Most sectors have experienced substantial increases in corporate profits and cash flows over the past year, and interest rates are appreciably below the levels of the early 1980s. While some individual firms have taken on greater leverage, other businesses have taken advantage of improved conditions to strengthen their balance sheets. For the economy as a whole, retirements of equity through mergers and merger-related activity have been partially offset by improvements in the market values of assets and by boosts to equity from retained earnings growing out of the current expansion.

We do not believe that arbitrary controls on uses of credit can be effective or desirable. Nor can a government agency determine among thousands of mergers which are good and which are bad. A given transaction may be desirable from a social and economic standpoint if it results in economies of scale, better management, or a more efficient allocation of resources. A blanket prohibition of all merger financing would be undesirable. Moreover, attempts to regulate flows of credit for particular purposes run the risk of creating unintended distortions in credit flows and impeding the efficient allocation of capital. When credit controls are in existence for any length of time, they become increasingly inequitable as borrowers and lenders seek to circumvent them. Credit controls are usually extremely difficult to enforce: since credit is fungible, most financing can be achieved through alternative channels, such as borrowing through nonregulated intermediaries, foreign lenders, or the like.

I do not wish to imply, however, that we should be complacent about the implications of lending for mergers and takeovers. The Federal Reserve will continue to monitor this activity and its effects on financial markets, and our examination standards in this regard are undergoing further review. And the Congress and other government agencies need to give close scrutiny to the numerous offensive and defensive practices that have arisen in association with mergers, leveraged buyouts, and hostile takeovers to ensure that institutions and investors are provided adequate protection. Also, a careful review should be given to features of the tax system that appear to encourage merger activity, and in particular those features that favor the use of debt financing. □

Vice Chairman Martin presented similar testimony before the Subcommittees on Oversight and Select Revenue Measures of the House Committee on Ways and Means on April 16, 1985.

Statement by Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 4, 1985.

I would like to discuss briefly the Federal Reserve's role in supplying cash to and accepting cash from depository institutions. Then, I will address our record of commitment in supporting government agencies that are using currency data to investigate criminal activity.

The Federal Reserve is responsible for meeting the public's demand for currency. Likewise, there is also a responsibility for the Federal Reserve to take back currency when the public demand decreases sufficiently so that depository institutions have excess inventories. During the calendar year 1984, $170 billion was received by Federal Reserve Banks from depository institutions and $181 billion in currency was paid to depository institutions.

Yearly, each Federal Reserve District submits an order to the Board for the estimated amount of notes required to meet the expected demand during the following year. The orders are carefully analyzed by Board staff to determine potential changes in demand over the previous year. Subsequently, a printing order is submitted to the Bureau of Engraving and Printing. Based on this order, the Bureau establishes a production schedule for the year.

During the 1970s, the Bureau was producing currency at its maximum capacity level. Therefore, there was a continuing concern whether a sufficient amount of new notes were available to meet the demand. To determine the scope of the demand, Board staff would question the Federal Reserve Banks frequently on their needs for increases in their printing orders. For example, when the Federal Reserve Bank of Boston was asked during this period about an increase in demand for $100 notes, the explanation received was that the First National Bank of Boston needed the notes to meet a request for large bills by foreign banks that historically had received their currency from New York banks. Board staff determined that the number of notes needed to meet the additional demand would not excessively strain the inventory levels for new notes and could be met by shipping notes printed for other Federal Reserve Banks to the Federal Reserve Bank of Boston.

It should be noted that there has long been a demand for U.S. currency by residents of foreign countries for a variety of reasons, including economic or political difficulties that their countries may be experiencing. Indeed, once the residents of a country begin to hold U.S. currency as a hedge against these uncertainties, the demand for currency can multiply as it becomes more readily transferable to others locally in exchange for goods and services. These factors have led at times to significant currency outflows from the United States.

This foreign demand for currency has traditionally been met through private commercial banking channels. Foreign banks have typically placed currency orders with U.S. commercial banks that in turn ship and receive currency as part of their normal correspondent banking services.

Modest levels of currency inflows into the United States are also commonplace. These flows are often associated with countries that cater to the American tourist trade. Other inflows appear to be related to successful exchange rate strategies that lead foreign residents who had used U.S. currency to hedge against devaluation risks to return to the use of local currencies. There are also modest inflows associated with the normal servicing of the money stock in countries in which the U.S. dollar is a principal circulating currency of exchange.

The Federal Reserve's interest in cash does not end with the provision of currency. The Reserve Banks' Examination Divisions monitor state member banks and Edge Act corporations for compliance with government regulations such as the Bank Secrecy Act. The Federal Reserve's research staff develops macroeconomic analyses and projections that help us understand and project cash demand. And finally the Board's Division of Federal Reserve Bank Operations supplies federal investigatory agencies with data that are used in their monitoring and investigatory programs.

It is important to point out that while the Federal Reserve System is not an investigatory agency and therefore cannot provide detailed explanations for how cash sent into circulation is used by individuals, it has cooperated with federal investigatory agencies to the fullest possible extent. Data have been provided on currency flows into and out of Reserve Banks. In addition, general explanations that help account for shifts in these flows have also been provided. These data and the general explanations then can be analyzed in detail by those federal entities charged with investigating criminal activities.

Here are a few examples of the extent of the ongoing cooperation and support that the Federal Reserve has provided for federal investigations:

- Currency flow reports were periodically supplied to the Joint Economic Committee in 1979 for its work on estimating the size of the underground economy.
- Reports on currency receipts from and payments to depository institutions are supplied monthly to the following: (1) the Adviser of the Financial Crimes and Frauds Group of the U.S. Treasury Department, Washington, D.C.; (2) the Director of the Treasury Financial Law Enforcement Center of the U.S. Customs Service in Washington, D.C.; (3) the Drug Enforcement Agency Office in Miami; (4) the Drug Enforcement Agency Office in Washington, D.C.; (5) the U.S. Transportation Department Office in Cambridge, Massachusetts.
- When requested, arrangements have been made for federal investigators to visit Reserve Bank offices to obtain more detailed information about trends indicated in the reports that were provided them by the Federal Reserve. For example, the Adviser of the Financial Crimes and Frauds Group of the U.S. Treasury has received detailed information from several Reserve Banks and subsequently developed significant findings of interest to ongoing investigations. Roughly ten visits of this type have been arranged in the past two years.
- Special reports on cash flows into and out of depository institutions in the Miami and New Orleans Reserve zones are supplied monthly to the Miami and the New Orleans Customs Offices.
- The Federal Reserve and the Treasury are looking at the feasibility of establishing a Systemwide Federal Reserve automation program for providing data on cash flows to appropriate government agencies on a monthly schedule. This program would be an expansion of the pilot efforts now under way in Miami and New Orleans.
- In addition, special anticrime assistance has been provided to others, such as the President's Commission on Organized Crime, the Internal Revenue Service, the Drug Enforcement Agency, the Central Intelligence Agency, and the Federal Bureau of Investigation.

In closing, let me reaffirm the Federal Reserve's commitment to assisting federal agencies that are charged with the very important task of investigating currency transactions relating to criminal activity. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 17, 1985.

I appreciate the opportunity to appear before this subcommittee to review with you some of the issues involved in proposed banking legislation. You have requested me to focus my remarks particularly on the long- and short-term effects of chartering so-called nonbank banks and on the provisions of H.R. 20, the "Bank Definition Act," which addresses the proliferation of nonbank banks.

I have long supported legislation to close avenues for evasion of some of the basic tenets of public policy, incorporated in the Bank Holding Company Act, that have guided the evolution of our banking system for decades. At the same time, I want also to emphasize at the outset that, while action to close the "nonbank bank loophole" is urgently needed, I hope the committee and the Congress will also deal in this session with other issues, ranging from powers of bank holding companies to interstate banking, that should be promptly resolved in the interest of a competitive, safe, and healthy banking system. Some of those points are addressed by H.R. 15, the bill sponsored by Mr. Wylie, which also deals with nonbank banks.

Public policy has long recognized that commercial banks perform a unique and critical role in the economy and in the financial system. They are operators of the payments system; they are custodians of the bulk of liquid savings; they are the principal suppliers of short-term credit; and they are the critical link between monetary policy and the economy. Moreover, the fortunes of individual institutions are so intertwined that instability of one may infect another. In recognition of these circumstances, a federal safety net—specifically the Federal Reserve discount window and federal deposit insurance—has long been provided to help protect the system. Individual banks are subject to a system of regulation and supervision to help assure their safety and soundness.

Integral to that approach, the Bank Holding Company Act allows ownership of a bank by another company only if that company engages in activities that "are closely related to banking and a proper incident thereto." That provision is designed to enforce a basic separation of banking and commerce, and thus to limit conflicts of interest and avoid undue concentration of resources. The law also provides for some supervision and inspection of the holding company as a whole, recognizing that, in practice, the fortunes of one enterprise within a holding company cannot be wholly separated from those of its affiliates. The provisions of the Bank Holding Company Act also place restrictions on interstate banking by a holding company, paralleling the restrictions on interstate branching in the MacFadden Act.

In our judgment, the basic concerns about the separation of commerce and banking remain valid and should be your point of departure today in considering the nonbank bank issue.

The definition of a bank is critical to a policy that sets out to separate banking and commerce and to enforce restrictions on interstate banking. The Bank Holding Company Act defines a bank as an institution that *both* accepts demand deposits and makes commercial loans. That definition was designed to exclude savings and industrial banks (which at the time had little or no demand deposits or other transaction accounts or commercial lending authority) and limited-purpose trust companies.

While thrift institutions today increasingly do commercial lending and can accept transaction accounts of individuals, institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC) remain exempt under the terms of the Garn–St Germain Act passed in 1982. Moreover, as other forms of transaction accounts have developed with the basic characteristic of demand deposits, institutions with a bank charter can also take all kinds of deposits from the public (including under current court rulings NOW accounts) other than demand deposits and make commercial loans without coming under the restrictions of the Bank Holding Company Act. These are the so-called nonbank banks, for which there have been hundreds of applications.

Specifically, one form of nonbank bank may be owned by any company—a steel company, a retailer, a securities firm, an insurance company, or a real estate developer. The parent company is not subject to any of the limitations of the Bank Holding Company Act that is designed to limit risk or conflicts of interest and to avoid unfair competition or excessive concentration of economic power. Thus, in its present guise, the nonbank bank undermines the basic separation of banking and commerce—a concept with deep roots in both the English and the American traditions.

That seems to me the fundamental issue at stake in closing the nonbank bank loophole. By permitting commercial companies to provide through subsidiaries almost all the same functions as full-service banks and to obtain access to the payments system, the discount window, and deposit insurance, both the principle and the practical reality of the present restrictions of the Bank Holding Company Act will be seriously undermined over time. The competitive position of those banks still subject to the act will inevitably be damaged, potentially weakening the system as a whole.

The nonbank bank is also, and today more commonly, a device by which a bank holding company or a commercial firm can escape the restrictions on interstate banking encompassed in the Douglas Amendment to the Bank Holding Company Act. In fact, interstate banking is a reality in many areas through Edge Act subsidiaries, loan production offices, finance company and mortgage banking affiliates, credit card operations, automated teller machine networks, and otherwise. The nonbank bank offers the added avenue of on-site offices for a full range of consumer business or commercial lending combined with deposit-taking. I will be testifying with respect to interstate banking next week, and I believe some liberalization of current restrictions is justified. However, in my judgment, that question should be approached on its own merits rather than by permitting interstate banking through an unintended "back door" device, with the inefficiencies and inequities that device involves.

I sense there is a broad consensus that it is important to preserve the basic policies of the Bank Holding Company Act and that, accordingly, it is essential to close the nonbank bank loophole as part of any legislative approach toward banking. Basically satisfactory legislative provisions to achieve that were contained in separate bills last year. One was reported by this committee and another adopted by the full Senate. While detailed differences in approach were not fully resolved, it appeared that other provisions of proposed banking legislation rather than basic disagreements on the nonbank bank question stymied enactment.

H.R. 20 basically follows the approach of this consensus. It broadly applies the provisions of the Bank Holding Company Act to all commercial banks insured by the Federal Deposit Insurance Corporation (FDIC) whatever their particular mix of business. In addition, those uninsured institutions that offer transaction accounts and make commercial loans would continue to be covered. This approach is broadly satisfactory *so far as it goes*, as would be the similar provisions of H.R. 15.

Before turning to areas of omission, I would note particularly that these bills would bring so-called consumer banks clearly within the scope of the provisions of the Bank Holding Company Act. The suggestion has been made by others that banks primarily aimed at serving the consumer might be exempted from the general principle of the separation of banking and commerce and from any restrictions on interstate banking applicable to ordinary banks.

However beguilingly presented as a "family bank" proposal, such an initiative seems to me misguided. I would emphasize that the great bulk of existing banks and other depository institutions are already "family" or "small business" oriented. We have in this country almost 20,000 banks and thrift institutions, nearly all actively competing for consumer business. Many of them do little commercial lending; for instance, almost 20 percent of commercial banks have 5 percent or less of their assets in loans to businesses, and nearly half have less than 20 percent of assets in such loans.

I see no justification for permitting commercial, industrial, or securities firms to compete with these institutions for insured deposits and other banking services under different ground rules as to ownership. The effect could only be to undermine the public policy objectives incorporated in the Bank Holding Company Act generally, and there would be the appearance and reality of unfair competition with banks subject to the act.

Do we really want, for example, a retail business to be able to gather deposits under the protection of federal insurance and to use those deposits to fund a credit card they sponsor more cheaply than retailing competitiors? Do we want to bless interstate consumer banking simply because there is a nonbank owner? Do we want to encourage joint marketing efforts and "tie-ins," implicit or explicit?

If we are not sensitive to these concerns, then what is the justification for the present restrictions in the Bank Holding Company Act?

Some of the family bank concepts propose a kind of sugarcoating in the form of higher capitalization, "lifeline" banking requirements, and rules requiring prompt deposit availability. If these are indeed valid objectives of legislation—and I make no judgment on that point now—then it seems to me the legislation should apply to all depository institutions and not to just a special few.

In other respects, I believe the coverage of H.R. 20 must be broadened. As drafted, H.R. 20 has no provision with respect to the treatment of thrift institutions—savings banks and savings and loans.

For some federally insured thrift institutions—namely, those owned by *multiple* savings and loan holding companies—no legislative action appears required because their holding companies would remain subject to the Savings and Loan Holding Company Act, which has restrictions similar to those of the Bank Holding Company Act. However, others—including FDIC-insured savings banks and privately insured thrift institutions—would be subject to neither act, and unitary savings and loans may engage in substantial nonresidential lending activities without any limitations on the commercial or industrial activities of their corporate owners. Left unattended, the effect would plainly be to deflect the energies now reflected in nonbank banking into banking in the guise of thrift institutions—"nonthrift thrifts."

In recent years, powers available to thrift institutions have become much more like those available to banks, and indeed the range of thrift powers today, particularly of state-chartered institutions, often exceeds that of banks. Paralleling that development, there has also been increasingly clear recognition of the need to adopt rules to assure reasonably comparable regulatory treatment.

Considerations of competitive equity alone dictate that the privileges of, and restrictions on, banks and thrift institutions be brought into a more coherent relationship. But it is not just a matter of competitive equity. Restrictions on powers of bank holding companies and on nonbank banks will inevitably be undercut, and rapidly, to the extent that thrift institutions with banking powers can simply substitute as a vehicle for undertaking a wide range of banking services, violating the basic separation of banking and commerce.

I recognize that there are difficult questions posed by firms that already have operations on both sides of the line between commerce and "thrift" banking. A number of industrial or commercial firms own thrift institutions, and operate those institutions as separate and distinct entities without significant problems arising. Those combinations might logically be permitted to continue on their present basis. However, in the environment we now face, these questions need to be approached with an eye toward the future, and a firm policy established with respect to which new combinations are acceptable and which are not.

To deal with this problem, we have suggested that only those thrift institutions that have a high percentage of their assets in home mortgages should be exempt from the same rules as to ownership applicable to banks and multiple savings and loan holding companies. We have suggested that present law be strengthened to require that such a "qualified" thrift institution have at least 65 percent of its assets in residential mortgages or housing-related investments.

I do not believe there is a sound rationale for including residential mortgage originations and sales in such a calculation. Commercial banks, mortgage banks, and others are all active mortgage originators. The distinguishing characteristic of a savings and loan and many savings banks historically—and the characteristic that historically has justified special federal support—was that they devoted relatively large portions of *their own* resources to support housing. I believe that a substantial commitment to investment in housing should continue to be the test for exemption from certain policies embodied in the Bank Holding Company Act and the Savings and Loan Holding Company Act for multiple savings and loan holding companies. Futhermore, any holdings of liquidity included in a thrift test should be confined to amounts legally required.

A further step is necessary to limit conflicts of interest and tie-ins when a qualified thrift institution has a commercial owner. Specifically, joint marketing of services and products should be prohibited.

I am *not* suggesting that nonthrift thrifts need to be brought under the Bank Holding Company Act administered by the Federal Reserve. I am suggesting that institutions that have essentially the same charcteristics as commercial banks should have broadly parallel restrictions on combinations with commercial firms and that those restrictions be administered by the appropriate regulator—for savings and loans and federal savings banks, the Federal Home Loan Bank Board. Moreover, we calculate that about three-quarters of all savings and loans would meet the thrift test I have proposed today and thus would not be restricted as to commercial ownership.

H.R. 20 does not prohibit an affiliation of thrift institutions and nonmember banks with securities firms. That existing loophole in the Glass–Steagall Act should be closed in the interest of competitive equity and the purposes of the Glass–Steagall Act. Such a provision has been recommended by the Federal Home Loan Bank Board with respect to thrift institutions.

In all these areas, appropriate transition periods should be provided, and other detailed questions would need to be resolved. We would be glad to work with the committee in developing such provisions.

Finally, Mr. Chairman, I would like to comment on the provision of the bill that grandfathers certain nonbank banks acquired on or before July 1, 1983. You and the Chairman of the Senate Banking Committee have strongly supported July 1, 1983, as the appropriate date for grandfathering nonbank banks. I would point out that, even before that date, institutions were well aware that the nonbank bank loophole was a matter of policy and congressional concern.

We have reviewed both the institutions that would be subject to grandfathering and the activities that are conducted by them. As far as we can determine, H.R. 20 would grandfather about 24 FDIC-insured nonbank banks; most of these are small in asset size, with at least 10 engaged essentially in trust activities and 6 or 7 in credit card operations. Given this situation, we believe that grandfathering as of the July 1, 1983, date, subject to appropriate conditions to assure that their grandfather status is not abused by expansion geographically or otherwise, would not be inconsistent with the objectives of the act.

Should the grandfather date be moved toward the current date, an increasing number of insurance, securities, and retail firms that were fully on notice about the likelihood of federal legislation would be permitted to retain bank operations. It is our understanding that few of these institutions have yet made substantial investments, and the larger number of charter rights that would be involved would increasingly impair the objectives sought by H.R. 20.

In concluding my testimony, I would note that one federal district court in Florida has enjoined the Comptroller from issuing final nonbank bank charters because it found, as a matter of law, that the National Banking Act does not permit the Comptroller to issue a charter that does not provide for the exercise of full national banking powers. As a result of that decision, final national bank charters for new nonbank banks are not currently possible, and the Federal Reserve Board has suspended processing such applications by bank holding companies. However, state-chartered nonbank banks that are nonmembers can still be created. While final disposition of the legal issues involved for the national banks may take some time, any reversal of the district court opinion will quickly touch off a flood of new national nonbank banks.

Consequently, the need for clear and effective action to deal with the nonbank bank question continues to rest with the Congress. I urge you to act expeditiously in this area and then to turn your attention promptly to other areas of banking that desperately need legislative resolution and clarification. □

Statement by Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, April 23, 1985.

I am pleased to appear before you to discuss the recent surge in merger and takeover activity and its potential effects on credit market conditions.

Previous testimony underscores the importance of assessing the implications of this activity. The dollar size of recent transactions exceeds by a wide margin any past experience. Nonfinancial corporations as a whole retired more than $85 billion of equity through mergers, takeovers, and share repurchases last year; included in this total is about $15 billion of equity retired through leveraged buyouts. Equity retirements were bolstered also by firms that elected to repurchase their own shares rather than to undertake new investment or to acquire other firms. Some share repurchases were prompted clearly as defensive actions against possible hostile takeovers; excluding so-called "greenmail" purchases, available data suggest that more than $10 billion of stocks were bought back by firms last year. When a company believes that the value of its assets is higher than the market value of its stock, such buybacks may appear to be more attractive than alternative investments.

The unprecedented level of stock retirements associated with mergers, takeovers, and share repurchases has given rise to concerns about the potential erosion of the equity base of American business. There have been offsets, however, to this erosion. Aided by the new depreciation rules, after-tax earnings of nonfinancial corporations have rebounded strongly in the current expansion. With dividend growth remaining restrained, retained earnings have been a relatively substantial source of new corporate equity in recent quarters.

A typically less important source of equity is new stock issues. In 1983, the stock market advances attracted an unusually high volume of new issuance. Last year, the volume of new issues dropped two-thirds; and the wave of retirements associated with large debt-financed mergers, leveraged buyouts, and stock repurchase programs greatly exceeded new issues. Even so, retained earnings of all nonfinancial firms offset the net retirement of equity, and net additions to equity in the aggregate remained positive, though quite low by historical standards, especially during a business expansion.

Another source of equity growth has come from the appreciation of existing corporate assets. Reflecting the improvement in corporate profits in this expansion and a more favorable environment for future earnings, the market's evaluation of corporate assets has risen. Moreover, even though a large portion of recent stock retirements has been financed with debt, aggregate debt-to-equity ratios for nonfinancial business as a whole—based on market values of equity—have remained well below the peaks reached in the 1970s. Nonetheless, while these aggregate measures have not changed dramatically, it is clear that some firms are retiring huge amounts of their equity and are taking on appreciable amounts of debt to finance merger-related activity. The Federal Reserve is concerned that individual risktaking associated with leveraging on such a large scale not impair the stability of our financial system.

In my view, there is a legitimate place in our economy for mergers and takeovers. They can be important mechanisms for redeploying corporate assets to more profitable uses. Many combinations promote economies of scale or scope, reinforce market incentives, and may bring about better management. However, acquisitions do not always lead to big businesses. We have seen an increasing number of divestitures in which larger companies sell operating units to smaller firms or to management. Such spin-offs, which not infrequently follow a merger between big concerns, create enterprises that may function more efficiently in a more specialized environment and with more direct management control. The positive gains from mergers need not be limited only to friendly takeovers, but can occur in hostile situations as well. Thus, we must be careful about imposing the judgment of government authorities concerning which private transactions will be economically productive and which will not.

The Federal Reserve's concerns have focused primarily on the effect that merger and takeover activity may have on aggregate credit flows and on the risk exposure of financial institutions and markets. With respect to credit flows, our estimates indicate that growth in the domestic nonfinancial debt aggregate—which is one of the aggregates that we monitor in the course of our monetary policy deliberations—was boosted about 1 to 1½ percentage points in 1984 as a result of merger-related borrowings. But mergers and buyouts appear likely to have had a much more limited impact on the three monetary aggregates for which we establish target ranges. Moreover, the Board is aware of the activity and takes it into consideration when evaluating the behavior of the money and debt aggregates. Given our ability to monitor the size and timing of very large transactions, we can anticipate possible distortions to the aggregates in a particular period and thus avoid inadvertently reacting to these factors in policy deliberations. I do not believe mergers present a real operational problem for us that would result in appreciable unintended variations in reserve market pressures. More fundamental determinants of credit demand, including the behavior of the household sector, capital expenditures of businesses, and, of course, the fiscal position of the federal government, exert much more powerful and persistent pressures on credit markets than does takeover activity.

Some members of the public and the Congress have expressed concerns that merger activity absorbs credit that could be used to support other, perhaps more productive, purposes. But this would be true only in unusual circumstances and for temporary periods. Basically, merger and acquisition transactions involve transfers of ownership of existing assets and do not absorb net real savings in the economy. Proceeds from the transactions are either returned to bank accounts or reinvested in other financial instruments, thereby recycling the funds into the markets.

A more pertinent consideration regarding merger financing from the Federal Reserve's perspective is the potential for greater risk exposure of the financial system. Because many mergers and leveraged buyouts have involved heavy reliance on debt and retirement of existing equity, the surviving firms are more vulnerable to downturns in earnings or sharp increases in interest rates. When this occurs, the institutions providing the credit may in turn be more exposed to possible loss. Leveraged buyouts may be of particular concern because they typically involve larger proportions of debt and smaller amounts of equity than other types of mergers.

The Federal Reserve has actively urged bank management to evaluate carefully loans used to finance buyouts and other types of takeover transactions and to apply prudent standards in credit decisions. Reserve Bank examiners have been instructed particularly to review bank involvement with leveraged buyout financing, and we have issued specific guidelines for examiners to follow in evaluating loans used for this purpose and in assessing the exposure of a bank portfolio to such lending. A policy directive issued in 1984 to examiners at each of the 12 District Federal Reserve Banks pointed out that the high proportion of debt to equity that is characteristic of leveraged buyouts reduces the cushion available to withstand unanticipated financial pressures or economic adversity.

Moreover, the Board of Governors has expressed its concerns about the potential hazards of mergers and leveraged buyout lending with leaders of the banking community through public statements and informal discussions. Members of the banking community have indicated that they are reviewing lending practices to ensure that prudent standards are applied to potential credit extensions for takeovers. Reportedly a number of attempted buyouts have been terminated as a result of difficulties encountered in obtaining needed financing, which suggests some selectivity on the part of lenders.

We expect and demand that prudent lending standards be applied by all lenders, including those who take back so-called junk bonds in the course of lending. The large investors who purchase most of these bonds are relatively sophisticated and should be aware of the risks involved. The rating services also play a major role in evaluating the nature of these investments. But it would be fair to say that one cannot really be entirely comfortable assuming that the risks are clearly understood, especially when the market has not been tested by some significant negative surprises—which inevitably come. The much higher rates paid on the junk bonds suggest that they are perceived to involve greater risks; the question is whether the risk premiums will in fact prove to be adequate.

Lending to finance mergers and acquisitions need not weaken the financial fabric, however. Although the companies that have been created out of this recent surge in merger activity are still relatively untested, we have not seen to date any significant problems for financial markets arising out of this activity. In part, this reflects the favorable economic and financial environment of the current expansion. While some individual firms have taken on greater leverage, other businesses have taken advantage of improved conditions to strengthen their balance sheets.

We do not believe that arbitrary controls on uses of credit can be effective or desirable. As I noted previously, any given merger, acquisition, or divestiture may result in social and economic benefits through economies of scale, better management, or generally a more efficient allocation of resources. Attempts to regulate flows of credit for particular purposes run the risk of creating unintended distortions in credit flows and impeding the efficient allocation of capital.

I do not wish to imply, however, that we should be complacent about the implications of lending for mergers and takeovers. The Federal Reserve will continue to monitor this activity and its effects on financial markets, and our examination standards in this regard are undergoing further review. In addition, the Congress and government agencies need to give close scrutiny to the numerous offensive and defensive practices that have arisen in association with mergers, leveraged buyouts, and hostile takeovers to ensure that institutions and the stockholder population are provided adequate protection. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 24, 1985.

I appreciate the opportunity to appear before this subcommittee to review with you the issues involved in interstate and regional banking. These issues are inextricably related to the "nonbank bank" question that we discussed last week, and to the still broader question of the appropriate direction and structure of our banking system.

In sum, the Federal Reserve Board believes the time has come for the Congress, as part of more comprehensive banking legislation, to authorize some interstate banking. The approach should take account of the desirability of transitional arrangements over a period of years before moving to more general interstate banking; the need to avoid undue concentration of banking resources and to maintain a climate in which small institutions can flourish; and the desirability of retaining a role for states in the evolution of the banking structure within a state.

The basic federal branch banking law, the McFadden Act of 1927, has not been amended in any substantive manner since 1933. The law effectively prohibits national banks from branching interstate by limiting each national bank to branching only within its home state, subject within that state to any branching restrictions imposed by that state on state-chartered banks. The Douglas amendment to the Bank Holding Company Act of 1956 prohibits interstate expansion by means of a bank holding company acquiring banks in another state unless such acquisitions are explicitly authorized by that state.

In spite of the statutory McFadden and Douglas prohibitions, de facto there has been a large and increasing amount of interstate banking in recent years. Some of that banking has taken place through avenues specifically permitted by law.

According to a study by the Federal Reserve Bank of Atlanta, U.S. bank holding companies in 1982 had 202 loan production offices and 143 internationally oriented Edge act corporations operating outside the parent's home state; foreign banking organizations had another 254 banking offices outside their home state. There are probably more today. More important is the variety of finance companies, mortgage companies, industrial banks, and other offices with at least partial banking capabilities operated interstate by bank holding companies. The Atlanta study counted some 5,500 such offices operating outside the holding company's home state, and many more exist now.

Technological advances are also providing large opportunities for banks to expand geographically without brick and mortar offices. By joining automated teller machine (ATM) networks, banks in some cases have been able to reach out to existing or new customers over state lines. Looking ahead, banking through home computers would be difficult to confine within a state's boundary. But even without exotic technology, the relative speed and simplicity of communications and transportation today makes it much easier, particularly on the deposit side, to conduct banking at a distance. Large businesses routinely "sweep" deposits into "concentration accounts" at selected banks. The combinations of print and broadcast advertising, 800-number telephone lines, deposit brokerage, and efficient clearing mechanisms mean that the day of rather insulated local deposit markets is gone. On the loan side, nationwide credit cards are available to customers throughout the country.

The substantial number of "nonbank bank" applications by bank holding companies, stretching the fabric of existing law, is one indication of the strength and depth of some banks' desires to operate over a wider geographic area. The pressures toward interstate operations arise from a number of sources. Competition from nondepository businesses that can and do provide financial services—including money market accounts and other banklike services—through interstate networks is strong and pervasive. Thrift institutions, which have no statutory bar to interstate branching, offer interstate facilities in a significant number of cases. Moreover, banks in slower-growing areas naturally want to participate in more rapidly expanding regions. Florida alone, for instance, has attracted about 20 percent of all nonbank bank applications by bank holding companies.

A number of relatively large banks that nevertheless rank well below the largest money center institutions in size apparently feel, with some urgency, that a stronger competitive position in national and international markets requires a larger size than can reasonably be attained within the boundaries of a single state. Some of the largest banks, conversely, urgently wish to attain a wider and more stable base of "retail" deposits and to expand their consumer lending. At the other end of the spectrum, there are small banks concerned about their ability to compete effectively without the power to combine with others in a natural market area that may extend over state boundaries.

Resistance to interstate banking for a variety of reasons—including a desire of many banks to continue as independent institutions—clearly remains strong. But the pressures for change are apparent in initiatives by a number of states toward more interstate banking. The growing number of regional interstate banking arrangements is the most important reflection of that change in attitude. Today fourteen states have enacted laws permitting reciprocal entry by bank affiliates of bank holding companies headquartered in states within a designated region; twelve more states are actively considering such arrangements. Four states allow entry from any other state, three without and one with reciprocity. These liberalized approaches toward interstate banking over recent years suggest a significant change in thinking since the MacFadden Act and the Douglas amendment were enacted.

Substantive Issues in Interstate Banking

Against this background, the Federal Reserve Board believes the time has come to review and clarify national policy toward interstate banking, recognizing the economic and competitive pressures driving toward liberalization of present restrictions, while also protecting the safety and the efficiency of the banking system, preventing undue concentration of economic resources, and assuring benefits to the users of banking services.

One continuing objective of public policy is to assure competition in banking, as in other industries. Ordinarily, we would not expect that competition would be promoted by confining an industry to a single geographic market or a single state. Indeed, we rely on the ability of additional firms to enter markets as a competitive force leading to the best possible products at least cost. Moreover, existing antitrust law appears to provide considerable protection against local markets becoming noncompetitive as the result of entry of larger organizations.

Available empirical studies do not suggest that large states with large banks and statewide branching are experiencing increasing concentration of local markets. The presumption that restrictions on entry into particular markets imply some loss of competitive vigor, unless overridden by other considerations of public policy, suggests that some liberalization of interstate banking is appropriate. That presumption has added force in an environment in which other large financial service firms are able to operate nationwide, exploiting the economies of scale in technology or marketing that may be available. In effect, those firms may now be in a position to skim off profitable areas of business from banks committed to providing a full range of banking services.

Historically, a counterargument to interstate banking has been a strong antipathy to the concentration of economic power, particularly in the banking system, and a desire to maintain banking resources in significant measure under control of local banks, knowledgeable about the needs and circumstances of smaller businesses and individuals.

Experience in states with large banks and statewide branching suggests that these are not questions of "either-or." Attachments I and II provide a brief analysis of experience in two of our largest states, one that has had statewide branching for decades and the other that has permitted statewide operations only since 1976.[1] In both cases, large numbers of relatively small independent banks remain. In California, a rapidly growing state, new banks are being formed in relatively large numbers; in New York, a state that is growing more slowly, relatively few new banks have been formed, but the number of small independent banks (that is, less than $100 million) has dropped only modestly since statewide branching was permitted. In both states, the competitive environment appears healthy, with the consumer and businessman able to choose between some of the largest banking institutions in the world and small, locally oriented banks. Should banks be permitted to expand interstate more freely, we anticipate that similar patterns would prevail.

We are aware that a rush to expand geographically could pose certain risks—temptations to pay exceptionally high prices and to leverage capital, to spread management thin, and to enter into new types of lending or operations in which experience may be limited. We believe that these risks can be dealt with through normal supervisory processes, particularly in evaluating financial and managerial factors with respect to applications. In particular, we believe that a banking organization planning sizable expansion programs should be able to demonstrate its ability to maintain fully adequate capital and liquidity positions, to avoid excessive use of good will on its balance sheet, and to provide capable management for acquired institutions. I would also emphasize, in this connection, that the risks—actual and potential—from expansion into new banking markets are typically more identifiable, and often less, than those risks posed by entry into new nonbanking activities for which bank management may have little or no experience.

CONCENTRATION

Viewed from a national perspective, restrictions on interstate banking have been effective in forestalling large concentrations of domestic banking resources, at least by the standards of other countries. The 10 largest banking organizations control only about 20 percent of all domestic banking assets, and the 100 largest only a little more than half.

Presumably, concentration ratios would tend to rise with interstate banking, quite significantly if such activity is unrestricted. At the same time, the experiences in California and New York that I referred to earlier suggest the process would stop very far short of the concentration of institutions common in other countries. We would anticipate thousands of independent organizations remaining.

Nevertheless, we believe that a variety of safeguards should be included in legislation liberalizing interstate banking to encourage continuing diversification of banking resources. Taken alone, antitrust laws—focused on the market

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

shares of competitors in particular markets—do not appear fully responsive to that need. Essentially, those laws as applied to banking make little distinction between the overall size of organizations competing in particular markets, but rather focus on the size of their presence in a single market. Consequently, those laws might be consistent with considerably greater concentration, measured on a national or regional basis, than would be desirable.

Two kinds of limitations, in our judgment, might be taken to forestall any substantial risk of excessive concentration. The approaches are not mutually exclusive and would be complementary. Both approaches would, at the margin, involve essentially arbitrary judgments, for they would envisage a simple quantitative measure of relative size. But, by responding directly and logically to the concerns about concentration, I believe that they would provide a more coherent approach than the present "system" of implicitly relying on an almost total prohibition on interstate acquisition as an indirect means of controlling concentration levels.

The first approach would envisage limitations on the largest banking institutions acquiring other banks. For instance, the very largest holding companies in terms of domestic banking assets (or depository institution assets)—say, the top 25—might be prohibited from merging with each other. In addition, banks could be prohibited from obtaining through acquisition more than some fixed share of the nationwide total of such assets, although de novo or relatively small acquisitions in other states could be permitted.

The second approach would permit, or even encourage, states to set limitations on the proportion of banking assets (or depository institution assets) within their own borders that could be acquired through acquisitions or mergers of institutions of significant size. Specifically, such acquisitions could be denied if the resultant institution would hold more than, for example, 15 or 20 percent of a state's banking assets. Any such rule should be nondiscriminatory between in-state and out-of-state banking organizations.

Of course, rules implementing these approaches would have to be carefully drawn to avoid anomalous results. The important point is that the national and statewide concentration limits be observed fully.

We would strongly suggest that exceptions to these limitations be permitted for failing institutions. Indeed, in light of the remaining strains evident in some sectors of the thrift and banking industries, we would propose that the emergency arrangements for failing institutions in the Garn–St Germain Act be extended. They should be liberalized in two ways: by not requiring that an institution actually be "closed" to qualify for emergency treatment, and by reducing or eliminating the $500 million size cut-off in the act.

The Dual Banking System

Interstate banking, by its nature, has implications for the dual banking system. Indeed, it is difficult to conceive of a system of interstate *branching* that would enable state law and supervision to govern the operations of banks in sister states. Consequently, interstate branching could well lead to a massive expansion of the national banking system.

If instead interstate banking operations are generally confined to separately incorporated and chartered components of a holding company, particular states could maintain authority over the in-state operations of the holding company. Moreover, there would be opportunity for a greater degree of local control. For those reasons, a requirement that interstate acquisitions generally take the form of a holding company affiliate appears to fit more naturally our banking traditions, at least over a long transitional period to a fully developed interstate banking environment.

A Possible Policy Approach

Various approaches toward interstate banking have been proposed over the years, ranging from modest changes in existing arrangements to nationwide branching. For instance, possible transitional approaches well short of nationwide banking include the following: (1) branching throughout metropolitan areas that extend across state lines, of which there are 35 at present; (2) expansion into contiguous states; (3) expansion de novo or by acquisition into any metropolitan area above a minimum size; (4) encouragement of reciprocal arrangements among states; (5) interstate banking limited to de novo operations or small acquisitions (conversely, some have proposed limiting or prohibiting small acquisitions in the interest of maintaining local banks); and (6) regional arrangements.

Each of those approaches (and any others that could be developed) has particular strengths and weaknesses; each could be debated. However, much of the recent thinking in states, and within the banking community, has focused largely on the last of those options—regional arrangements. As a consequence, we believe that it is useful to focus on that approach as a point of departure.

An advantage of regional arrangements seen by many is the opportunity for regional organizations to reach a size necessary for an effective national or international presence, and then to become more effective competitors of the largest banking institutions in all phases of banking.

However, the approach suffers from some clear weaknesses. The regions may be defined in a discriminatory way, aimed at encouraging particular combinations of banks and excluding others, without clear and objective rationale. Specifically, some proposals appear to be driven by a desire to exclude New York and California banks, or simply large money center banks. By their nature, sizable regional arrangements would permit combinations of banks that are long distances (and several states) apart, without permitting even limited operations in some contiguous states. Metropolitan areas might be left, in a banking sense, bifurcated. Viewed as a permanent arrangement, regional compacts would tend to balkanize banking, with a tendency toward regional concentrations.

Because of these potential weaknesses, we believe that a federal framework is required for regional arrangements. For example, such weaknesses can be substantially ameliorated if states entering into such regional arrangements were also required after relatively few years—say, three—to permit reciprocal entry by banks in any state that has enacted a regional arrangement or that otherwise provides for entry of banks from any other states.[2]

In this approach, any state, if it so chose, could continue entirely to "opt out" of full interstate banking. But, if it chose to enter into a regional arrangement, it would also have to be prepared to consider those arrangements as a transitional approach toward a broader arrangement encompassing all states willing to provide reciprocal privileges.

As suggested above, all interstate acquisitions would be subject to federal limitations designed to protect against undue concentration, and states would be able to limit the proportion of their banking assets acquired by a single banking organization. We would also suggest that it would be appropriate, in the first stages at least, for these interstate operations to be undertaken by means of separately incorporated units of a holding company rather than by direct branches.

The number of states that ultimately might wish to enter into regional (or nationwide) arrangements within this broad framework must, for the time being, remain unknown. Thus the possibility exists that little progress would be made toward interstate banking, even for limited operations within metropolitan areas. Yet, the status quo is hardly satisfactory, and the legitimate pressures toward interstate operations that have impelled nonbank banks would continue to seek "unnatural" channels. Consequently, we would suggest that, with due notice, the Congress authorize interstate branching within metropolitan areas and for neighboring areas of contiguous states.

Conclusion

I have, on a number of occasions in the past, stressed the urgency of congressional action to guide the orderly evolution of the banking system and to reaffirm certain basic principles that have guided the banking and financial systems, adapting them to present circumstances. Markets will continue to respond and change will take place. The only question is whether that

2. Regional arrangements are the subject of a constitutional challenge that is now before the Supreme Court. A federal framework, such as suggested above, could be put in place if the Supreme Court sustains regional arrangements or even if the Court were to find them unconstitutional on grounds of violation of commerce or compact clause requirements. However, if the Court were to find that such arrangements violate the equal protection clause, they could not be permitted even if sanctioned by federal law.

change will take place in a constructive framework of rules established by the Congress after a careful weighing and balancing of the vital public interests that are now before you for review. In my judgment—and taking account of both market forces and recent state inititatives—a comprehensive approach now requires a resolution of the issues involved in interstate expansion. ☐

Statement by J. Charles Partee, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, April 26, 1985.

I appreciate the opportunity to appear before this committee to discuss the current difficulties being experienced by banks in our agricultural communities. As members of this committee are well aware, these problems have been intensifying lately, as more farmers have been finding it difficult, if not impossible, to meet fully the contractual terms of their loan obligations.

The origin of these problems can be traced to the 1970s. Our farm sector experienced a major economic boom during that decade, and many farmers expected the good times to continue in the 1980s. There was, in particular, a general perception of limits on potential world production of agricultural products that would continue to encourage a rapid growth in farm exports, thus fostering increasing returns to land and other farm inputs. Many also believed that the more rapid inflation of the decade would persist, so that long-term indebtedness could be paid off with less valuable future dollars. Acting on these expectations, farmers and other investors acquired additional farm land, bidding up its price in the process. Farmers also invested heavily in new machinery and equipment. Moreover, in view of the apparently favorable outlook for agriculture and, for most of the decade, of interest rates that were low relative to the expected rise in income and asset prices, many thought it advantageous to finance a relatively large share of these investments with borrowed money. Consequently, farm indebtedness surged, rising, after allowance for inflation, about 60 percent from 1971 to 1979.

As it turned out, however, the agricultural boom of the 1970s gave way to a bust in the 1980s. The high farm prices of the 1970s attracted additional resources into agriculture both here and abroad, so that by the start of this decade, the potential for farm production had increased considerably. At the same time, growth in demand for American agricultural products weakened. Farm exports in particular have been reduced by sluggish economic conditions abroad and the high exchange value of the U.S. dollar, as well as by the expanded ability of other nations to meet consumption needs from their own internal production. These market developments have kept farm prices persistently depressed. As a result, farm income has been low for five years in a row, and land values have been declining since 1981.

Farm debt, though no longer increasing, still is high; and interest rates on farm loans, while down from earlier levels, remain well above those rates prevailing in the last decade when much of the debt was incurred. Thus, many farmers are faced with the problem of servicing a large volume of debt, at relatively high interest rates, with a substantially reduced level of farm earnings. High interest rates and reduced income flows also have added to the downward pressure on land values, thus further limiting the ability of farmers to pay down debt by selling these assets.

The earnings of all farmers have been adversely affected by lower product prices, but not all are experiencing the same degree of financial stress. Farmers that are relatively debt-free have suffered declines in asset values but are not in danger of falling into insolvency. In contrast, producers who entered the 1980s with only a relatively small equity cushion have been experiencing increasing financial difficulties. Estimates indicate that perhaps a third of the full-time producers on commercial-sized family farms have debt burdens large enough to cause moderate to severe financial stress, and this group owes about two-thirds of all farm debt. The greater proportion of this debt is owed to the Farm Credit System, the Farmers Home Administration, and individuals. Nonetheless, about one-quarter of total farm credit is provided by commercial banks, and a sizable proportion of the farm loan portfolios of many banks has become troubled to a greater or lesser degree.

Commercial banks experienced only minimal problems in their farm loan portfolios during the 1970s. Such problems began to pick up in 1981 and have been increasing steadily since then. One indication of the deterioration in the quality of agricultural loans at banks that has occured since then is provided by data on delinquencies and charge-offs. While not all banks are required to report such data for their farm loans, from available information our staff estimates that at the end of 1984 nonaccrual farm production loans at all banks in the nation totaled about $1.5 billion, and other nonperforming loans—those past due 90 days or more but still accruing interest, plus renegotiated troubled loans—totaled about $0.5 billion. In addition, about $1.0 billion of farm production loans were past due 30 to 89 days. Altogether, these poor-performing and nonperforming loans constituted about 7½ percent of all farm production loans.

In addition, net charge-offs of farm loans at all commercial banks are estimated to have been about $900 million in 1984, or a bit more than 2 percent of outstandings. Of this total, $240 million was reported by banks in California, representing about 6 percent of their outstanding farm loans. While California banks led the nation in charge-offs, these losses presented less of a problem for these banks than for banks in many other states. This was because most of the losses were booked by major banks with large branching systems in which agricultural loans constituted a relatively small proportion of their total asset portfolios. In contrast, many banks operating in agricultural areas of states that limit branching—states found mainly in the Midwest—have had more trouble accommodating to their loan losses because of the high concentration of these loans in their asset portfolios.

Last year's high charge-offs and an increase in provision of loan–loss reserves had a markedly depressing effect on the profitability of many agricultural banks (banks at which the ratio of farm loans to total loans exceeds the average of such ratios at all banks, currently about 17 percent). On average, returns on equity fell to 9 percent, down from returns averaging between 14 and 16 percent in every year from 1973 through 1982. There was great variation in earnings recorded among agricultural banks, however, mainly reflecting a sharp difference in loan–loss experience. Thus, 12 percent of these banks reported negative earnings last year, and another 9 percent recorded only minimal positive earnings. At the same time, over half earned more than 10 percent on equity, and nearly a fifth, more than 15 percent.

In the aggregate, earnings of agricultural banks were high enough to permit a further buildup in the average capital ratio of these banks, and the capital ratios of most agricultural banks remain high relative to those at nonfarm banks. But more farm banks seem certain to come under financial strain if farm loan losses continue and intensify. Moreover, as I have noted, a small but troubling number of farm banks experiencing relatively high loan losses have already suffered an erosion of their capital base, thus increasing their vulnerability to failure should such losses continue.

Such extremely adverse results have been occurring in small but increasing numbers. Last year, 32 agricultural banks failed—mostly in the second half of the year—compared with only 7 in 1983. Many of these banks came from a group that had reported delinquent loans at the beginning of the year in excess of the capital of the bank. Unfortunately, the number of agricultural banks in this condition, while still a relatively small proportion of the 5,000 agricultural banks, rose further during 1984. At 102 agricultural banks, nonperforming loans at the beginning of this year exceeded total capital, up from 44 a year earlier. Moreover, at 240 agricultural banks, the combined sum of past-due and nonperforming loans exceeded total capital, up from 133 a year earlier. Thus agricultural bank failures seem likely to rise further in 1985—indeed 17 farm bank failures already have occurred.

To sum up the current situation, while the incomes of the great bulk of our farmers have been reduced since the beginning of this decade, those that got heavily into debt in the 1970s are primarily the ones experiencing serious financial strains, with the severity of these strains increasing with the degree of their leveraging. While such farmers constitute only about one-third of all farmers, they account for about two-thirds of all agricultural debt. As many of these borrowers have found it increasingly difficult to service their loans, banks and other agricultural lenders have been encountering increasing problems. To date, information suggests that the great majority of farm banks remain in good condition despite these problems, but a significant and growing number is experiencing an increasing degree of strain.

That so many of our farm banks remain in relatively strong condition after five years of depressed conditions in the agricultural sector stands, I believe, as a tribute to their management. This rather clearly suggests that these banks generally followed prudent standards in extending credit to their farm customers during the boom times of the 1970s, standards that tended to hold down the degree of leveraging permitted individual customers—and in the process helped to dampen tendencies for these customers to become overextended. In addition, many farm banks followed policies that permitted them to maintain reasonably diversified asset portfolios.

Banks that failed to adhere to high standards of quality and asset diversity have been considerably more vulnerable to the effects of deteriorating circumstances of agricultural borrowers. One can point to situations in which a bank that is failing or in extremely troubled condition is located in close proximity to one or more other banks that remain in good condition. In addition, I understand that the Federal Deposit Insurance Corporation (FDIC), in a study it conducted of the banks that failed in 1984, found evidence of various kinds of abusive practices, including improper insider transactions, instances of possible fraud, and other forms of irregular management activities.

The management policies and practices of banks, of course, tend to vary along a continuum. Thus, the longer conditions in the agricultural sector remain depressed, the greater will be the number of banks experiencing problems of greater severity. As I have noted, that process is already quite observable in the trends of recent years. Since no dramatic change appears likely in the current balance between supply and demand in agricultural markets, such trends seem almost certain to continue for some time to come. Put more directly and graphically, it seems quite possible that many more agricultural banks and their farmer customers will experience severe financial dislocations over the next several years. I should hasten to add that at present it still appears that most farmers and farm banks have sufficient financial strength to weather these conditions, although admittedly not without growing strains and problems.

The debt adjustment program, first announced by the administration last September and then modified in March, will offer farm banks and their farmer customers some assistance in moving through the difficult transition period that appears to lie ahead. As committee members know, under this program the government will guarantee most of the remainder of a troubled farm loan after the lender reduces the principal amount (or an equivalent in interest charges) 10 percent or more as needed to reduce the borrower's debt service burden to a level that he appears able to handle. As of April 15, the Farmers Home Administration had received only 401 applications for such guarantees and had guaranteed 129 loans totaling $19.5 million. The flow of applications has been increasing gradually since the program was revised on March 13, however, and it seems quite reasonable to expect banks and their farm customers to make greater use of these guarantees if problems in the agricultural sector persist. I understand also that the Farmers Home Administration, under its regular loan guarantee program, this year has guaranteed a substantially larger volume of farm operating loans than in preceding years.

The Federal Reserve also revised and extended its seasonal lending program in March of this year with the objective of making sure that agricultural banks will have sufficient liquidity to provide needed production loans to their farmer customers. The regular seasonal program, in place since 1973, provides discount window credit to depository institutions with limited access to national money markets that experience recurring seasonal swings in net needs for funds because of the way their deposit flows fluctuate relative to their loan demands. This existing program was liberalized to increase the portion of the seasonal funding needs that the Federal Reserve stands ready to supply to small and midsized institutions. In addition, a temporary, simplified seasonal program has been established as an alternative source of seasonal credit.

Aimed particularly at smaller banks substantially involved in agricultural lending, this program offers institutions with total loan growth above a base amount of 2 percent the opportunity to fund half of any further loan expansion through discount window loans, up to a maximum amount of 5 percent of the institution's total deposits.

In announcing the broadening of its seasonal credit program, the Federal Reserve noted that there were few if any signs to indicate that agricultural banks generally would experience any unusual shortfall of liquidity. The action was taken, nevertheless, to have in place a means to offset any unforeseen liquidity strains that might arise in local areas or for individual banks, thus threatening the necessary flow of credit to farmers. Thus far, total borrowing in our seasonal program has been running somewhat below last year's levels. But seasonal credit needs normally continue to expand through the spring and summer and may yet begin to outpace the available liquidity of some farm banks.

The Federal Reserve, as well as the other federal banking agencies, has also recently reiterated its policy of instructing bank examiners to refrain from taking supervisory actions that would discourage banks from exercising appropriate forbearance when working with farmers or other small businesses with delinquent loans. It is not the intent of this policy to encourage or permit loan decisions that are inconsistent with a bank's long-term safety and soundness. The policy recognizes, however, that if there is good reason to believe a borrower's difficulties are temporary in nature, it is prudent banking policy to extend due dates on his loans, and in some cases to grant additional credit to carry him over a period of distress. Reserve Banks have designated senior review examiners with expertise in supervising farm banks to oversee the administration of this policy.

I was asked to comment today on another proposal for assisting troubled agricultural lenders. Legislation has been introduced that would extend the Net Worth Assistance Program—currently targeted to provide assistance to real estate lenders with low capital and weak earnings—to farm banks. Under this proposed program, the FDIC would stand ready to swap its promissory notes for the net worth certificates of those farm lenders whose capital positions have fallen significantly below regulatory standards and who have suffered negative earnings in two preceding quarters. The swap is supposed to be reversed when the institution regains its health. While no new funds or permanent capital are provided by this program, it would permit an institution to continue operating with a level of stockholder equity below that which regulatory agencies ordinarily require. In addition, since the FDIC's promise would be a general asset of the bank and thus available to meet the demands of depositors and other creditors in the event the bank were liquidated, it would provide some reassurance to the holders of uninsured liabilities of troubled banks.

At present, the coverage of this proposed program would be quite limited, since the vast majority of farm banks remain well capitalized and have positive earnings. Moreover, while the number of banks that would be eligible for the program seems likely to grow, there are other important drawbacks to be considered. As presently formulated, the program would provide aid to a bank regardless of whether its problems are temporary or permanent in nature. If the latter, a clearly better approach would be to achieve an immediate shift of its resources to a healthy, better-run institution. In addition, in cases in which significant loan losses must be taken and capital is thus eroded, it would be better for an institution's capital base to be augmented with new permanent funding sources rather than with temporary accounting capital that would have to be replaced over time by the retention of future earnings.

Taking these points into consideration, I can see relatively little long-term advantage in the net worth assistance (NWA) proposal, barring a further substantial deterioration in the condition of farm banks that reaches systemic proportions. At present, in cases in which loan losses prove enough to undermine seriously a bank's capital position, I would think it better to encourage and facilitate mergers with stronger banking institutions, particularly those that are not now so heavily involved in agricultural lending. That would offer several important advantages. First, it would transfer control of the institution's lending resources to a bank with a better management record. Second, it would provide an infusion of real, permanent capital into the bank and thus into agricultural lending in general rather than temporary "accounting" capital as would occur with NWA certificates. Finally, mergers with banks outside the community of agricultural banks would promote greater diversification of portfolio risk. In this way, the banking system would come to be better protected against unforeseen developments that, from time to time, adversely affect the financial health of different sectors of the economy.

There is no doubt that the agricultural sector has been going through some very hard times because of unanticipated weakness in farm product markets that will no longer support the built-in structure of high indebtedness. Many banks that have concentrated their lending in the farm area thus are encountering difficulty because of the inability of farmers to service their debts, and it may be that more banks will be driven to the point of bankruptcy. But, as I see it, the best way to deal with an erosion of capital is to obtain replacement funds from present or prospective bank owners. And when the bank's problems appear too severe and fundamental to handle in this manner, the best solution is to seek mergers with other institutions that promise a larger, more stable, lending and deposit base. □

Announcements

Revisions to Guidelines for Capital Adequacy

The Federal Reserve Board has announced revisions to its guidelines regarding capital adequacy for state member banks and bank holding companies.

The revised guidelines raise the minimum capital levels for multinational and regional banking organizations. By doing so, the revised guidelines eliminate the disparity in the minimum capital requirements between these larger institutions and smaller community state member banks and bank holding companies by setting a uniform minimum ratio of primary capital to total assets of 5.5 percent and a minimum ratio of total capital to total assets of 6.0 percent. In general, banking organizations are expected to operate above the minimum primary and total capital levels.

This action parallels the recent actions of the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), resulting in uniform minimum capital levels being established for all federally supervised banking organizations.

Based on its experience, the Board has continued to include the substantive capital requirements for state member banks and bank holding companies in guidelines rather than in the form of a regulation. In addition, the Board has retained the use of total capital zones or target ranges that help to define various levels of capitalization. The use of such zones or target ranges provides the management of banking organizations with broad standards for future capital planning and encourages banking organizations to maintain total capital levels in excess of the minimum. The zones are generally defined as the following:

Zone 1. Institutions with total capital equal to at least 7 percent of total assets are generally considered adequately capitalized, provided their primary capital ratios are considered adequate.

Zone 2. Institutions operating with total capital equal to 6 to 7 percent of their total assets may be considered capitalized at a minimally acceptable level, subject to consideration of other financial factors.

Zone 3. Banking organizations with total capital equal to less than 6 percent of their total assets are generally considered undercapitalized, in the absence of clear extenuating circumstances.

The Board has also included in the revised guidelines a more detailed definitional section dealing with mandatory convertible securities. Finally, the Board has adopted a regulation establishing procedures by which the Board may require a banking organization to maintain the minimum capital levels, as defined in the revised guidelines, or higher levels for institutions on a case-by-case basis.

The Board has made three changes in its existing capital guidelines for *state member banks* in order to define capital more consistently with the capital regulations of the OCC and the FDIC. Specifically, the Board has amended the capital guidelines for state member banks, but not for bank holding companies: (1) to require the automatic deduction of goodwill from primary and total capital; (2) to eliminate equity commitment notes from primary capital; and (3) to define the capital ratios in terms of average assets rather than period-end figures.

The guidelines state that the Federal Reserve will review liquidity and the relationship of all on- and off-balance-sheet risks to capital, and will require those institutions with high or inordinate levels of risk to hold additional primary capital. The guidelines suggest that banking organizations avoid the practice of attempting to meet capital requirements by decreasing the level of liquid assets in relation to total assets. The guidelines also indicate that the Federal Reserve will continue to review the need for more explicit procedures for factoring on- and off-balance-sheet risks into the assessment of capital adequacy.

Publication of Bank Holding Company Performance Report

The Federal Reserve Board has announced that the Bank Holding Company Performance Report (BHCPR) will be available for sale to the public for the first time on Monday, April 29, 1985. The report will also be sent to all bank holding companies that file the Bank Holding Company Financial Supplement (FR Y-9).

The BHCPR is a 16-page report containing balance sheet and income items and financial ratios that allows detailed financial analysis of bank holding companies. It will be in the same format as the Uniform Bank Performance Report that is issued by the Federal Financial Institutions Examination Council.

The BHCPR will be available approximately 120 days after the December and June reporting periods. For the December reporting period, the full report containing consolidated and parent data for approximately 1,020 bank holding companies will be available as well as a four-page report on parent-only companies for approximately 800 bank holding companies that have consolidated assets between $50 million and $100 million. The June BHCPR will be produced for bank holding companies that are required to submit the FR Y-9 semiannually.

Copies of individual bank holding company BHCPRs may be obtained by the public for $25.00 for the full report and $10.00 for the parent-only report. BHCPR User's Guides may be obtained for $6.00 per copy. Order forms may be obtained from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Guidelines for Purchase and Sale of Government-Guaranteed Loans

The Federal Reserve Board has adopted a revised policy for supervising financial institutions that participate in the purchase and sale of loans guaranteed by the U.S. government. The policy updates guidelines first approved in 1979, which established prudential standards for handling such loans.

The revised policy reminds financial institutions that premiums received in lieu of servicing fees, with respect to the selling and servicing bank, are to be amortized over the life of the loan, and that, with respect to the purchasing bank, the premiums paid over the face value of the note are not guaranteed and are not paid by the guaranteeing federal agency when the loans are prepaid or in default. For this reason, the statement cautions banks against paying inappropriate or excessive premiums.

Publication of Report on Priced Services in 1984

The Federal Reserve Board has issued a report summarizing developments in the priced services areas for 1984 and providing detailed financial results of providing those services.

The Board issues a report on priced services annually and a priced service balance sheet and income statement quarterly. The financial statements are designed to reflect standard accounting practices, taking into account the nature of the Federal Reserve's activities and its unique position in this field.

Amendment to Regulation AA

The Federal Reserve Board has announced a final rule amending its Regulation AA (Unfair or Deceptive Acts or Practices) that will carry out the Credit Practices Rule recently adopted by the Federal Trade Commission.

All banks except those savings banks that are members of the Federal Home Loan Bank System will be affected by the new rule.

The Board's action, effective January 1, 1986, prohibits banks from entering into any consumer credit obligation that contains a confession of judgment clause, a waiver of exemption, an assignment of future wages to the creditor in the event of default, or a security interest in the consumer's household goods other than those purchased with the credit.[1] In addition, the rule prohibits the enforcement of these provisions in a consumer credit obligation purchased by a bank.

The rule also forbids the pyramiding of late charges. Through this practice, a creditor imposes multiple late charges based on a single late payment that is subsequently paid in full on or before the next timely payment. As the subsequent timely payments are made, and the late charge extracted, the late charges begin to pyramid. In addition, the rule requires a creditor to give a notice to cosigners informing them of the nature of their obligation and potential liability. Under the new rule, banks are given the option of either providing the notice in a separate document or including the notice in the contract document.

Revised List of OTC Margin Stocks

The Federal Reserve Board has published a revised list of over-the-counter (OTC) stocks that are subject to its margin regulations, effective May 14, 1985.

The list includes all over-the-counter securities designated by the Board pursuant to its established criteria as well as all securities qualified for trading in the national market system (NMS). This list includes all securities qualified for trading in tier 1 of the NMS through May 14 and those in tier 2 through April 16, 1985. Additional OTC securities may be designated as NMS securities in the interim between the Board's quarterly publications and will be immediately marginable. The next publication of the Board's list is scheduled for August 1985.

This List of Marginable OTC Stocks supersedes the revised List of Marginable OTC Stocks that was effective on February 12, 1985. Changes that have been made in the list, which now includes 2,406 OTC stocks, are as follows: 175 stocks have been included for the first time, 149 under NMS designation; 20 stocks previously on the list have been removed for substantially failing to meet the requirements for continued listing; and 33 stocks have been removed for reasons such as listing on a national securities exchange or involvement in an acquisition.

In addition to NMS-designated securities, the Board will continue to monitor the market activity of other OTC stocks to determine which stocks meet the requirements for inclusion and continued inclusion on the list.

Revised Rules Regarding Equal Opportunity

The Federal Reserve Board has approved for publication as a final rule its revised Rules Regarding Equal Opportunity, effective June 1, 1985.

The Board revised and expanded its Rules Regarding Equal Opportunity to include the following procedures:

- Clarify responsibility within the Federal Reserve Board for implementation of the Board's EEO Program.
- Provide for review of Board decisions on complaints of discrimination by the Equal Employment Opportunity Commission.
- Provide Board employees and other persons with the same rights that are provided to employees of other federal agencies and others by the Age Discrimination in Employment Act, the Equal Pay Act, and the Rehabilitation Act.

Copies of the Board's revised regulation and the accompanying *Federal Register* notice may be obtained upon request from the Federal Reserve Banks and the Board's Publications Services office.

Proposed Action

The Federal Reserve Board has requested comment by May 28, 1985, on an application by Compagnie Financiere de Suez and its subsidiary, Banque Indosuez, both of Paris, France, to deal in foreign currency options traded on a stock exchange through a joint venture.

1. A confession of judgment clause is a statement by which the consumer agrees in advance to permit the creditor to obtain a judgment in the event of default without giving the debtor prior notice or an opportunity to be heard in court. Under a waiver of exemption, the consumer waives or limits state law exemptions sheltering the consumer's home or other necessities from attachment.

CHANGES IN BOARD STAFF

The Board of Governors has announced the appointment of Florence M. Young as Adviser in the Division of Federal Reserve Bank Operations, effective April 8, 1985.

Ms. Young has an M.B.A. from Georgia State University and has been a member of the Board's staff since July 1972.

The Board has also announced the following changes in the Legal Division, effective April 15, 1985:

J. Virgil Mattingly, Jr., has been promoted to Deputy General Counsel.

Richard M. Ashton has been promoted to Associate General Counsel for Litigation.

Oliver Ireland has been appointed Associate General Counsel for Monetary Affairs.

Ricki Tigert has been appointed Assistant General Counsel for International Banking.

Stephen Siciliano has been appointed Special Assistant to the General Counsel for Administrative Law.

Mr. Ireland holds a B.A. from Yale University and a J.D. from the University of Texas. He had been the Associate General Counsel for the Federal Reserve Bank of Chicago.

Ms. Tigert holds a B.A. from Vanderbilt University, an M.A. from the University of North Carolina, and a J.D. from the University of Chicago. She had been a senior attorney with the Treasury Department.

SYSTEM MEMBERSHIP:
ADMISSION OF STATE BANKS

The following banks were admitted to membership in the Federal Reserve System during the period April 1 through April 30, 1985:

Arizona
Phoenix .... First Business Bank of Arizona
Florida
Orlando .... Commercial State Bank of Orlando
Minnesota
Mora................. Kanabec State Bank
Montana
Seeley Lake............. First Valley Bank
Texas
Denton............ Provident Bank–Denton
Duncanville ...... First State Bank of Texas
Virginia
Abingdon............ Highland Union Bank

Legal Developments

Amendments to Regulations H, Y, and Rules of Procedure

The Board of Governors of the Federal Reserve System has adopted revised capital adequacy guidelines and a procedural regulation to permit the Board to enforce compliance with the revised guidelines. The amended guidelines and the procedural enforcement regulation implement section 908 of the International Lending Supervision Act of 1983 (Public Law 98-181, Title IX, 97 Stat. 1153, codified at 12 U.S.C. § 3907), which directs the federal bank supervisory agencies, *i.e.*, the Board, the Federal Deposit Insurance Corporation ("the FDIC") and the Comptroller of the Currency ("the Comptroller"), to establish minimum and appropriate levels of capital for federally supervised banking institutions. Pursuant to its supervisory authority, the Board is promulgating revised capital guidelines for bank holding companies and state-chartered banks that are members of the Federal Reserve System.

Capital adequacy is one of the critical factors the Board is required to analyze in taking action on various types of applications, such as mergers and acquisitions by banks and bank holding companies, and in the conduct of the Board's various supervisory activities related to the safety and soundness of individual banks and bank holding companies and to the stability of the banking system.

In amending its capital guidelines, the Board has adopted, with some changes, the proposal published for comment on July 30, 1984 (49 *Federal Register* 30,317).

Effective May 15, 1985, the Board hereby amends 12 C.F.R. parts 208, 225 and 263 as set forth below:

Part 208—Membership of State Banking Institutions in the Federal Reserve System

1. 12 C.F.R. Part 208 is amended by revising the authority for the Part, and by adding a new section 208.13 to read as follows:

Authority: 12 U.S.C. 248, 321–338, 486, 1814, 3907, 3909, unless otherwise noted.

Section 208.13—Capital Adequacy

The standards and guidelines by which the capital adequacy of state member banks will be evaluated by the Board are set forth in Appendix A to the Board's Regulation Y, 12 C.F.R. Part 225.

Part 225—Bank Holding Companies and Change in Bank Control

2. 12 C.F.R. Part 225 is amended, under authority cited in this part including 12 U.S.C. 1844(b), 1817(j)(13), 1818(b), and Pub. L 98-181, Title IX (12 U.S.C. 3907 and 3909), by revising Appendix A to read as follows:

Appendix A—Capital Adequacy Guidelines for Bank Holding Companies and State Member Banks

The Board of Governors of the Federal Reserve System has adopted minimum capital ratios and guidelines to provide a framework for assessing the adequacy of the capital of bank holding companies and state member banks (collectively "banking organizations"). The guidelines generally apply to all state member banks and bank holding companies regardless of size and are to be used in the examination and supervisory process as well as in the analysis of applications acted upon by the Federal Reserve. The Board of Governors will review the guidelines from time to time for possible adjustments commensurate with changes in the economy, financial markets, and banking practices.

Two principal measurements of capital are used—the primary capital ratio and the total capital ratio. The definitions of primary and total capital for banks and bank holding companies and formulas for calculating the capital ratios are set forth below in the definitional sections of these guidelines.

Capital Guidelines

The Board has established a minimum level of primary capital to total assets of 5.5 per cent and a minimum level of total capital to total assets of 6.0 per cent. Generally, banking organizations are expected to operate above the minimum primary and total capital levels. Those organizations whose operations involve or are exposed to high or inordinate degrees of risk will be expected to hold additional capital to compensate for these risks.

In addition, the Board has established the following three zones for total capital for banking organizations of all sizes:

Capital Zones	Total Capital Ratio
Zone 1	Above 7.0%
Zone 2	6.0% to 7.0%
Zone 3	Below 6.0%

The capital guidelines assume adequate liquidity and a moderate amount of risk in the loan and investment portfolios and in off-balance sheet activities. The Board is concerned that some banking organizations may attempt to comply with the guidelines in ways that reduce their liquidity or increase risk. Banking organizations should avoid the practice of attempting to meet the guidelines by decreasing the level of liquid assets in relation to total assets. In assessing compliance with the guidelines, the Federal Reserve will take into account liquidity and the overall degree of risk associated with an organization's operations, including the volume of assets exposed to risk.

The Federal Reserve will also take into account the sale of loans or other assets with recourse and the volume and nature of all off-balance sheet risk. Particularly close attention will be directed to risks associated with standby letters of credit and participation in joint venture activities. The Federal Reserve will review the relationship of all on- and off-balance sheet risks to capital and will require those institutions with high or inordinate levels of risk to hold additional primary capital. In addition, the Federal Reserve will continue to review the need for more explicit procedures for factoring on- and off-balance sheet risks into the assessment of capital adequacy.

The capital guidelines apply to both banks and bank holding companies on a consolidated basis.[1] Some banking organizations are engaged in significant nonbanking activities that typically require capital ratios higher than those of commercial banks alone. The Board believes that, as a matter of both safety and soundness and competitive equity, the degree of leverage common in banking should not automatically extend to nonbanking activities. Consequently, in evaluating the consolidated capital positions of banking organizations, the Board is placing greater weight on the building-block approach for assessing capital requirements. This approach generally provides that nonbank subsidiaries of a banking organization should maintain levels of capital consistent with the levels that have been established by industry norms or standards, by Federal or State regulatory agencies for similar firms that are not affiliated with banking organizations, or that may be established by the Board after taking into account risk factors of a particular industry. The assessment of an organization's consolidated capital adequacy must take into account the amount and nature of all nonbank activities, and an institution's consolidated capital position should at least equal the sum of the capital requirements of the organization's bank and nonbank subsidiaries as well as those of the parent company.

Supervisory Action

The nature and intensity of supervisory action will be determined by an organization's compliance with the required minimum primary capital ratio as well as by the zone in which the company's total capital ratio falls. Banks and bank holding companies with primary capital ratios below the 5.5 per cent minimum will be considered undercapitalized unless they can demonstrate clear extenuating circumstances. Such banking organizations will be required to submit an acceptable plan for achieving compliance with the capital guidelines and will be subject to denial of applications and appropriate supervisory enforcement actions.

The zone in which an organization's total capital ratio falls will normally trigger the following supervisory responses, subject to qualitative analysis:

For institutions operating in Zone 1, the Federal Reserve will:

–consider that capital is generally adequate if the primary capital ratio is acceptable to the Federal Reserve and is above the 5.5 per cent minimum.

For institutions operating in Zone 2, the Federal Reserve will:

–pay particular attention to financial factors, such as asset quality, liquidity, off-balance sheet risk, and interest rate risk, as they relate to the adequacy of capital. If these areas are deficient and the Federal Reserve concludes capital is not fully adequate, the Federal Reserve will intensify its monitoring and take appropriate supervisory action.

1. The guidelines will apply to bank holding companies with less than $150 million in consolidated assets on a bank-only basis unless (1) the holding company or any nonbank subsidiary is engaged directly or indirectly in any nonbank activity involving significant leverage or (2) the holding company or any nonbank subsidiary has outstanding significant debt held by the general public. Debt held by the general public is defined to mean debt held by parties other than financial institutions, officers, directors, and principal shareholders of the banking organization or their related interests.

For institutions operating in Zone 3, the Federal Reserve will:

- –consider that the institution is undercapitalized, absent clear extenuating circumstances;
- –require the institution to submit a comprehensive capital plan, acceptable to the Federal Reserve, that includes a program for achieving compliance with the required minimum ratios within a reasonable time period; and
- –institute appropriate supervisory and/or administrative enforcement action, which may include the issuance of a capital directive or denial of applications, unless a capital plan acceptable to the Federal Reserve has been adopted by the institution.

Treatment of Intangible Assets for the Purpose of Assessing the Capital Adequacy of Bank Holding Companies and State Member Banks

In considering the treatment of intangible assets for the purpose of assessing capital adequacy, the Federal Reserve recognizes that the determination of the future benefits and useful lives of certain intangible assets may involve a degree of uncertainty that is not normally associated with other banking assets. Supervisory concern over intangible assets derives from this uncertainty and from the possibility that, in the event an organization experiences financial difficulties, such assets may not provide the degree of support generally associated with other assets. For this reason, the Federal Reserve will carefully review the level and specific character of intangible assets in evaluating the capital adequacy of state member banks and bank holding companies.

The Federal Reserve recognizes that intangible assets may differ with respect to predictability of any income stream directly associated with a particular asset, the existence of a market for the asset, the ability to sell the asset, or the reliability of any estimate of the asset's useful life. Certain intangible assets have predictable income streams and objectively verifiable values and may contribute to an organization's profitability and overall financial strength. The value of other intangibles, such as goodwill, may involve a number of assumptions and may be more subject to changes in general economic circumstances or to changes in an individual institution's future prospects. Consequently, the value of such intangible assets may be difficult to ascertain. Consistent with prudent banking practices and the principle of the diversification of risks, banking organizations should avoid excessive balance sheet concentration in any category or related categories of intangible assets.

Bank Holding Companies. While the Federal Reserve will consider the amount and nature of all intangible assets, those holding companies with aggregate intangible assets in excess of 25 per cent of tangible primary capital (*i.e.*, stated primary capital less all intangible assets) or those institutions with lesser, although still significant, amounts of goodwill will be subject to close scrutiny. For the purpose of assessing capital adequacy, the Federal Reserve may, on a case-by-case basis, make adjustments to an organization's capital ratios based upon the amount of intangible assets in excess of the 25 per cent threshold level or upon the specific character of the organization's intangible assets in relation to its overall financial condition. Such adjustments may require some organizations to raise additional capital.

The Board expects banking organizations (including state member banks) contemplating expansion proposals to ensure that *pro forma* capital ratios exceed the minimum capital levels without significant reliance on intangibles, particularly goodwill. Consequently, in reviewing acquisition proposals, the Board will take into consideration both the stated primary capital ratio (that is, the ratio without any adjustment for intangible assets) and the primary capital ratio after deducting intangibles. In acting on applications, the Board will take into account the nature and amount of intangible assets and will, as appropriate, adjust capital ratios to include certain intangible assets on a case-by-case basis.

State Member Banks. State member banks with intangible assets in excess of 25 per cent of tangible primary capital will be subject to close scrutiny. In addition, for the purpose of calculating capital ratios of state member banks, the Federal Reserve will deduct goodwill from primary capital and total capital. The Federal Reserve may, on a case-by-case basis, make further adjustments to a bank's capital ratios based on the amount of intangible assets (aside from goodwill) in excess of the 25 per cent threshold level or on the specific character of the bank's intangible assets in relation to its overall financial condition. Such adjustments may require some banks to raise additional capital.

In addition, state member banks and bank holding companies are expected to review periodically the value at which intangible assets are carried on their balance sheets to determine whether there has been any impairment of value or whether changing circumstances warrant a shortening of amortization periods. Institutions should make appropriate reductions in carrying values and amortization periods in light of this review, and examiners will evaluate the treatment of intangible assets during on-site examinations.

Definition of Capital to be Used in Determining Capital Adequacy of Bank Holding Companies and State Member Banks

Primary Capital Components

The components of primary capital are:
–common stock,
–perpetual preferred stock (preferred stock that does not have a stated maturity date and that may not be redeemed at the option of the holder),
–surplus (excluding surplus relating to limited-life preferred stock),
–undivided profits,
–contingency and other capital reserves,
–mandatory convertible instruments,[2]
–allowance for possible loan and lease losses (exclusive of allocated transfer risk reserves),
–minority interest in equity accounts of consolidated subsidiaries.

Secondary Capital Components

The components of secondary capital are:
–limited-life preferred stock (including related surplus) and
–bank subordinated notes and debentures and unsecured long-term debt of the parent company and its nonbank subsidiaries.

Restrictions Relating to Capital Components

To qualify as primary or secondary capital, a capital instrument should not contain or be covered by any covenants, terms, or restrictions that are inconsistent with safe and sound banking practices. Examples of such terms are those regarded as unduly interfering with the ability of the bank or holding company to conduct normal banking operations or those resulting in significantly higher dividends or interest payments in the event of a deterioration in the financial condition of the issuer.

The secondary components must meet the following conditions to qualify as capital:
–The instrument must have an original weighted-average maturity of at least seven years.
–The instrument must be unsecured.
–The instrument must clearly state on its face that it is not a deposit and is not insured by a federal agency.
–Bank debt instruments must be subordinated to claims of depositors.
–For banks only, the aggregate amount of limited-life preferred stock and subordinate debt qualifying as capital may not exceed 50 per cent of the amount of the bank's primary capital.

As secondary capital components approach maturity, the banking organization must plan to redeem or replace the instruments while maintaining an adequate overall capital position. Thus, the remaining maturity of secondary capital components will be an important consideration in assessing the adequacy of total capital.

Capital Ratios

The primary and total capital ratios for bank holding companies are computed as follows:

Primary capital ratio:

$$\frac{\text{Primary capital components}}{\text{Total assets + Allowance for loan and lease losses (exclusive of allocated transfer risk reserves)}}$$

Total capital ratio:

$$\frac{\text{Primary capital components + Secondary capital components}}{\text{Total assets + Allowance for loan and lease losses (exclusive of allocated transfer risk reserves)}}$$

The primary and total capital ratios for state member banks are computed as follows:

Primary capital ratio:

$$\frac{\text{Primary capital components} - \text{Goodwill}}{\text{Average total assets + Allowance for loan and lease losses (exclusive of allocated transfer risk reserves)} - \text{Goodwill}}$$

Total capital ratio:

$$\frac{\text{Primary capital components + Secondary capital components} - \text{Goodwill}}{\text{Average total assets + Allowance for loan and lease losses (exclusive of allocated transfer risk reserves)} - \text{Goodwill}}$$

Generally, period-end amounts will be used to calculate bank holding company ratios. However, the Federal Reserve will discourage temporary balance sheet adjustments or any other "window dressing" practices designed to achieve transitory compliance with the guidelines. Banking organizations are expected to maintain adequate capital positions at all times. Thus, the Federal Reserve will, on a case-by-case basis, use average total assets in the calculation of

2. *See* the definitional section below that lists the criteria for mandatory convertible instruments to qualify as primary capital.

bank holding company capital ratios whenever this approach provides a more meaningful indication of an individual holding company's capital position.

For the calculation of bank capital ratios, "average total assets" will generally be defined as the quarterly average total assets figure reported on the bank's Report of Condition. If warranted, however, the Federal Reserve may calculate bank capital ratios based upon total assets as of period-end. All other components of the bank's capital ratios will be based upon period-end balances.

Criteria for Determining the Primary Capital Status of Mandatory Convertible Securities of Bank Holding Companies and State Member Banks

Mandatory convertible securities are subordinated debt instruments that are eventually transformed into common or perpetual preferred stock within a specified period of time, not to exceed 12 years. To be counted as primary capital, mandatory convertible securities must meet the criteria set forth below. These criteria cover the two basic types of mandatory convertible securities: "equity contract notes"—securities that obligate the holder to take common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal, and "equity commitment notes"—securities that are redeemable only with the proceeds from the sale of common or perpetual preferred stock. Both equity commitment notes and equity contract notes qualify as primary capital for bank holding companies, but only equity contract notes qualify as primary capital for banks.[3]

Criteria Applicable to Both Types of Mandatory Convertible Securities

a. The securities must mature in 12 years or less.

b. The maximum amount of mandatory convertible securities that may be counted as primary capital is limited to 20 per cent of primary capital, exclusive of mandatory convertible securities.[4] (Amounts outstanding in excess of the 20 per cent limitation may be counted as secondary capital provided they meet the requirements of secondary capital instruments.)

c. The issuer may redeem securities prior to maturity only with the proceeds from the sale of common or perpetual preferred stock of the bank or bank holding company. Any exception to this rule must be approved by the Federal Reserve. The securities may not be redeemed with the proceeds of another issue of mandatory convertible securities. Nor may the issuer repurchase or acquire its own mandatory convertible securities for resale or reissuance.

d. Holders of the securities may not accelerate the payment of principal except in the event of bankruptcy, insolvency, or reorganization.

e. The securities must be subordinate in right of payment to all senior indebtedness of the issuer. In the event that the proceeds of the securities are reloaned to an affiliate, the loan must be subordinated to the same degree as the original issue.

f. An issuer that intends to dedicate the proceeds of an issue of common or perpetual preferred stock to satisfy the funding requirements of an issue of mandatory convertible securities (*i.e.*, the requirement to retire or redeem the notes with the proceeds from the issuance of common or perpetual preferred stock) generally must make such a dedication during the quarter in which the new common or preferred stock is issued.[5] As a general rule, if the dedication is not made within the prescribed period, then the securities issued may not at a later date be dedicated to the retirement or redemption of the mandatory convertible securities.[6]

Additional Criteria Applicable to Equity Contract Notes

a. The note must contain a contractual provision (or must be issued with a mandatory stock purchase contract) that requires the holder of the instrument to take the common or perpetual stock of the issuer in lieu of cash in satisfaction of the claim for principal

3. Equity commitment notes that were issued by state member banks prior to May 15, 1985 will continue to be included in primary capital.

4. The maximum amount of equity commitment notes that may be counted as primary capital is limited to 10 per cent of primary capital exclusive of mandatory convertible securities.

5. Common or perpetual preferred stock issued under dividend reinvestment plans or issued to finance acquisitions, including acquisitions of business entities, may be dedicated to the retirement or redemption of the mandatory convertible securities. Documentation certified by an authorized agent of the issuer showing the amount of common stock or perpetual preferred stock issued, the dates of issue, and amounts of such issues dedicated to the retirement or redemption of mandatory convertible securities will satisfy the dedication requirement.

6. The dedication procedure is necessary to ensure that the primary capital of the issuer is not overstated. For each dollar of common or perpetual preferred proceeds dedicated to the retirement or redemption of the notes, there is a corresponding reduction in the amount of outstanding mandatory securities that may qualify as primary capital. *De minimis* amounts (in relation to primary capital) of common or perpetual preferred stock issued under arrangements in which the amount of stock issued is not predictable, such as dividend reinvestment plans and employee stock option plans (but excluding public stock offerings and stock issued in connection with acquisitions), should be dedicated by no later than the company's fiscal year end.

repayment. The obligation of the holder to take the common or perpetual preferred stock of the issuer may be waived if, and to the extent that, prior to the maturity date of the obligation, the issuer sells new common or perpetual preferred stock and dedicates the proceeds to the retirement or redemption of the notes. The dedication generally must be made during the quarter in which the new common or preferred stock is issued.

b. A stock purchase contract may be separated from a security only if (1) the holder of the contract provides sufficient collateral[7] to the issuer, or to an independent trustee for the benefit of the issuer, to assure performance under the contract and (2) the stock purchase contract requires the purchase of common or perpetual preferred stock.

Additional Criteria Applicable to Equity Commitment Notes

a. The indenture or note agreement must contain the following two provisions:

1. The proceeds of the sale of common or perpetual preferred stock will be the sole source of repayment for the notes, and the issuer must dedicate the proceeds for the purpose of repaying the notes. (Documentation certified by an authorized agent of the issuer showing the amount of common or perpetual preferred stock issued, the dates of issue, and amounts of such issues dedicated to the retirement or redemption of mandatory convertible securities will satisfy the dedication requirement.)
2. By the time that one-third of the life of the securities has run, the issuer must have raised and dedicated an amount equal to one-third of the original principal of the securities. By the time that two-thirds of the life of the securities has run, the issuer must have raised and dedicated an amount equal to two-thirds of the original principal of the securities. At least 60 days prior to the maturity of the securities, the issuer must have raised and dedicated an amount equal to the entire original principal of the securities. Proceeds dedicated to redemption or retirement of the notes must come only from the sale of common or perpetual preferred stock.[8]

b. If the issuer fails to meet any of these periodic funding requirements, the Federal Reserve immediately will cease to treat the unfunded securities as primary capital and will take appropriate supervisory action. In addition, failure to meet the funding requirements will be viewed as a breach of a regulatory commitment and will be taken into consideration by the Board in acting on statutory applications.

c. If a security is issued by a subsidiary of a bank or bank holding company, any guarantee of the principal by that subsidiary's parent bank or bank holding company must be subordinate to the same degree as the security issued by the subsidiary and limited to repayment of the principal amount of the security at its final maturity.

d. The maximum amount of equity commitment notes that may be counted as primary capital for a bank holding company is limited to 10 per cent of primary capital exclusive of mandatory convertible securities. Amounts outstanding in excess of the 10 per cent limitation may be counted as secondary capital provided they meet the requirements of secondary capital instruments.

Part 263—Rules of Practice for Hearings

3. 12. C.F.R. Part 263 is amended by adding a new Subpart D, including a section of the authority under which the Subpart is issued, to read as follows:

Part 263—Rules of Practice for Hearings

* * * * *

Subpart D—Procedures for Issuance and Enforcement of Directives to Maintain Adequate Capital

Section 263.35	Authority, Purpose, and Scope (a) Authority (b) Purpose and scope
Section 263.36	Definitions
Section 263.37	Establishment of Minimum Capital Levels
Section 263.38	Procedures for Requiring Maintenance of Adequate Capital (a) Submission of capital improvement plan (b) Issuance of directive (1) Notice of intent to issue directive (2) Contents of notice (3) Response to notice

7. Collateral is defined as: (1) cash or certificates of deposit; (2) U.S. government securities that will mature prior to or simultaneous with the maturity of the equity contract and that have a par or maturity value at least equal to the amount of the holder's obligation under the stock purchase contract; (3) standby letters of credit issued by an insured U.S. bank that is not an affiliate of the issuer; or (4) other collateral as may be designated from time to time by the Federal Reserve.

8. The funded portions of the securities will be deducted from primary capital to avoid double counting.

(4) Failure to file response
(5) Board consideration of response
(6) Contents of directive
(7) Request for reconsideration of directive

Section 263.39 Enforcement of Directive
(a) Judicial and administrative remedies
(b) Other enforcement actions
(c) Consideration in application proceedings

Section 263.40 Establishment of Increased Capital Level for Individual Bank or Bank Holding Company
(a) Establishment of capital levels for individual institution
(b) Procedure to establish higher capital requirement
(1) Notice
(2) Response
(3) Board decision
(4) Enforcement of higher capital level

Subpart D—Procedures for Issuance and Enforcement of Directives to Maintain Adequate Capital

Section 263.35—Authority, Purpose, and Scope

(a) *Authority.* This subpart is issued under authority of the International Lending Supervision Act of 1983 ("ILSA"), 12 U.S.C. 3907, 3909; section 5(b) of the Bank Holding Company Act ("BHC Act"), 12 U.S.C. 1844(b); the Financial Institutions Supervisory Act of 1966 ("FIS Act"), 12 U.S.C. 1818(b)-(n); and sections 9 and 11(i) of the Federal Reserve Act, 12 U.S.C. 248, 324, 329.

(b) *Purpose and scope.* This subpart establishes procedures under which the Board may issue a directive or take other action to require a state member bank or a bank holding company to achieve and maintain adequate capital. The information collection requirement contained in this regulation has been approved by the Office of Managment and Budget under the provisions of 44 U.S.C. Chapter 35 and has been assigned OMB No. 7100–0209.

Section 263.36—Definitions

(a) "Bank holding company" means any company that controls a bank as defined in section 2 of the BHC Act, 12 U.S.C. 1841, and in the Board's Regulation Y (12 C.F.R. 225.2(b)) or any direct or indirect subsidiary thereof other than a bank subsidiary as defined in section 2(c) of the BHC Act, 12 U.S.C. 1841(c), and in the Board's Regulation Y (12 C.F.R. 225.2(a)).

(b) "Capital Adequacy Guidelines" means those guidelines for bank holding companies and state member banks contained in Appendix A to the Board's Regulation Y (12 C.F.R. Part 225).

(c) "Directive" means a final order issued by the Board pursuant to ILSA (12 U.S.C. 3907(b)(2)) requiring a state member bank or bank holding company to increase capital to or maintain capital at the minimum level set forth in the Board's Capital Adequacy Guidelines or as otherwise established under procedures described in section 263.40 of this subpart.

(d) "State member bank" means any state-chartered bank that is a member of the Federal Reserve System.

Section 263.37—Establishment of Minimum Capital Levels

The Board has established minimum capital levels for state member banks and bank holding companies in its Capital Adequacy Guidelines. The Board may set higher capital levels as necessary and appropriate for a particular state member bank or bank holding company based upon its financial condition, managerial resources, prospects, or similar factors, pursuant to the procedures set forth in section 263.40 of this subpart.

Section 263.38—Procedures for Requiring Maintenance of Adequate Capital

(a) *Submission of capital improvement plan.* Any state member bank or bank holding company that may not be in compliance with the Board's Capital Adequacy Guidelines on the date that this regulation becomes effective shall, within 90 days, submit to its appropriate Federal Reserve Bank for review a plan describing the means and the time schedule by which the bank or bank holding company shall achieve the required minimum level of capital.

(b) *Issuance of directive.*

(1) *Notice of intent to issue directive.* If a state member bank or bank holding company is operating with less than the minimum level of capital established in the Board's Capital Adequacy Guidelines, or as otherwise established under the procedures described in section 263.40 of this subpart, the Board may issue and serve upon such state member bank or bank holding company written notice of the

Board's intent to issue a directive to require the bank or bank holding company to achieve and maintain adequate capital within a specified time period.

(2) *Contents of notice.* The notice of intent to issue a directive shall include:

(i) the required minimum level of capital to be achieved or maintained by the institution;

(ii) its current level of capital;

(iii) the proposed increase in capital needed to meet the minimum requirements;

(iv) the proposed date or schedule for meeting these minimum requirements;

(v) when deemed appropriate, specific details of a proposed plan for meeting the minimum capital requirements; and

(vi) the date for a written response by the bank or bank holding company to the proposed directive, which shall be at least 14 days from the date of issuance of the notice unless the Board determines a shorter period is necessary because of the financial condition of the bank or bank holding company.

(3) *Response to notice.* The bank or bank holding company may file a written response to the notice within the time period set by the Board. The response may include:

(i) an explanation why a directive should not be issued;

(ii) any proposed modification of the terms of the directive;

(iii) any relevant information, mitigating circumstances, documentation or other evidence in support of the institution's position regarding the proposed directive; and

(iv) the institution's plan for attaining the required level of capital.

(4) *Failure to file response.* Failure by the bank or bank holding company to file a written response to the notice of intent to issue a directive within the specified time period shall constitute a waiver of the opportunity to respond and shall constitute consent to the issuance of such directive.

(5) *Board consideration of response.* After considering the response of the bank or bank holding company, the Board may:

(i) issue the directive as originally proposed or in modified form;

(ii) determine not to issue a directive and so notify the bank or bank holding company; or

(iii) seek additional information or clarification of the response by the bank or bank holding company.

(6) *Contents of directive.* Any directive issued by the Board may order the bank or bank holding company to:

(i) achieve or maintain the minimum capital requirement established pursuant to the Board's Capital Adequacy Guidelines or the procedures in section 263.40 of this subpart by a certain date;

(ii) adhere to a previously submitted plan or submit for approval and adhere to a plan for achieving the minimum capital requirement by a certain date;

(iii) take other specific action as the Board directs to achieve the minimum capital levels, including requiring a reduction of assets or asset growth or restriction on the payment of dividends; or

(iv) a combination of the above actions.

(7) *Request for reconsideration of directive.* Any state member bank or bank holding company, upon a change in circumstances, may request the Board to reconsider the terms of a directive and may propose changes in the plan under which it is operating to meet the required minimum capital level. The directive and plan continue in effect while such request is pending before the Board.

Section 263.39—Enforcement of Directive

(a) *Judicial and administrative remedies.*

(1) Whenever a bank or bank holding company fails to follow a directive issued under this subpart, or to submit or adhere to a capital adequacy plan as required by such directive, the Board may seek enforcement of the directive, including the capital adequacy plan, in the appropriate United States district court, pursuant to section 908(b)(2)(B)(ii) of ILSA (12 U.S.C. 3907(b)(2)(B)(ii) and to section 8(i) of the Federal Deposit Insurance Act (12 U.S.C. 1818(i)), in the same manner and to the same extent as if the directive were a final cease and desist order.

(2) The Board, pursuant to section 910(d) of ILSA (12 U.S.C. 3909(d)), may also assess civil money penalties for violation of the directive against any bank or bank holding company and any officer, director, employee, agent, or other person participating in the conduct of the affairs of the bank or bank holding company, in the same manner and to the same extent as if the directive were a final cease and desist order.

(b) *Other enforcement actions.* A directive may be issued separately, in conjunction with, or in addition to any other enforcement actions available to the Board, including issuance of cease and desist orders, the approval or denial of applications or notices, or any other actions authorized by law.

(c) *Consideration in application proceedings.* In acting upon any application or notice submitted to the Board pursuant to any statute administered by the Board, the Board may consider the progress of a state member bank or bank holding company or any subsidiary thereof in adhering to any directive or capital adequacy plan required by the Board pursuant to this subpart, or by any other appropriate banking supervisory agency pursuant to ILSA. The Board shall consider whether approval or a notice of intent not to disapprove would divert earnings, diminish capital, or otherwise impede the bank or bank holding company in achieving its required minimum capital level or complying with its capital adequacy plan.

Section 263.40—Establishment of Increased Capital Level for Individual Bank or Bank Holding Company

(a) *Establishment of capital levels for individual institutions.* The Board may establish a capital level higher than that specified in the Board's Capital Adequacy Guidelines for an individual bank or bank holding company pursuant to:

(1) a written agreement or memorandum of understanding between the Board or the appropriate Federal Reserve Bank and the bank or bank holding company;

(2) a temporary or final cease and desist order issued pursuant to section 8(b) or (c) of the FIS Act (12 U.S.C. § 1818(b) or (c));

(3) a condition for approval of an application or issuance of a notice of intent not to disapprove a proposal;

(4) or other similar means; or

(5) the procedures set forth in subsection (b) of this section.

(b) *Procedure to establish higher capital requirement.*

(1) *Notice.* When the Board determines that capital levels above those in the Board's Capital Adequacy Guidelines may be necessary and appropriate for a particular bank or bank holding company under the circumstances, the Board shall give the bank or bank holding company notice of the proposed higher capital requirement and shall permit the bank or bank holding company an opportunity to comment upon the proposed capital level, whether it should be required and, if so, under what time schedule. The notice shall contain the Board's reasons for proposing a higher level of capital.

(2) *Response.* The bank or bank holding company shall be allowed at least 14 days to respond, unless the Board determines that a shorter period is necessary because of the financial condition of the bank or bank holding company. Failure by the bank or bank holding company to file a written response to the notice within the time set by the Board shall constitute a waiver of the opportunity to respond and shall constitute consent to issuance of a directive containing the required minimum capital level.

(3) *Board decision.* After considering the response of the institution, the Board may issue a written directive to the bank or bank holding company setting an appropriate capital level and the date on which this capital level will become effective. The Board may require the bank or bank holding company to submit and adhere to a plan for achieving such higher capital level as the Board may set.

(4) *Enforcement of higher capital level.* The Board may enforce the capital level established pursuant to the procedures described in this section and any plan submitted to achieve that capital level through the procedures set forth in section 263.39 of this subpart.

Amendments to Regulation AA

The Board is publishing a final rule amending Regulation AA (Unfair or Deceptive Acts or Practices) to implement, as to banks, the Credit Practices Rule adopted by the Federal Trade Commission. The Federal Trade Commission Act requires the Board to adopt a rule, subject to certain exceptions, that is substantially similar to the Commission's rule. This rule prohibits banks from entering into any consumer credit obligation that contains certain prohibited provisions, from pyramiding late charges, or from obligating a cosigner without a required notice. The rule also prohibits the enforcement of any prohibited provisions contained in a consumer credit obligation purchased by a bank.

Effective January 1, 1986, the Board is amending Regulation AA, 12 C.F.R. Part 227, by redesignating the current provisions as Subpart A and adding a new Subpart B, as follows:

Part 227—Unfair or Deceptive Acts or Practices

Subpart A—Consumer Complaints

* * * * *

Subpart B—Credit Practices Rule

Section 227.11	Authority, purpose, and scope
Section 227.12	Definitions
Section 227.13	Unfair credit contract provisions
Section 227.14	Unfair or deceptive practices involving cosigners
Section 227.15	Unfair late charges
Section 227.16	State exemptions

Authority: 15 U.S.C. 57a.

Subpart A—Consumer Complaints

* * * * *

Subpart B—Credit Practices Rule

Section 227.11—Authority, Purpose, and Scope

(a) *Authority.* This subpart is issued by the Board under section 18(f) of the Federal Trade Commission Act, 15 U.S.C. 57a(f) (§ 202(a) of the Magnuson-Moss Warranty—Federal Trade Commission Improvement Act, Pub. L. 93–637).

(b) *Purpose.* Unfair or deceptive acts or practices in or affecting commerce are unlawful under section 5(a)(1) of the Federal Trade Commission Act, 15 U.S.C. 45(a)(1). This subpart defines unfair or deceptive acts or practices of banks in connection with extensions of credit to consumers.

(c) *Scope.* This subpart applies to all banks and their subsidiaries, except savings banks that are members of the Federal Home Loan Bank System. Compliance is to be enforced by:

(1) the Comptroller of the Currency, in the case of national banks and banks operating under the code of laws for the District of Columbia;

(2) the Board of Governors of the Federal Reserve System, in the case of banks that are members of the Federal Reserve System (other than banks referred to in paragraph (c)(1) of this section); and

(3) the Federal Deposit Insurance Corporation, in the case of banks insured by the Federal Deposit Insurance Corporation (other than banks referred to in paragraphs (c)(1) and (c)(2) of this section).

Section 227.12—Definitions

For the purposes of this subpart, the following definitions apply:

(a) "Consumer" means a natural person who seeks or acquires goods, services, or money for personal, family, or household use other than for the purchase of real property.

(b)(1) "Cosigner" means a natural person who assumes liability for the obligation of a consumer without receiving goods, services, or money in return for the obligation, or, in the case of an open-end credit obligation, without receiving the contractual right to obtain extensions of credit under the account.

(2) "Cosigner" includes any person whose signature is requested as a condition to granting credit to a consumer, or as a condition for forbearance on collection of a consumer's obligation that is in default. The term does not include a spouse whose signature is required on a credit obligation to perfect a security interest pursuant to state law.

(3) A person who meets the definition in this paragraph is a "cosigner," whether or not the person is designated as such on the credit obligation.

(c) "Earnings" means compensation paid or payable to an individual or for the individual's account for personal services rendered or to be rendered by the individual, whether denominated as wages, salary, commission, bonus, or otherwise, including periodic payments pursuant to a pension, retirement, or disability program.

(d) "Household goods" means clothing, furniture, appliances, linens, china, crockery, kitchenware, and personal effects of the consumer and the consumer's dependents. The term "household goods" does not include:

(1) works of art;

(2) electronic entertainment equipment (other than one television and one radio);

(3) items acquired as antiques; that is, items over one hundred years of age, including such items that have been repaired or renovated without changing their original form or character; and

(4) jewelry (other than wedding rings).

(e) "Obligation" means an agreement between a consumer and a creditor.

(f) "Person" means an individual, corporation, or other business organization.

Section 227.13—Unfair Credit Contract Provisions

It is an unfair act or practice for a bank to enter into a consumer credit obligation that contains, or to enforce in a consumer credit obligation purchased by the bank, any of the following provisions:

(a) *Confession of judgment.* A cognovit or confession of judgment (for purposes other than executory process in the State of Louisiana), warrant of attorney, or other waiver of the right to notice and the opportunity to be heard in the event of suit or process thereon.

(b) *Waiver of exemption.* An executory waiver or a limitation of exemption from attachment, execution, or other process on real or personal property held, owned by, or due to the consumer, unless the waiver applies solely to property subject to a security interest executed in connection with the obligation.

(c) *Assignment of wages.* An assignment of wages or other earnings unless:

(1) the assignment by its terms is revocable at the will of the debtor;

(2) the assignment is a payroll deduction plan or preauthorized payment plan, commencing at the time of the transaction, in which the consumer authorizes a series of wage deductions as a method of making each payment; or

(3) the assignment applies only to wages or other earnings already earned at the time of the assignment.

(d) *Security interest in household goods.* A nonpossessory security interest in household goods other than a purchase money security interest.

Section 227.14—Unfair or Deceptive Practices Involving Cosigners

(a) *Prohibited practices.* In connection with the extension of credit to consumers, *it is:*

(1) a deceptive act or practice for a bank to misrepresent the nature or extent of cosigner liability to any person; and

(2) an unfair act or practice for a bank to obligate a cosigner unless the cosigner is informed prior to becoming obligated of the nature of the cosigner's liability.

(b) *Disclosure requirement.*

(1) A clear and conspicuous disclosure statement shall be given in writing to the cosigner prior to becoming obligated. The disclosure statement shall be substantially similar to the following statement and shall either be a separate document or included in the documents evidencing the consumer credit obligation.

Notice to Cosigner

You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to play up to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The bank can collect this debt from you without first trying to collect from the borrower. The bank can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of *your* credit record.

This notice is not the contract that makes you liable for the debt.

(2) In the case of open-end credit, the disclosure statement shall be given to the cosigner prior to the time that the cosigner becomes obligated for fees or transactions on the account.

(3) A bank that is in compliance with this paragraph may not be held in violation of paragraph (a)(2) of this section.

Section 227.15—Unfair Late Charges

(a) In connection with collecting a debt arising out of an extension of credit to a consumer, it is an unfair act or practice for a bank to levy or collect any deliquency charge on a payment, when the only delinquency is attributable to late fees or delinquency charges assessed on earlier installments, and the payment is otherwise a full payment for the applicable period and is paid on its due date or within an applicable grace period.

(b) For the purposes of this section, "collecting a debt" means any activity, other than the use of judicial process, that is intended to bring about or does bring about repayment of all or part of money due (or alleged to be due) from a consumer.

Section 227.16—State Exemptions

(a) *General rule.*

(1) An appropriate state agency may apply to the Board for a determination that:

(i) there is a state requirement or prohibition in effect that applies to any transaction to which a provision of this subpart applies; and

(ii) the state requirement or prohibition affords a level of protection to consumers that is substantially equivalent to, or greater than, the protection afforded by this subpart.

(2) If the Board makes such a determination, the provision of this subpart will not be in effect in that state to the extent specified by the Board in its determination, for as long as the state administers and enforces the state requirement or prohibition effectively.

(b) *Applications.* The procedures under which a state agency may apply for an exemption under this section are the same as those set forth in Appendix B to Regulation Z (12 C.F.R. Part 226).

AMENDMENTS TO RULES REGARDING DELEGATION OF AUTHORITY

The Board of Governors is amending 12 C.F.R. Part 265, its Rules Regarding Delegation of Authority, to delegate to the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, the authority under the Board's Procedures for Issuance and Enforcement of Directives to Maintain Adequate Capital, §§ 263.38 and 263.40 of Subpart D of the Board's Rules of Practice for Hearings, to issue notices that state member banks or bank holding companies have insufficent levels of capital and that direct such banking organizations to file capital improvement plans.

Effective May 15, 1985, the Board hereby amends 12 C.F.R. 265.2 by adding paragraph (c)(33) to read as follows:

Part 265—Rules Regarding Delegation of Authority

Section 265.2—Specific Functions Delegated to Board Employees and to Federal Reserve Banks

* * * * *

(c) * * *

(33) Under the Provisions of sections 263.38 and 263.40 of the Board's Procedures for Issuance and Enforcement of Directives to Maintain Adequate Capital, Subpart D of the Board's Rules of Practice for Hearings (12 C.F.R. 263), and with the concurrence of the General Counsel, to issue a notice that a state member bank or bank holding company has insufficient capital and that directs said banking organization to file with its regional Reserve Bank a capital improvement plan.

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

Orders Issued Under Section 3 of Bank Holding Company Act

BankVermont Corporation
Burlington, Vermont

Order Approving the Acquisition of a Bank

BankVermont Corporation, Burlington, Vermont, a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended ("Act"), has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire the voting shares of Oxford Bank and Trust, Oxford, Maine ("Bank").

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

Applicant, with one banking subsidiary, is the second largest banking organization in Vermont, with consolidated assets of $510 million and total domestic deposits of $431.8 million.[1] Upon acquisition of Bank, which has total assets of $31.4 million and total domestic deposits of $25.2 million,[2] Applicant would control the 15th largest banking organization in Maine and 0.7 percent of the total deposits in commercial banks in the state.[3]

Section 3(d) of the Act (12 U.S.C. § 1842(d)) prohibits the Board from approving any application by a bank holding company to acquire any bank located outside of the state in which operations of the bank holding company's subsidiaries are principally conducted, unless such acquisition is "specifically authorized by the statute laws of the state in which such bank is located, by language to that effect and not merely by implication."

Maine law expressly permits an out-of-state bank holding company to acquire a bank in Maine without any restrictions as to the geographic location of the out-of-state bank holding company or reciprocity requirements.[4] Accordingly, the Board has determined that the proposed acquisition conforms with Maine law and is expressly authorized by the statute laws of Maine. The Board has previously stated that statutes such as Maine's are fully consistent with the Douglas Amendment and provide a desirable means for creating a national market in banking services through state action and without unnecessary restrictions on commerce in financial services across state lines.[5]

Bank operates in two banking markets in Maine. It is the seventh largest of eight banking organizations in the Portland market, controlling 0.6 percent of total

1. Banking data are as of November 30, 1984.
2. Banking data are as of October 31, 1984.
3. Banking data are as of September 30, 1984.
4. Me. Rev. Stat. Ann. tit. 9-B, § 1013 (1984). Each proposal must comply, however, with the "net new funds" provision of the statute. The Maine Superintendent of Banking has stated that consummation of this proposal will result in net new funds to the State.
5. *Bank of Boston Corporation*, 70 FEDERAL RESERVE BULLETIN 174 (1984).

deposits in commercial banks in the market, and is the second largest of three banking organizations in the Paris-Norway market, controlling 37.5 percent of total deposits in commercial banks in the market.[6] Inasmuch as the proposed acquisition represents Applicant's initial entry into Maine, consummation of this transaction would not eliminate existing competition in these markets.

Certain of Applicant's nonbanking subsidiaries provide services, including investment advisory services, to customers in the Portland banking market in which Bank offers trust services. The trust services are limited in scope, however, and Bank's market share with respect to these services is small. Thus, the Board concludes that the amount of existing competition in these services that might be eliminated by this proposal is not significant.

The Board has considered the effects of this proposal on probable future competition in light of its proposed guidelines for assessing the competitive effects of market extension mergers and acquisitions.[7] After consideration of the specific facts of this case, including the number of potential entrants into the relevant markets, the Board concludes that consummation of this proposal would not have any significant adverse effects on probable future competition in any relevant market.

The financial and managerial resources of Applicant and Bank are considered satisfactory and their prospects appear favorable. The Board has also determined that considerations relating to the convenience and needs of the community to be served are consistent with approval of the application. Affiliation with Applicant would enable Bank to expand the scope and array of its services. New investment and deposit products are proposed for Bank's customers, as are expanded trust services. Bank would also be in a position to expand its commercial lending and secondary mortgage lending services. Accordingly, it is the Board's judgment that the proposed transaction would be in the public interest and that the application should be approved.

6. The Portland banking market is defined as the Portland Ranally Metro Area (RMA) and portions of the Counties of Cumberland and York. The Paris-Norway banking market is approximated by the towns of Albany, Buckfield, Greenwood, Norway, Paris, Oxford, Stoneham, Sumner, Waterford, and Woodstock, all in Oxford County, Maine, as well as the town of Otisfield in Cumberland County, Maine.

7. "Proposed Policy Statement of the Board of Governors of the Federal Reserve System for Assessing Competitive Factors under the Bank Merger Act and the Bank Holding Company Act," 47 *Federal Register* 9017 (1982). Although the proposed policy statement has not been adopted by the Board, the Board is using the policy guidelines in its analysis of the effects of a proposal on probable future competition.

Based on the foregoing and other facts of record, the Board has determined that the application under section 3(a)(3) should be and hereby is approved for the reasons set forth above. The transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order or later than three months after the effective date of this Order, unless such period is extended by the Board or by the Federal Reserve Bank of Boston, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 1, 1985.

Voting for this action: Chairman Volcker and Governors Wallich, Partee, Rice, Gramley, and Seger. Absent and not voting: Governor Martin.

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

Intermountain Bankshares, Inc.
Charleston, West Virginia

Order Approving Acquisition of Bank

Intermountain Bankshares, Inc., Charleston, West Virginia, a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Act") (12 U.S.C. § 1841 *et seq.*), has applied for the Board's prior approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire 100 percent of the voting shares of the successor by merger to the Half Dollar Trust and Savings Bank, Wheeling, West Virginia ("Bank").

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

Applicant is the seventh largest banking organization in West Virginia, controlling one bank with total deposits of $196.6 million, representing approximately 1.8 percent of total deposits in commercial banks in West Virginia.[1] Bank is the fifty-second largest bank in West Virginia, with total deposits of $53.5 million, representing approximately 0.6 percent of total deposits in commercial banks in West Virginia. Upon con-

1. Banking data are as of December 31, 1983.

summation of this proposal, Applicant would control total deposits of $250.1 million and would be the fourth largest commercial banking organization in West Virginia.

Applicant's bank subsidiary, Kanawha Banking and Trust Company, N.A. ("KB&T"), is located in Charleston, West Virginia. Bank's two offices are located in the Wheeling, West Virginia market,[2] approximately 160 miles north of KB&T. Bank is the ninth largest commercial banking organization in the market, controlling approximately 5.6 percent of total deposits in commercial banks in the market. Consummation of this proposal would not result in any significant adverse effects upon existing or potential competition or increase in the concentration of banking resources in any relevant area. Accordingly, the Board concludes that competitive considerations are consistent with approval.

The financial and managerial resources of Applicant and Bank are considered consistent with approval of this application. Consummation of this proposal will strengthen management of Bank and will provide Bank with access to the greater financial and managerial resources of Applicant. Applicant has proposed no new services for Bank upon acquisition. However, there is no evidence in the record that the banking needs of the community to be served are not being met. Accordingly, considerations relating to the convenience and needs of the communities to be served are consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that approval of the application would be consistent with the public interest and that the application should be and hereby is approved. The transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 1, 1985.

Voting for this action: Chairman Volcker and Governors Wallich, Partee, Rice, Gramley, and Seger. Absent and not voting: Governor Martin.

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

2. The Wheeling markets consist of Ohio County, West Virginia, the northern half of Marshall County, West Virginia and the eastern third of Belmont County, Ohio. The market is approximated by the Wheeling Ranally Metropolitan Area.

Midlantic Banks Inc.
Edison, New Jersey

Order Approving Merger of Bank Holding Companies

Midlantic Banks Inc. ("Midlantic"), Edison, New Jersey, a registered bank holding company within the meaning of the Bank Holding Company Act ("the BHC Act") (12 U.S.C. § 1841 *et seq.*), has applied for the Board's approval under section 3(a)(5) of the Act (12 U.S.C. § 1842(a)(5)), to acquire by merger Heritage Bancorporation ("Heritage"), Jamesburg, New Jersey, a registered bank holding company by virtue of its ownership of Heritage Bank, N.A., Jamesburg, New Jersey.

Notice of the application, affording interested persons an opportunity to submit comments, has been given in accordance with section 3 of the Act. The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act.

Applicant controls seven banks and is the second largest banking organization in New Jersey. Applicant has total assets of $7.2 billion and controls total domestic deposits of $5.2 billion, representing 13.9 percent of the total deposits in commercial banks in the state.[1] Heritage, which has approximately $2.0 billion in total assets, is the sixth largest commercial banking organization in New Jersey. Heritage operates one bank, Heritage Bank, N.A., which controls $1.5 billion in total deposits, representing 4.0 percent of the total deposits in commercial banks in the state.

Douglas Amendment Considerations

Heritage Bank, N.A., is chartered in New Jersey and its articles of incorporation specify that its principal office shall be in New Jersey. Heritage Bank operates 90 branches in New Jersey and one branch in Philadelphia, Pennsylvania, and is one of only two national banks with branches in more than one state.[2] The Philadelphia branch of Heritage Bank accounts for less than two percent of the total deposits controlled by Heritage Bank.

1. Asset and deposit data are as of December 31, 1984; bank market share data are as of December 31, 1983; market share data for thrift institutions are as of June 30, 1983.

2. Heritage Bank is expressly authorized by the McFadden Act to retain its branch in Philadelphia because it was established prior to February 25, 1927. 12 U.S.C. § 36. *Cf., Seattle Trust & Savings Bank v. Bank of California N.A.*, 492 F.2d 48 (9th Cir.), *cert. denied*, 419 U.S. 844 (1974).

The Douglas Amendment to the BHC Act prohibits the Board from approving any application by a bank holding company to acquire "any additional bank located outside of the State" in which the acquiring bank holding company is located, unless the acquisition is specifically authorized by the state in which the bank to be acquired is located. For purposes of the Douglas Amendment, a bank holding company is deemed to be located in the state in which the total deposits of its subsidiary banks were the largest on the later of July 1, 1966 or the date it became a bank holding company. Applicant is located in New Jersey for purposes of the Douglas Amendment.

Based on all of the facts of record in this case, the Board concludes that, for purposes of the Douglas Amendment, Heritage Bank is located in New Jersey, where it is chartered and principally conducts its banking operations. The Board believes that the acquisition of Heritage Bank by a New Jersey bank holding company is consistent with the purposes of the Douglas Amendment, provided the acquisition is not used to allow the acquiring bank holding company to expand its operations outside of the state of its principal operations in a manner inconsistent with the Douglas Amendment.[3] In this regard, Applicant has advised the Board that it has no present plans to expand the banking operations of Heritage Bank in the State of Pennsylvania. Applicant has also committed that it will not expand in Pennsylvania by merger or acquisition of banks without state authorization and has indicated it will request the Board to approve any branch office expansion in Pennsylvania should present circumstances change.

Accordingly, under these circumstances and subject to Applicant's commitments, the Board concludes that Heritage Bank is not "located outside" of New Jersey for purposes of the Douglas Amendment and that its acquisition by Applicant—a New Jersey bank holding company—is, therefore, permissible under the Douglas Amendment.

Competitive Considerations

Upon consummation of the proposed transaction, Midlantic would remain the second largest commercial banking organization in New Jersey, controlling approximately 17.9 percent of the total deposits in commercial banking organizations in the state. The proposed acquisition would increase the share of deposits held by the four largest commercial banking organizations in the state to 51.1 percent. The Board does not believe that consummation of the proposed transaction would have a significant adverse effect on the concentration of banking resources in New Jersey.

Subsidiary banks of Midlantic and Heritage compete in eleven markets in New Jersey: the Greater Newark, Lakewood-Toms River, Paterson, Philadelphia-Camden, Trenton, Vineland, Atlantic City, Cape May, Hackettstown, Morristown, and New Brunswick banking markets. Based on all of the facts of record, including the number of remaining bank competitors and the number, size, and activities of thrift institutions competing in the relevant markets,[4] the Board concludes that consummation of this proposal is not likely to have significant adverse effects on competition in any relevant market.

Atlantic City Banking Market

Midlantic is the third largest commercial banking organization in the Atlantic City banking market, controlling 15.6 percent of the total deposits in commercial banks in the market (hereafter "market deposits").[5] Heritage controls approximately 5.0 percent of total market deposits and is the fourth largest commercial banking organization in the market. The Atlantic City banking market is concentrated, with the four largest commercial banks in the market controlling 79.5 percent of total market deposits (hereafter, the "four-firm concentration ratio"). The market's Herfindahl-Hirschman Index ("HHI") is 2068. Upon consummation of the proposal, Midlantic would remain the third largest banking organization in the market, controlling approximately 20.6 percent of total market deposits. The market's four-firm concentration ratio would increase to 83.2 percent, and the HHI would increase by 156 points to 2224.[6]

Although consummation of the proposal would eliminate some existing competition in the Atlantic City banking market, there are a number of factors that

3. *See The Mitsubishi Bank, Ltd.*, 70 FEDERAL RESERVE BULLETIN 518 (1984).

4. The Board has previously determined that thrift institutions have become, or at least have the potential to become, major competitors of commercial banks. *NCNB Corporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984); *Sun Banks, Inc.*, 69 FEDERAL RESERVE BULLETIN 934 (1983); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983)).

5. The Atlantic City market is defined to include all of Atlantic County and adjacent portions of Burlington, Cape May, and Ocean Counties in New Jersey.

6. Under the revised Department of Justice Merger Guidelines, a market is considered "highly concentrated" if it has a post-acquisition HHI greater than 1800. In such markets, the Department of Justice will decide on a case-by-case basis whether to challenge a merger that produces an increase in the HHI of between 50 and 100 points. If the increase in the HHI exceeds 100 and the HHI substantially exceeds 1800, only in extraordinary cases will the Department of Justice determine that the facts indicate that the merger is not likely to substantially lessen competition.

mitigate the anticompetitive effects of the proposal. Ten commercial banks would continue to operate in the market after consummation of the proposal, including two of the largest banking organizations in New Jersey. In addition, twelve thrift institutions hold 45.1 percent of total deposits in commercial banking organizations and thrift institutions in the market. These thrift institutions offer a full range of consumer banking services and make commercial real estate loans. Five of the institutions engage in commercial lending activities.[7]

Cape May Banking Market

Midlantic is the third largest of seven commercial banking organizations in the Cape May banking market, controlling 23.9 percent of total market deposits.[8] Heritage is the smallest organization in the market, controlling 1.2 percent of total market deposits. The Cape May banking market is considered concentrated, with a four-firm concentration ratio of 90.9 percent and an HHI of 2463. Upon consummation of the proposed transaction, Midlantic would remain the third largest commercial banking organization in the market, controlling approximately 25.1 percent of total market deposits, and the HHI would increase by 57 points to 2520.

The Board believes that the anticompetitive effects of this proposal are mitigated by the extent of competition afforded by thrift institutions in the market. Seven thrift institutions control 39.4 percent of the total deposits in the Cape May market.[9] The fourth and fifth largest depository institutions in the market are thrift institutions and control 14 percent and 11.7 percent, respectively, of the total deposits in the Cape May market. Three thrift institutions in the market currently offer commercial checking accounts, and all thrifts in the Cape May market offer NOW accounts. The Board also notes that the commercial loan portfolios of commercial banks in the Cape May market resemble those of thrift institutions in that market.

Hackettstown Banking Market

Midlantic is the third largest of nine commercial banking organizations in the Hackettstown banking market, controlling 17.3 percent of total market deposits.[10] Heritage ranks sixth in the market, and controls 4.9 percent of the total market deposits. The Hackettstown banking market is considered concentrated, with a four-firm concentration ratio of 76.4 percent and an HHI of 1773. Upon consummation of the proposed acquisition, Midlantic would rank second in the market, controlling approximately 22.2 percent of total market deposits, and the HHI would increase by 170 points to 1943.

The Board believes that the presence of thrift institutions in the market mitigates the anticompetitive effects of the proposal.[11] Nine thrift institutions control 41 percent of the total deposits in commercial banking organizations and thrift institutions in the market. All nine thrift institutions operating in the market offer a full range of consumer banking services and make commercial real estate loans. Two thrift institutions in the market actively engage in commercial lending activities.

Morristown Banking Market

Midlantic is the seventh largest of eleven commercial banking organizations in the Morristown banking market, controlling 7.2 percent of total market deposits.[12] Heritage is the third largest commercial banking organization in the market with 14.2 percent of total market deposits. Upon consummation of the proposed acquisition, Midlantic would become the largest commercial banking organization in the market, with 21.4 percent of total market deposits.

The Morristown banking market is not considered highly concentrated, with a four-firm concentration ratio of 62.3 percent and an HHI of 1308. Upon consummation of the proposal, the market would remain only moderately concentrated with an HHI of 1513. Moreover, nine commercial banking organizations would remain in the market. The Board notes that 17 thrift institutions operate in the market and control 52.5 percent of the market's total deposits.[13] All of the thrift institutions operating in this market offer a full range of consumer services, including transaction accounts, and make commercial real estate

7. If 50 percent of thrift deposits were included in the calculation of market concentration, upon consummation of the proposal, the HHI would rise by 80 points, from 1223 to 1303, and the four-firm concentration ratio would be 42.7 percent.

8. The Cape May market is defined to include Cape May County, excluding Ocean City, in New Jersey.

9. If 50 percent of the deposits held by thrift institutions were included in the calculation of market concentration, consummation of the proposal would increase the HHI by 34 points to 1593, and the four-firm concentration ratio would be 73.0 percent.

10. The Hackettstown market is defined to include adjacent portions of Morris and Warren Counties in New Jersey.

11. If 50 percent of thrift deposits were included in the calculation of market concentration, upon consummation of the proposal, the market would be considered only moderately concentrated, with a four-firm concentration ratio of 60.3 percent. The HHI would increase upon consummation of the proposal by 93 points from 1094 to 1187.

12. The Morristown market is defined to include adjacent portions of Morris and Somerset Counties in New Jersey.

13. If 50 percent of thrift deposits were included in the calculation of market concentration, the market HHI would be 911 and would rise by 85 points to 996 upon consummation of the proposal. The four-firm concentration ratio upon consummation of the proposal would be 54.8 percent.

loans, and five thrift institutions engage in commercial lending activities.

New Brunswick Banking Market

Midlantic is the third largest commercial banking organization in the New Brunswick banking market, with 10.7 percent of total market deposits.[14] Heritage ranks second in the market, with 13.2 percent of total market deposits. Upon acquisition of Heritage, Midlantic would become the largest commercial banking organization in the market, with 23.9 percent of total market deposits. The New Brunswick banking market is not highly concentrated, with a four-firm concentration ratio of 52.2 percent and an HHI of 975.

The Board notes that the New Brunswick banking market will remain relatively unconcentrated upon consummation of the proposal, with a four-firm concentration level of 62.5 percent and an HHI of 1257. Moreover, 15 commercial banking organizations, including eight of the ten largest banking organizations in the state, will remain. The Board has also considered the presence in the market of 25 thrift institutions, which include the three largest depository institutions in the market. Thrift institutions control 58.7 percent of total deposits in commercial banks and thrift institutions in the market.[15]

Other Banking Markets

None of the remaining banking markets in which both Midlantic and Heritage compete are considered highly concentrated[16] and the increase in concentration in these markets as a result of the proposed transaction would not be substantial.[17]

14. The New Brunswick market is defined to include adjacent portions of Middlesex and Somerset Counties in New Jersey.

15. If 50 percent of thrift deposits were included in the calculation of market concentration, the HHI would increase by 97 points from 530 to 627 upon consummation of the proposal, and the four-firm concentration ratio would become 40.3 percent.

16. These markets are: the Greater Newark, Lakewood-Toms River, Paterson, Philadelphia-Camden, Trenton, and Vineland banking markets.

17. The combined market share of Midlantic and Heritage in each of these markets represents less than 20 percent of total market deposits and numerous other competitors would remain in each market.

In considering the effect of the proposal on competition in the Lakewood-Toms River banking market, the Board took into account a noncontrolling investment made by Midlantic in Statewide Bancorp. 70 FEDERAL RESERVE BULLETIN 776 (1984). In light of all of the facts and circumstances surrounding the investment by Midlantic in Statewide Bancorp, including the commitments made by Midlantic to insure that Midlantic would not exercise control over Statewide, the fact that Statewide is under the control of its management and others, and the absence of director interlocks between Midlantic and Statewide, the Board concludes that Midlantic does not control Statewide Bancorp and that consummation of this proposal would not otherwise substantially lessen competition in the Lakewood-Toms River market. *See Sun Banks, Inc.*, 71 FEDERAL RESERVE BULLETIN 243 (1985).

Potential Competition

The Board has considered the effects of this proposal on probable future competition in the six markets in which Midlantic or Heritage do not both compete.[18] In none of these markets would the proposed transaction require extensive analysis under the Board's proposed guidelines.[19] Five markets are not considered concentrated under the guidelines, and in the sixth market there are numerous potential entrants. Accordingly, the Board concludes that consummation of this proposal is not likely to have any significant adverse effects on probable future competition in any relevant market.

Financial and Managerial Considerations

In evaluating this application, the Board has considered the financial and managerial resources of Applicant and the effect on those resources of the proposed acquisition of Heritage. The Board has stated and continues to believe that capital adequacy is an especially important factor in the analysis of bank holding company expansion proposals, particularly where significant acquisitions are proposed.[20]

In this case, the Board notes that Applicant's primary capital ratio is above the minimum level for bank holding companies under the Board's capital adequacy guidelines. As a result of the proposed acquisition Applicant's primary capital ratio would decrease somewhat, but would continue to be above the minimum levels specified in both the Board's current[21] and proposed capital adequacy guidelines.[22] In its assessment of Applicant's capital adequacy, the Board has considered the fact that the proposed acquisition would increase the amount of goodwill as a percentage of Applicant's primary capital. However, Applicant's primary capital ratio, on a *pro forma* basis, would remain above the minimum required under the Board's current guidelines without any reliance on intangible capital, and would meet the minimum capital required under the Board's proposed guidelines without any reliance on goodwill and without undue reliance on other types of intangible capital.

18. These markets are: Asbury Park, Freehold, Newton, Flemington, and Plainfield, New Jersey, and Wilmington, Delaware.

19. "Policy Statement of the Board of Governors of the Federal Reserve System for Assessing Competitive Factors Under the Bank Merger Act and the Bank Holding Company Act" (47 *Federal Register* 19,017 (1982)). Although the proposed policy statement has not been approved by the Board, the Board is using the policy guidelines as part of its analysis of the effect of the proposal on probable future competition.

20. *See, e.g., The Chase Manhattan Corporation*, 70 FEDERAL RESERVE BULLETIN 529 (1984); *NCNB Corporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984).

21. Capital Adequacy Guidelines, 12 C.F.R. Part 225, Appendix A.

22. Proposed Minimum Capital Guidelines for Bank Holding Companies, 49 *Federal Register* 30,317 (1984).

In addition, Applicant has indicated that, within 12 months, under Applicant's current operating plans, its primary capital ratio, taking into account the proposed acquisition of Heritage and exclusive of intangibles, will be above the minimum primary capital ratio under the Board's proposed capital adequacy guidelines. Based on these facts, and in view of Applicant's and Heritage's satisfactory financial and managerial resources and future prospects, the Board believes that banking factors are consistent with approval. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval of the application. Accordingly, the Board finds that the proposed acquisition would be in the public interest.

Based on all the facts of record and the commitments made by Applicant and subject to the conditions explained above, the Board has determined that the application under section 3 of the Act should be, and hereby is, approved. The acquisition shall not be made before the thirtieth calendar day following the date of this Order, or later than three months after the date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, pursuant to delegated authority.

By order of the Board of Governors, effective April 1, 1985.

Voting for this action: Chairman Volcker and Governors Wallich, Partee, Rice, Gramley, and Seger. Absent and not voting: Governor Martin.

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

Orders Issued Under Section 4 of Bank Holding Company Act

The Chase Manhattan Corporation New York, New York

Order Approving Acquisition of Stock Savings and Loan Associations

The Chase Manhattan Corporation, New York, New York, a bank holding company within the meaning of the Bank Holding Company Act (the "BHC Act"), has applied for the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)), and section 225.25(b)(1) of the Board's Regulation Y (12 C.F.R. § 225.25(b)(1)), to acquire all of the shares of Mentor Savings Bank, Mentor, Ohio ("Mentor"), and of Federated Savings Bank, Cincinnati, Ohio ("Federated"), two state-chartered savings and loan associations insured by the Ohio Deposit Guarantee Fund ("ODGF"). Upon consummation of the proposed acquisition, Applicant will engage through Mentor and Federated in the activity of operating savings and loan associations in Ohio. Although the Board has not added the operation of a thrift institution to the list of activities specified in section 225.25(b) of Regulation Y as generally permissible for bank holding companies, the Board has determined in several individual cases that the operation of a thrift institution is closely related to banking.[1]

As a result of amendments to the BHC Act contained in the Garn–St Germain Depository Institutions Act of 1982, section 4(c)(8) of the BHC Act provides that the Board may dispense with the notice and hearing requirements of section 4(c)(8) with regard to the acquisition of a thrift institution if the Board finds that an emergency exists that requires immediate action and the primary federal regulator of the institution concurs in this finding. (12 U.S.C. § 1843(c)(8); 12 C.F.R. § 225.23(i)). Mentor and Federated are thrift institutions as that term is defined in section 2(i) of the BHC Act, and Mentor and Federated do not have federal regulators.

By letters dated April 9, 1985, the Ohio Superintendent of Savings and Loan Associations ("Superintendent") requested that the Board act expeditiously on these applications in light of the recent events in Ohio and the financial condition of Federated and Mentor. In this regard, the Board notes that a number of Ohio savings and loan associations that are members of the ODGF, including Mentor and Federated, experienced substantial deposit withdrawals after the announcement of the closing of Home State Savings Bank. On March 15, 1985, the Governor of Ohio declared an emergency bank holiday closing all Ohio savings and loan associations insured by the ODGF, immobilizing the funds of over 500,000 depositors in institutions with assets in excess of $5.4 billion. The Ohio legislature passed emergency legislation on March 19, 1985, providing that the closed Ohio savings and loan associations could reopen only for the purpose of permitting limited withdrawals and other depositor transactions, unless they obtained FSLIC or FDIC deposit insurance, or the Superintendent has determined that they

1. *F.N.B. Corporation*, 71 FEDERAL RESERVE BULLETIN 340 (1985); *American Fletcher Corp.*, 60 FEDERAL RESERVE BULLETIN 868 (1974); *D.H. Baldwin & Co.*, 63 FEDERAL RESERVE BULLETIN 280 (1977); *Interstate Financial Corp.*, 68 FEDERAL RESERVE BULLETIN 316 (1982); *Citicorp*, 68 FEDERAL RESERVE BULLETIN 656 (1982); *Old Stone Corporation*, 69 FEDERAL RESERVE BULLETIN 812 (1983). A Board staff study of thrift institutions supports the view that operating a thrift institution is closely related to banking. Bank Holding Company Acquisitions of Thrift Institutions (September, 1981).

could qualify for federal deposit insurance, or otherwise finds that the interests of depositors will not be jeopardized by the reopening.[2] To date, 48 previously closed Ohio savings and loan associations have been reopened on a full service basis, and 20 institutions remain closed except for the purpose of accepting deposits and permitting limited withdrawals.

Federated has not been authorized by the Ohio Superintendent to reopen except for the purpose of permitting limited withdrawals by its depositors. The Ohio Superintendent permitted Mentor to reopen on a full service basis only after determining that Mentor should qualify for FSLIC insurance as a result of a $4.0 million deposit provided by Applicant to Mentor.

Applicant's deposit, which was essential to Mentor's reopening, may be withdrawn after 60 days if Applicant is not permitted to acquire Mentor. The Board has been informed by the Superintendent that Mentor would not be permitted to remain open if Applicant's deposit is withdrawn. Mentor has not yet qualified for FSLIC insurance and has experienced deposit withdrawals since its reopening on April 5, 1985.

In the event that Mentor and Federated are required to write-off their investment in the ODGF, the net worth of both Mentor and Federated would be below the levels required by all federal and state regulatory authorities and would not be sufficient to allow the institutions to operate independently on a full service basis. Consummation of Applicant's proposal involves continuing financial support of Mentor and Federated which should stabilize these institutions by eliminating uncertainty concerning their future ability to serve the needs of their communities. Moreover, the Superintendent has indicated that Applicant's acquisition of Federated and Mentor is part of an overall effort to restore full public confidence in the former ODGF thrift institutions.

In view of these and the other facts of record, the Board believes that an emergency exists that requires expeditious action to assure restoration of Mentor and Federated to permanent full-service operations as soon as possible and to contribute to the process of achieving a resolution to the problems faced by former ODGF institutions generally. Accordingly, the Board has determined that it is appropriate in these cases to shorten the period for interested persons to submit comments regarding these applications. In this regard, the Board promptly published notice of the application in the *Federal Register* and in newspapers of general circulation in Cincinnati and in Cleveland, and announced its acceptance of the applications in press statements released by the Board in Washington, D.C., and by the Federal Reserve Banks of New York and Cleveland. These publications and announcements provided interested persons until April 17, 1985, to comment on the applications. The Board has determined that no further action is necessary to authorize the Board to dispense with opportunity for hearing.

In response to its request for comment on these applications, the Board received nine written comments, each of which argued that expeditious action by the Board is not required in these cases and would frustrate the attempts of Ohio institutions to bid for Mentor, Federated and similar Ohio thrift institutions. They also suggest as evidence of an absence of a need for early action by the Board, that Applicant has offered to pay a price for Mentor stock well in excess of book value. Several Protestants have also argued that the Board should deny these applications because, the Protestants allege, the acquisition of an Ohio savings and loan association by an out-of-state bank holding company is not consistent with the purpose or procedures established by section 123 of the Garn–St Germain Depository Institutions Act of 1982 where a viable and bona fide offer to acquire the institution has been made by an Ohio bank holding company. One Protestant has requested that the Board hold a formal hearing regarding the condition of Mentor and the circumstances and procedures involved in the negotiations by Applicant to acquire Mentor.

The Board has carefully considered these comments, the applications, and all of the facts of record in the light of the factors set forth in section 4(c)(8) of the Act. In the preceding pages of this Order, the Board has carefully examined the circumstances that have given rise to the Superintendent's request for emergency action and the serious and uncertain conditions that still exist for the former ODGF thrifts in Ohio. The Board has also considered the financial situations of Mentor and Federated and the need to improve and stabilize the condition of the former and place the latter in a position where it may reopen for business. These factors were evaluated in the context of the contribution that such stabilization and reopening would make toward resolving the overall problems of ODGF institutions generally and restoring public confidence. Based on these considerations, evaluated in the light of the comments of Protestants, the Board believes that emergency action is required and that a hearing would be inappropriate and inconsistent with the need to take immediate action.

The Board, in particular, has considered the contentions made regarding the manner in which the bidding process for Mentor and Federated was conducted. In this regard, the Board was informed that the Governor

2. Ohio Am. Sub. S.B. No. 119 § 8 (March 19, 1985).

of Ohio and his representatives have met several times with a number of Ohio banking organizations, including at general meetings on March 15 and 16, for the purpose of determining the role that Ohio banking organizations could play in resolving the problems faced by privately insured Ohio savings and loan associations and inviting interested Ohio institutions to submit bids to acquire these savings and loan associations. Indeed, several of the Protestants made inquiries into, and conducted negotiations directed toward, acquiring Mentor.

With respect to Protestants' suggestion that the Superintendent's approval of Applicant's proposal is inconsistent with the intention of the provisions of the Garn–St Germain Act, the Board notes that the provisions of the Act establishing a priority for the acceptance of bids for failing savings and loan associations apply *only to institutions that are insured by the* FSLIC. These provisions were intended to assure that the federal regulatory authorities conducted the bidding process for failing federally insured thrift institutions in a manner that preserved, to the extent possible, the interest of the states in securing an in-state purchaser. The Garn–St Germain Act does not by its terms, and was not intended to, require state authorities to follow the order of bidding priorities established for federal regulators by that Act when the States attempt to find a purchaser for a privately insured state thrift institution, particularly where the state determines that the interest of the state is best served by a different procedure.

In this regard, the Board notes that the State of Ohio has consulted with in-state bidders and that the determination whether the proposed affiliation of a closed Ohio savings and loan association with another institution justifies reopening the thrift institution is a matter committed by Ohio law to the jurisdiction of the Ohio Superintendent of Savings and Loan Associations, and he has exercised this jurisdiction in accordance with the terms of Ohio law with regard to Applicant's affiliation with Mentor and Federated. The BHC Act assigns to the Board the responsibility under section 4(c)(8) of the Act for evaluating the public benefits and adverse effects of the application actually before the Board. The Board's determination under section 4(c)(8) of the Act does not prevent competing bank holding companies from continuing to bid to acquire that institution or prejudice the Board's ability to approve similar applications by those competing bank holding companies.[3]

3. *See Comerica Incorporated,* 69 FEDERAL RESERVE BULLETIN 911 (1983); *NBD Bancorp Inc.,* 69 FEDERAL RESERVE BULLETIN 917 (1983) (both orders approving applications to acquire Pontiac State Bank, Pontiac, Michigan).

As noted above, this application has been filed under section 4(c)(8) of the BHC Act as a nonbanking activity. The BHC Act defines a "bank" as an institution that accepts deposits that the depositor has a legal right to withdraw on demand and that is engaged in the business of making commercial loans. (12 U.S.C. § 1841(c)).

Both Mentor and Federated are, and will continue to be after the proposed acquisition, "thrift institutions" as that term is defined in section 2(i) of the BHC Act. (12 U.S.C. § 1841(i)). Applicant has committed that prior to obtaining FSLIC insurance, neither Mentor nor Federated will make commercial loans, and subsequent to obtaining such insurance, Mentor and Federated will exercise only those powers permitted to federally chartered savings and loan associations. Thus, the acquisition of Mentor and Federated qualifies as a *nonbanking acquisition, and after they have* obtained FSLIC insurance, Mentor and Federated may be retained by Applicant as nonbanking institutions under the provisions of the Garn–St Germain Act, which provide that any institution that is insured by FSLIC is exempt from the definition of bank in the BHC Act. Thus, the Board concludes that this application may properly be considered under section 4 of the Act as a nonbanking application.

Applicant, with total assets of $86.9 billion, controls three bank subsidiaries, including The Chase Manhattan Bank, N.A., New York, New York, and is the second largest commercial banking organization in New York State. Applicant also operates in Ohio a commercial finance subsidiary, Chase Commercial Corporation, and an economic forecasting and data processing subsidiary, Chase Econometrics/Inter Active Data Corporation. Mentor, a stock savings and loan association, controls $107.4 million in assets and operates in the Cleveland, Ohio banking market. Federated, which operates in the Cincinnati, Ohio banking market, is also a stock savings and loan association, and controls $53.2 million in assets. (All financial data are as of December 31, 1984.)

In view of the fact that Applicant's bank subsidiaries, Mentor and Federated, operate in separate banking markets and there is no significant amount of direct competition between them, consummation of the proposed acquisition would not have a significant effect on existing competition in any relevant market. Similarly, there is no significant competition between either Mentor or Federated and the nonbanking subsidiaries of Applicant, and consummation of the proposal would not have a significant effect on competition in any nonbanking activities in any relevant market. In view of the relatively small size of both Mentor and Federated, and the number of potential entrants into their respective markets, the Board finds that this acquisition would not have any significant adverse effect on potential competition. Indeed, the proposed acquisition would have a substantial beneficial effect on competition by ensuring the continued operation of Mentor and Federated as effective competitors.

Section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) authorizes a bank holding company to acquire a nonbank company where the activities of the nonbank company are determined by the Board to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto." The Act provides that the Board may make such determinations by order or by regulation. As earlier stated, the Board has determined previously that the operation of a thrift institution is closely related to banking, and reaffirms that determination in this Order.

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

In 1977, the Board considered the question whether savings and loan association ("S&L") activities are a proper incident to banking. At that time, the Board determined that, as a general matter, S&L activities were not a proper incident to banking because the potential adverse effects of allowing affiliations of banks and S&Ls were then sufficiently strong to outweigh any public benefits that might result in individual cases. (*D.H. Baldwin & Co.*, 63 FEDERAL RESERVE BULLETIN 280 (1977)).

Because of the considerations elaborated in *D.H. Baldwin & Co.*, the Board has not been prepared to permit bank holding companies to acquire thrift institutions on a general basis. However, the Board has consistently regarded the BHC Act as authorizing the Board to permit such an acquisition, and the Board has approved several such proposals involving failing thrift institutions on the basis that any adverse effects of bank/thrift affiliations would be overcome by the public benefits of preserving the failing thrift institution.[4] In addition, Congress has recognized the need to allow bank holding companies to acquire failing federally insured thrift institutions in the Garn–St Germain Act.

The Board has reexamined, in the context of these applications, the adverse factors cited in the Board's 1977 *D.H. Baldwin* decision, including regulatory conflict, erosion of institutional rivalry, and the potential for undermining interstate banking prohibitions. The Board has also considered the adverse factors that might be associated with this particular application,[5] including the potential for unfair competition, conflicts of interests, financial risks, diversion of funds, and participation in impermissible activities.

In view of the unique circumstances that led to the closing of Mentor, Federated and other privately insured institutions by the Governor of Ohio, the emergency legislation recently enacted by the Ohio legislature to remedy the problems faced by these institutions and their depositors,[6] the need for a prompt solution in this case, and the other considerations detailed in this Order, the Board has determined that there are substantial benefits to the public associated with preserving Mentor and Federated as thrift competitors in their respective markets that are sufficient to outweigh the generalized adverse effects found by the Board in the *D.H. Baldwin* case.

The Board believes that Applicant's acquisition of Mentor and Federated will result in substantial and compelling public benefits by providing Mentor and Federated with sufficient new capital funds to enable them to continue their operations and to remain effective competitors, thus ensuring the continuation of services by Mentor and Federated to their customers and protecting the interests of their depositors. The record establishes that Applicant has the financial and managerial resources and commitment to serving the convenience and needs of the public to achieve this result. While the Board would normally consider as an adverse factor any significant dilution of capital or increase in leverage by a bank holding company in connection with a proposed acquisition, the Board notes that the proposed acquisitions have a *de minimis* impact on the capital and leverage positions of Applicant.

The affiliation of Applicant and Mentor and Federated is not likely to result in unfair competition. To guard against possible adverse effects of affiliation in this case between a banking organization and a savings

4. *See, e.g., Interstate Financial Corp., supra; Citicorp, supra; Old Stone Corporation, supra.*

5. As stated above, the Board has examined the competitive effects associated with these particular applications and has concluded that there are no significant adverse effects associated with the proposed acquisition.

6. Ohio Am. Sub. S.B. No. 119 § 8 (March 19, 1985).

and loan association, including the potential for unfair competition and diversion of funds, the Board has relied on the following commitments offered by Applicant:

1. Applicant will operate Mentor and Federated as savings and loan associations having as their primary purpose the provision of residential housing credit. Mentor and Federated will limit their activities to those currently permitted to federal savings and loan associations under the Home Owners' Loan Act, but shall not engage in any activity prohibited to bank holding companies and their subsidiaries under section 4(c)(8) of the Bank Holding Company Act.
2. Neither Mentor nor Federated will establish or operate a remote service unit at any location outside Ohio.
3. Neither Mentor nor Federated will establish or operate branches at locations not permissible for national or state banks located in Ohio.[7]
4. Mentor and Federated will be operated as separate, independent, profit-oriented corporate entities and shall not be operated in tandem with any other subsidiary of Applicant, except that Applicant may merge Mentor and Federated together and operate the successor in accordance with this commitment. Applicant, Mentor, and Federated will limit their operations to effect this condition, and will observe the following conditions:
   a. No banking or other subsidiary of Applicant will link its deposit-taking activities to accounts at Mentor or Federated in a sweeping arrangement or similar arrangement.
   b. Neither Applicant nor any of its subsidiaries will solicit deposits or loans for Mentor or Federated, nor shall either Mentor or Federated solicit deposits or loans for any other subsidiary of Applicant.
5. Applicant will not change the name of Mentor or Federated in any manner that might confuse the public regarding the status of these institutions or their successor by merger as a nonbank thrift institution.
6. Neither Mentor nor Federated will convert its charter to that of a national or state commercial bank without the Board's prior approval.
7. To the extent necessary to insure the operation of Mentor and Federated as independent of Applicant and to prevent the improper diversion of funds, there shall be no transactions between either Mentor or Federated and Applicant or any of its subsidiaries without the prior approval of the Federal Reserve Bank of New York. This limitation encompasses the transfer, purchase, sale or loan of any assets or liabilities, but does not include infusions of capital from Applicant, the payment of dividends by Mentor or Federated to Applicant, or the sale of residential real estate loans from Mentor or Federated to any subsidiary of Applicant.
8. Applicant will cooperate with Mentor and Federated in applying for and obtaining FSLIC insurance.

The Board concludes that consummation of the proposal, subject to the commitments set out above, may reasonably be expected not to result in conflicts of interests, unsound banking practices, undue concentration of resources, or other adverse effects.

Based upon the foregoing and other facts and circumstances reflected in the record, the Board has determined that the acquisition of Mentor and Federated by Applicant would result in substantial and compelling public benefits that are sufficient to outweigh any adverse effects that may reasonably be expected to result from this proposal, including any potential adverse effects of the affiliation of a commercial banking organization with a thrift institution. Accordingly, these applications are approved, subject to the commitments described in this Order and the record of this application.

The Board's decision is further subject to the conditions set forth in Regulation Y, including sections 225.4(d) and 225.23(b), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or to prevent evasion of, the provisions and purposes of the Act and the Board's regulations and orders issued thereunder. The acquisitions shall be made not later than three months after the effective date of this Order, unless that period is extended for good cause by the Board or by the Federal Reserve Bank of New York pursuant to authority hereby delegated.

By order of the Board of Governors, effective April 19, 1985.

Voting for this action: Chairman Volcker and Governors Martin, Wallich, Partee, Rice, and Gramley. Absent and not voting: Governor Seger.

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

7. The Federal Reserve Bank of New York is hereby delegated authority to act on applications by Applicant to open additional offices of Mentor or Federated under section 225.25(b)(1) of Regulation Y. (12 C.F.R. § 225.25(b)(1)).

First Interstate Bancorp
Los Angeles, California

Order Approving Application to Purchase and Sell Precious Metals for the Account of Customers

First Interstate Bancorp, Los Angeles, California, a bank holding company within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1841 *et seq.* ("BHC Act"), has applied pursuant to section 4(c)(8) of the BHC Act and section 225.21(a) of the Board's Regulation Y, 12 C.F.R. § 225.21(a), to engage *de novo* through its wholly owned subsidiary, First Interstate Discount Brokerage ("FIDB"), Los Angeles, California, in the purchase and sale of precious metals for the account of its customers.

Notice of the application, affording interested persons an opportunity to submit comments on the relation of the proposed activity to banking and on the balance of the public interest factors regarding the application, has been duly published, 50 *Federal Register* 3976 (1985). The time for filing comments and views has expired and the Board has considered the application in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

FIDB proposes to engage in the purchase and sale of silver and gold bullion and coins for the account of customers. FIDB will not engage in the purchase and sale of platinum and palladium,[1] nor will it deal in gold or silver for its own account. In addition, Applicant does not propose to extend credit, and does not propose to offer investment advice to customers in connection with the proposed services.

Applicant is a multi-bank holding company with 22 subsidiary banks holding total domestic deposits of approximately $29.8 billion.[2] Applicant's lead bank, First Interstate Bank of California, is the fourth largest banking organization in California with total domestic deposits of approximately $12.7 billion, representing 7.2 percent of the total deposits in commercial banks in the state. Applicant is also engaged, directly and through certain of its subsidiaries, in a broad range of permissible nonbanking activities throughout the United States. FIDB is a discount broker that engages in securities brokerage activities permissible for bank holding companies under section 225.25(b)(15) of the Board's Regulation Y, 12 C.F.R. § 225.25(b)(15).

The Board has previously determined that "buying and selling gold and silver bullion and silver coin . . . are activities closely related to banking or managing or controlling banks." *Standard and Chartered Banking Group Ltd.*, 38 *Federal Register* 27,552 (1973).

The proposed activities of FIDB are essentially identical to those activities previously approved by the Board. In addition, banks have traditionally engaged in the purchase and sale of gold and silver bullion.[3] Thus, the Board concludes that Applicant's proposal to engage in the purchase and sale of precious metals for the account of customers is closely related to banking.

In order to approve this application, the Board is also required to determine that the performance of the proposed activities by Applicant "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects . . . ." (12 U.S.C. § 1843(c)(8)). Consummation of Applicant's proposal will result in increased convenience resulting from the offering of additional services to customers. In addition, the Board expects that the entry of Applicant into the market for these services will increase the level of competition among providers of these services. Accordingly, the Board concludes that the performance of the proposed activities by Applicant can reasonably be expected to produce benefits to the public.

The Board has also considered the potential for adverse effects that may be associated with this proposal. There is no evidence in the record that consummation of the proposed transactions would result in any adverse effects such as decreased competition, undue concentration of resources, unfair competition, conflicts of interest, or unsound banking practices.

Based upon a consideration of all the relevant facts, the Board concludes that the balance of the public interest factors that the Board is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved.

This determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in section 225.4(d) and 225.23(b), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

The transaction shall be consummated not later than three months after the effective date of this Order, unless such period is extended for good cause by the

1. In *Standard and Chartered Banking Group Ltd.*, 38 *Federal Register* 27,552 (1973), the Board found that the activities of dealing in platinum and palladium were not authorized for national banks, and were not closely related to banking.
2. As of June 30, 1984.

3. *E.g.*, 12 U.S.C. § 24(7).

Board or by the Federal Reserve Bank of San Francisco pursuant to delegated authority.

By order of the Board of Governors, effective April 8, 1985.

Voting for this action: Vice Chairman Martin and Governors Wallich, Partee, Rice, and Seger. Absent and not voting: Chairman Volcker and Governor Gramley.

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

NBC Bank Corp
El Dorado, Arkansas

Exchange Bancshares, Inc.
El Dorado, Arkansas

Order Approving Application to Engage in Data Processing Activities Through a Joint Venture

NBC Bank Corp, El Dorado, Arkansas ("NBC"), and Exchange Bancshares, Inc., El Dorado, Arkansas ("Exchange") (together "Applicants"), bank holding companies within the meaning of the Bank Holding Company Act ("Act") (12 U.S.C. §§ 1841-1849), have applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.21(a) of the Board's Regulation Y (12 C.F.R. § 225.21(a)), for each to acquire 50 percent of the voting shares of Consolidated Data Services, Inc., El Dorado, Arkansas ("Consolidated"). Applicants intend to form Consolidated, a *de novo* joint venture, to provide electronic data processing services such as deposit, loan, trust, and other bank accounting services for Applicant's bank subsidiaries and financial data processing services for other businesses in Union County, Arkansas. The Board has previously determined that such activities are closely related to banking and permissible for bank holding companies. 12 C.F.R. § 225.25(b)(7).

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published. 49 *Federal Register* 47,334 (1984). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the Act.

Applicants each control one bank. NBC controls the National Bank of Commerce, El Dorado, Arkansas ("Commerce Bank"), with deposits of $86.6 million.[1] Exchange controls the Exchange Bank and Trust Company, El Dorado, Arkansas ("Exchange Bank"), with deposits of $67.9 million. Both banks operate in the Union County banking market, which is coextensive with Union County, Arkansas. Of the six banks in the market, Commerce Bank is the second largest and Exchange Bank is the third largest. Commerce Bank holds 22.3 percent of the total deposits in commercial banks in the market; Exchange Bank holds 17.4 percent.

Under Applicants' proposal, Consolidated would lease data processing equipment from Applicants and, for a fee, would provide data processing services to Applicants and their subsidiaries. If Consolidated has excess computer capacity, it may also provide such services to other local businesses. NBC and Exchange would each name two of Consolidated's five directors. The fifth director would be a data processing professional who would not be affiliated with either Applicant.

In considering this application, the Board must determine whether the proposed joint venture can reasonably be expected to produce benefits to the public that outweigh the possible adverse affects. 12 U.S.C. § 1843(c)(8). The Board has repeatedly expressed its concern that joint ventures not lead to a matrix of relationships between the co-venturers that, as relevant here, could lessen competition between the co-venturers, create conflicts of interest, and impair or give the appearance of impairing the ability of a banking organization to function effectively as an independent and impartial provider of credit.[2] The Board believes that these concerns are of particular significance in a case such as this, where the joint venturers directly compete in providing banking services and together control a substantial share of the deposits in commercial banks in the market. In such a case, the Board will scrutinize all the facts and circumstances to ensure that the business relationship between the joint venturers would not be likely to result in serious adverse effects.

To address these concerns, Applicants have made several commitments to the Board, including the following:

(1) Neither Applicant will engage in any business cooperation with the other Applicant except in connection with Consolidated;

(2) Consolidated's operations will be kept at arm's length from those of Applicants and their subsidiaries;

(3) Although an Applicant may name one or more of its officers or directors to Consolidated's board of directors, no officer or director of an Applicant or

1. Banking data are as of June 30, 1984.

2. *See, e.g., Amsterdam-Rotterdam Bank, N.V.*, 70 FEDERAL RESERVE BULLETIN 835 (1984); *Deutsche Bank AG*, 67 FEDERAL RESERVE BULLETIN 449 (1981).

any of its subsidiaries will serve as an officer or employee of Consolidated;
(4) No officer, director, or employee of an Applicant or any of its subsidiaries will perform services for Consolidated other than as a representative of that Applicant on Consolidated's board of directors; and
(5) No officer, director, or employee of one Applicant or any of its subsidiaries will deal with or have access to confidential information about the financial condition of the other Applicant or its subsidiaries.[3]

These commitments, by narrowly circumscribing the relationship involved in the joint venture, are designed to ensure that competition between Applicants would not be diminished. In addition, the Board's concerns about this proposal are mitigated by the fact that the joint venture is limited to data processing, an activity which does not involve basic banking functions, such as granting credit. In light of this fact, and in view of the commitments offered by Applicants, the Board concludes that the proposal would be unlikely to have adverse effects in the banking market. A different conclusion might be in order, however, if the proposed activity were broader in scope, or more directly related to Applicants' lending activities.[4]

The proposed joint venture would not eliminate any existing competition in providing data processing services to the public. Commerce Bank currently provides data processing services for itself and one local merchant. Exchange Bank performs no data processing for outside businesses and does only part of its own data processing work.

The joint venture also would not significantly reduce potential competition in providing data processing services. According to a survey conducted by the Federal Reserve Bank of St. Louis, Union County has three firms primarily engaged in providing data processing services to other businesses ("data processing service organizations"), and one of those organizations is a recent entrant. El Dorado also has at least six computer dealers, and inexpensive desktop computers enable businesses to do their own data processing and thus avoid any dependence on data processing service organizations.

Moreover, the geographic market for data processing services extends well beyond local banking markets. The Board has previously noted that data processing services can be provided by the "batch" method at a distance of 100–150 miles and by the "remote" method at an even greater distance.[5] Within 120 miles of El Dorado, there are six major centers of population and trade: the Little Rock, Pine Bluff, Hot Springs, and Texarkana metropolitan areas in Arkansas, and the Shreveport and Monroe metropolitan areas in Louisiana. The Reserve Bank's survey indicates that those metropolitan areas contain more than 100 data processing service organizations, as well as many other firms that offer or are capable of offering such services to the public.

The area surrounding El Dorado thus contains so many existing and potential providers of data processing services that the joint venture would be unlikely to result in any significant reduction in potential competition between Applicants. On this basis, the Board concludes that the joint venture would not significantly lessen potential competition in any relevant market. There is no evidence that the joint venture would result in unfair competition, unsound banking practices, conflicts of interests, or an undue concentration of resources.

The joint venture would be likely to increase the efficiency of Applicants' data processing operations by allowing Applicants to eliminate duplicate facilities. Moreover, if Consolidated offers data processing services to outside businesses, the public will also benefit through the increased competition in such services.

The financial and managerial resources of Applicants and Consolidated are consistent with approval of the application.

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

3. No officer or director of one Applicant serves as an officer or director of the other Applicant. Moreover, no such interlock could be created without violating the Depository Management Interlocks Act (12 U.S.C. § 3202).

4. *See, e.g., Deutsche Bank AG*, 67 FEDERAL RESERVE BULLETIN 449 (1981); *Maryland National Corp.*, 65 FEDERAL RESERVE BULLETIN 271 (1979).

5. *BankAmerica Corporation*, 66 FEDERAL RESERVE BULLETIN 511, 512 (1980). "In batch processing, typically the information to be processed is physically delivered to the servicer for processing at the end of a business day and the processed information is delivered to the customer the following morning. In remote processing, the information to be processed is transmitted between the servicer and the customer through telephone lines or other forms of electronic communications." *Id.*

The proposed acquisition shall not be consummated later than three months after the effective date of this Order, unless that period is extended for good cause by the Federal Reserve Bank of St. Louis, pursuant to delegated authority, or by the Board.

By order of the Board of Governors, effective April 11, 1985.

Voting for this action: Governors Partee, Rice, and Seger. Voting against this action: Chairman Volcker. Abstaining from this action: Governors Wallich and Gramley. Absent and not voting: Governor Martin.

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

Statement of Chairman Volcker Concurring in Part

I do not share the majority opinion in one limited respect. The Board has expressed its concern regarding a joint venture offering services to the general public between directly competing banking organizations that together control a substantial share of the same banking market. The majority believed in this particular case commitments offered by Applicants, and the fact the proposal is limited to data processing, would be sufficient to overcome potential adverse effects. I would have preferred to condition approval on prohibition of such services to others than financial institutions on the basis that the relatively slight public benefits associated with this proposal are not sufficient to outweigh the possible adverse effects. I have no objection to other portions of the application providing for services to the applicants themselves or other depository institutions which, as I understand it, provides the main rationale for the proposal.

April 11, 1985

Standard Chartered Bank PLC
London, England

Standard Chartered Overseas Holdings, Ltd.
London, England

Union Bancorp
Los Angeles, California

Order Approving Proposal to Engage in Investment Advisory Services

Standard Chartered Bank PLC ("Standard Bank"), London, England; Standard Chartered Overseas Holdings, Ltd. ("Overseas Holdings"), London, England; and Union Bancorp ("Union"), Los Angeles, California, have applied for the Board's approval pursuant to section 4(c)(8) of the Bank Holding Company Act ("Act"), 12 U.S.C. § 1843(c)(8), and section 225.23(a) of the Board's Regulation Y, 12 C.F.R. § 225.23(a), to enter into a joint venture with Gooch & Wagstaff, a partnership whose principal place of business is London, England. Applicants and Gooch & Wagstaff would each own 50 percent of Union, Gooch & Wagstaff ("Company"), a *de novo* joint venture. Company would provide real estate investment advisory services and advisory services related to the leasing of real and personal property. The Board has determined that these activities are closely related to banking. 12 C.F.R. §§ 225.25(b)(4) and (5).

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published, 50 *Federal Register* 9129 (1985). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the Act.

Union, a bank holding company within the meaning of the Act, is the sixth largest banking organization in California, and has one subsidiary bank, Union Bank ("Bank"), Los Angeles, California.[1] Bank has total deposits of $5.9 billion, which represents 3.0 percent of the deposits in commercial banks in California.[2] Union also is engaged in nonbanking activities through its nonbank subsidiaries, including a discount brokerage subsidiary, an export trading company, a commercial finance company, a consumer finance company, and an investment company.

Gooch & Wagstaff is a partnership of chartered surveyors.[3] Other offices of Gooch & Wagstaff are located in Amsterdam, Holland; Frankfurt, West Germany; and Denver, Colorado. In 1983, Gooch & Wagstaff entered into a joint venture with Raynd Ventures, Inc., Denver, Colorado, to provide real

1. Overseas Holdings and The Chartered Bank ("Chartered"), London, England, own 87.4 percent and 12.6 percent, respectively, of Union. Overseas Holdings and Chartered are wholly owned by Standard Bank. Standard Bank is a bank holding company within the meaning of the Act by virtue of its indirect control of Bank, 12 C.F.R. §§ 225.2(b)(1) and (2).

2. As of December 31, 1984.

3. The partners and associates of Gooch & Wagstaff are members of the Royal Institution of Chartered Surveyors ("Institution"). The Institution is a professional association that specializes in matters concerning real property that are not performed by lawyers and architects. Gooch & Wagstaff provides several types of services: (1) acting as agent in the selling and leasing of commercial property; (2) furnishing advice to lessors and lessees and appearing as expert witnesses in judicial proceedings regarding these matters; (3) acting as real estate investment advisors; (4) providing property valuations; (5) managing the physical facilities and portfolios of commercial buildings; and (6) furnishing advice in connection with the planning and zoning of land.

estate advisory services in Colorado.[4] Gooch & Wagstaff is affiliated with G&W Architect, an architectural firm that operates in London, England. Gooch & Wagstaff also is affiliated with PSI Limited, a management firm in Amsterdam, Holland. At present, Gooch & Wagstaff does not have any plans to open additional offices elsewhere in the world.

Gooch & Wagstaff's clientele consists primarily of foreign-based individuals and institutions, including pension funds, financial institutions, banks, insurance companies, industrial corporations, accountants and solicitors. In general, each office provides services with respect to properties located within that office's geographic area. The geographic area served by the Denver office is generally limited to the state of Colorado.

Company will provide general investment advisory services to foreign and domestic investors with respect to income-producing real property located primarily in the Western United States. The operations of Company will be limited to the following activities:

(1) promoting and assisting direct investment by foreign and domestic individuals and institutions with respect to income-producing real properties located in California, Arizona, Oregon, Washington, Nevada and other states;[5]

(2) advising open and closed-end property funds, and evaluating and advising on open and closed-end property funds for foreign investors;[6] and

(3) publishing information periodically on real estate market conditions for dissemination in selected markets.[7]

Applicants also have indicated that Company will provide advisory services with respect to the leasing of property. The Board has determined that the proposed activities of the joint venture are permissible under sections 225.25(b)(4) and (5) of Regulation Y, 12 C.F.R. §§ 225.25(b)(4) and (5).[8]

The proposal involves a *de novo* acquisition and normally consummation of such a proposal would not have any adverse effects upon either existing or potential competition. The Board, however, has considered the effect of the proposal on existing and potential competition because it involves a joint venture between a banking and a nonbanking institution.[9]

With respect to existing competition between Union and Gooch & Wagstaff in the relevant market for investment advisory services, the record indicates that Union and Gooch & Wagstaff currently engage in similar activities. Union, through the trust department of Bank, currently engages in advising individual foreign investors with respect to California real estate opportunities. Gooch & Wagstaff provides global investment counseling, but does not provide any real estate investment advice with respect to properties located in California. Accordingly, consummation of the proposal would not have a significant adverse effect on existing competition between Union and Gooch & Wagstaff in any relevant market.

With respect to potential competition, Company will act as a real estate investment advisor with particular emphasis on foreign investors. The record indicates that numerous other competitors currently provide similar advisory services, including many banks, trust companies, insurance companies, real estate consultants and real estate brokers. Moreover, the market for such services is unconcentrated. The record also indicates that Gooch & Wagstaff is not likely to enter the market *de novo*, since it lacks knowledge of real estate opportunities available in the Western region of the United States, has limited local contacts, and lacks knowledge of local financing alternatives for real estate projects. Accordingly, consummation of this proposal would not appear to have a significant adverse impact on potential competition in any relevant market.

The Board also finds that consummation of the proposal can be expected to result in public benefits. Company expects to act as a conduit for attracting and

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4. In addition, in 1983, the Board approved an application by Southeast Banking Corporation ("Southeast"), Miami, Florida, to provide real estate investment advisory services by means of a joint venture with Gooch & Wagstaff and a subsidiary of Southeast. *Southeast Banking Corporation*, 69 FEDERAL RESERVE BULLETIN 564 (1983). Southeast and Gooch & Wagstaff recently dissolved this joint venture. Prior to its dissolution, the joint venture provided real estate investment advice related to income-producing real property located in the southeastern United States and Texas.

5. This activity involves the distribution of brochures to prospective foreign customers, informing such customers when potentially suitable real estate investments become available, assisting such customers in negotiating the terms of the purchase or sale of real property (if desired), and other related activities. In this regard, Applicants have committed that Company will not solicit properties to be sold, list or advertise properties for sale, or hold itself out or advertise as a real estate broker.

6. These property funds are investment companies registered under the Investment Company Act of 1940, 15 U.S.C. § 80a-2(a)(20). Applicants have committed that any advisory services provided by Company to such property funds will be provided in accordance with all of the requirements of the Board's Published Interpretation regarding investment advisory activities when advice is provided to an investment company. 12 C.F.R. § 225.125 (1984).

7. Applicants have committed that these services will be provided in accordance with footnote 2 of section 225.25(b)(4) of Regulation Y.

8. Applicants have committed that any advisory services offered in connection with the leasing of property will be limited to leases that conform with all of the requirements of section 225.25(b)(5) of the Board's Regulation Y, 12 C.F.R. § 225.25(b)(5).

9. The Board in previous cases involving joint ventures has expressed a concern that joint ventures not lead to a matrix of relationships that could undermine the legally mandated separation between banking and commerce. *E.g., Amsterdam-Rotterdam Bank, N.V.*, 70 FEDERAL RESERVE BULLETIN 835 (1984); *The Maybaco Company and Equitable Bancorporation*, 69 FEDERAL RESERVE BULLETIN 375 (1983); *Deutsche Bank AG*, 67 FEDERAL RESERVE BULLETIN 449 (1981).

directing capital flows iinto a high-growth region of the United States. Moreover, the long-term nature of the real estate investments is expected to have a stabilizing impact on the economies of the region. Company also anticipates that large clients will invest in industrial and commercial enterprises and thereby create employment in the region.

There is no evidence in the record that consummation of the proposal would result in other adverse effects, such as conflicts of interest, concentration of resources, or unsound banking practices.

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

The proposed activity shall be commenced not 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 April 2, 1985.

Voting for this action: Chairman Volcker and Governors Wallich, Partee, Rice, Gramley, and Seger. Absent and not voting: Governor Martin.

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

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

B-Banc Corp.
Odessa, Texas

Order Approving Formation of a Bank Holding Company and Application to Engage In Leasing Activities

B-Banc Corp., Odessa, Texas, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring all of the voting shares of Andrews Financial Corporation, Odessa, Texas ("Andrews Financial"), and thereby indirectly acquire First National Bank of Hamilton, Hamilton, Texas, and Andrews Bancshares, Inc., Odessa, Texas, and its subsidiary bank, Commercial State Bank, Andrews, Texas; De Leon Bancshares, Inc., Odessa, Texas, and thereby indirectly acquire Farmers and Merchants Bank, De Leon, Texas; Dublin Bancshares, Inc., Odessa, Texas, and thereby indirectly acquire The Dublin National Bank, Dublin, Texas; Glen Rose Bancshares, Inc., Odessa, Texas, and thereby indirectly acquire First National Bank in Glen Rose, Glen Rose, Texas; Ranger Bancshares, Inc., Odessa, Texas, and thereby indirectly acquire First State Bank, Ranger, Texas (collectively "the bank holding companies and Banks").

Applicant also has applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) to engage directly in leasing activities presently being conducted by Andrews Financial and Andrews Bancshares. This activity has previously been determined by the Board to be closely related to banking and permissible for bank holding companies (12 C.F.R. § 225.25(b)(5)).

Notice of the applications, affording opportunity for interested persons to submit comments, has been given in accordance with sections 3 and 4 of the Act (50 *Federal Register* 12,870 (1985)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act.

Applicant is a nonoperating corporation formed for the purpose of becoming a bank holding company by acquiring six bank holding companies, currently affiliated through common ownership, and their subsidiary banks. Following consummation of the proposal, the acquired bank holding companies will be liquidated and Applicant will directly control Banks' shares. Thus, this proposal represents a restructuring of existing ownership interests.

All of the Banks to be acquired are small; each controls less than 0.1 percent of total deposits in commercial banks in the state.[1] Upon consummation of this proposal, Applicant would become the 47th largest commercial banking organization in Texas, controlling six banks with total deposits of $189 million, representing approximately 0.1 percent of total deposits in commercial banks in the state. Consummation of this proposal would have no significant adverse effects on the concentration of banking resources in Texas.

None of the Banks compete in the same banking market. Based upon the facts of record, consumma-

1. Deposit data are as of June 30, 1984; banking structure data are as of December 31, 1984.

tion of this proposal would have no significant adverse effects on competition in any relevant banking market.

This proposal represents a reorganization of existing ownership interests. The financial and managerial resources and future prospects of Applicant and Banks are considered to be generally satisfactory, especially in light of certain commitments made by Applicant to the Board. Applicant has proposed no new activities for the Banks upon consummation of this proposal. However, there is no evidence in the record that the needs of the communities to be served are not being met. Accordingly, considerations relating to the convenience and needs of the communities to be served are consistent with approval.

Applicant also has applied under section 4(c)(8) of the Act to acquire the leasing portfolios of Andrews Financial and Andrews Bancshares and to engage directly in leasing activities under the leasing provisions of Regulation Y. 12 C.F.R. § 225.25(b)(5). There is no evidence in the record that approval of this proposal would result in any undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or other adverse effects on the public interest. Accordingly, the Board has determined that the balance of public interest factors it must consider under section 4(c)(8) of the Act is consistent with approval of this proposal.

Based on the foregoing and the facts of record, the Board has determined that the applications under sections 3(a)(1) and 4(c)(8) of the Act are consistent with the public interest, and should be and hereby are approved. The transactions shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Dallas, pursuant to delegated authority. The determinations as to Applicant's nonbanking activities are subject to the conditions set forth in sections 225.4(d) and 225.23(b)(3) of Regulation Y (12 C.F.R. §§ 225.4(d) and 225.23(b)(3)) and the Board's authority to require such modifications or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

By order of the Board of Governors, effective April 15, 1985.

Voting for this action: Chairman Volcker and Governors Martin, Gramley, and Seger. Absent and not voting: Governors Wallich, Partee, and Rice.

JAMES MCAFEE
Associate Secretary of the Board

[SEAL]

Citizens Financial Group, Inc.
Providence, Rhode Island

Order Approving Formation of a Bank Holding Company and Acquisition of a Federal Savings Bank and a Consumer Finance Company

Citizens Financial Group, Inc., Providence, Rhode Island, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) ("Act") to become a bank holding company through the acquisition of Citizens Corporation, Providence, Rhode Island, a bank holding company within the meaning of the Act, and its subsidiary bank, Citizens Trust Company, Providence, Rhode Island ("Trust Company"). Applicant has also applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 C.F.R. § 225.23) to acquire Citizens Savings Bank, F.S.B., Providence, Rhode Island ("Savings Bank"), currently the parent of Citizens Corporation,[1] and 80 percent of the voting shares of The Money Store/Georgia, Inc., Atlanta, Georgia ("Money Store"), a subsidiary of Citizens Corporation.

Savings Bank is a federally chartered mutual savings bank, which will convert to a federal stock savings bank after the Board's approval of this application. Under section 2(c) of the Act, Savings Bank is not a "bank" for purposes of the Act because its accounts would be insured by the Federal Savings and Loan Insurance Corporation and because it would be chartered by the Federal Home Loan Bank Board. Accordingly, the application to acquire Savings Bank is properly filed under section 4(c)(8) of the Act.

The Board has not added the operation of a federal savings bank in Rhode Island to the list of activities specified in section 225.25(b) of Regulation Y as generally permissible for bank holding companies. As discussed below, however, on a number of occasions the Board has determined that the operation of a thrift institution is closely related to banking in Rhode Island. Moreover, with the exception of real estate development activities, which Applicant has commit-

1. These applications are made necessary by the proposed corporate reorganization of Savings Bank, which now indirectly controls Trust Company through its ownership of Citizens Corporation. Since Savings Bank is a mutual savings bank whose control of a bank predates the 1970 Bank Holding Company Act Amendments, it is exempt from the Act under section 2(a)(5)(F) of the Act. Under the terms of its proposed reorganization, however, Savings Bank will convert to a federal stock savings bank, thereby losing its section 2(a)(5)(F) exemption. Upon Savings Bank's conversion to stock form, Applicant will acquire all of the capital stock issued by Savings Bank in its conversion and Savings Bank will transfer ownership of Citizens Corporation to Applicant.

ted to discontinue,[2] all of the activities of Savings Bank have been determined by the Board to be closely related to banking and permissible for bank holding companies.[3]

Money Store, which is operated pursuant to a joint venture with The Money Store, Inc., Springfield, New Jersey, engages in the origination, sale, and servicing of mortgage loans and other consumer finance loans and acts as agent for the sale of credit-related life and accident and health insurance in the State of Georgia.[4] These activities have been determined by the Board to be permissible for bank holding companies (12 C.F.R. § 225.25(b)(1) and (8)).

Notice of the applications, affording opportunity for interested persons to submit comments, has been given in accordance with sections 3 and 4 of the Act (49 *Federal Register* 50,783 (1984)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act.

Applicant is a *de novo* bank holding company formed for the purpose of holding Trust Company and Savings Bank. Trust Company, a state-chartered commercial bank, controls $269 million in total deposits, and Savings Bank controls total deposits of $907 million.[5] With consolidated assets of $1.3 billion,[6] Savings Bank is the fourth largest banking organization in Rhode Island. Neither Applicant nor any of its principals is affiliated with any other banking organization in any relevant area. Since the proposed transactions are solely a corporate reorganization, they would have no effect on the statewide banking structure or on competition in any relevant area.

Because Savings Bank's exemption under section 2(a)(5)(F) would not be transferred to Applicant upon Savings Bank's reorganization, the Board must consider Applicant's acquisition of Savings Bank under the standards of section 4(c)(8) of the Act. Section 4(c)(8) authorizes a bank holding company to acquire a company engaged in nonbanking activities that are determined by the Board to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto." The Board has determined on numerous occasions that the operation of a thrift institution satisfies the first, or closely related to banking, test of section 4(c)(8).[7]

Under the second, or "proper incident," test, the Board is required to consider whether the performance of the activity by a bank holding company or a subsidiary of a bank holding company "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." In 1977, the Board determined that, as a general matter, the activity of operating a savings and loan is not a "proper incident" to banking because the potential adverse effects of generally allowing affiliations of banks and thrift institutions were then sufficiently strong to outweigh the benefits that might result in individual cases.[8]

The Board has, however, recognized an exception to this general rule in the case of affiliations between thrift institutions and commercial banks in Rhode Island. In each case where the Board has considered a proposal by a Rhode Island bank holding company to engage in the activities of a thrift institution, the Board has recognized the "history of close affiliation of mutual thrift institutions and commercial banks in Rhode Island,"[9] and has determined that engaging in the activities of a thrift institution is "so closely related to Rhode Island banking as to be a proper incident thereto."[10] There is no evidence in the record that the structure of the banking industry in Rhode Island has changed in such a way as to invalidate this

2. Applicant has committed that Savings Bank will limit its real estate development activities to completion of its one current project and will not invest in additional real estate development projects unless such investments are authorized by the Board.

3. 12 C.F.R. § 225.25(a) and (b) and § 225.25(b)(1), (8), and (12); *U.S. Trust Corporation*, 70 FEDERAL RESERVE BULLETIN 371 (1984).

4. Citizens Corporation received Board approval on February 2, 1984, to acquire 80 percent of the voting shares in Money Store. *Citizens Corporation*, 70 FEDERAL RESERVE BULLETIN 232 (1984).

5. Deposit data are as of September 30, 1984.

6. As of December 31, 1984.

7. *Citicorp (First Federal)*, 70 FEDERAL RESERVE BULLETIN 149 (1984); *Old Stone Corporation*, 69 FEDERAL RESERVE BULLETIN 812 (1983); *D.H. Baldwin & Co.*, 63 FEDERAL RESERVE BULLETIN 280 (1977); *American Fletcher Corporation*, 60 FEDERAL RESERVE BULLETIN 868 (1974).

8. *D.H. Baldwin & Co.*, 63 FEDERAL RESERVE BULLETIN 280 (1977).

9. *Newport Savings and Loan Association*, 58 FEDERAL RESERVE BULLETIN 313, 315 (1972). In *Old Colony Co-Operative Bank*, 66 FEDERAL RESERVE BULLETIN 665, 666 n.6 (1980), the Board stated:

> The activities and powers of depository institutions in the state are uniquely integrated, and have been for a long time. Each of Rhode Island's seven mutual savings banks . . . had acquired a commercial bank by 1967. Congress enacted section 2(a)(5)(F) of the Act in order to exempt these combined savings-commercial bank institutions from bank holding company status. In order partially to redress the competitive imbalance resulting from the superior competitive position of the seven savings-commercial bank institutions, the Rhode Island legislature, in May 1970, authorized state-chartered building-loan associations to establish or acquire stock in a bank or trust company.

10. *Newport Savings and Loan Association*, *supra* at 315; *Old Colony Co-Operative Bank*, 58 FEDERAL RESERVE BULLETIN 417 (1972); *Old Colony Co-Operative Bank*, 69 FEDERAL RESERVE BULLETIN 377 (1983); *Newport Savings and Loan Association*, 69 FEDERAL RESERVE BULLETIN 562 (1983). Both Old Colony and Newport are Rhode Island mutual building-loan associations that became bank holding companies in 1972.

finding. In addition, the Board notes that Savings Bank and Trust Company have been affiliated since 1947 and that the proposed transaction merely represents the reorganization of Savings Bank and Trust Company into a bank holding company structure. For the above reasons, the Board concludes that Applicant's operation of Savings Bank is so closely related to banking as to be a proper incident thereto.

Notwithstanding this general finding, the Board must consider the particular facts of this case to determine whether the proposed transaction can reasonably be expected to produce benefits to the public that outweigh possible adverse effects. Savings Bank's conversion to stock form and inclusion in a holding company organization will provide Applicant greater resources for expansion and greater flexibility for diversification of business activities than Savings Bank, as a mutual institution, currently could provide. The proposed reorganization thus should allow Applicant to continue to compete effectively with other large Rhode Island financial organizations and will enable Applicant to take advantage of interstate banking opportunities open to Rhode Island bank holding companies.[11]

The affiliation of Applicant and Savings Bank following the proposed reorganization is not likely to result in unfair competition. Savings Bank and Trust Company have been affiliated since 1947 and Applicant has stated that it will continue to operate Savings Bank as a savings bank in substantially the same manner as it has been operated historically. In addition, as noted previously, every Rhode Island thrift institution of any size now owns a commercial bank. Furthermore, the Board has relied on the following commitments offered by Applicant:

(1) that Savings Bank's activities will be limited to those permitted to federal savings banks under the Home Owners' Loan Act; and

(2) that Savings Bank, subject to completion of its one current real estate development project,[12] shall not engage in any activity prohibited to bank holding companies and their subsidiaries under section 4 of the Act.

In view of the potential for interstate expansion by Applicant following reorganization, Applicant's proposal raises a concern that the commercial bank-savings bank affiliation might be extended beyond the State of Rhode Island, resulting in conflict with the Board's general rule that operation of a thrift institution is not a permissible activity for bank holding companies. In this regard, Applicant has committed that Savings Bank will not expand outside of Rhode Island through merger, branching, *de novo* acquisition, or any other means without the Board's prior approval.

The Board concludes that its approval of this proposal, subject to the commitments set forth above, may reasonably be expected not to result in unfair competition, conflicts of interest, unsound banking practices, undue concentration of resources, or other potential adverse effects on the public interest. Based on the foregoing and all of the other facts of record, the Board has determined that the balance of the public interest factors it must consider under section 4(c)(8) of the Act is favorable and consistent with approval of these applications.

Accordingly, the applications under sections 3 and 4 of the Act are approved. The transactions shall not be consummated before the thirtieth day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Boston, pursuant to delegated authority. The determinations with respect to Applicant's acquisition of Savings Bank and Money Store are subject to all the conditions set forth in Regulation Y, including sections 225.4(d) and 225.23(b) (12 C.F.R. §§ 254.4(d) and 225.23(b)), and to the Board's authority to require such modifications or termination of activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

In addition, Savings Bank may not engage directly or indirectly in any activity other than those approved by the Board in this Order. Any expansion of Savings Bank's activities beyond those approved in this Order would require the Board's prior approval as provided in section 4 of the Act and the Board's Regulation Y.[13]

By order of the Board of Governors, effective April 22, 1985.

Voting for this action: Chairman Volcker and Governors Martin, Wallich, Partee, Rice, Gramley, and Seger.

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

11. Massachusetts, Connecticut, and Rhode Island have enacted regional reciprocal interstate banking statutes that permit the acquisition of banks in each state by bank holding companies located in other New England states that have enacted no less restrictive interstate bank acquisition statutes. Rhode Island's interstate banking statute will allow bank holding companies from *any* state with reciprocal interstate banking legislation to acquire banks in Rhode Island effective July 1, 1986. R.I. Gen. Laws § 19-30-1 (1984).

12. *See supra* n.2.

13. In this regard, the Board notes that because Savings Bank is not considered a bank under the Act, the provisions of section 225.22(d) of Regulation Y would not be applicable to exempt the acquisitions or activities of Savings Bank.

Commerce Group, Inc. Lincoln, Nebraska

Order Approving Acquisition of Bank Holding Companies and to Engage in the Underwriting of Credit Life and Credit Accident and Health Insurance

Commerce Group, Inc., Lincoln, Nebraska, a bank holding company within the meaning of the Bank Holding Company Act ("Act") (12 U.S.C. § 1841 *et seq.*), has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire at least 80 percent of the voting shares of the following one-bank holding companies: Commerce Group Kearney, Inc., Kearney, Nebraska, and thereby indirectly First National Bank and Trust Co. of Kearney, Kearney, Nebraska; Commerce Group Hastings, Inc., Hastings, Nebraska, and thereby indirectly City National Bank and Trust Co., Hastings, Nebraska; Commerce Group West Point, Inc., West Point, Nebraska, and thereby indirectly First National Bank of West Point, West Point, Nebraska; Commerce Group Grand Island, Inc., Grand Island, Nebraska, and thereby indirectly Overland National Bank of Grand Island, Grand Island, Nebraska; Commerce Group North Platte, Inc., North Platte, Nebraska, and thereby indirectly North Platte National Bank, North Platte, Nebraska. Applicant also has applied for the Board's approval under section 3(a)(3) of the Act to retain currently owned shares of Commerce Savings Lincoln, Inc., Lincoln, Nebraska, Commerce Savings Scottsbluff, Inc., Scottsbluff, Nebraska, and Commerce Savings Columbus, Inc., Columbus, Nebraska (collectively the "industrial banks").

Applicant has also applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a)(2) of the Board's Regulation Y (12 C.F.R. § 225.23(a)(2)), to indirectly acquire, through the acquisition of the previously named bank holding companies, an additional 83.35 percent of the voting shares of Commerce Affiliated Life Insurance Company, Phoenix, Arizona ("Affiliated"). Affiliated engages in underwriting as reinsurer credit life and credit accident and health insurance directly related to extensions of credit by Applicant and the bank holding companies to be acquired. This activity has been determined by the Board to be closely related to banking under section 225.25(b)(9) of Regulation Y (12 C.F.R. § 225.25(b)(9)). The principals of Applicant currently control all of the bank holding companies to be acquired, and this proposal represents the reorganization of six affiliated one bank holding companies into a single multibank holding company.

Notice of these applications, affording an opportunity for interested persons to submit comments and views, has been given in accordance with sections 3 and 4 of the Act (50 *Federal Register* 3975 (1985)). The time for filing comments and views has expired and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act.

Applicant controls the National Bank of Commerce Trust and Savings Association ("NBCT"), Lincoln, Nebraska, which holds deposits of $299.8 million.[1]

In addition, Applicant controls three industrial bank subsidiaries that make commercial loans, accept NOW accounts and are insured by the Federal Deposit Insurance Corporation. Although Applicant previously obtained Board approval under section 4(c)(8) of the Act to acquire these industrial banks, Applicant has applied under section 3(a)(3) of the Act to retain them as banks pursuant to Regulation Y.

Applicant's four deposit taking subsidiaries control deposits of $349 million, making Applicant the fourth largest banking organization in Nebraska with 2.8 percent of total state deposits. Upon consummation, Applicant would become the third largest banking organization in Nebraska, controlling deposits of $665.9 million in nine banking subsidiaries. Applicant's share of total deposits in commercial banks in the state would increase to 5.4 percent, and consummation of this proposal would not result in a significant increase in the concentration of banking resources in Nebraska.

Each of the five bank holding companies to be acquired by Applicant operates in a separate banking market in which neither Applicant nor its subsidiaries is represented. Accordingly, consummation of these proposals would not have any significant adverse effects on either existing or potential competition in any relevant market.

The financial and managerial resources and future prospects of Applicant, its subsidiaries, and the holding companies to be acquired are consistent with approval. Considerations relating to the convenience and needs of the community to be served are also consistent with approval.

Applicant has also applied, pursuant to section 4(c)(8) of the Act, to acquire the 83.35 percent of the voting shares of Affiliated owned by the bank holding companies to be acquired. Affiliated engages in the activity of reinsuring credit-related insurance sold to customers of affiliated banks. Due to the fact that Applicant and the one-bank holding companies it

1. All banking data are as of December 31, 1983.

proposes to acquire are currently engaged in jointly operating Affiliated, it does not appear that Applicant's acquisition of the remainder of Affiliated's shares would result in any adverse competitive effects. There is no evidence in the record to indicate that approval of this proposal would result in undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices or other adverse effects. Accordingly, the Board has determined that the balance of public interest factors it must consider under section 4(c)(8) of the Act is favorable and consistent with approval of this application.

Based on the foregoing and other facts of record, the Board has determined that the applications under section 3(a)(3) and 4(c)(8) of the Act should be and hereby are approved. The transactions shall not be consummated before the thirtieth calendar day following the effective date of this Order or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City, acting pursuant to delegated authority. The approval of Applicant's request to acquire additional shares of Affiliated is subject to the conditions set forth in section 225.23(b) of Regulation Y (12 C.F.R. § 225.23(b)) and to the Board's authority to require modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

By order of the Board of Governors, effective April 17, 1985.

Voting for this action: Vice Chairman Martin and Governors Rice, Gramley, and Seger. Absent and not voting: Chairman Volcker and Governors Wallich and Partee.

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

Cook Investment, Inc.
Beatrice, Nebraska

Order Approving Acquisition of Bank Holding Companies and Engaging in General Insurance Agency Activities

Cook Investment, Inc., Beatrice, Nebraska, a bank holding company within the meaning of the Bank Holding Company Act ("the BHC Act") (12 U.S.C. § 1841 *et seq.*), has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire all of the voting shares of the following one-bank holding companies: Pickrell, Inc., Pickrell, Nebraska, and Wymore, Inc., Wymore, Nebraska. Applicant would thereby acquire control of Pickrell State Bank, Pickrell, Nebraska ("Pickrell"), and Wymore State Bank, Wymore, Nebraska ("Wymore").

Applicant has also applied for the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a) of the Board's Regulation Y (12 C.F.R. 225.23(a)), to acquire indirectly, through Pickrell, Inc., 50 percent of the voting shares of Pickrell Insurance Agency, also of Pickrell ("Agency"), and thereby to engage in the activities of a general insurance agency in a town with a population not exceeding 5,000.

Notice of these applications, affording an opportunity for interested persons to submit comments and views, has been given in accordance with sections 3 and 4 of the BHC Act (50 *Federal Register* 176 (1985)). The time for filing comments and views has expired and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the BHC Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the BHC Act, including the comments of the Independent Insurance Agents of America, National Association of Casualty and Surety Agents, National Association of Surety Bond Producers, National Association of Professional Insurance Agents, and National Association of Life Underwriters.

Applicant is a one-bank holding company by virtue of its control of Beatrice National Bank, Beatrice, Nebraska ("Beatrice National"). Applicant's principals control Wymore and Pickrell, and this proposal represents the reorganization of control of these three banking organizations into a single multibank holding company. Applicant, with deposits of $63 million,[1] is the 33rd largest commercial banking organization in the state, controlling 0.51 percent of the total deposits in commercial banking organizations in the state. Upon consummation of this proposal, Applicant would become the 22nd largest commercial banking organization in the state, controlling deposits of $78.5 million, representing 0.64 percent of total deposits in commercial banking organizations in the state. Consummation of the transaction would not have any significant adverse effects upon the concentration of banking resources in the state.

Applicant, through its control of Beatrice National, is the largest of twelve commercial banking organiza-

1. All banking data are as of December 31, 1983.

tions operating in the Gage County banking market,[2] controlling 34.2 percent of deposits in commercial banks in the market. Both Wymore and Pickrell also operate in the Gage County market. Wymore, with deposits of $10.5 million, is the 4th largest commercial bank operating in the Gage County banking market, controlling 5.7 percent of commercial banking deposits in the market. Pickrell, with $5 million in deposits, is the ninth largest commercial bank in the market, controlling 2.7 percent of commercial banking deposits in the market. Upon consummation of this proposal, Applicant would remain the largest banking organization in the market, controlling 42.6 percent of total commercial banking deposits in the market.

In analyzing the competitive effects of an application to reorganize and restructure ownership of banking organizations where an individual or family controlling more than one banking organization in the market seeks to transfer control of the banking organizations to a single holding company, the Board takes into consideration the competitive effects of the transaction whereby common ownership was established.[3] In its approval of prior transactions whereby Beatrice National Corporation and Applicant acquired control of Beatrice National,[4] the Board analyzed the transactions as a result of which Beatrice National and Pickrell and Wymore were placed under common control. Based on the small size of Pickrell (approximately $600,000 in deposits) and Wymore (approximately $3 million in deposits) in 1965 and 1969, respectively, the poor record of Pickrell and Wymore as competitors in the market, and their long-run viability based on the very small and declining population base of the townships of Wymore and Pickrell, the Board concluded that the initial affiliation of these three banking organizations did not result in any significant elimination of competition or other adverse competitive effects. For these same reasons, consummation of the instant proposal would not appear to have any adverse effects upon competition or increase the concentration on banking resources in any relevant area.

The financial and managerial resources and future prospects of Applicant, its banking subsidiary, the bank holding companies to be acquired and their affiliates are considered consistent with approval. Although Applicant proposes to incur debt in connection with its proposal, it appears that Applicant will be able to service its debt while maintaining required capital within the Board's guidelines. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval.

Applicant has also applied, pursuant to section 4(c)(8) of the Act, to acquire the 50 percent of the shares of Agency held by Pickrell and thus to engage in general insurance agency activities in Pickrell, a community with a population not exceeding 5,000. Upon consummation of this proposal, the principal place of banking business of Applicant will be Beatrice, a town with a population of approximately 13,000. Several insurance agents' groups have protested this application. They assert that the Garn–St Germain Depository Institutions Act of 1982 ("the Garn Act"), which amended section 4(c)(8) of the BHC Act, 12 U.S.C. 1843(c)(8)(C), permits only those bank holding companies that have their principal place of banking business in a town of less than 5,000 to engage in general insurance agency activities in such small towns.

Section 225.25(b)(8)(ii) of the Board's Regulation Y (12 C.F.R. § 225.25(b)(8)(ii)) permits bank holding companies to sell any insurance in a community that has a population not exceeding 5,000, provided the principal place of banking business of the bank holding company is also located in a community with a population not exceeding 5,000. The Board's regulation predates the Garn Act, and the Board has published a notice of proposed rulemaking regarding permissible insurance activities to conform to the Garn Act. The Board has specifically requested public comment on the question whether bank holding companies should be permitted to engage in general insurance agency activities in communities that have populations not exceeding 5,000 without requiring the bank holding company's principal place of banking business to be located in a community with a population not exceeding 5,000 (49 *Federal Register* 9215 (1984)).

The Board notes that these applications involve a reorganization and restructuring of affiliated companies in which the insurance activities play a minor role. Applicant has not sought the Board's approval to expand Agency's insurance activities in any manner or to engage in general insurance agency activities at any of its own offices. Agency will continue to engage in general insurance activities only from a location in the village of Pickrell, which had a population of 184 in 1980. In view of the limited nature of this application, the hardship involved in requiring divestiture, and the commitments of Applicant to conform its insurance activities to the results of the rulemaking, including a complete divestiture of any of Agency's insurance activities that might be impermissible under the Board's final regulation, the Board believes it is appropriate to permit Agency to continue to engage in general insurance activities pending the outcome of the rulemaking. The Board notes that the Garn Act does not, on its face, impose a "principal place of banking business" requirement, and the Board has

2. The Gage County banking market consists of Gage County, Nebraska.

3. *See Mid Nebraska Bancshares, Inc. v. Board of Governors of the Federal Reserve System*, 627 F.2d 266 (D.C. Cir. 1980).

4. *Beatrice National Corporation*, 61 Federal Reserve Bulletin 376 (1975).

previously permitted retention of such insurance activities in similar limited circumstances pending completion of the rulemaking proceeding. *See Midwest Bancorporation, Inc.*, 70 FEDERAL RESERVE BULLETIN 533 (1984). The Board believes it is advisable to address the issues raised by protestants in the context of the rulemaking proceeding and protestants' comments will be made a part of that proceeding.

There is no evidence in the record to indicate that approval of this application would result in undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or other adverse effects on the public interest. Accordingly, in view of Applicant's commitment discussed above, the Board has determined that the balance of public interest factors it must consider under section 4(c)(8) of the Act is favorable and consistent with approval of the application.

Based on the foregoing and other facts of record, the Board has determined that the applications under sections 3(a)(3) and 4(c)(8) of the Act should be, and hereby are, approved. The determination as to Applicant's nonbanking activities is subject to all the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

The transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of Kansas City, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 29, 1985.

Voting for this action: Governors Wallich, Partee, Gramley, and Seger. Governor Wallich abstained from the insurance portion of the application. Absent and not voting: Chairman Volcker and Governors Martin and Rice.

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

ORDERS APPROVED UNDER BANK HOLDING COMPANY ACT

By the Board of Governors

During April 1985 the Board of Governors approved the applications listed below. Copies are available upon request to Publications Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551

Section 3

Applicant	Bank(s)	Board Action (effective date)
First Holding Company, Livingston, Tennessee	First National Bank of Livingston, Livingston, Tennessee	April 8, 1985
One Valley Bancorp of West Virginia, Inc., Charleston, West Virginia	One Valley National Bank of Hurricane, Hurricane, West Virginia	April 15, 1985
RB Bancorp, San Diego, California	The Bank of Rancho Bernardo, San Diego, California	April 9, 1985
Sun Banks, Inc., Orlando, Florida	SunTrust Banks, Inc., Atlanta, Georgia Hernando Banking Corporation, Brooksville, Florida Hernando State Bank, Brooksville, Florida	March 28, 1985
Sunset Financial Corporation, Miami, Florida	Universal Bank, Boynton Beach, Florida	April 29, 1985

Section 4

Applicant	Nonbank company	Effective date
FirsTier, Inc., Omaha, Nebraska	Investors Mortgage Access Corp., Des Moines, Iowa	April 19, 1985

By Federal Reserve Banks

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

Section 3

Applicant	Bank(s)	Reserve Bank	Effective date
Allied Bankshares, Inc., Thomson, Georgia	Bank of Rutledge, Rutledge, Georgia	Atlanta	April 18, 1985
American Bankshares, Ltd., Denver, Colorado	American Bank of Commerce, Denver, Colorado	Kansas City	April 8, 1985
American National Bancshares of Westlink, Inc., Wichita, Kansas	American National Bank of Westlink, Wichita, Kansas	Kansas City	April 19, 1985
Arcadia Bancshares, Inc., Overland Park, Kansas	Home State Bank, Arcadia, Kansas	Kansas City	April 2, 1985
Bancenter One Group, Inc., Ellisville, Missouri	Bankcenter One/St. Charles, N.A., St. Charles, Missouri	St. Louis	April 12, 1985
BBA, Inc., Shepherdsville, Kentucky	Bullitt County Bank, Shepherdsville, Kentucky	St. Louis	April 12, 1985
Calumet Bancorporation, Chilton, Wisconsin	State Bank of Chilton, Chilton, Wisconsin	Chicago	April 19, 1985
Central Jersey Bancorp, Freehold, New Jersey	The Central Jersey Bank and Trust Company, Freehold, New Jersey	New York	April 19, 1985
Chemung Financial Corporation, Elmira, New York	Chemung Canal Trust Company, Elmira, New York	New York	April 10, 1985
Chicago Commerce Bancorporation, Chicago, Illinois	Chicago Bank of Commerce, Chicago, Illinois	Chicago	March 29, 1985
Citadel Bancorporation, Colorado Springs, Colorado	Citadel Bank, Colorado Springs, Colorado	Kansas City	March 28, 1985
City Bancorp Inc., Murphysboro, Illinois	Gorham Bancorp, Inc., Murphysboro, Illinois The City Bank of Carbondale, Carbondale, Illinois	St. Louis	April 12, 1985
Colonial Bancorporation, Inc., Peru, Illinois	Colonial Trust & Savings Bank of Bureau County, Depue, Illinois	Chicago	February 15, 1985

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Commerce National Corporation, Winter Park, Florida	National Bank of Commerce, Winter Park, Florida	Atlanta	April 5, 1985
Community Independent Bank, Inc., Bernville, Pennsylvania	Bernville, Bank, N.A., Bernville, Pennsylvania	Philadelphia	April 4, 1985
Fairfax Bancshares, Inc., Fairfax, Missouri	Exchange Bank of Fairfax, Fairfax, Missouri	Kansas City	March 29, 1985
Farmers Bancshares, Inc., Pomeroy, Ohio	The Farmers Bank and Savings Company, Pomeroy, Ohio	Cleveland	March 28, 1985
Financial Bankshares, Inc., Miami, Florida	First National Bank of Miami, Miami, Florida	Atlanta	April 3, 1985
First American Bancorp, Decatur, Alabama	First American Bank, Decatur, Alabama	Atlanta	March 25, 1985
First American Bank Corporation, Elk Grove Village, Illinois	Riverside National Bank, Riverside, Illinois	Chicago	April 3, 1985
First Bancorp of Taylorville, Inc., Taylorville, Illinois	First National Bank in Taylorville, Taylorville, Illinois	Chicago	April 11, 1985
First Bancorporation of Cleveland, Inc., Cleveland, Texas	First Bank of Conroe, Conroe, Texas	Dallas	April 8, 1985
First Dubuque Corp., Dubuque, Iowa	The First National Bank of Dubuque, Dubuque, Iowa	Chicago	April 19, 1985
First Guthrie Bancshares, Inc., Guthrie, Oklahoma	Liberty State Bancshares, Inc., Tahlequah, Oklahoma The Liberty State Bank of Tahlequah, Tahlequah, Oklahoma	Kansas City	April 9, 1985
First National Bancor, Inc., Lee's Summit, Missouri	First National Bank, Lee's Summit, Missouri	Kansas City	April 11, 1985
First National Corporation, Grand Forks, North Dakota	Northwood State Bank, Northwood, North Dakota	Minneapolis	March 27, 1985
First National Lincoln Corporation, Damariscotta, Maine	The First National Bank of Damariscotta, Damariscotta, Maine	Boston	April 22, 1985
First NH Banks, Inc., Manchester, New Hampshire	The National Bank of Lebanon, Lebanon, New Hampshire	Boston	April 16, 1985
First State Corp., West Blocton, Alabama	First State Bank of Bibb County, West Blocton, Alabama	Atlanta	April 22, 1985
First Union Bancorp, Blairsville, Georgia	First National Bank of Union County, Blairsville, Georgia	Atlanta	March 25, 1985

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
First United Financial Services, Inc., Arlington Heights, Illinois	Oak Park Bancorp, Inc., Oak Park, Illinois MSPBancorp, Inc., Mount Prospect, Illinois Oak Park Trust and Savings Bank, Oak Park, Illinois The Dunham Bank, St. Charles, Illinois Mount Prospect State Bank, Mount Prospect, Illinois United National Bank, Arlington Heights, Illinois Unibancorp, Inc., Chicago, Illinois	Chicago	April 5, 1985
First Western Holding Company, Carrollton, Texas	First Western National Bank of Carrollton, Carrollton, Texas	Dallas	April 5, 1985
Firstway Financial, Inc., Waynesboro, Pennsylvania	First National Bank and Trust Co., Waynesboro, Pennsylvania	Philadelphia	March 27, 1985
FNB Bankshares, Bar Harbor, Maine	The First National Bank of Bar Harbor, Bar Harbor, Maine	Boston	April 1, 1985
Ganado Bancshares, Inc., Ganado, Texas	The Citizens State Bank of Ganado, Ganado, Texas	Dallas	April 4, 1985
Gateway Bancorp, Inc., Staten Island, New York	Gateway State Bank, Staten Island, New York	New York	March 29, 1985
Great Neck Bancorp, Great Neck, New York	Bank of Great Neck, Great Neck, New York	New York	April 19, 1985
Heritage Bankshares, Inc., Dallas, Texas	Turtle Creek National Bank, Dallas, Texas	Dallas	April 22, 1985
Heritage Racine Corporation, Racine, Wisconsin	American State Bank, Kenosha, Wisconsin	Chicago	April 22, 1985
Hyden Citizens Bancorp, Inc., Hyden, Kentucky	Farmers State Bancorp, Inc., Bonneville, Kentucky	Cleveland	March 27, 1985
Kingsley Banc Corp, Kingsley, Iowa	Kingsley State Bank, Kingsley, Iowa	Chicago	April 8, 1985
Liberty Bancorp, Inc., Carbondale, Pennsylvania	Liberty Discount and Savings Bank, Carbondale, Pennsylvania	Philadelphia	April 12, 1985
Liberty State Bancshares, Inc., Tahlequah, Oklahoma	The Liberty State Bank of Tahlequah, Tahlequah, Oklahoma	Kansas City	April 9, 1985

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Louisiana Bancshares, Inc., Baton Rouge, Louisiana	The Raceland Bank & Trust Company, Raceland, Louisiana	Atlanta	April 19, 1985
Lowry Facilities, Inc., Clinton, Oklahoma	Oklahoma Bancorporation, Inc., Clinton, Oklahoma Oklahoma Bank and Trust, Clinton, Oklahoma	Kansas City	March 22, 1985
Merchants Bancorp, Inc., Allentown, Pennsylvania	The Wyoming National Bank of Wilkes-Barre, Pennsylvania, Wilkes-Barre, Pennsylvania	Philadelphia	April 22, 1985
MSB Bancshares, Inc., Mesquite, Texas	Mesquite National Bank, Mesquite, Texas	Dallas	April 8, 1985
Minooka Bancorp, Inc., Minooka, Illinois	Tri-County Bank of Minooka, Minooka, Illinois	Chicago	April 12, 1985
Northeastern Oklahoma Bancorporation, Inc., Inola, Oklahoma	Bank of Inola, Inola, Oklahoma	Kansas City	April 17, 1985
Pioneer American Holding Company Corp., Carbondale, Pennsylvania	First National Bank, Carbondale, Pennsylvania	Philadelphia	April 2, 1985
Polo Bancshares, Inc., Richmond, Missouri	Farmers Bank of Polo, Polo, Missouri	Kansas City	May 18, 1985
Quinlan Bancshares, Inc., Quinlan, Texas	Quinlan State Bank, Quinlan, Texas	Dallas	April 8, 1985
Red Bud Bancorp, Inc., Red Bud, Illinois	First State Bank of Red Bud, Red Bud, Illinois	St. Louis	March 29, 1985
Sacramento Bancorp, Sacramento, Kentucky	Sacramento Deposit Bank, Sacramento, Kentucky	St. Louis	April 23, 1985
St. Mary Holding Corporation, Franklin, Louisiana	The St. Mary Bank and Trust Company, Franklin, Louisiana	Atlanta	March 28, 1985
Texas American Bancshares, Inc., Fort Worth, Texas	Southwestern Bank, Stafford, Texas	Dallas	April 2, 1985
Texas Independent Bancshares, Inc., Texas City, Texas	Gulf Shores Bank, Crystal Beach, Texas	Dallas	April 19, 1985
Westbanco, Inc., Westville, Illinois	Minooka Bancorp, Inc., Minooka, Illinois Tri-County Bank of Minooka, Minooka, Illinois	Chicago	April 12, 1985

Section 4

Applicant	Nonbanking company	Reserve Bank	Effective date
CB&T Bancshares, Inc., Columbus, Georgia	Calumet Financial Associates, Inc., Knoxville, Tennessee	Atlanta	April 18, 1985
Dunlap Iowa Holding Company, Dunlap, Iowa	engage in making and servicing loans or other extensions of credit	Chicago	April 10, 1985
FAM Financial, Inc., Macksville, Kansas	Johnson Insurance Agency, St. John, Kansas	Kansas City	April 11, 1985
First Bank System, Inc., Minneapolis, Minnesota	Austin-Osterud Agency, Inc., Austin, Minnesota	Minneapolis	March 29, 1985
First Cordell Banco, Inc., Cordell, Oklahoma	Flemming Insurance Agency, Cordell, Oklahoma	Kansas City	March 25, 1985
First Metropolitan Financial Corporation, Baton Rouge, Louisiana	First Metropolitan Mortgage Corp., Baton Rouge, Louisiana	Atlanta	April 9, 1985
Peoples Bankshares, Ltd., Waterloo, Iowa	Bankers Plus, Inc., Minneapolis, Minnesota	Chicago	March 28, 1985
West Brook Bancshares, Inc., Westchester, Illinois	West Brook Insurance Agency, Inc., Westchester, Illinois	Chicago	April 5, 1985

Sections 3 and 4

Applicant	Bank(s)/Nonbanking Company	Reserve Bank	' Effective date
First Antlers Bancorporation, Inc., Antlers, Oklahoma	First Antlers Bancshares, Inc., Antlers, Oklahoma First National Bank of Antlers, Antlers, Oklahoma First Antlers Insurance Agency, Antlers, Oklahoma	Kansas City	April 3, 1985

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.

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

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

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

Dimension Financial Corporation v. Board of Governors, No. 84–1274 (U.S., filed Feb. 6, 1985).

Citicorp v. Board of Governors, No. 85–4009 (2d Cir., filed Jan. 15, 1985).

Citicorp v. Board of Governors, No. 84–4173 (2d Cir., filed Dec. 31, 1984).

Citicorp v. Board of Governors, No. 84–754 (U.S., filed Oct. 12, 1984).

David Bolger Revocable Trust v. Board of Governors, No. 84–4141 (2d Cir., filed Aug. 31, 1984).

Citicorp v. Board of Governors, No. 84–4121 (2d Cir., filed Aug. 27, 1984).

Seattle Bancorporation, et al. v. Board of Governors, No. 84–7535 (9th Cir., filed Aug. 15, 1984).

Bank of New York Co., Inc. v. Board of Governors, No. 84–4091 (2d Cir., filed June 14, 1984).

Citicorp v. Board of Governors, No. 84–4081 (2d Cir., filed May 22, 1984).

Lamb v. Pioneer First Federal Savings and Loan Association, No. C84–702 (D. Wash., filed May 8, 1984).

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

Florida Bankers Association, et al. v. Board of Governors, No. 84–3269 and No. 84–3270 (11th Cir., filed Apr. 20, 1984).

Northeast Bancorp, Inc. v. Board of Governors, No. 84–363 (U.S., filed Mar. 27, 1984).

De Young v. Owens, et al., No. SC 9782–20–6 (D., N. Dist., Iowa, filed Mar. 8, 1984).

Huston v. Board of Governors, No. 84–1361 (8th Cir., filed Mar. 20, 1984); and No. 84–1084 (8th Cir. filed Jan. 17, 1984).

State of Ohio, v. Board of Governors, No. 84–1270 (10th Cir., filed Jan. 30, 1984).

Ohio Deposit Guarantee Fund v. Board of Governors, No. 84–1257 (10th Cir., filed Jan. 28, 1984).

Colorado Industrial Bankers Association v. Board of Governors, No. 84–1122 (10th Cir., filed Jan. 27, 1984).

Financial Institutions Assurance Corp. v. Board of Governors, No. 84–1101 (4th Cir., filed Jan. 27, 1984).

First Bancorporation v. Board of Governors, No. 84–1011 (10th Cir., filed Jan. 5, 1984).

Oklahoma Bankers Association v. Federal Reserve Board, No. 83–2591 (10th Cir., filed Dec. 13, 1983).

The Committee for Monetary Reform, et al. v. Board of Governors, No. 84–5067 (D.C. Cir., filed June 16, 1983).

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

A. G. Becker, Inc. v. Board of Governors, No. 80–2614 (D.C. Cir., filed Oct. 14, 1980); and No. 80–2730 (D.C. Cir., filed Oct. 14, 1980).

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Item	Monetary and credit aggregates (annual rates of change, seasonally adjusted in percent)[1]								
	1984			1985	1984		1985		
	Q2	Q3	Q4	Q1	Nov.	Dec.	Jan.	Feb.r	Mar.
Reserves of depository institutions[2]									
1 Total	8.6	6.8	−.7	21.2	11.3	18.8	31.1	19.8	5.7
2 Required	10.3	6.6	−1.5	20.7	9.1	14.0	35.2	15.2	10.3
3 Nonborrowed	−10.8	−44.6	30.7	61.9	66.3	72.6	94.4	23.8	−3.4
4 Monetary base[3]	7.0	7.2	3.9	8.7	7.6	8.0	8.0	12.2	5.9
Concepts of money, liquid assets, and debt[4]									
5 M1	6.5	4.5	3.2	10.5	12.0	10.2	9.0	14.1	5.5
6 M2	7.1	6.8	9.0	12.1	14.0	13.1	13.9r	11.1	4.0
7 M3	10.5	9.5	11.0	10.6	14.2	14.3r	10.2r	8.2	5.2
8 L	12.4r	12.2r	9.4r	7.6	9.8r	12.0r	n.a.	n.a.	n.a.
9 Debt	13.2r	12.5r	12.5	13.3	14.5r	14.3r	13.0r	12.3	n.a.
Nontransaction components									
10 In M2[5]	7.2	7.6	10.8	12.6	14.6	14.1	15.4r	10.2	3.5
11 In M3 only[6]	24.9	20.3	18.9	5.0	15.2r	18.6r	−3.8r	−2.7	9.9
Time and savings deposits									
Commercial banks									
12 Savings[7]	−6.7	−5.6	−10.4	−8.7	−10.6	−11.6	−9.8	−2.0	−11.9
13 Small-denomination time[8]	13.1	13.4	6.9	−1.8	4.4	7.8	−7.1r	−8.4	2.5
14 Large-denomination time[9,10]	21.8	19.3	12.2	2.4	1.8	3.6	−9.5	9.6	22.2
Thrift institutions									
15 Savings[7]	−.7	−6.5r	−6.6	2.4	−5.7	−6.5	7.2	8.6	2.9
16 Small-denomination time	13.4	17.0	14.8	1.9	10.8	11.2r	−2.9r	−4.1	1.5
17 Large-denomination time[9]	48.1	38.1	31.3	19.8	42.9	39.0	20.5	3.1	−10.0
Debt components[4]									
18 Federal	13.1	14.7	15.6	16.1	20.0	17.7	16.2r	14.4	n.a.
19 Nonfederal	13.2r	11.8r	11.5r	12.5	12.8r	13.3r	12.0r	11.7	n.a.
20 Total loans and securities at commercial banks[11]	11.0	9.1	9.1	n.a.	12.8	9.5	n.a.	n.a.	n.a.

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

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

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

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

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

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

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

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

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

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

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

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

7. Excludes MMDAs.

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

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

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

11. Changes calculated from figures shown in table 1.23.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1985			1985						
	Jan.	Feb.	Mar.	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit**	**182,763**	**180,077**	**182,130**	**179,550**	**179,690**	**180,318**	**182,198**	**181,497**	**182,192**	**181,141**
2 U.S. government securities[1]	159,619	157,221	159,896	156,656	157,641	157,589	160,037	159,115	159,983	159,736
3 Bought outright	158,152	155,848	159,737	155,694	154,608	157,589	159,679	159,115	159,614	159,736
4 Held under repurchase agreements	1,467	1,373	159	962	3,033	0	358	0	369	0
5 Federal agency obligations	8,526	8,565	8,386	8,692	8,628	8,372	8,426	8,372	8,415	8,372
6 Bought outright	8,389	8,378	8,372	8,382	8,372	8,372	8,372	8,372	8,372	8,372
7 Held under repurchase agreements	137	187	14	310	256	0	54	0	43	0
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans	1,567	1,278	1,646	1,095	994	1,354	1,691	2,038	1,681	897
10 Float	1,203	1,248	540	720	959	1,624	811	506	318	240
11 Other Federal Reserve assets	11,848	11,765	11,662	12,387	11,468	11,380	11,234	11,466	11,794	11,896
12 Gold stock	11,095	11,094	11,093	11,094	11,094	11,094	11,093	11,093	11,093	11,093
13 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
14 Treasury currency outstanding	16,453	16,501	16,565	16,492	16,506	16,520	16,533	16,550	16,568	16,586
ABSORBING RESERVE FUNDS										
15 Currency in circulation	180,036	178,273	179,085	178,479	178,700	178,134	178,553	179,430	179,306	178,860
16 Treasury cash holdings	526	550	549	549	556	555	538	549	552	554
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	3,875	4,344	3,804	4,797	3,819	4,038	3,364	4,061	3,818	4,280
18 Foreign	219	223	229	210	236	229	253	207	254	205
19 Service-related balances and adjustments	1,961	1,191	1,242	1,590	1,886	1,693	1,715	1,993	1,577	1,538
20 Other	479	533	628	521	508	466	520	440	1,205	473
21 Other Federal Reserve liabilities and capital	6,200	6,061	6,099	6,008	6,026	6,182	5,849	5,907	6,101	6,262
22 Reserve balances with Federal Reserve Banks[2]	21,634	21,115	22,772	19,599	20,176	21,253	23,652	21,171	21,658	21,266

Factors	End-of-month figures			Wednesday figures						
	1985			1985						
	Jan.	Feb.	Mar.	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
SUPPLYING RESERVE FUNDS										
23 **Reserve Bank credit**	**177,890**	**181,786**	**184,711**	**182,424**	**182,216**	**178,271**	**182,305**	**186,424**	**180,792**	**180,313**
24 U.S. government securities[1]	154,555	159,632	160,983	157,651	158,072	155,501	160,235	160,156	158,869	159,169
25 Bought outright	154,555	157,124	160,983	157,651	154,743	155,501	160,235	160,156	158,869	159,169
26 Held under repurchase agreements	0	2,508	0	0	3,329	0	0	0	0	0
27 Federal agency obligations	8,389	8,752	8,372	8,372	8,676	8,372	8,372	8,372	8,372	8,372
28 Bought outright	8,389	8,372	8,372	8,372	8,372	8,372	8,372	8,372	8,372	8,372
29 Held under repurchase agreements	0	380	0	0	304	0	0	0	0	0
30 Acceptances	0	0	0	0	0	0	0	0	0	0
31 Loans	2,139	2,329	2,582	1,613	1,168	1,939	1,509	5,840	1,465	385
32 Float	502	−56	298	2,189	2,885	588	791	359	219	274
33 Other Federal Reserve assets	12,305	11,129	12,476	12,599	11,415	11,871	11,398	11,697	11,867	12,113
34 Gold stock	11,095	11,093	11,093	11,094	11,094	11,093	11,093	11,093	11,093	11,093
35 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
36 Treasury currency outstanding	16,476	16,531[r]	16,602	16,504	16,518	16,532	16,548	16,565	16,583	16,602
ABSORBING RESERVE FUNDS										
37 Currency in circulation	177,569	178,416	179,210	178,779	178,934	178,130	179,091	179,566	179,189	179,015
38 Treasury cash holdings	535	557	554	556	555	557	549	552	554	554
Deposits, other than reserve balances with Federal Reserve Banks										
39 Treasury	5,349	3,308	3,063	3,974	3,916	3,099	4,002	3,698	3,623	4,204
40 Foreign	244	332	253	268	244	223	199	232	211	216
41 Service-related balances and adjustments	1,164	1,226	1,359	1,164	1,213	1,213	1,226	1,226	1,224	1,224
42 Other	560	461	347	479	473	452	433	411	721	439
43 Other Federal Reserve liabilities and capital	5,964	5,863	6,600	5,860	5,926	5,963	5,741	5,934	5,894	6,101
44 Reserve balances with Federal Reserve Banks[2]	18,694	23,866	25,638	23,559	23,185	20,877	23,322	27,082	21,671	20,873

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

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

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

1.12 RESERVES AND BORROWINGS Depository Institutions

Millions of dollars

Reserve classification	Monthly averages[8]									
	1982	1983	1984	1984				1985		
	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.[r]	Mar.
1 Reserve balances with Reserve Banks[1]	24,939	21,138	21,738	20,143	20,099	20,843	21,738	21,577	20,417	22,063
2 Total vault cash[2]	20,392	20,755	22,316	21,232	21,875	21,827	22,316	23,044	23,927	21,863
3 Vault cash used to satisfy reserve requirements[3]	17,049	17,908	18,958	17,900	18,413	18,392	18,958	19,547	19,857	18,428
4 Surplus vault cash[4]	3,343	2,847	3,358	3,333	3,462	3,434	3,358	3,497	4,070	3,437
5 Total reserves[5]	41,853	38,894	40,696	38,043	38,512	39,235	40,696	41,125	40,273	40,489
6 Required reserves	41,353	38,333	39,843	37,415	37,892	38,542	39,843	40,380	39,370	39,729
7 Excess reserve balances at Reserve Banks[6]	500	561	853	628	620	693	853	745	903	761
8 Total borrowings at Reserve Banks	697	774	3,186	7,242	6,017	4,617	3,186	1,395	1,289	1,593
9 Seasonal borrowings at Reserve Banks	33	96	113	319	299	212	113	62	71	88
10 Extended credit at Reserve Banks[7]	187	2	2,604	6,459	5,057	3,837	2,604	1,050	803	1,059
	Biweekly averages of daily figures for weeks ending									
	1984		1985							
	Dec. 5	Dec. 19	Jan. 2	Jan. 16	Jan. 30	Feb. 13	Feb. 27	Mar. 13	Mar. 27	Apr. 10
11 Reserve balances with Reserve Banks[1]	21,184	21,584	22,171	22,819	20,375	19,924	20,734	22,407	21,458	23,063
12 Total vault cash[2]	21,196	21,596	22,129	22,819	20,379	24,893	23,203	21,518	22,353	21,274
13 Vault cash used to satisfy reserve requirements[3]	18,320	18,547	19,701	22,089	23,828	20,624	19,270	18,093	18,828	18,100
14 Surplus vault cash[4]	3,385	3,120	19,703	19,002	19,995	4,269	3,933	3,425	3,525	3,174
15 Total reserves[5]	39,516	40,143	41,832	41,820	40,374	40,548	40,003	40,500	40,286	41,163
16 Required reserves	38,602	39,617	40,625	41,187	39,590	39,537	39,198	39,719	39,477	40,645
17 Excess reserve balances at Reserve Banks[6]	914	526	1,207	634	785	1,012	806	782	810	519
18 Total borrowings at Reserve Banks	4,251	3,231	2,691	1,631	976	1,369	1,174	1,865	1,289	1,775
19 Seasonal borrowings at Reserve Banks	184	115	81	58	63	60	81	69	98	121
20 Extended credit at Reserve Banks[7]	3,488	2,774	2,038	1,371	593	988	603	1,224	839	1,295

1. Excludes required clearing balances and adjustments to compensate for float.
2. Dates refer to the maintenance periods in which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end 30 days after the lagged computation periods in which the balances are held.
3. Equal to all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.
4. Total vault cash at institutions having no required reserve balances less the amount of vault cash equal to their required reserves during the maintenance period.
5. Total reserves not adjusted for discontinuities consist of reserve balances with Federal Reserve Banks, which exclude required clearing balances and adjustments to compensate for float, plus vault cash used to satisfy reserve requirements. Such vault cash consists of all vault cash held during the lagged computation period by institutions having required reserve balances at Federal Reserve Banks plus the amount of vault cash equal to required reserves during the maintenance period at institutions having no required reserve balances.
6. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements less required reserves.
7. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.
8. Before February 1984, data are prorated monthly averages of weekly averages; beginning February 1984, data are prorated monthly averages of biweekly averages.

NOTE. These data also appear in the Board's H.3 (502) release. For address, see inside front cover.

1.13 FEDERAL FUNDS AND REPURCHASE AGREEMENTS Large Member Banks[1]

Averages of daily figures, in millions of dollars

By maturity and source	1985 week ending Monday								
	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25	Apr. 1	Apr. 8	Apr. 15
One day and continuing contract									
1 Commercial banks in United States	61,529	58,363	60,758	62,875	59,617	55,739	56,025	65,950	63,319
2 Other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies	29,116	27,655	25,753	27,269	26,391	25,724	24,661	24,529	25,117
3 Nonbank securities dealers	8,404	9,055	8,973	8,992	9,082	8,195	8,652	6,940	7,835
4 All other	30,655	32,282	32,281	30,605	29,390	29,512	28,436	22,905	25,598
All other maturities									
5 Commercial banks in United States	8,472	8,468	8,633	8,916	9,354	9,495	9,299	10,036	9,697
6 Other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies	6,981	7,715	8,068	8,282	8,401	8,597	8,357	8,795	8,334
7 Nonbank securities dealers	7,507	7,772	7,600	7,540	8,366	8,010	8,641	8,371	8,072
8 All other	8,998	8,707	9,010	8,753	8,946	9,167	8,887	13,879	11,258
MEMO: Federal funds and resale agreement loans in maturities of one day or continuing contract									
9 Commercial banks in United States	28,703	26,434	26,737	24,874[r]	26,775[r]	26,885	27,747	31,380	29,772
10 Nonbank securities dealers	6,137	6,117	6,883	6,410	6,505	6,521	6,902	6,281	6,595

1. Banks with assets of $1 billion or more as of Dec. 31, 1977.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per annum

Current and previous levels

Federal Reserve Bank	Short-term adjustment credit and seasonal credit[1]			Extended credit[2]						Effective date for current rates
				First 60 days of borrowing		Next 90 days of borrowing		After 150 days		
	Rate on 4/26/85	Effective date	Previous rate	Rate on 4/26/85	Previous rate	Rate on 4/26/85	Previous rate	Rate on 4/26/85	Previous rate	
Boston	8	12/24/84	8½	8	8½	9	9½	10	10½	12/24/84
New York		12/24/84								12/24/84
Philadelphia		12/24/84								12/24/84
Cleveland		12/24/84								12/24/84
Richmond		12/24/84								12/24/84
Atlanta		12/24/84								12/24/84
Chicago		12/24/84								12/24/84
St. Louis		12/24/84								12/24/84
Minneapolis		12/24/84								12/24/84
Kansas City		12/24/84								12/24/84
Dallas		12/24/84								12/24/84
San Francisco	8	12/24/84	8½	8	8½	9	9½	10	10½	12/24/84

Range of rates in recent years[3]

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1973	7½	7½
1974— Apr. 25	7½–8	8
30	8	8
Dec. 9	7¾–8	7¾
16	7¾	7¾
1975— Jan. 6	7¼–7¾	7¾
10	7¼–7¾	7¼
24	7¼	7¼
Feb. 5	6¾–7¼	6¾
7	6¾	6¾
Mar. 10	6¼–6¾	6¼
14	6¼	6¼
May 16	6–6¼	6
23	6	6
1976— Jan. 19	5½–6	5½
23	5½	5½
Nov. 22	5¼–5½	5¼
26	5¼	5¼
1977— Aug. 30	5¼–5¾	5¼
31	5¼–5¾	5¾
Sept. 2	5¾	5¾
Oct. 26	6	6
1978— Jan. 9	6–6½	6½
20	6½	6½
May 11	6½–7	7
12	7	7

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1978— July 3	7–7¼	7¼
10	7¼	7¼
Aug. 21	7¾	7¾
Sept. 22	8	8
Oct. 16	8–8½	8½
20	8½	8½
Nov. 1	8½–9½	9½
3	9½	9½
1979— July 20	10	10
Aug. 17	10–10½	10½
20	10½	10½
Sept. 19	10½–11	11
21	11	11
Oct. 8	11–12	12
10	12	12
1980— Feb. 15	12–13	13
19	13	13
May 29	12–13	13
30	12	12
June 13	11–12	11
16	11	11
July 28	10–11	10
29	10	10
Sept. 26	11	11
Nov. 17	12	12
Dec. 5	12–13	13
8	13	13

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1981— May 5	13–14	14
8	14	14
Nov. 2	13–14	13
6	13	13
Dec. 4	12	12
1982— July 20	11½–12	11½
23	11½	11½
Aug. 2	11–11½	11
3	11	11
16	10½	10½
27	10–10½	10
30	10	10
Oct. 12	9½–10	9½
13	9½	9½
Nov. 22	9–9½	9
26	9	9
Dec. 14	8½–9	9
15	8½–9	8½
17	8½	8½
1984— Apr. 9	8½–9	9
13	9	9
Nov. 21	8½–9	8½
26	8½	8½
Dec. 24	8	8
In effect Apr. 26, 1985	8	8

1. A temporary simplified seasonal program was established on Mar. 8, 1985, and the interest rate was set at 8½ percent at that time.
2. Applicable to advances when exceptional circumstances or practices involve only a particular depository institution and to advances when an institution is under sustained liquidity pressures. As an alternative, for loans outstanding for more than 150 days, a Federal Reserve Bank may charge a flexible rate that takes into account rates on market sources of funds, but in no case will the rate charged be less than the basic rate plus one percentage point. Where credit provided to a particular depository institution is anticipated to be outstanding for an unusually prolonged period and in relatively large amounts, the time period in which each rate under this structure is applied may be shortened. See section 201.3(b)(2) of Regulation A.
3. Rates for short-term adjustment credit. For description and earlier data see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970; Annual Statistical Digest, 1970–1979, 1980, 1981*, and *1982*.

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than 4 weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980. There was no surcharge until Nov. 17, 1980, when a 2 percent surcharge was adopted; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12. As of Oct. 1, the formula for applying the surcharge was changed from a calendar quarter to a moving 13-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

Percent of deposits

Type of deposit, and deposit interval	Member bank requirements before implementation of the Monetary Control Act	
	Percent	Effective date
Net demand[2]		
$0 million–$2 million	7	12/30/76
$2 million–$10 million	9½	12/30/76
$10 million–$100 million	11¾	12/30/76
$100 million–$400 million	12¾	12/30/76
Over $400 million	16¼	12/30/76
Time and savings[2,3]		
Savings	3	3/16/67
Time[4]		
$0 million–$5 million, by maturity		
30–179 days	3	3/16/67
180 days to 4 years	2½	1/8/76
4 years or more	1	10/30/75
Over $5 million, by maturity		
30–179 days	6	12/12/74
180 days to 4 years	2½	1/8/76
4 years or more	1	10/30/75

Type of deposit, and deposit interval[5]	Depository institution requirements after implementation of the Monetary Control Act[6]	
	Percent	Effective date
Net transaction accounts[7,8]		
$0–$29.8 million	3	1/1/85
Over $29.8 million	12	1/1/85
Nonpersonal time deposits[9]		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

1. For changes in reserve requirements beginning 1963, see Board's *Annual Statistical Digest, 1971–1975*, and for prior changes, see Board's *Annual Report* for 1976, table 13. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge Act corporations.

2. Requirement schedules are graduated, and each deposit interval applies to that part of the deposits of each bank. Demand deposits subject to reserve requirements were gross demand deposits minus cash items in process of collection and demand balances due from domestic banks.

The Federal Reserve Act as amended through 1978 specified different ranges of requirements for reserve city banks and for other banks. Reserve cities were designated under a criterion adopted effective Nov. 9, 1972, by which a bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank. The presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any banks having net demand deposits of $400 million or less were considered to have the character of business of banks outside of reserve cities and were permitted to maintain reserves at ratios set for banks not in reserve cities.

Effective Aug. 24, 1978, the Regulation M reserve requirements on net balances due from domestic banks to their foreign branches and on deposits that foreign branches lend to U.S. residents were reduced to zero from 4 percent and 1 percent respectively. The Regulation D reserve requirement of borrowings from unrelated banks abroad was also reduced to zero from 4 percent.

Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

3. Negotiable order of withdrawal (NOW) accounts and time deposits such as Christmas and vacation club accounts were subject to the same requirements as savings deposits.

The average reserve requirement on savings and other time deposits before implementation of the Monetary Control Act had to be at least 3 percent, the minimum specified by law.

4. Effective Nov. 2, 1978, a supplementary reserve requirement of 2 percent was imposed on large time deposits of $100,000 or more, obligations of affiliates, and ineligible acceptances. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was eliminated beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two reserve computation periods ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13–26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased by 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14–21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

5. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) provides that $2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the next succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. Effective Dec. 9, 1982, the amount of the exemption was established at $2.1 million. Effective with the reserve maintenance period beginning Jan. 1, 1985, the amount of the exemption is $2.4 million. In determining the reserve requirements of a depository institution, the exemption shall apply in the following order: (1) nonpersonal money market deposit accounts (MMDAs) authorized under 12 CFR section 1204.122; (2) net NOW accounts (NOW accounts less allowable deductions); (3) net other transaction accounts; and (4) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

6. For nonmember banks and thrift institutions that were not members of the Federal Reserve System on or after July 1, 1979, a phase-in period ends Sept. 3, 1987. For banks that were members on or after July 1, 1979, but withdrew on or before Mar. 31, 1980, the phase-in period established by Public Law 97–320 ends on Oct. 24, 1985. For existing member banks the phase-in period of about three years was completed on Feb. 2, 1984. All new institutions will have a two-year phase-in beginning with the date that they open for business, except for those institutions that have total reservable liabilities of $50 million or more.

7. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, MMDAs and similar accounts offered by institutions not subject to the rules of the Depository Institutions Deregulation Committee (DIDC) that permit no more than six preauthorized, automatic, or other transfers per month of which no more than three can be checks—are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements.)

8. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage increase in transaction accounts held by all depository institutions determined as of June 30 each year. Effective Dec. 31, 1981, the amount was increased accordingly from $25 million to $26 million; effective Dec. 30, 1982, to $26.3 million; effective Dec. 29, 1983, to $28.9 million; and effective Jan. 1, 1985, to $29.8 million.

9. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons, and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

NOTE. *Required reserves must be held in the form of deposits with Federal* Reserve Banks or vault cash. Nonmembers may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions.

1.16 MAXIMUM INTEREST RATES PAYABLE on Time and Savings Deposits at Federally Insured Institutions[1]

Percent per annum

Type of deposit	Commercial banks		Savings and loan associations and mutual savings banks (thrift institutions)[1]	
	In effect Apr. 30, 1985		In effect Apr. 30, 1985	
	Percent	Effective date	Percent	Effective date
1 Savings	5½	1/1/84	5½	7/1/79
2 Negotiable order of withdrawal accounts	5¼	12/31/80	5¼	12/31/80
3 Negotiable order of withdrawal accounts of $1,000 or more[2]	....	1/5/83	....	1/5/83
4 Money market deposit account[2]	(3)	12/14/82	(3)	12/14/82
Time accounts				
5 7–31 days of less than $1,000[4]	5½	1/1/84	5½	9/1/82
6 7–31 days of $1,000 or more[2]	....	1/5/83	....	1/5/83
7 More than 31 days	....	10/1/83	....	10/1/83

1. Effective Oct. 1, 1983, restrictions on the maximum rates of interest payable by commercial banks and thrift institutions on various categories of deposits were removed. For information regarding previous interest rate ceilings on all categories of accounts see earlier issues of the FEDERAL RESERVE BULLETIN, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation*.

2. Effective Dec. 1, 1983, IRA/Keogh (HR10) Plan accounts are not subject to minimum deposit requirements. Effective Jan. 1, 1985, the minimum denomination requirement was lowered from $2,500 to $1,000.

3. Effective Dec. 14, 1982, depository institutions are authorized to offer a new account with a required initial balance of $2,500 and an average maintenance balance of $2,500 not subject to interest rate restrictions. Effective Jan. 1, 1985, the minimum denomination and average maintenance balance requirements was lowered to $1,000. No minimum maturity period is required for this account, but depository institutions must reserve the right to require seven days, notice before withdrawals. When the average balance is less than $1,000, the account is subject to the maximum ceiling rate of interest for NOW accounts; compliance with the average balance requirement may be determined over a period of one month. Depository institutions may not guarantee a rate of interest for this account for a period longer than one month or condition the payment of a rate on a requirement that the funds remain on deposit for longer than one month.

4. Effective Jan. 1, 1985, the minimum denomination requirement was lowered from $2,500 to $1,000. Deposits of less than $1,000 issued to governmental units continue to be subject to an interest rate ceiling of 8 percent.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS

Millions of dollars

Type of transaction	1982	1983	1984	1984					1985	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
U.S. GOVERNMENT SECURITIES										
Outright transactions (excluding matched transactions)										
Treasury bills										
1 Gross purchases	17,067	18,888	20,036	187	3,249	507	4,463	3,410	0	2,976
2 Gross sales	8,369	3,420	8,557	1,491	71	1,300	0	0	2,668	214
3 Exchange	0	0	0	0	0	0	0	0	0	0
4 Redemptions	3,000	2,400	7,700	800	0	2,200	0	0	1,600	400
Others within 1 year										
5 Gross purchases	312	484	1,126	0	600	0	146	182	0	0
6 Gross sales	0	0	0	0	0	0	0	0	0	0
7 Maturity shift	17,295	18,887	16,354	3,811	872	896	1,348	771	596	1,987
8 Exchange	−14,164	−16,553	−20,840	−2,274	0	−1,497	−3,363	−966	−625	−2,739
9 Redemptions	0	87	0	0	0	0	0	0	0	0
1 to 5 years										
10 Gross purchases	1,797	1,896	1,638	0	0	0	830	0	0	0
11 Gross sales	0	0	0	0	0	0	0	0	0	0
12 Maturity shift	−14,524	−15,533	−13,709	−3,811	−872	−896	594	−771	−596	−1,902
13 Exchange	11,804	11,641	16,039	1,443	0	1,497	1,763	966	625	1,645
5 to 10 years										
14 Gross purchases	388	890	536	0	0	0	335	0	0	0
15 Gross sales	0	0	300	0	0	0	0	0	100	0
16 Maturity shift	−2,172	−2,450	−2,371	52	0	0	−1,893	0	0	−54
17 Exchange	2,128	2,950	2,750	500	0	0	850	0	0	600
Over 10 years										
18 Gross purchases	307	383	441	0	0	0	164	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	−601	−904	−275	−52	0	0	−49	0	0	−30
21 Exchange	234	1,962	2,052	332	0	0	750	0	0	493
All maturities										
22 Gross purchases	19,870	22,540	23,476	0	3,849	507	5,938	3,591	0	2,976
23 Gross sales	8,369	3,420	7,553	187	71	1,300	0	0	2,768	214
24 Redemptions	3,000	2,487	7,700	800	0	2,200	0	0	1,600	400
Matched transactions										
25 Gross sales	543,804	578,591	808,986	79,087	52,893	89,689	51,904	63,674	66,668	57,076
26 Gross purchases	543,173	576,908	810,432	78,842	55,776	85,884	55,516	61,537	66,367	57,283
Repurchase agreements										
27 Gross purchases	130,774	105,971	139,441	4,992	26,040	0	12,063	3,888	20,225	19,584
28 Gross sales	130,286	108,291	139,019	166	30,867	0	12,063	2,261	21,852	17,077
29 Net change in U.S. government securities	8,358	12,631	8,908	2,478	1,835	−6,798	9,549	3,080	−6,295	5,077
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
30 Gross purchases	0	0	0	0	0	0	0	0	0	0
31 Gross sales	0	0	0	0	0	0	0	0	0	0
32 Redemptions	189	292	256	5	1	14	90	0	0	17
Repurchase agreements										
33 Gross purchases	18,957	8,833	1,205	381	3,743	0	698	506	1,463	2,428
34 Gross sales	18,638	9,213	817	12	4,112	0	698	119	1,851	2,048
35 Net change in federal agency obligations	130	−672	132	364	−370	−14	−90	388	388	363
BANKERS ACCEPTANCES										
36 Repurchase agreements, net	1,285	−1,062	−418	0	0	0	0	0	0	0
37 **Total net change in System Open Market Account**	**9,773**	**10,897**	**6,116**	**2,842**	**1,465**	**−6,811**	**9,459**	**3,468**	**−6,683**	**5,440**

NOTE: Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements

Millions of dollars

Account	Wednesday					End of month		
	1985					1985		
	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27	Jan.	Feb.	Mar.
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,093	11,093	11,093	11,093	11,093	11,095	11,093	11,093
2 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
3 Coin	555	560	565	561	548	497	551	566
Loans								
4 To depository institutions	1,939	1,509	5,840	1,465	385	2,139	2,329	2,582
5 Other	0	0	0	0	0	0	0	0
Acceptances—Bought outright								
6 Held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations								
7 Bought outright	8,372	8,372	8,372	8,372	8,372	8,389	8,372	8,372
8 Held under repurchase agreements	0	0	0	0	0	0	380	0
U.S. government securities								
Bought outright								
9 Bills	67,413	70,721	70,642	69,355	69,655	66,467	69,036	71,469
10 Notes	64,644	66,070	66,070	66,070	66,070	65,137	64,644	66,070
11 Bonds	23,444	23,444	23,444	23,444	23,444	22,951	23,444	23,444
12 Total bought outright[1]	155,501	160,235	160,156	158,869	159,169	154,555	157,124	160,983
13 Held under repurchase agreements	0	0	0	0	0	0	2,508	0
14 Total U.S. government securities	155,501	160,235	160,156	158,869	159,169	154,555	159,632	160,983
15 **Total loans and securities**	**165,812**	**170,116**	**174,368**	**168,706**	**167,926**	**165,083**	**170,713**	**171,937**
16 Cash items in process of collection	6,814	7,871	6,433	6,609	6,429	6,161	6,241	6,127
17 Bank premises	571	572	572	572	576	570	571	572
Other assets								
18 Denominated in foreign currencies[2]	3,790	3,627	3,637	3,638	3,643	3,631	3,498	3,971
19 All other[3]	7,510	7,199	7,488	7,657	7,894	8,104	7,060	7,933
20 **Total assets**	**200,763**	**205,656**	**208,774**	**203,454**	**202,727**	**199,759**	**204,345**	**206,817**
LIABILITIES								
21 Federal Reserve notes	162,710	163,653	164,117	163,720	163,515	162,125	162,992	163,728
Deposits								
22 To depository institutions	22,090	24,548	28,308	22,895	22,097	19,858	25,092	26,997
23 U.S. Treasury—General account	3,099	4,002	3,698	3,623	4,204	5,349	3,308	3,063
24 Foreign—Official accounts	223	199	232	211	216	244	332	253
25 Other	452	433	411	721	439	560	461	347
26 **Total deposits**	**25,864**	**29,182**	**32,649**	**27,450**	**26,956**	**26,011**	**29,193**	**30,660**
27 Deferred availability cash items	6,226	7,080	6,074	6,390	6,155	5,659	6,297	5,829
28 Other liabilities and accrued dividends[4]	2,321	2,318	2,261	2,218	2,412	2,355	2,463	2,445
29 **Total liabilities**	**197,121**	**202,233**	**205,101**	**199,778**	**199,038**	**196,150**	**200,945**	**202,662**
CAPITAL ACCOUNTS								
30 Capital paid in	1,669	1,670	1,677	1,687	1,685	1,639	1,669	1,687
31 Surplus	1,626	1,617	1,617	1,624	1,624	1,626	1,626	1,624
32 Other capital accounts	347	136	379	365	380	344	105	844
33 **Total liabilities and capital accounts**	**200,763**	**205,656**	**208,774**	**203,454**	**202,727**	**199,759**	**204,345**	**206,817**
34 MEMO: Marketable U.S. government securities held in custody for foreign and international account	116,415	115,296	114,354	115,506	115,079	116,649	116,519	114,890
	Federal Reserve note statement							
35 Federal Reserve notes outstanding	194,549	194,688	195,045	195,559	196,165	193,440	194,635	196,021
36 LESS: Held by bank	31,839	31,035	30,928	31,839	32,650	31,315	31,643	32,293
37 Federal Reserve notes, net	162,710	163,653	164,117	163,720	163,515	162,125	162,992	163,728
Collateral held against notes net:								
38 Gold certificate account	11,093	11,093	11,093	11,093	11,093	11,095	11,093	11,093
39 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. government and agency securities	146,999	147,942	148,406	148,009	147,804	146,412	147,281	148,017
42 **Total collateral**	**162,710**	**163,653**	**164,117**	**163,720**	**163,515**	**162,125**	**162,992**	**163,728**

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.
2. Assets shown in this line are revalued monthly at market exchange rates.
3. Includes special investment account at Chicago of Treasury bills maturing within 90 days.
4. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

NOTE: Some of these data also appear in the Board's H.4.1 (503) release. For address, see inside front cover.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holdings

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1985					1985		
	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27	Jan. 31	Feb. 28	Mar. 29
1 Loans—Total	1,939	1,509	5,840	1,465	385	2,139	2,329	2,582
2 Within 15 days	1,936	1,455	5,827	1,451	365	2,125	2,320	2,558
3 16 days to 90 days	3	54	13	14	20	14	9	24
4 91 days to 1 year	0	0	0	0	0	0	0	0
5 Acceptances—Total	0	0	0	0	0	0	0	0
6 Within 15 days	0	0	0	0	0	0	0	0
7 16 days to 90 days	0	0	0	0	0	0	0	0
8 91 days to 1 year	0	0	0	0	0	0	0	0
9 U.S. government securities—Total	155,501	160,235	160,156	158,869	159,169	154,555	159,632	160,983
10 Within 15 days[1]	4,207	9,504	9,365	8,512	5,393	3,249	5,276	4,565
11 16 days to 90 days	33,057	31,185	31,636	33,327	34,744	32,498	33,214	37,280
12 91 days to 1 year	46,136	46,995	46,604	44,479	46,481	47,474	49,056	46,587
13 Over 1 year to 5 years	36,859	37,309	37,309	37,309	37,309	37,101	36,844	37,309
14 Over 5 years to 10 years	14,546	14,546	14,546	14,546	14,546	14,000	14,546	14,546
15 Over 10 years	20,696	20,696	20,696	20,696	20,696	20,233	20,696	20,696
16 Federal agency obligations—Total	8,372	8,372	8,372	8,372	8,372	8,389	8,752	8,372
17 Within 15 days[1]	234	135	74	196	142	97	615	142
18 16 days to 90 days	514	598	603	481	461	755	514	461
19 91 days to 1 year	1,739	1,769	1,881	1,880	1,942	1,644	1,738	1,942
20 Over 1 year to 5 years	4,222	4,207	4,151	4,152	4,164	4,248	4,222	4,164
21 Over 5 years to 10 years	1,264	1,264	1,264	1,264	1,264	1,246	1,264	1,264
22 Over 10 years	399	399	399	399	399	399	399	399

1. Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE

Billions of dollars, averages of daily figures

Item	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec.	1984 Aug.	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.	1985 Feb.	1985 Mar.
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[1]	Seasonally adjusted											
1 **Total reserves**[2]	**32.10**	**34.28**	**36.14**	**38.71**	**38.39**	**38.14**	**37.76**	**38.11**	**38.71**	**39.71**	**40.37**	**40.56**
2 Nonborrowed reserves	31.46	33.65	35.36	35.52	30.37	30.90	31.74	33.50	35.52	38.32	39.08	38.97
3 Nonborrowed reserves plus extended credit[3]	31.61	33.83	35.37	38.13	37.41	37.36	36.80	37.33	38.13	39.37	39.88	40.03
4 Required reserves	31.78	33.78	35.58	37.86	37.70	37.52	37.14	37.42	37.86	38.97	39.46r	39.80
5 Monetary base[4]	158.10	170.14	185.49	198.74	195.78	196.25	196.18	197.43	198.74	200.07	202.10r	203.10
	Not seasonally adjusted											
6 **Total reserves**[2]	**32.82**	**35.01**	**36.86**	**40.13**	**37.70**	**37.88**	**37.95**	**38.69**	**40.13**	**40.70**	**39.88**	**40.06**
7 Nonborrowed reserves	32.18	34.37	36.09	36.94	29.68	30.64	31.94	34.07	36.94	39.31	38.59	38.47
8 Nonborrowed reserves plus extended credit[3]	32.33	34.56	36.09	39.55	36.72	37.10	36.99	37.91	39.55	40.36	39.39	39.53
9 Required reserves	32.50	34.51	36.30	39.28	37.01	37.25	37.33	37.99	39.28	39.96	38.97r	39.30
10 Monetary base[4]	160.94	173.17	188.76	202.02	196.11	196.07	196.13	198.22	202.02	200.93	199.54r	200.95
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[5]												
11 **Total reserves**[2]	**41.92**	**41.85**	**38.89**	**40.70**	**37.26**	**38.04**	**38.51**	**39.23**	**40.70**	**41.12**	**40.27**	**40.49**
12 Nonborrowed reserves	41.29	41.22	38.12	37.51	29.25	30.80	32.50	34.62	37.51	39.73	38.98	38.89
13 Nonborrowed reserves plus extended credit[3]	41.44	41.41	38.12	40.09	36.29	37.29	37.37	38.54	40.09	40.88	39.83	40.03
14 Required reserves	41.61	41.35	38.33	39.84	36.57	37.41	37.89	38.54	39.84	40.38	39.37	39.73
15 Monetary base[4]	170.47	180.52	192.36	202.59	195.68	196.23	196.69	198.77	202.59	201.35	199.94r	201.37

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

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

3. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

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

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

5. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with implementation of the Monetary Control Act or other regulatory changes to reserve requirements.

NOTE. Latest monthly and biweekly figures are available from the Board's H.3(502) statistical release. Historical data and estimates of the impact on required reserves of changes in reserve requirements are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Billions of dollars, averages of daily figures

Item[1]	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec.	1984 Dec.	1985 Jan.	1985 Feb.	1985 Mar.
	Seasonally adjusted							
1 M1	441.9	480.5	525.4	558.5	558.5	562.7	569.3	572.0
2 M2	1,796.6	1,965.3	2,196.3	2,371.3r	2,371.3r	2,398.8r	2,420.9r	2,429.2
3 M3	2,236.7	2,460.3	2,710.4	2,995.1r	2,995.1r	3,020.6r	3,041.3r	3,054.8
4 L	2,598.4	2,868.7	3,178.7	3,543.9r	3,543.9r	n.a.	n.a.	n.a.
5 Debt[2]	4,323.8	4,710.1	5,224.6	5,936.6r	5,936.6r	6,000.8	6,062.5r	n.a.
M1 components								
6 Currency[2]	124.0	134.1	148.0	158.7	158.7	159.4	160.6	161.3
7 Travelers checks[3]	4.3	4.3	4.9	5.2	5.2	5.3	5.3	5.4
8 Demand deposits[4]	236.2	239.7	243.7	248.6	248.6	249.1	251.7	251.8
9 Other checkable deposits[5]	77.4	102.4	128.9	146.0r	146.0r	148.9	151.7	153.5
Nontransactions components								
10 In M2[6]	1,354.6	1,484.8	1,670.9	1,812.9	1,812.9	1,836.1r	1,851.6r	1,857.2
11 In M3 only[7]	440.2	495.0	514.1	623.8	623.8	621.8r	620.4r	625.6
Savings deposits[9]								
12 Commercial Banks	159.7	164.9	134.6	122.6	122.6	121.6	121.4	120.3
13 Thrift institutions	186.1	197.2	178.2	166.0r	166.0r	167.0r	168.2r	168.7
Small denomination time deposits[9]								
14 Commerical Banks	349.6	382.2	353.1	387.0	387.0	384.7r	382.0r	382.8
15 Thrift institutions	477.7	474.7	440.0	498.0r	498.0r	496.8r	495.1r	495.7
Money market mutual funds								
16 General purpose and broker/dealer	150.6	185.2	138.2	167.7	167.7	172.2	175.4	177.9
17 Institution-only	36.2	48.4	43.2	62.7	62.7	65.0	62.2	59.5
Large denomination time deposits[10]								
18 Commercial Banks[11]	247.3	261.8	225.1	264.4	264.4	262.3	264.4r	269.4
19 Thrift institutions	54.3	66.1	100.4	152.4	152.4	155.0	155.4r	154.1
Debt components								
20 Federal debt	830.1	991.4	1,173.1	1,367.1	1,367.1	1,385.5r	1,402.2	n.a.
21 Non-federal debt	3,493.7	3,718.7	4,051.6	4,569.6r	4,569.9r	4,615.3r	4,660.3	n.a.
	Not seasonally adjusted							
22 M1	452.3	491.9	537.9	570.4	570.4	568.2	558.5	564.7
23 M2	1,798.7	1,967.4	2,198.1	2,376.3	2,376.3	2,404.0r	2,414.4r	2,429.5
24 M3	2,242.7	2,466.6	2,716.5	3,002.3	3,002.3	3,024.3r	3,034.6r	3,056.5
25 L	2,605.6	2,876.5	3,189.4	3,545.2r	3,545.2r	n.a.	n.a.	n.a.
26 Debt[2]	4,323.8	4,710.1	5,218.5	5,930.2r	5,930.2r	5,992.3	6,038.6r	n.a. r
M1 components								
27 Currency[2]	126.1	136.4	150.5	160.9	160.9	158.3	158.6	159.8
28 Travelers checks[3]	4.1	4.1	4.6	4.9	4.9	4.9	5.0	5.1
29 Demand deposits[4]	243.6	247.3	251.6	257.4	257.4	254.9	244.9	246.3
30 Other checkable deposits[5]	78.5	104.1	131.3	147.2	147.2	150.1	150.0	153.5r
Nontransactions components								
31 M2[6]	1,346.3	1,475.5	1,660.2	1,805.9	1,805.9	1,835.8r	1,855.9r	1,864.7
32 M3 only[7]	444.1	499.2	518.4	626.0	626.0	620.3r	620.2r	627.0
Money market deposit accounts								
33 Commercial banks	n.a.	26.3	230.0	267.1	267.1	280.4	289.3	294.0
34 Thrift institutions	n.a.	16.6	145.9	147.9r	147.9r	153.2r	158.9r	163.8
Savings deposits[8]								
35 Commercial Banks	157.5	162.1	132.0	121.4	121.4	121.1	120.4	120.6
36 Thrift institutions	184.7	195.5	176.5	164.9r	164.9r	165.8r	166.7r	168.5
Small denomination time deposits[9]								
37 Commercial Banks	347.7	380.1	351.0	387.6	387.6	386.3r	384.1r	383.7
38 Thrift institutions	475.6	472.4	437.6	498.8	498.8	501.6	499.0r	496.1
Money market mutual funds								
39 General purpose and broker/dealer	150.6	185.2	138.2	167.7	167.7	172.2	175.4	177.9
40 Institution-only	36.2	48.4	43.2	62.7	62.7	65.0	62.2	59.5
Large denomination time deposits[10]								
41 Commercial Banks[11]	252.1	266.2	228.5	265.9	265.9	263.0r	263.9r	269.7
42 Thrift institutions	54.3	66.2	100.7	151.6	151.6	154.5	155.3	153.2
Debt components								
43 Federal debt	830.1	991.4	1,170.2	1,364.7	1,364.7	1,383.1	1,383.1r	n.a.
44 Non-federal debt	3,943.7	3,718.7	4,048.3	4,565.5r	4,565.5r	4,609.2	4,641.1r	n.a.

For notes see following page.

NOTES TO TABLE 1.21

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

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

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

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

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

Debt: Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U.S. government, state and local governments, and private nonfinancial sectors. Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments. The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts. Debt data are on an end-of-month basis.

2. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of commercial banks. Excludes the estimated amount of vault cash held by thrift institutions to service their OCD liabilities.

3. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

4. Demand deposits at commercial banks and foreign-related institutions other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float. Excludes the estimated amount of demand deposits held at commercial banks by thrift institutions to service their OCD liabilities.

5. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions. Other checkable deposits seasonally adjusted equals the difference between the seasonally adjusted sum of demand deposits plus OCD and seasonally adjusted demand deposits. Included are all ceiling free "Super NOWs," authorized by the Depository Institutions Deregulation committee to be offered beginning Jan. 5, 1983.

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

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

8. Savings deposits exclude MMDAs.

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

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

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

NOTE: Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.22 BANK DEBITS AND DEPOSIT TURNOVER

Debits are shown in billions of dollars, turnover as ratio of debits to deposits. Monthly data are at annual rates.

Bank group, or type of customer	1982[1]	1983[1]	1984[1]	1984				1985	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Seasonally adjusted								
DEBITS TO									
Demand deposits[2]									
1 All insured banks	80,858.7	90,914.4	109,642.3	124,117.4	142,907.3	134,016.3	137,512.0	140,678.6	143,281.5
2 Major New York City banks	34,108.1	37,932.9	47,769.4	55,591.4	67,488.7	60,992.8	62,341.0	64,474.7	63,157.0
3 Other banks	46,966.5	52,981.5	61,873.1	68,526.0	75,418.5	73,023.5	75,171.0	76,203.9	80,124.5
4 ATS–NOW accounts[3]	761.0	1,036.2	1,405.5	1,640.6	1,698.6	1,678.5	1,677.5	1,552.0	1,618.6
5 Savings deposits[4]	679.6	720.3	741.4	566.8	597.2	579.1	486.0	501.3	499.8
DEPOSIT TURNOVER									
Demand deposits[2]									
6 All insured banks	285.8	324.2	379.7	424.5	486.8	448.2	453.4	468.6	471.4
7 Major New York City banks	1,116.7	1,287.6	1,528.0	1,822.5	2,199.6	1,917.5	1,903.0	2,008.6	1,902.2
8 Other banks	185.9	211.1	240.9	261.7	286.9	273.3	277.8	284.2	295.9
9 ATS–NOW accounts[3]	14.4	14.5	15.6	16.2	16.9	16.5	16.3	14.6	15.0
10 Savings deposits[4]	4.1	4.5	5.4	4.6	4.9	4.7	4.0	4.2	4.2
	Not seasonally adjusted								
DEBITS TO									
Demand deposits[2]									
11 All insured banks	81,197.9	91,031.8	109,517.6	120,120.8	141,249.5	131,791.6	140,166.0	148,880.1	129,297.2
12 Major New York City banks	34,032.0	38,001.0	47,707.4	54,329.0	64,790.2	61,148.7	64,498.9	68,203.1	57,337.4
13 Other banks	47,165.9	53,030.9	64,310.2	65,791.8	76,459.2	70,643.0	75,667.1	80,677.0	71,959.8
14 ATS–NOW accounts[3]	737.6	1,027.1	1,397.0	1,523.7	1,665.7	1,524.8	1,625.4	1,838.9	1,524.4
15 MMDA[5]	....	....	567.4	821.6	901.1	819.7	899.7	1,103.9	980.9
16 Savings deposits[4]	672.9	720.0	742.0	543.1	616.2	538.7	470.6	544.7	455.5
DEPOSIT TURNOVER									
Demand deposits[2]									
17 All insured banks	286.4	325.0	379.9	408.9	479.9	438.8	447.1	486.0	437.2
18 Major New York City banks	1,114.2	1,295.7	1,510.0	1,786.4	2,120.7	1,944.6	1,910.8	2,025.9	1,780.6
19 Other banks	186.2	211.5	240.5	249.8	289.9	262.7	270.5	295.9	273.0
20 ATS–NOW accounts[3]	14.0	14.4	15.5	15.2	16.6	14.9	15.4	17.1	14.3
21 MMDA[5]	....	....	2.8	3.4	3.7	3.2	3.4	4.0	3.4
22 Savings deposits[4]	4.1	4.5	5.4	4.5	5.1	4.4	3.9	4.6	3.9

1. Annual averages of monthly figures.
2. Represents accounts of individuals, partnerships, and corporations and of states and political subdivisions.
3. Accounts authorized for negotiable orders of withdrawal (NOW) and accounts authorized for automatic transfer to demand deposits (ATS). ATS data availability starts with December 1978.
4. Excludes ATS and NOW accounts, MMDA and special club accounts, such as Christmas and vacation clubs.
5. Money market deposit accounts.

NOTE. Historical data for demand deposits are available back to 1970 estimated in part from the debits series for 233 SMSAs that were available through June 1977. Historical data for ATS–NOW and savings deposits are available back to July 1977. Back data are available on request from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These data also appear on the Board's G.6 (406) release. For address, see inside front cover.

1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars; averages of Wednesday figures

Category	1984									1985		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
	Seasonally adjusted											
1 **Total loans and securities[2]**	**1,612.9**	**1,629.8**	**1,636.6**	**1,652.6**	**1,662.1**	**1,674.9**	**1,682.8**	**1,701.1**	**1,714.8**	**1,724.0**	**1,742.1r**	**1,759.0**
2 U.S. government securities	257.6	257.3	253.7	256.4	257.1	258.0	257.0	259.4	260.2	260.1	265.7	267.1
3 Other securities	142.1	140.5	139.7	139.5	140.8	141.9	141.5	141.1	139.9	142.5	141.1r	139.0
4 Total loans and leases[2]	1,213.2	1,232.0	1,243.2	1,256.7	1,264.2	1,275.0	1,284.3	1,300.6	1,314.7	1,321.4	1,335.3r	1,353.0
5 Commercial and industrial	438.5	448.0	452.2	455.0	458.1	460.0	463.0	467.1	468.1	468.5	473.8	480.4
6 Bankers acceptances held[3]	5.2	5.8	5.8	6.5	6.1	5.7	5.9	6.2	5.4	5.1	6.3	6.5
7 Other commercial and industrial	433.2	442.2	446.3	448.5	451.9	454.3	457.1	460.8	462.7	463.4	467.6r	473.9
8 U.S. addressees[4]	420.8	430.2	434.7	436.8	440.3	443.2	446.5	450.5	453.1	453.7	457.4	463.6
9 Non-U.S. addressees[4]	12.4	12.0	11.7	11.6	11.6	11.1	10.6	10.3	9.6	9.7	10.2	10.3
10 Real estate	347.2	350.7	354.7	358.3	361.2	364.8	367.7	371.8	375.6	377.9	381.9	385.7
11 Individual	224.9	229.0	233.0	236.3	238.5	241.3	243.5	246.7	251.0	254.6	257.7	262.0
12 Security	29.6	30.1	28.6	28.0	26.1	28.8	30.3	30.2	31.5	31.9	31.6	32.8
13 Nonbank financial institutions	30.5	31.4	31.4	31.4	30.9r	31.3r	31.2r	31.2	31.4	31.3r	30.9	30.7
14 Agricultural	40.1	40.3	40.4	40.6	40.5	40.7	40.6	40.5	40.3	40.2	40.2	40.3
15 State and political subdivisions	36.8r	37.6r	38.9r	40.3r	41.1r	41.6r	41.2r	42.1r	44.0r	46.8r	46.6r	46.8
16 Foreign banks	12.7	12.3	12.3	12.2	12.0	11.5	11.4	11.7	11.4	11.3	11.4	11.1
17 Foreign official institutions	8.9	8.9	8.8r	9.3	9.4	8.9r	8.5r	8.4	8.3	7.8r	7.9	7.7
18 Lease financing receivables	14.0	14.1	14.3	14.5	14.8	15.0	15.1	15.3	15.5	15.6	15.8	16.1
19 All other loans	29.9r	29.6r	28.8r	30.9r	31.7r	31.2r	31.9r	35.7r	37.5r	35.2r	37.4r	39.4
	Not seasonally adjusted											
20 **Total loans and securities[2]**	**1,613.7**	**1,626.6**	**1,637.6**	**1,646.7**	**1,656.1**	**1,673.3**	**1,684.0**	**1,701.9**	**1,725.8**	**1,732.0**	**1,740.2r**	**1,755.2**
21 U.S. government securities	263.0	259.4	257.2	256.2	255.5	255.8	254.1	255.3	256.9	260.0	266.6	269.2
22 Other securities	141.8	141.1	139.4	138.2	140.4	141.3	140.9	141.2	141.5	143.4	141.3r	139.2
23 Total loans and leases[2]	1,209.0	1,226.1	1,241.0	1,252.4	1,260.2	1,276.3	1,289.0	1,305.5	1,327.4	1,328.6	1,332.2r	1,346.8
24 Commercial and industrial	438.7	446.8	450.9	454.3	456.1	459.9	463.8	467.3	471.2	470.4	473.3	480.0
25 Bankers acceptances held[3]	5.3	5.7	6.0	6.4	5.9	5.6	5.8	6.1	5.8	5.2	6.1	6.4
26 Other commercial and industrial	433.4	441.0	444.8	447.9	450.1	454.3	458.0	461.2	465.3	465.2	467.2	473.6
27 U.S. addressees[4]	421.7	429.5	433.5	436.2	438.5	443.0	447.0	450.2	454.8	455.4	457.6r	463.8
28 Non-U.S. addressees[4]	11.7	11.6	11.3	11.7	11.6	11.3	11.1	11.0	10.6	9.8	9.7	9.8
29 Real estate	346.0	349.8	354.1	357.7	361.4	365.9	368.9	372.8	376.2	378.5	381.5	384.6
30 Individual	222.9	227.2	231.3	234.7	238.3	242.4	245.3	248.4	254.0	257.1	257.4	259.8
31 Security	29.6	28.9	28.5	26.6	25.4	27.7	30.2	31.7	35.2	33.0	30.8	32.2
32 Nonbank financial institutions	30.7	31.2	31.4	31.4	31.0r	31.4r	31.1	31.1	31.5	31.4	30.7	30.7
33 Agricultural	39.4	40.2	40.9	41.3	41.4	41.5	41.2	40.6	40.0	39.6	39.4	39.3
34 State and political subdivisions	36.8r	37.6r	38.9r	40.3r	41.1r	41.6r	41.2r	42.1r	44.0r	46.8r	46.6r	46.8
35 Foreign banks	12.3	12.0	11.8	12.0	11.7	11.7	11.8	12.0	12.0	11.6	11.4	10.9
36 Foreign official institutions	8.9	8.9	8.8r	9.3	9.4	8.9r	8.5r	8.4	8.3	7.8r	7.9	7.7
37 Lease financing receivables	14.0	14.1	14.3	14.4	14.7	14.9	15.0	15.1	15.5	15.8	16.0	16.2
38 All other loans	29.5r	29.6r	30.1r	30.3r	29.8r	30.5r	32.1r	35.8r	39.5r	36.4r	37.2r	38.6

1. Data are prorated averages of Wednesday estimates for domestically chartered insured banks, based on weekly sample reports and quarterly universe reports. For foreign-related institutions, data are averages of month-end estimates based on weekly reports from large U.S. agencies and branches and quarterly reports from all U.S. agencies and branches, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

2. Excludes loans to commercial banks in the United States.
3. Includes nonfinancial commercial paper held.
4. United States includes the 50 states and the District of Columbia.

NOTE. These data also appear in the Board's G.7 (407) release. For address, see inside front cover.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Monthly averages, billions of dollars

Source	1984									1985		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Total nondeposit funds												
1 Seasonally adjusted[2]	102.1	109.1	99.4	100.3	103.5	106.5	107.9	112.0	108.6	102.2	113.7[r]	116.6
2 Not seasonally adjusted	105.0	113.8	101.8	99.9	105.7	107.0	109.6	117.5	111.1	104.6	117.1	119.0
Federal funds, RPs, and other borrowings from nonbanks[3]												
3 Seasonally adjusted	135.7	137.4	133.2	134.5	139.3	141.6	141.4	145.0	140.5	138.7	146.7	147.2
4 Not seasonally adjusted	138.7	142.1	135.7	134.0	141.5	142.1	143.1	150.5	143.1	141.1	150.2	149.6
5 Net balances due to foreign-related institutions, not seasonally adjusted	−33.5	−28.2	−33.9	−34.2	−35.8	−35.1	−33.5	−33.1	−32.0	−36.5	−33.1	−30.6
MEMO												
6 Domestically chartered banks' net positions with own foreign branches, not seasonally adjusted[4]	−33.1	−29.8	−32.9	−33.1	−35.0	−35.2	−34.2	−32.7	−31.4	−34.9	−31.8	−29.8
7 Gross due from balances	73.6	73.5	73.8	71.2	72.8	71.5	69.8	68.3	69.0	71.4	70.6	71.5
8 Gross due to balances	40.4	43.6	40.9	38.1	37.7	36.3	35.6	35.6	37.6	36.5	38.8	41.7
9 Foreign-related institutions' net positions with directly related institutions, not seasonally adjusted[5]	−0.3	1.6	−0.9	−1.0	−0.7	0.1	0.7	−0.4	−0.6	−1.6	−1.3	−0.8
10 Gross due from balances	49.6	49.7	50.7	51.9	51.6	51.7	50.8	50.7	52.0	52.9	54.0	53.3
11 Gross due to balances	49.2	51.2	49.7	50.8	50.8	51.8	51.5	50.4	51.4	51.3	52.7	52.5
Security RP borrowings												
12 Seasonally adjusted[6]	80.9	79.6	76.1	77.5	79.9	81.4	82.0	84.0	81.1	82.3	90.1	92.0
13 Not seasonally adjusted	81.3	81.9	76.0	74.6	79.6	79.4	81.2	87.0	81.1	82.2	91.1	92.0
U.S. Treasury demand balances[7]												
14 Seasonally adjusted	15.6	13.4	14.1	12.8	13.1	16.0	8.0	17.3	16.1	14.7	13.0	11.8
15 Not seasonally adjusted	16.5	12.8	12.4	11.9	10.3	17.5	11.0	10.4	12.5	18.5	15.8	12.8
Time deposits, $100,000 or more[8]												
16 Seasonally adjusted	292.2	302.2	309.9	314.8	314.2	315.4	321.4	323.0	325.8	324.8	325.3[r]	329.8
17 Not seasonally adjusted	290.1	300.2	309.0	313.7	315.6	316.8	322.2	322.9	327.3	325.6	324.9	330.1

1. Commercial banks are those in the 50 states and the District of Columbia with national or state charters plus agencies and branches of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.
2. Includes seasonally adjusted federal funds, RPs, and other borrowings from nonbanks and not seasonally adjusted net Eurodollars. Includes averages of Wednesday data for domestically chartered banks and averages of current and previous month-end data for foreign-related institutions.
3. Other borrowings are borrowings on any instrument, such as a promissory note or due bill, given for the purpose of borrowing money for the banking business. This includes borrowings from Federal Reserve Banks and from foreign banks, term federal funds, overdrawn due from bank balances, loan RPs, and participations in pooled loans.
4. Averages of daily figures for member and nonmember banks.
5. Averages of daily data.
6. Based on daily average data reported by 122 large banks.
7. Includes U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.
8. Averages of Wednesday figures.

NOTE. These data also appear in the Board's G.10 (411) release. For address see inside front cover.

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series

Billions of dollars

Account	1983 Dec.	1984 June	1984 July	1984 Aug.	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.[r]	1985 Feb.[r]	1985 Mar.
ALL COMMERCIAL BANKING INSTITUTIONS[1]											
1 Loans and securities	1,680.6[2]	1,764.1	1,765.3	1,784.5	1,798.9	1,822.7	1,822.7	1,864.0	1,854.6	1,874.4	1,879.1
2 Investment securities	7.4	381.2	378.2	376.2	377.3	375.2	374.4	377.5	380.9	382.0	383.6
3 U.S. government securities	6.1	248.2	246.5	243.5	243.5	241.2	240.4	242.5	245.0	248.0	250.8
4 Other	1.3	133.0	131.7	132.7	133.8	134.0	133.9	134.9	136.0	134.0	132.8
5 Trading account assets	.0	14.6	15.7	20.0	20.9	22.5	21.9	22.9	24.2	27.6	23.7
6 Total loans	1,249.3[2]	1,368.3	1,371.4	1,388.4	1,400.6	1,424.9	1,426.4	1,463.7	1,449.5	1,464.8	1,471.7
7 Interbank loans	111.4[2]	122.8	118.6	127.1	123.3	126.1	122.6	126.9	125.2	128.6	124.3
8 Loans excluding interbank	1,137.9[2]	1,245.5	1,252.8	1,261.2	1,277.3	1,298.8	1,303.8	1,336.8	1,324.3	1,336.2	1,347.4
9 Commercial and industrial	419.4	452.9	454.4	455.2	459.9	467.7	468.7	476.8	470.0	476.8	482.7
10 Real estate	332.4[r]	354.6	356.8	361.8	366.7	369.8	374.4	377.7	380.7	382.6	385.9
11 Individual	217.6[r]	232.8	235.2	240.0	243.4	247.1	249.6	255.5	257.4	258.1	260.6
12 All other	168.5[2]	205.2	206.5	204.2	207.3	214.2	211.1	226.8	216.1	218.7	218.3
13 Total cash assets	219.6	185.6	179.1	177.3	176.0	188.0	188.4	201.9	187.8	189.2	183.6
14 Reserves with Federal Reserve Banks	23.5	19.1	19.4	17.4	.8	18.1	20.4	20.5	20.9	19.6	20.0
15 Cash in vault	23.4	21.8	21.6	22.2	21.6	21.4	23.9	23.3	21.9	21.8	21.3
16 Cash items in process of collection	73.2	63.7	60.2	60.7	63.2	70.2	66.5	75.9	66.9	68.8	63.9
17 Demand balances at U.S. depository institutions	} 99.5	30.8	29.3	29.5	31.2	32.0	30.9	34.5	30.8	32.2	31.5
18 Other cash assets		50.1	48.6	47.5	59.3	46.3	46.7	47.7	47.3	46.7	46.9
19 Other assets	193.6	191.8	191.3[r]	190.6[r]	201.2[r]	201.6[r]	190.1[r]	196.8[r]	191.9	195.2	192.7
20 Total assets/total liabilities and capital	**2,093.8**	**2,141.4[r]**	**2,135.6[r]**	**2,152.4[r]**	**2,176.1[r]**	**2,212.2[r]**	**2,201.2[r]**	**2,262.6[r]**	**2,234.2**	**2,258.8**	**2,255.3**
21 Deposits	1,508.9	1,532.9	1,535.5	1,539.0	1,549.9	1,578.9	1,578.2	1,631.2	1,604.5	1,617.9	1,625.2
22 Transaction deposits	374.6[2]	445.9	441.4	440.0	442.3	462.7	453.1	491.1	456.9	459.3	457.6
23 Savings deposits	457.2[2]	369.5	368.5	365.1	364.9	371.1	378.1	386.3	400.0	406.8	409.8
24 Time deposits	677.1	717.4	725.6	734.0	742.7	745.0	747.0	753.8	747.5	751.8	757.8
25 Borrowings	273.2[2]	292.8	292.0	301.5	307.1	314.3	298.8	304.1	306.7	309.0	300.2
26 Other liabilities	164.4[2]	173.8[r]	167.9[r]	169.7[r]	172.9[r]	175.1[r]	179.4[r]	181.1[r]	174.2	182.6	180.5
27 Residual (assets less liabilities)	147.3[2]	141.9	140.2	142.1	146.2	144.0	144.8	146.2	148.9	149.3	149.4
MEMO											
28 U.S. government securities (including trading account)	254.1[2]	256.5	255.6	255.1	255.5	256.3	255.2	256.9	262.0	269.5	268.4
29 Other securities (including trading account)	177.2[2]	139.3	138.3	141.0	142.7	141.5	141.1	143.4	143.1	140.1	139.0
DOMESTICALLY CHARTERED COMMERCIAL BANKS[3]											
30 Loans and securities	1,591.3[2]	1,671.0	1,676.7	1,688.4	1,708.0	1,728.5	1,726.7	1,765.4	1,759.6	1,774.6	1,781.9
31 Investment securities	n.a.	374.5	371.2	369.1	370.0	367.9	367.5	370.5	373.7	374.7	376.7
32 U.S. government securities	n.a.	243.1	241.4	238.5	238.5	236.1	235.8	237.9	240.2	243.2	246.6
33 Other	n.a.	131.4	129.8	130.7	131.5	131.8	131.6	132.6	133.5	131.5	130.1
34 Trading account assets	n.a.	14.6	15.7	20.0	20.9	22.5	21.9	22.9	24.2	27.6	23.7
35 Total loans	1,167.4[2]	1,281.8	1,289.8	1,299.4	1,317.0	1,338.0	1,337.3	1,372.1	1,361.7	1,372.3	1,381.4
36 Interbank loans	87.0[2]	94.7	95.2	97.6	100.0	103.3	96.1	102.8	100.6	100.9	99.9
37 Loans excluding interbank	1,080.4[2]	1,187.1	1,194.6	1,201.8	1,217.1	1,234.7	1,241.2	1,269.3	1,261.2	1,271.4	1,281.5
38 Commercial and industrial	381.3[2]	412.9	414.0	414.5	418.8	423.0	424.7	430.2	425.7	431.5	435.5
39 Real estate	327.2	350.5	353.1	358.0	362.4	365.5	369.1	372.1	375.1	377.3	380.8
40 Individual	217.4	232.6	235.1	239.8	243.2	246.9	249.4	255.3	257.2	257.9	260.4
41 All other	154.6[2]	191.1	192.4	189.6	192.6	199.3	198.0	211.7	203.1	204.8	204.9
42 Total cash assets	207.0	173.2	166.7	165.9	164.0	176.6	176.8	190.3	175.7	177.8	172.4
43 Reserves with Federal Reserve Banks	19.9	18.4	18.0	16.7	.1	17.1	19.7	19.2	20.2	18.7	19.2
44 Cash in vault	23.4	21.8	21.6	22.2	21.6	21.4	23.9	23.3	21.9	21.8	21.3
45 Cash items in process of collection	73.0	63.5	60.1	60.5	63.0	69.9	66.3	75.7	66.7	68.5	63.7
46 Demand balances at U.S. depository institutions	} 90.8	29.4	27.9	28.2	29.7	30.7	29.4	32.9	29.5	30.9	30.2
47 Other cash assets		40.1	39.2	38.3	49.6	37.5	37.5	39.3	37.5	37.9	38.0
48 Other assets	150.4	141.5	138.9	140.6	145.6	147.9	139.7	142.1	137.6	139.0	137.3
49 Total assets/total liabilities and capital	**1,948.7**	**1,985.7**	**1,982.3**	**1,995.0**	**2,017.6**	**2,053.1**	**2,043.2**	**2,097.8**	**2,072.9**	**2,091.4**	**2,091.7**
50 Deposits	1,468.1	1,492.5	1,495.4	1,500.3	1,510.9	1,539.1	1,538.0	1,587.8	1,561.8	1,573.7	1,580.6
51 Transaction deposits	368.5[2]	439.6	434.8	433.7	435.9	456.2	446.8	484.5	450.6	452.9	451.4
52 Savings deposits	456.6[2]	368.6	367.5	364.2	363.9	370.1	377.1	385.2	398.9	405.6	408.6
53 Time deposits	643.0	684.3	693.1	702.4	711.1	712.8	714.1	718.1	712.3	715.2	720.6
54 Borrowings	214.1[2]	229.6	228.0	236.0	243.5	251.3	240.9	243.1	246.5	247.0	239.9
55 Other liabilities	122.3[2]	124.4	121.5	119.3	119.7	120.5	122.3	123.5	118.4	124.2	124.6
56 Residual (assets less liabilities)	144.1[2]	139.1	137.4	139.3	143.4	142.1	142.0	143.4	146.1	146.5	146.6

1. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.
2. Data are not comparable with those of later dates. See the Announcements section of the March 1985 BULLETIN for a description of the differences.
3. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

NOTE. Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Loan and securities data for domestically chartered commercial banks are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition report data. Data for other banking institutions are estimates made for the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition reports.

1.26 ALL LARGE WEEKLY REPORTING COMMERCIAL BANKS with Domestic Assets of $1.4 Billion or More on December 31, 1982, Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1985								
	Feb. 13r	Feb. 20r	Feb. 27r	Mar. 6r	Mar. 13r	Mar. 20	Mar. 27	Apr. 3	Apr. 10
1 Cash and balances due from depository institutions	93,186	105,799	90,937	91,565	94,050	90,761	87,073	92,397	92,452
2 **Total loans, leases and securities, net**	**823,236**	**827,490**	**828,532**	**830,350**	**829,742**	**827,400**	**829,298**	**836,345**	**832,839**
3 U.S. Treasury and government agency	85,711	90,052	91,520	91,954	90,327	86,954	86,950	87,428	86,111
4 Trading account	17,610	20,289	21,500	22,234	20,417	17,652	17,512	17,316	16,040
5 Investment account, by maturity	68,102	69,762	70,020	69,720	69,910	69,302	69,438	70,112	70,071
6 One year or less	20,187	19,958	20,318	21,652	21,687	21,043	21,211	21,576	21,579
7 Over one through five years	34,476	37,044	36,711	34,968	35,002	35,224	35,213	35,254	34,884
8 Over five years	13,438	12,760	12,991	13,100	13,220	13,035	13,013	13,282	13,608
9 Other securities	47,934	47,799	47,251	47,185	46,710	46,742	47,143	45,845	45,814
10 Trading account	3,551	3,571	3,169	3,247	3,248	3,610	3,802	2,614	2,534
11 Investment account	44,382	44,228	44,082	43,938	43,463	43,132	43,341	43,231	43,280
12 States and political subdivisions, by maturity	39,828	39,678	39,529	39,363	38,886	38,577	38,737	38,471	38,518
13 One year or less	5,340	5,329	5,252	5,245	4,922	4,559	4,542	4,543	4,527
14 Over one year	34,488	34,349	34,278	34,118	33,964	34,018	34,195	33,928	33,991
15 Other bonds, corporate stocks, and securities	4,554	4,550	4,552	4,575	4,577	4,556	4,604	4,761	4,762
16 Other trading account assets	3,435	3,238	2,956	2,965	3,047	2,490	2,427	3,018	2,980
17 Federal funds sold[1]	51,377	49,599	49,087	47,357	51,504	48,994	51,804	54,904	56,572
18 To commercial banks	36,863	34,612	33,724	31,169	35,205	33,478	36,335	38,245	40,639
19 To nonbank brokers and dealers in securities	10,403	10,619	11,048	11,698	11,514	10,368	10,281	11,080	11,091
20 To others	4,111	4,368	4,315	4,490	4,785	5,148	5,187	5,579	4,842
21 Other loans and leases, gross[2]	651,311	653,379	654,350	657,627	654,985	659,004	657,592	661,828	658,097
22 Other loans, gross[2]	638,450	640,394	641,193	644,422	641,780	645,800	644,396	648,580	644,830
23 Commercial and industrial[2]	251,284	252,335	253,256	255,601	254,935	256,079	255,670	256,355	254,368
24 Bankers acceptances and commercial paper	3,945	3,844	3,928	4,403	4,138	3,758	3,795	3,735	3,514
25 All other	247,338	248,492	249,329	251,198	250,797	252,322	251,875	252,620	250,854
26 U.S. addressees	241,727	242,797	243,615	245,440	245,080	246,554	246,263	247,078	245,220
27 Non-U.S. addressees	5,612	5,694	5,714	5,758	5,717	5,768	5,612	5,542	5,634
28 Real estate loans[2]	162,827	163,013	163,506	163,898	164,360	164,306	164,536	164,469	164,872
29 To individuals for personal expenditures	114,714	114,875	115,312	115,526	115,693	115,956	116,282	116,552	116,800
30 To depository and financial institutions	42,066	41,125	40,843	40,257	39,254	39,492	38,550	39,635	39,178
31 Commercial banks in the United States	11,386	10,956	11,228	10,780	9,774	9,883	9,855	10,068	9,738
32 Banks in foreign countries	6,410	6,092	5,838	5,797	5,846	5,888	5,381	5,518	5,478
33 Nonbank depository and other financial institutions	24,270	24,077	23,777	23,680	23,634	23,722	23,314	24,049	23,962
34 For purchasing and carrying securities	13,187	14,019	13,613	14,890	13,857	15,684	14,952	16,496	15,352
35 To finance agricultural production	6,921	6,914	6,910	7,010	6,991	7,055	7,076	7,018	7,036
36 To states and political subdivisions	29,380	29,593	29,536	29,493	29,563	29,725	29,766	29,631	29,779
37 To foreign governments and official institutions	3,851	3,720	3,967	3,649	3,640	3,646	3,839	3,876	3,890
38 All other	14,220	14,799	14,249	14,098	13,487	13,856	13,725	14,549	13,554
39 Lease financing receivables	12,860	12,985	13,157	13,205	13,205	13,204	13,196	13,249	13,267
40 LESS: Unearned income	5,260	5,263	5,294	5,243	5,274	5,264	5,293	5,223	5,238
41 Loan and lease reserve[2]	11,272	11,314	11,337	11,494	11,556	11,520	11,325	11,457	11,497
42 Other loans and leases, net[2]	634,779	636,802	637,718	640,889	638,154	642,220	640,974	645,149	641,362
43 All other assets	132,311	129,766	131,355	130,982	128,705	129,456	129,192	134,017	131,735
44 **Total assets**	**1,048,734**	**1,063,055**	**1,050,824**	**1,052,898**	**1,052,497**	**1,047,617**	**1,045,563**	**1,062,759**	**1,057,026**
45 Demand deposits	188,257	197,177	185,247	184,905	181,664	185,023	182,381	194,793	187,926
46 Individuals, partnerships, and corporations	145,246	148,877	140,364	140,530	141,993	140,153	139,204	145,332	144,227
47 States and political subdivisions	4,684	5,515	4,883	5,154	4,408	5,169	4,719	4,693	5,074
48 U.S. government	1,617	1,897	2,713	2,286	1,156	4,040	2,581	4,512	2,471
49 Depository institutions in United States	20,951	25,266	22,190	22,104	20,259	21,427	21,511	23,456	20,687
50 Banks in foreign countries	6,131	6,366	5,740	5,392	4,989	5,429	5,302	6,050	5,486
51 Foreign governments and official institutions	922	821	744	736	690	776	810	850	981
52 Certified and officers' checks	8,705	8,435	8,612	8,703	8,169	8,029	8,254	9,900	9,000
53 Transaction balances other than demand deposits	35,851	35,960	35,478	37,317	36,597	36,409	36,111	38,852	39,100
54 Nontransaction balances	460,175	460,259	462,500	462,928	462,460	463,404	464,684	465,610	465,372
55 Individuals, partnerships and corporations	424,908	424,992	426,428	427,604	426,942	427,898	428,768	430,602	429,998
56 States and political subdivisions	22,841	22,935	23,360	22,967	23,170	23,452	23,682	22,953	23,280
57 U.S. government	449	447	423	455	355	349	347	342	350
58 Depository institutions in the United States	9,006	8,968	9,334	9,117	9,242	8,991	9,167	9,073	9,226
59 Foreign governments, official institutions and banks	2,970	2,917	2,955	2,784	2,750	2,714	2,720	2,640	2,517
60 Liabilities for borrowed money	197,168	200,258	197,142	197,169	199,639	193,034	191,960	193,651	193,987
61 Borrowings from Federal Reserve Banks	1,369	780	1,544	1,200	5,521	1,043	....	500	3,175
62 Treasury tax-and-loan notes	8,269	9,147	10,360	3,693	2,164	8,675	7,106	4,597	92
63 All other liabilities for borrowed money[3]	187,530	190,331	185,238	192,276	191,954	183,316	184,854	188,554	190,720
64 Other liabilities and subordinated note and debentures	93,819	96,134	97,436	96,983	98,458	96,391	97,090	96,021	96,549
65 **Total liabilities**	**975,270**	**989,788**	**977,804**	**979,303**	**978,817**	**974,260**	**972,226**	**988,927**	**982,934**
66 Residual (total assets minus total liabilities)[4]	73,464	73,268	73,020	73,595	73,679	73,357	73,337	73,832	74,092
MEMO									
67 Total loans and leases (gross) and investments adjusted[5]	791,518	798,500	800,212	805,138	801,594	800,824	799,726	804,711	799,196
68 Total loans and leases (gross) adjusted[2,5]	654,438	657,411	658,485	663,035	661,510	664,638	663,206	668,420	664,292
69 Time deposits in amounts of $100,000 or more	156,125	155,714	157,194	157,026	156,689	156,978	157,742	156,796	156,047
70 Loans sold outright to affiliates—total[6]	2,811	2,841	2,822	2,828	2,847	2,897	2,828	2,855	2,854
71 Commercial and industrial	1,872	1,910	1,880	1,886	1,918	1,974	1,927	1,962	1,959
72 Other	939	931	942	942	929	923	900	893	894
73 Nontransaction savings deposits (including MMDAs)	174,802	175,664	176,302	176,755	176,492	176,916	177,132	178,585	178,696

1. Includes securities purchased under agreements to resell.
2. Levels of major loan items were affected by the Sept. 26, 1984 transaction between Continental Illinois National Bank and the Federal Deposit Insurance Corporation. For details see the H.4.2 statistical release dated Oct. 5, 1984.
3. Includes federal funds purchased and securities sold under agreements to repurchase; for information on these liabilities at banks with assets of $1 billion or more on Dec. 31, 1977, see table 1.13.
4. This is not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
5. Exclusive of loans and federal funds transactions with domestic commercial banks.
6. Loans sold are those sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

NOTE. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.

1.28 LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1985								
	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27	Apr. 3	Apr. 10
1 Cash and balances due from depository institutions	26,683	27,586	22,661	21,904	24,355	22,556	20,303	21,876	22,600
2 **Total loans, leases and securities, net**[1]	**171,345**	**173,601**	**174,709**	**174,882**	**176,578r**	**175,223**	**174,424**	**176,765**	**175,284**
Securities									
3 U.S. Treasury and government agency[2]	......	......	......	......	......	......	......	......	......
4 Trading account[2]	......	......	......	......	......	......	......	......	......
5 Investment account, by maturity	10,499	12,756	13,243	13,207	13,335	13,411	13,365	13,404	13,335
6 One year or less	1,658	1,764	2,200	2,256	2,257	2,276	2,255	2,293	2,321
7 Over one through five years	6,944	9,683	9,631	9,447	9,447	9,527	9,494	9,365	9,280
8 Over five years	1,897	1,309	1,412	1,504	1,631	1,609	1,615	1,747	1,734
9 Other securities[2]	......	......	......	......	......	......	......	......	......
10 Trading account[2]	......	......	......	......	......	......	......	......	......
11 Investment account	9,655	9,592	9,571	9,522	9,254	9,137	9,194	9,171	9,231
12 States and political subdivisions, by maturity	8,800	8,729	8,715	8,677	8,360	8,269	8,349	8,291	8,354
13 One year or less	1,253	1,239	1,229	1,219	995	909	933	908	910
14 Over one year	7,547	7,490	7,486	7,458	7,365	7,360	7,416	7,383	7,444
15 Other bonds, corporate stocks and securities	855	862	856	845	894	868	845	880	877
16 Other trading account assets[2]	......	......	......	......	......	......	......	......	......
Loans and leases									
17 Federal funds sold[3]	20,214	20,598	20,884	19,281	22,388	19,894	20,082	20,452	21,640
18 To commercial banks	12,478	12,728	12,713	10,979	13,590	11,735	11,936	11,175	13,469
19 To nonbank brokers and dealers in securities	5,353	5,228	5,487	5,398	5,812	4,822	4,760	5,558	5,330
20 To others	2,383	2,642	2,684	2,904	2,986	3,338	3,386	3,719	2,841
21 Other loans and leases, gross	135,793	135,496	135,885	137,768	136,541r	137,709	136,667	138,536	135,944
22 Other loans, gross	133,729	133,352	133,599	135,490	134,274r	135,435	134,404	136,279	133,671
23 Commercial and industrial	61,334r	60,926r	61,345r	62,331r	61,824r	62,146	61,840	61,988	61,210
24 Bankers acceptances and commercial paper	1,121	1,008	969	1,071	902	773	825	800	798
25 All other	60,212r	59,918r	60,376r	61,260r	60,922r	61,373	61,016	61,188	60,412
26 U.S. addressees	59,566r	59,275r	59,722r	60,606r	60,265r	60,712	60,359	60,533	59,729
27 Non-U.S. addressees	646	643	654	653	656	660	657	654	683
28 Real estate loans	24,781	24,719	24,989	25,162	25,328	25,359	25,486	25,268	25,359
29 To individuals for personal expenditures	16,026	16,057	16,053	16,084	16,125	16,185	16,251	16,320	16,357
30 To depository and financial institutions	12,450	12,200	11,896	11,946	11,390r	11,467	10,932	11,711	11,129
31 *Commercial banks in the United States*	2,403	2,346	2,510	2,588	1,973r	1,976	1,975	2,425	1,920
32 Banks in foreign countries	2,297	2,137	1,894	1,896	1,989r	2,026	1,782	1,990	2,035
33 Nonbank depository and other financial institutions	7,750	7,717	7,492	7,462	7,427	7,464	7,174	7,296	7,174
34 For purchasing and carrying securities	6,446	6,473	6,388	7,537	7,054r	7,682	7,219	8,307	7,064
35 To finance agricultural production	414r	417r	411r	446r	438r	472	486	466	487
36 To states and political subdivisions	7,732	7,897	7,884	7,840	7,910	7,886	7,915	7,842	7,874
37 To foreign governments and official institutions	917	811	1,045	794	793r	799	788	840	900
38 All other	3,629	3,853	3,587	3,350	3,413r	3,439	3,487	3,536	3,289
39 Lease financing receivables	2,064	2,144	2,286	2,277	2,267	2,274	2,264	2,257	2,273
40 LESS: Unearned income	1,472	1,478	1,500	1,472	1,490	1,488	1,505	1,457	1,470
41 Loan and lease reserve	3,344	3,363	3,374	3,424	3,450	3,440	3,379	3,341	3,396
42 Other loans and leases, net	130,976	130,655	131,010	132,871	131,601r	132,781	131,783	133,738	131,078
43 All other assets[4]	68,871	70,046	70,073	70,962	67,786r	67,642	68,061	68,778	66,996
44 **Total assets**	**266,899**	**271,232**	**267,443**	**267,748**	**268,720r**	**265,421**	**262,788**	**267,420**	**264,880**
Deposits									
45 Demand deposits	50,468	49,593	47,565	45,784	44,348r	47,193	44,275	47,910	46,144
46 Individuals, partnerships, and corporations	34,964	34,137	32,122	31,334	31,420r	32,189	30,741	31,732	31,702
47 States and political subdivisions	815	834	733	785	687	799	615	665	657
48 U.S. government	378	237	637	321	166	841	548	853	428
49 Depository institutions in the United States	4,813	5,033	5,077	4,647	4,028r	4,896	4,683	5,058	4,127
50 Banks in foreign countries	4,556	4,764	4,235	3,976	3,675r	4,146	3,984	4,665	4,226
51 Foreign governments and official institutions	726	631	576	551	510r	526	610	674	811
52 Certified and officers' checks	4,216	3,957	4,184	4,169	3,862	3,795	3,093	4,262	4,192
53 Transaction balances other than demand deposits ATS, NOW, Super NOW, telephone transfers)	3,854	3,787	3,756	3,888	3,830	3,823	3,794	4,133	4,233
54 Nontransaction balances	84,011	84,471	85,226	85,200	84,581	84,715	84,555	84,935	84,642
55 Individuals, partnerships and corporations	75,959	76,312	76,761	77,145	76,478	76,760	76,552	77,235	77,038
56 States and political subdivisions	3,905	3,979	4,084	4,008	4,037	4,044	4,011	3,887	3,860
57 U.S. government	83	81	70	70	69	65	65	62	61
58 Depository institutions in the United States	2,445	2,504	2,678	2,488	2,537	2,386	2,466	2,354	2,360
59 Foreign governments, official institutions and banks	1,620	1,596	1,632	1,489	1,460	1,460	1,461	1,397	1,324
60 Liabilities for borrowed money	64,418	67,959	65,645	67,925	68,962r	64,374	65,248	65,241	64,412
61 Borrowings from Federal Reserve Banks	500	.....	425	......	2,776	.....	......	.....	950
62 Treasury tax-and-loan notes	2,298	2,497	2,894	875	524	2,446	1,765	1,072	9
63 All other liabilities for borrowed money[5]	61,620	65,462	62,326	67,050	65,662r	61,928	63,483	64,169	63,453
64 Other liabilities and subordinated note and debentures	40,669	41,997	41,943	41,321	43,442	41,946	41,621	41,669	41,864
65 **Total liabilities**	**243,421**	**247,807**	**244,135**	**244,120**	**245,164r**	**242,052**	**239,494**	**243,888**	**241,296**
66 Residual (total assets minus total liabilities)[6]	23,478	23,425	23,308	23,628	23,556	23,369	23,294	23,532	23,584
MEMO									
67 Total loans and leases (gross) and investments adjusted[1,7]	161,280	163,369	164,360	166,211	165,955r	166,440	165,396	167,963	164,761
68 Total loans and leases (gross) adjusted[7]	141,126	141,021	141,546	143,481	143,366r	143,892	142,838	145,388	142,195
69 Time deposits in amounts of $100,000 or more	33,139	33,367	33,520	33,612	33,436r	33,395	33,173	33,083	32,582

1. Excludes trading account securities.
2. Not available due to confidentiality.
3. Includes securities purchased under agreements to resell.
4. Includes trading account securities.
5. Includes federal funds purchased and securities sold under agreements to repurchase.
6. Not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
7. Exclusive of loans and federal funds transactions with domestic commercial banks.

NOTE. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.

1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS WITH ASSETS OF $750 MILLION OR MORE ON JUNE 30, 1980 Assets and Liabilities ▲

Millions of dollars, Wednesday figures

Account	1985								
	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27	Apr. 3	Apr. 10
1 Cash and due from depository institutions	7,412r	6,362r	6,445	6,583	6,484	6,346	6,152	6,296	6,751
2 Total loans and securities	45,180r	45,243r	46,369r	45,461r	44,208	45,032	46,013	44,727	44,792
3 U.S. Treasury and govt. agency securities	4,022	4,040	4,050	3,610	3,445	3,581	3,630	3,466	3,461
4 Other securities	1,530r	1,480r	1,513r	1,628r	1,471	1,460	1,442	1,542	1,575
5 Federal funds sold[1]	5,070	4,397	5,390	4,788	4,564	4,035	4,582	3,172	4,002
6 To commercial banks in the United States	4,629	3,993	4,987	4,382	4,118	3,661	4,186	2,673	3,611
7 To others	442	404	403	406	446	374	396	500	390
8 Other loans, gross	34,558	35,326	35,415	35,435	34,727	35,956	36,359	36,546	35,754
9 Commercial and industrial	20,248	20,470	20,412	20,043r	20,004r	21,272	21,405	21,411	21,300
10 Bankers acceptances and commercial paper	1,733	1,900	1,759	1,794	1,843	1,871	1,798	1,960	1,899
11 All other	18,515	18,569	18,652	18,249r	18,161r	19,401	19,607	19,451	19,400
12 U.S. addressees	17,369	17,434	17,456	16,937r	16,925r	18,163	18,383	18,198	18,195
13 Non-U.S. addressees	1,146	1,135	1,196	1,311	1,236	1,238	1,224	1,253	1,205
14 To financial institutions	10,484	10,968	11,158	11,405	11,013	11,081	11,344	11,416	10,604
15 Commercial banks in the United States	8,233	8,722	8,914	9,142	8,855	8,893	8,929	9,055	8,374
16 Banks in foreign countries	1,432	1,344	1,322	1,243	1,262	1,256	1,258	1,332	1,166
17 Nonbank financial institutions	819	902	923	1,021	896	932	1,156	1,029	1,063
18 To foreign govts. and official institutions	666	650	702	654	653	654	651	660	685
19 For purchasing and carrying securities	1,001	1,015	978	1,166r	896r	870	939	1,047	1,084
20 All other	2,158	2,223	2,165	2,167	2,161	2,077	2,020	2,012	2,082
21 Other assets (claims on nonrelated parties)	18,763r	18,686r	19,245r	19,158r	19,061r	18,864	18,282	17,940	17,989
22 Net due from related institutions	10,660r	11,112	11,130	11,004	9,871	10,904	9,786	11,689	10,664
23 Total assets	82,015r	81,403r	83,189	82,206	79,623r	81,146	80,233	80,652	80,197
24 Deposits or credit balances due to other than directly related institutions	24,035r	24,093r	24,968r	25,188r	25,019r	24,934	25,479	25,326	25,003
25 Credit balances	193	140	232	146	130	128	152	253	135
26 Demand deposits	1,613r	1,670r	1,621r	1,745r	1,640r	1,601	1,630	1,692	1,532
27 Individuals, partnerships, and corporations	821	916	844r	857r	822	809	844	871	836
28 Other	792r	754r	777	888r	817r	792	786	821	697
29 Time and savings deposits	22,229	22,283	23,115	23,297	23,249	23,205	23,697	23,380	23,335
30 Individuals, partnerships, and corporations	18,105	18,111	18,701	18,893	18,949	18,965	19,396	18,981	18,803
31 Other	4,124	4,172	4,414	4,404	4,300	4,240	4,301	4,399	4,532
32 Borrowings from other than directly related institutions	30,499	29,653	28,880r	28,427	27,122	28,257	28,450	30,304	29,532
33 Federal funds purchased[2]	12,675	12,017	10,742	10,542	9,851	11,421	11,212	13,262	12,547
34 From commercial banks in the United States	9,940	9,365	8,396	7,964	7,516	8,913	8,397	10,948	10,237
35 From others	2,735	2,652	2,346	2,578	2,335	2,508	2,815	2,314	2,310
36 Other liabilities for borrowed money	17,824	17,636	18,137r	17,885	17,270	16,836	17,238	17,042	16,985
37 To commercial banks in the United States	16,407	16,216	16,687	16,434	15,920	15,604	15,953	15,889	15,823
38 To others	1,417	1,420	1,450r	1,451	1,351	1,232	1,285	1,153	1,162
39 Other liabilities to nonrelated parties	20,329	20,332	20,875	20,931r	20,813r	20,508	20,606	19,833	19,689
40 Net due to related institutions	7,151r	7,325	8,466	7,661r	6,669	7,447	5,698	5,190	5,972
41 Total liabilities	82,015r	81,403r	83,189	82,206	79,623r	81,146	80,233	80,652	80,197
MEMO									
42 Total loans (gross) and securities adjusted[3]	32,319r	32,528	32,468r	31,938r	31,234	32,478	32,897	32,999	32,807
43 Total loans (gross) adjusted[3]	26,767	27,008	26,904	26,700	26,318	27,437	27,826	27,991	27,770

▲ Levels of many asset and liability items were revised beginning Oct. 31, 1984. For details, see the H.4.2 (504) statistical release dated Nov. 23, 1984.

1. Includes securities purchased under agreements to resell.
2. Includes securities sold under agreements to repurchase.
3. Exclusive of loans to and federal funds sold to commercial banks in the United States.

NOTE. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.

1.31 GROSS DEMAND DEPOSITS Individuals, Partnerships, and Corporations[1]

Billions of dollars, estimated daily-average balances

Type of holder	1979[2] Dec.	1980 Dec.	1981 Dec.	1982 Dec.	1983 Sept.	1983 Dec.	1984 Mar.	1984 June	1984 Sept.	1984 Dec.
	Commercial banks									
1 **All holders—Individuals, partnerships, and corporations**	**302.3**	**315.5**	**288.9**	**291.8**	**280.3**	**293.5**	**279.3**	**285.8**	**284.7**	**304.5**
2 Financial business	27.1	29.8	28.0	35.4	32.1	32.8	31.7	31.7	31.3	33.0
3 Nonfinancial business	157.7	162.8	154.8	150.5	150.2	161.1	150.3	154.9	154.8	166.3
4 Consumer	99.2	102.4	86.6	85.9	77.9	78.5	78.1	78.3	78.4	81.7
5 Foreign	3.1	3.3	2.9	3.0	2.9	3.3	3.3	3.4	3.3	3.6
6 Other	15.1	17.2	16.7	17.0	17.1	17.8	15.9	17.4	16.8	19.9
	Weekly reporting banks									
	1979[3] Dec.	1980 Dec.	1981 Dec.	1982 Dec.	1983 Sept.	1983 Dec.[4]	1984 Mar.	1984 June	1984 Sept.	1984 Dec.
7 **All holders—Individuals, partnerships, and corporations**	**139.3**	**147.4**	**137.5**	**144.2**	**136.3**	**146.2**	**139.2**	**145.3**	**145.3**	**157.1**
8 Financial business	20.1	21.8	21.0	26.7	23.6	24.2	23.5	23.6	23.7	25.3
9 Nonfinancial business	74.1	78.3	75.2	74.3	72.9	79.8	76.4	79.7	79.2	87.1
10 Consumer	34.3	35.6	30.4	31.9	28.1	29.7	28.4	29.9	29.8	30.5
11 Foreign	3.0	3.1	2.8	2.9	2.8	3.1	3.2	3.2	3.2	3.4
12 Other	7.8	8.6	8.0	8.4	8.9	9.3	7.7	8.9	9.3	10.9

1. Figures include cash items in process of collection. Estimates of gross deposits are based on reports supplied by a sample of commercial banks. Types of depositors in each category are described in the June 1971 BULLETIN, p. 466.

2. Beginning with the March 1979 survey, the demand deposit ownership survey sample was reduced to 232 banks from 349 banks, and the estimation procedure was modified slightly. To aid in comparing estimates based on the old and new reporting sample, the following estimates in billions of dollars for December 1978 have been constructed using the new smaller sample; financial business, 27.0; nonfinancial business, 146.9; consumer, 98.3; foreign, 2.8; and other, 15.1.

3. After the end of 1978 the large weekly reporting bank panel was changed to 170 large commercial banks, each of which had total assets in domestic offices exceeding $750 million as of Dec. 31, 1977. Beginning in March 1979, demand deposit ownership estimates for these large banks are constructed quarterly on the basis of 97 sample banks and are not comparable with earlier data. The following estimates in billions of dollars for December 1978 have been constructed for the new large-bank panel; financial business, 18.2; nonfinancial business, 67.2; consumer, 32.8; foreign, 2.5; other, 6.8.

4. In January 1984 the weekly reporting panel was revised; it now includes 168 banks. Beginning with March 1984, estimates are constructed on the basis of 92 sample banks and are not comparable with earlier data. Estimates in billions of dollars for December 1983 based on the newly weekly reporting panel are: financial business, 24.4; nonfinancial business, 80.9; consumer, 30.1; foreign, 3.1; other, 9.5.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1979[1] Dec.	1980 Dec.	1981 Dec.	1982 Dec.[2]	1983 Dec.	1984[3] Sept.	1984[3] Oct.	1984[3] Nov.	1984[3] Dec.	1985 Jan.[r]	1985 Feb.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**112,803**	**124,374**	**165,829**	**166,436**	**188,312**	**225,127**	**228,194**	**235,363**	**239,117**	**245,322**	**247,095**
Financial companies[4]											
Dealer-placed paper[5]											
2 Total	17,359	19,599	30,333	34,605	44,622	52,543	54,527	55,176	56,917	59,713	60,186
3 Bank-related (not seasonally adjusted)	2,784	3,561	6,045	2,516	2,441	1,959	2,060	1,996	2,035	2,137	2,265
Directly placed paper[6]											
4 Total	64,757	67,854	81,660	84,393	96,918	107,537	105,379	109,419	110,474	113,101	114,824
5 Bank-related (not seasonally adjusted)	17,598	22,382	26,914	32,034	35,566	41,066	38,112	40,185	42,105	43,046	42,759
6 Nonfinancial companies[7]	30,687	36,921	53,836	47,437	46,772	65,047	68,288	70,768	71,726	72,508	72,085
	Bankers dollar acceptances (not seasonally adjusted)[8]										
7 **Total**	**45,321**	**54,744**	**69,226**	**79,543**	**78,309**	**77,928**	**75,741[r]**	**75,179**	**75,470**	**72,273**	**76,109**
Holder											
8 Accepting banks	9,865	10,564	10,857	10,910	9,355	11,065	10,534	10,397	10,255[r]	10,060	10,569
9 Own bills	8,327	8,963	9,743	9,471	8,125	8,729	8,960	9,113	9,065	8,839	9,672
10 Bills bought	1,538	1,601	1,115	1,439	1,230	2,336	1,574	1,284	1,191	1,220	897
Federal Reserve Banks											
11 Own account	704	776	195	1,480	418	0	0	0	0	0	0
12 Foreign correspondents	1,382	1,791	1,442	949	729	686	658	615	671	679	761
13 Others	33,370	41,614	56,731	66,204	68,225	66,177	64,549[r]	64,167[r]	64,543[r]	61,603	64,779
Basis											
14 Imports into United States	10,270	11,776	14,765	17,683	15,649	17,196	16,256	16,433	16,975	16,733	17,115
15 Exports from United States	9,640	12,712	15,400	16,328	16,880	15,985	16,312	15,849	15,859	15,445	15,881
16 All other	25,411	30,257	39,060	45,531	45,781	44,746	43,172	42,897	42,635	40,095	43,113

1. A change in reporting instructions results in offsetting shifts in the dealer-placed and directly placed financial company paper in October 1979.
2. Effective Dec. 1, 1982, there was a break in the commercial paper series. The key changes in the content of the data involved additions to the reporting panel, the exclusion of broker or dealer placed borrowings under any master note agreements from the reported data, and the reclassification of a large portion of bank-related paper from dealer-placed to directly placed.
3. Correction of a previous misclassification of paper by a reporter has created a break in the series beginning December 1983. The correction adds some paper to nonfinancial and to dealer-placed financial paper.
4. Institutions engaged primarily in activities such as, but not limited to, commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
5. Includes all financial company paper sold by dealers in the open market.
6. As reported by financial companies that place their paper directly with investors.
7. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
8. Beginning October 1984, the number of respondents in the bankers acceptance survey will be reduced from 340 to 160 institutions—those with $50 million or more in total acceptances. The new reporting group accounts for over 95 percent of total acceptances activity.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per annum

Effective date	Rate	Effective Date	Rate	Month	Average rate	Month	Average rate
1983—Jan. 11	11.00	1984—Sept. 27	12.75	1983—Jan.	11.16	1984—Mar.	11.21
Feb. 28	10.50	Oct. 17	12.50	Feb.	10.98	Apr.	11.93
Aug. 8	11.00	29	12.00	Mar.	10.50	May	12.39
		Nov. 9	11.75	Apr.	10.50	June	12.60
1984—Mar. 19	11.50	28	11.25	May	10.50	July	13.00
Apr. 5	12.00	Dec. 20	10.75	June	10.50	Aug.	13.00
May 8	12.50			July	10.50	Sept.	12.97
June 25	13.00	1985—Jan. 15	10.50	Aug.	10.89	Oct.	12.58
				Sept.	11.00	Nov.	11.77
				Oct.	11.00	Dec.	11.06
				Nov.	11.00		
				Dec.	11.00	1985—Jan.	10.61
						Feb.	10.50
				1984—Jan.	11.00	Mar.	10.50
				Feb.	11.00	Apr.	10.50

NOTE. These data also appear in the Board's H.15 (519) release. For address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Averages, percent per annum; weekly and monthly figures are averages of business day data unless otherwise noted.

Instrument	1982	1983	1984	1984	1985			1985, week ending				
				Dec.	Jan.	Feb.	Mar.	Mar. 1	Mar. 8	Mar. 15	Mar. 22	Mar. 29
MONEY MARKET RATES												
1 Federal funds[1,2]	12.26	9.09	10.23	8.38	8.35	8.50	8.58	8.40	8.63	8.52	8.75	8.38
2 Discount window borrowing[1,2,3]	11.02	8.50	8.80	8.37	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Commercial paper[4,5]												
3 1-month	11.83	8.87	10.05	8.39	7.99	8.46	8.74	8.55	8.80	8.77	8.72	8.67
4 3-month	11.89	8.88	10.10	8.44	8.03	8.54	8.90	8.75	9.06	8.93	8.86	8.75
5 6-month	11.89	8.89	10.16	8.55	8.15	8.69	9.23	9.05	9.42	9.26	9.21	9.02
Finance paper, directly placed[4,5]												
6 1-month	11.64	8.80	9.97	8.25	7.95	8.42	8.70	8.54	8.78	8.75	8.65	8.61
7 3-month	11.23	8.70	9.73	8.12	7.81	8.25	8.67	8.48	8.73	8.67	8.68	8.60
8 6-month	11.20	8.69	9.65	8.09	7.82	8.20	8.65	8.41	8.62	8.64	8.73	8.67
Bankers acceptances[5,6]												
9 3-month	11.89	8.90	10.14	8.45	8.01	8.55	8.88	8.80	9.10	8.90	8.83	8.68
10 6-month	11.83	8.91	10.19	8.54	8.11	8.69	9.20	9.13	9.41	9.27	9.19	8.91
Certificates of deposit, secondary market[7]												
11 1-month	12.04	8.96	10.17	8.47	8.05	8.50	8.73	8.62	8.80	8.74	8.74	8.64
12 3-month	12.27	9.07	10.37	8.60	8.14	8.69	9.02	8.91	9.22	9.04	9.01	8.82
13 6-month	12.57	9.27	10.68	8.85	8.45	9.04	9.60	9.47	9.86	9.62	9.58	9.31
14 Eurodollar deposits, 3-month[8]	13.12	9.56	10.73	8.90	8.37	9.05	9.32	9.35	9.61	9.30	9.20	9.14
U.S. Treasury bills[5]												
Secondary market[9]												
15 3-month	10.61	8.61	9.52	8.06	7.76	8.27	8.52	8.47	8.69	8.55	8.51	8.29
16 6-month	11.07	8.73	9.76	8.28	8.00	8.39	8.90	8.70	8.97	8.95	8.96	8.71
17 1-year	11.07	8.80	9.92	8.60	8.33	8.56	9.06	8.84	9.09	9.09	9.15	8.90
Auction average[10]												
18 3-month	10.686	8.63	9.58	8.16	7.76	8.22	8.57	8.36	8.73	8.48	8.64	8.41
19 6-month	11.084	8.75	9.80	8.36	8.03	8.34	8.92	8.53	8.98	8.79	9.04	8.86
20 1-year	11.099	8.86	9.91	8.38	8.39	8.46	9.24	......	......	......	9.24	......
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds[11]												
Constant maturities[12]												
21 1-year	12.27	9.57	10.89	9.33	9.02	9.29	9.86	9.61	9.89	9.91	9.97	9.68
22 2-year	12.80	10.21	11.65	10.18	9.93	10.17	10.71	10.53	10.73	10.73	10.81	10.59
23 2-½-year[13]	......	......	......	......	......	......	......	*10.45*	......	*10.85*	......	*10.95*
24 3-year	12.92	10.45	11.89	10.56	10.43	10.55	11.05	10.91	11.07	11.08	11.13	10.93
25 5-year	13.01	10.80	12.24	11.07	10.93	11.13	11.52	11.47	11.51	11.54	11.60	11.43
26 7-year	13.06	11.02	12.40	11.45	11.27	11.44	11.82	11.78	11.83	11.84	11.90	11.73
27 10-year	13.00	11.10	12.44	11.50	11.38	11.51	11.86	11.83	11.87	11.85	11.92	11.77
28 20-year	12.92	11.34	12.48	11.64	11.58	11.70	12.06	12.06	12.09	12.06	12.11	11.97
29 30-year	12.76	11.18	12.39	11.52	11.45	11.47	11.81	11.80	11.85	11.80	11.87	11.73
Composite[14]												
30 Over 10 years (long-term)	12.23	10.84	11.99	11.21	11.15	11.35	11.78	11.77	11.81	11.77	11.83	11.70
State and local notes and bonds												
Moody's series[15]												
31 Aaa	10.88	8.80	9.61	9.54	9.08	8.98	9.18	9.05	9.20	9.15	9.20	9.15
32 Baa	12.48	10.17	10.38	10.45	10.16	10.05	10.18	10.10	10.20	10.20	10.20	10.10
33 *Bond Buyer* series[16]	11.66	9.51	10.10	9.95	9.51	9.65	9.77	9.71	9.75	9.76	9.82	9.75
Corporate bonds												
Seasoned issues[17]												
34 All industries	14.94	12.78	13.49	12.74	12.64	12.66	13.13	12.93	13.05	13.17	13.21	13.13
35 Aaa	13.79	12.04	12.71	12.13	12.08	12.13	12.56	12.47	12.55	12.58	12.62	12.50
36 Aa	14.41	12.42	13.31	12.50	12.43	12.49	12.91	12.69	12.80	12.97	12.98	12.93
37 A	15.43	13.10	13.74	12.92	12.80	12.80	13.36	13.06	13.19	13.42	13.47	13.41
38 Baa	16.11	13.55	14.19	13.40	13.26	13.23	13.69	13.51	13.63	13.70	13.75	13.68
39 A-rated, recently-offered utility bonds[18]	15.49	12.73	13.81	12.88	12.78	12.76	13.17	13.18	13.14	13.23	13.22	13.06
MEMO: Dividend/price ratio[19]												
40 Preferred stocks	12.53	11.02	11.59	11.21	11.13	10.88	10.97	10.94	10.96	10.97	11.01	10.95
41 Common stocks	5.81	4.40	4.64	4.68	4.51	4.30	4.37	4.32	4.33	4.40	4.38	4.38

1. Weekly and monthly figures are averages of all calendar days, where the rate for a weekend or holiday is taken to be the rate prevailing on the preceding business day. The daily rate is the average of the rates on a given day weighted by the volume of transactions at these rates.
2. Weekly figures are averages for statement week ending Wednesday.
3. Rate for the Federal Reserve Bank of New York.
4. Unweighted average of offering rates quoted by at least five dealers (in the case of commercial paper), or finance companies (in the case of finance paper). Before November 1979, maturities for data shown are 30–59 days, 90–119 days, and 120–179 days for commercial paper; and 30–59 days, 90–119 days, and 150–179 days for finance paper.
5. Yields are quoted on a bank-discount basis, rather than an investment yield basis (which would give a higher figure).
6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).
7. Unweighted average of offered rates quoted by at least five dealers early in the day.
8. Calendar week average. For indication purposes only.
9. Unweighted average of closing bid rates quoted by at least five dealers.
10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.
11. Yields are based on closing bid prices quoted by at least five dealers.
12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.
13. Each biweekly figure is the average of five business days ending on the Monday following the date indicated. Until Mar. 31, 1983, the biweekly rate determined the maximum interest rate payable in the following two-week period on 2-½-year small saver certificates. (See table 1.16.)
14. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including several very low yielding "flower" bonds.
15. General obligations based on Thursday figures; Moody's Investors Service.
16. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.
17. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
18. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.
19. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1982	1983	1984	1984						1985		
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
	Prices and trading (averages of daily figures)											
Common stock prices												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	68.93	92.63	92.46	87.08	94.49	95.68	95.09	95.85	94.85	99.11	104.73	103.92
2 Industrial	78.18	107.45	108.01	102.29	111.20	112.18	110.44	110.91	109.05	113.99	120.71	119.64
3 Transportation	60.41	89.36	85.63	76.72	86.86	86.88	86.82	87.37	88.00	94.88	101.76	98.30
4 Utility	39.75	47.00	46.44	44.17	46.69	47.47	49.02	49.93	50.58	51.95	53.44	53.91
5 Finance	71.99	95.34	89.28	79.03	87.92	91.59	92.94	95.28	95.29	101.34	109.58	107.59
6 Standard & Poor's Corporation (1941–43 = 10)[1]	119.71	160.41	160.50	151.08	164.42	166.11	164.82	166.27	164.48	171.61	180.88	179.42
7 American Stock Exchange[2] (Aug. 31, 1973 = 100)	141.31	216.48	207.96	192.82	207.90	214.50	210.39	209.47	202.28	211.82	228.40	225.62
Volume of trading (thousands of shares)												
8 New York Stock Exchange	64,617	85,418	91,084	79,156	109,892	93,108	91,676	83,692	89,032	121,545	115,489	102,591
9 American Stock Exchange	5,283	8,215	6,107	5,141	7,477	5,967	5,587	6,008	7,254	9,130	10,010	8,677
	Customer financing (end-of-period balances, in millions of dollars)											
10 Margin credit at broker–dealers[3]	**13,325**	**23,000**	**22,470**	**22,980**	**22,810**	**22,800**	**22,330**	**22,350**	**22,470**	**22,090**	**22,970**	**23,230**
11 Margin stock	12,980	22,720	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12 Convertible bonds	344	279	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13 Subscription issues	1	1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free credit balances at brokers[4]												
14 Margin-account	5,735	6,620	7,015	6,430	6,855	6,690	6,580	6,699	7,015	6,770	6,680	6,780
15 Cash-account	8,390	8,430	10,215	8,125	8,185	8,315	8,650	8,420	10,215	9,725	9,840	10,160
	Margin-account debt at brokers (percentage distribution, end of period)											
16 Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
By equity class (in percent)[5]												
17 Under 40	21.0	41.0	46.0	52.0	40.0	42.0	44.0	47.0	46.0	35.0	36.0	38.0
18 40–49	24.0	22.0	18.0	17.0	22.0	22.0	21.0	19.0	18.0	19.0	20.0	20.0
19 50–59	24.0	16.0	16.0	12.0	16.0	15.0	14.0	13.0	16.0	20.0	18.0	18.0
20 60–69	14.0	9.0	9.0	8.0	9.0	9.0	9.0	9.0	9.0	11.0	11.0	10.0
21 70–79	9.0	6.0	5.0	5.0	6.0	6.0	6.0	6.0	5.0	7.0	8.0	7.0
22 80 or more	8.0	6.0	6.0	6.0	7.0	6.0	6.0	6.0	6.0	8.0	8.0	7.0
	Special miscellaneous-account balances at brokers (end of period)											
23 Total balances (millions of dollars)[6]	**35,598**	**58,329**	**75,840**	**70,588**	**71,840**	**72,350**	**71,914**	**73,904**	**75,840**	**79,600**	**81,830**	**83,729**
Distribution by equity status (percent)												
24 Net credit status	62.0	63.0	59.0	57.0	58.0	58.0	59.0	59.0	59.0	59.0	59.0	60.0
Debt status, equity of												
25 60 percent or more	29.0	28.0	29.0	30.0	31.0	31.0	30.0	29.0	29.0	30.0	31.0	30.0
26 Less than 60 percent	9.0	9.0	11.0	13.0	11.0	11.0	11.0	12.0	11.0	10.0	10.0	10.0

	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
27 Margin stocks	70	80	65	55	65	50
28 Convertible bonds	50	60	50	50	50	50
29 Short sales	70	80	65	55	65	50

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.

3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984, and margin credit at broker-dealers became the total that is distributed by equity class and shown on lines 17–22.

4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

5. Each customer's equity in his collateral (market value of collateral less net debit balance) is expressed as a percentage of current collateral values.

6. Balances that may be used by customers as the margin deposit required for additional purchases. Balances may arise as transfers based on loan values of other collateral in the customer's margin account or deposits of cash (usually sales proceeds) occur.

7. Regulations G, T, and U of the Federal Reserve Board of Governors, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended. Margin requirements are the difference between the market value (100 percent) and the maximum loan value. The term "margin stocks" is defined in the corresponding regulation.

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1982	1983	1984									1985	
			Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Savings and loan associations												
1 **Assets**	**707,646**	**773,417**	**808,264**	**825,557**	**840,682**	**850,780**	**860,088**	**877,642**	**881,627**	**887,696**	**902,449**	**898,537r**	**898,086**
2 Mortgages	483,614	494,789	510,670	519,628	528,172	535,814	540,644	550,129	552,516	556,229	555,277	558,276r	556,184
3 Cash and investment securities[1]	85,438	104,274	106,863	110,033	109,752	108,456	108,820	112,350	112,023	114,879	125,358	119,673r	119,724
4 Other	138,594	174,354	190,731	195,896	202,758	206,510	210,624	215,163	217,088	216,588	221,814	220,588r	222,178
5 **Liabilities and net worth**	**707,646**	**773,417**	**808,264**	**825,557**	**840,682**	**850,780**	**860,088**	**877,642**	**881,627**	**887,696**	**902,449**	**898,537r**	**898,086**
6 Savings capital	567,961	634,455	660,663	670,666	681,947	687,817	691,704	704,558	708,846	714,780	724,301	730,709r	726,308
7 Borrowed money	97,850	92,127	98,275	103,119	108,417	110,238	114,747	121,329	119,305	117,775	126,169	114,806r	116,879
8 *FHLBB*	63,861	52,626	51,951	53,485	56,558	57,115	60,178	63,627	63,412	63,383	64,207	63,152r	63,452
9 Other	33,989	39,501	46,324	49,634	51,859	53,123	54,569	57,702	55,893	54,392	61,962	51,654r	53,427
10 Loans in process[2]	9,934	21,117	23,938	24,761	25,726	26,122	26,773	27,141	26,754	26,683	26,959	26,546r	26,636
11 Other	15,602	15,968	17,524	19,832	17,586	19,970	20,599	18,050	19,894	21,302	17,215	18,358r	19,857
12 Net worth[3]	26,233	30,867	31,802	31,940	32,732	32,755	33,038	33,705	33,582	33,839	34,764	34,664r	35,042
13 MEMO: Mortgage loan commitments outstanding[4]	18,054	32,996	41,732	45,274	44,878	43,878	41,182	40,089	38,530	37,856	34,841	33,305r	34,217
	Mutual savings banks[5]												
14 **Assets**	**174,197**	**193,535**	**198,000**	**200,087**	**198,864**	**199,128**	**200,722**	**201,445**	**203,274**	**204,499r**	**203,898r**	**204,835**	**206,175**
Loans													
15 Mortgage	94,091	97,356	99,017	99,881	99,433	100,091	101,211	101,621	102,704	102,953	102,895r	103,394	103,654
16 Other	16,957	19,129	22,531	22,907	23,198	23,213	24,068	24,535	24,486	24,884r	24,954r	25,747	26,456
Securities													
17 U.S. government[6]	9,743	15,360	15,913	16,404	15,448	15,457	15,019	14,965	15,295	15,034r	14,643r	14,616	14,917
18 State and local government	2,470	2,177	2,033	2,024	2,037	2,037	2,055	2,052	2,080	2,077	2,077	2,054	2,069
19 Corporate and other[7]	36,161	43,580	43,122	43,200	42,479	42,682	42,632	42,605	43,003	43,361r	42,962r	43,349	43,063
20 Cash	6,919	6,263	5,008	5,031	5,452	4,896	4,981	4,795	4,605	4,795r	4,954r	4,141	4,423
21 Other assets	7,855	9,670	10,376	10,640	10,817	10,752	10,756	10,872	11,101	11,395r	11,413r	11,534	11,593
22 **Liabilities**	**174,197**	**193,535**	**198,000**	**200,087**	**198,864**	**199,128**	**200,722**	**201,445**	**203,274**	**204,499r**	**203,898r**	**204,835**	**206,175**
23 Deposits	155,196	172,665	175,875	176,253	174,972	174,823	176,085	177,345	178,624	180,073r	180,616r	181,013	181,849
24 Regular[8]	152,777	170,135	173,010	173,310	171,858	171,740	172,990	174,296	175,727	177,130r	177,418r	177,904	178,791
25 Ordinary savings	46,862	38,554	37,329	37,147	36,322	35,511	34,787	34,564	34,221	34,009r	33,739r	33,480r	33,413
26 Time	96,369	95,129	96,920	97,236	97,168	98,410	101,270	102,934	104,151	104,849r	104,732r	104,067	103,536
27 Other	2,419	2,530	2,865	2,943	3,114	3,083	3,095	3,049	2,897	2,943r	3,198r	3,109	3,058
28 Other liabilities	8,336	10,154	11,211	12,861	12,999	13,269	13,604	12,979	13,853	13,453r	12,504r	12,962	13,387
29 General reserve accounts	9,235	10,368	10,466	10,554	10,404	10,495	10,498	10,488	10,459	10,535r	10,510r	10,613	10,670
30 MEMO: Mortgage loan commitments outstanding[9]	1,285	2,387	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Life insurance companies												
31 **Assets**	**588,163**	**654,948**	**671,259**	**673,518**	**679,449**	**684,573**	**694,082**	**699,996**	**705,827**	**712,271**	**720,807**	**730,120**	
Securities													
32 Government	36,499	50,752	52,828	53,422	53,970	54,688	56,263	57,552	59,825	62,678	64,683	65,367	
33 United States[10]	16,529	28,636	31,358	31,706	32,066	32,654	33,886	35,586	37,594	40,288	41,970	42,183	
34 State and local	8,664	9,986	9,192	9,239	9,213	9,236	9,357	9,221	9,344	9,385	9,757	9,895	
35 Foreign[11]	11,306	12,130	12,278	12,477	12,691	12,798	13,020	12,745	12,887	13,005	12,956	13,289	
36 Business	287,126	322,854	334,634	334,151	338,508	341,802	348,614	350,512	352,059	354,815	354,902	364,617	n.a.
37 Bonds	231,406	257,986	271,296	273,212	276,902	281,113	283,673	285,543	287,607	291,021	290,731	297,666	
38 Stocks	55,720	64,868	63,338	60,939	61,606	60,689	64,941	64,969	64,452	63,794	64,171	66,951	
39 Mortgages	141,989	150,999	152,373	152,968	153,845	154,299	155,438	155,802	156,064	156,691	157,283	157,583	
40 Real estate	20,264	22,234	23,237	23,517	23,792	24,019	24,117	24,685	24,947	25,467	25,985	26,343	
41 Policy loans	52,961	54,063	54,365	54,399	54,430	54,441	54,517	54,551	54,574	54,571	54,610	54,442	
42 Other assets	48,571	54,046	53,822	55,061	54,904	55,324	55,133	56,894	58,358	58,049	63,344	61,768	
	Credit unions[12]												
43 **Total assets/liabilities and capital**	**69,585**	**81,961**	**86,594**	**88,350**	**90,276**	**90,145**	**90,503**	**91,651**	**91,619**	**92,521**	**93,036**	**94,646**	**96,183**
44 Federal	45,493	54,482	58,127	59,636	61,316	61,163	61,500	62,107	61,935	62,690	63,205	64,505	65,989
45 State	24,092	27,479	28,467	28,714	28,960	28,982	29,003	29,544	29,684	29,831	29,831	30,141	30,194
46 Loans outstanding	43,232	50,083	53,247	54,437	55,915	57,286	58,802	59,874	60,483	62,170	62,561	62,662	62,393
47 Federal	27,948	32,930	35,286	36,274	37,547	38,490	39,578	40,310	40,727	41,762	42,337	42,220	42,283
48 State	15,284	17,153	17,961	18,163	18,368	18,796	19,224	19,564	19,756	20,408	20,224	20,442	20,110
49 Savings	62,990	74,739	79,413	80,702	82,578	82,402	82,135	83,172	83,129	84,000	84,348	86,047	86,048
50 Federal (shares)	41,352	49,889	53,587	54,632	56,261	56,278	56,205	56,734	56,655	57,302	57,539	58,820	59,914
51 State (shares and deposits)	21,638	24,850	25,826	26,070	26,317	26,124	25,930	26,438	26,474	26,698	26,809	27,227	26,134

1.37 Continued

Account	1982	1983	1984									1985	
			Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	FSLIC-insured federal savings banks												
52 **Assets**	**6,859**	**64,969**	**77,374**	**78,952**	**81,310**	**83,989**	**87,209**	**82,174**	**87,743**	**94,536**	**98,559**	**98,747**	**106,657**
53 Mortgages	3,353	38,698	45,900	46,791	48,084	49,996	52,039	48,841	51,554	55,861	57,429	57,667	60,938
54 Cash and investment securities[1]	......	10,436	12,762	12,814	13,071	13,184	13,331	12,867	13,615	14,826	16,001	15,378	17,511
55 Other	......	15,835	18,712	19,347	20,155	20,809	21,839	20,466	22,574	23,849	25,129	25,702	28,208
56 **Liabilities and net worth**	**6,859**	**64,969**	**77,374**	**78,952**	**81,310**	**83,989**	**87,209**	**82,174**	**87,743**	**94,536**	**98,559**	**98,747**	**106,657**
57 Savings and capital	5,877	53,227	62,495	63,026	64,364	66,227	68,443	65,079	70,080	76,167	79,572	80,091	85,632
58 Borrowed money	......	7,477	9,707	10,475	11,489	12,060	12,863	11,828	11,935	11,937	12,798	12,372	14,079
59 FHLBB	......	4,640	5,491	5,900	6,538	6,897	7,654	6,600	6,867	7,041	7,515	7,361	8,023
60 Other	......	2,837	4,216	4,575	4,951	5,163	5,209	5,228	5,068	4,896	5,283	5,011	6,056
61 Other	......	1,157	1,548	1,747	1,646	1,807	1,912	1,610	1,896	2,259	1,903	1,982	2,356
62 Net worth[3]	......	3,108	3,624	3,704	3,811	3,895	3,991	3,657	3,832	4,173	4,286	4,302	4,590
MEMO													
63 Loans in process[2]	98	1,264	1,716	1,787	1,839	1,901	1,895	1,505	1,457	1,689	1,738	1,685	1,747
64 Mortgage loan commitments outstanding[4]	......	2,151	3,714	3,763	3,583	3,988	3,860	2,970	2,925	3,298	3,234	3,510	3,646

1. Holdings of stock of the Federal Home Loan Banks are in "other assets."
2. Beginning in 1982, loans in process are classified as contra-assets and are not included in total liabilities and net worth. Total assets are net of loans in process.
3. Includes net undistributed income accrued by most associations.
4. Excludes figures for loans in process.
5. The National Council reports data on member mutual savings banks and on savings banks that have converted to stock institutions, and to federal savings banks.
6. Beginning April 1979, includes obligations of U.S. government agencies. Before that date, this item was included in "Corporate and other."
7. Includes securities of foreign governments and international organizations and, before April 1979, nonguaranteed issues of U.S. government agencies.
8. Excludes checking, club, and school accounts.
9. Commitments outstanding (including loans in process) of banks in New York State as reported to the Savings Banks Association of the State of New York.
10. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.
11. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.
12. As of June 1982, data include only federal or federally insured state credit unions serving natural perons.

NOTE. *Savings and loan associations:* Estimates by the FHLBB for all associations in the United States. Data are based on monthly reports of federally insured associations and annual reports of other associations. Even when revised, data for current and preceding year are subject to further revision.

Mutual savings banks: Estimates of National Council of Savings Institutions for all savings banks in the United States.

Life insurance companies: Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

Credit unions: Estimates by the National Credit Union Administration for a group of federal and federally insured state credit unions serving natural persons. Figures are preliminary and revised annually to incorporate recent data.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1982	Fiscal year 1983	Fiscal year 1984	Calendar year 1983 H1	1983 H2	1984 H1	1985 Jan.	1985 Feb.	1985 Mar.
U.S. budget									
1 Receipts[1]	617,766	600,562	666,457	306,331	306,584	341,808	70,454	54,021	49,606
2 Outlays[1]	728,375	795,917	841,800	396,477	406,849	420,700	76,838	74,851	78,067
3 Surplus, or deficit (−)	−110,609	−195,355	−175,343	−90,146	−100,265	−78,892	−6,384	−20,830	−28,461
4 Trust funds	5,456	23,056	30,565	22,680	7,745	18,080	−188	2,313	−1,682
5 Federal funds[2,3]	−116,065	−218,410	−205,908	−112,822	−108,005	−96,971	−6,198	−23,140	−26,780
Off-budget entities (surplus, or deficit (−))									
6 Federal Financing Bank outlays	−14,142	−10,404	−7,277	−5,418	−3,199	−2,813	−840	0	0
7 Other[3,4]	−3,190	−1,953	−2,719	−528	−1,206	−838	−789	−421	−615
U.S. budget plus off-budget, including Federal Financing Bank									
8 Surplus, or deficit (−)	−127,940	−207,711	−185,339	−96,094	−104,670	−84,884	−8,013	−21,251	−29,076
Source of financing									
9 Borrowing from the public	134,993	212,425	170,817	102,538	84,020	80,592	12,675	15,994	13,159
10 Cash and monetary assets (decrease, or increase (−))[4]	−11,911	−9,889	5,636	−9,664	−16,294	−3,127	−7,969	9,094	−3,212
11 Other[5]	4,858	5,176	8,885	3,222	4,358	7,418	3,307	4,033	−13,133
MEMO									
12 Treasury operating balance (level, end of period)	29,164	37,057	22,345[r]	27,997	11,817	13,567	26,502	17,160	13,868
13 Federal Reserve Banks	10,975	16,557	3,791[r]	19,442	3,661	4,397	5,349	3,308	3,063
14 Tax and loan accounts	18,189	20,500	18,553[r]	8,764	8,157	9,170	21,153	13,852	10,805

1. Effective Feb. 8, 1982, supplemental medical insurance premiums and voluntary hospital insurance premiums, previously included in other insurance receipts, have been reclassified as offsetting receipts in the health function.
2. Half-year figures are calculated as a residual (total surplus/deficit less trust fund surplus/deficit).
3. Other off-budget includes Postal Service Fund; Rural Electrification and Telephone Revolving Fund; Rural Telephone Bank; and petroleum acquisition and transportation and strategic petroleum reserve effective November 1981.
4. Includes U.S. Treasury operating cash accounts; SDRs; gold tranche drawing rights; loans to International Monetary Fund; and other cash and monetary assets.
5. Includes accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCE. "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government" *Treasury Bulletin*, and the *Budget of the U.S. Government, Fiscal Year 1985*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS

Millions of dollars

Source or type	Fiscal year 1983	Fiscal year 1984	Calendar year						
			1982	1983		1984	1985		
			H2	H1	H2	H1	Jan.	Feb.	Mar.
RECEIPTS									
1 **All sources**	**600,563**	**666,457**	**286,337**	**306,331**	**305,122**	**341,808**	**70,454**	**54,021**	**49,606**
2 Individual income taxes, net	288,938	295,955	145,676	144,551	147,663	144,691	37,852	23,769	15,254
3 Withheld	266,010	279,345	131,567	135,531	133,768	140,657	24,778	23,127	23,952
4 Presidential Election Campaign Fund	36	35	5	30	6	29	0	1	8
5 Nonwithheld	83,586	81,346	20,041	63,014	20,703	61,463	12,642	1,683	3,136
6 Refunds	60,692	64,771	5,938	54,024	6,815	57,458	−433	1,041	11,842
Corporation income taxes									
7 Gross receipts	61,780	74,179	25,660	33,522	31,064	40,328	4,373	2,673	10,304
8 Refunds	24,758	17,286	11,467	13,809	8,921	10,045	1,594	919	1,888
9 Social insurance taxes and contributions, net	209,001	241,902	94,277	110,520	100,832	131,372	23,394	23,080	20,551
10 Payroll employment taxes and contributions[1]	179,010	203,476	85,064	90,912	88,388	106,436	21,661	19,433	19,045
11 Self-employment taxes and contributions[2]	6,756	8,709	177	6,427	398	7,667	602	664	610
12 Unemployment insurance	18,799	25,138	6,856	10,984	8,714	14,942	1,328	2,615	515
13 Other net receipts[3]	4,436	4,580	2,180	2,197	2,290	2,329	406	362	380
14 Excise taxes	35,300	37,361	16,555	16,904	19,586	18,304	3,267	2,585	2,739
15 Customs deposits	8,655	11,370	4,299	4,010	5,079	5,576	1,085	842	998
16 Estate and gift taxes	6,053	6,010	3,444	2,883	3,050	3,102	605	504	430
17 Miscellaneous receipts[4]	15,594	16,965	7,890	7,751	7,811	8,481	1,471	1,488	1,218
OUTLAYS									
18 **All types**	**795,917**	**841,800**	**390,847**	**396,477**	**406,849**	**420,700**	**76,838**	**74,851**	**78,067**
19 National defense	210,461	227,405	100,419	105,072	108,967	114,639	19,367	19,785	21,782
20 International affairs	8,927	13,313	4,406	4,705	6,117	5,426	1,254	884	1,416
21 General science, space, and technology	7,777	8,271	3,903	3,486	4,216	3,981	654	715	740
22 Energy	4,035	2,464	2,058	2,073	1,533	1,080	369	215	207
23 Natural resources and environment	12,676	12,677	6,941	5,892	6,933	5,463	1,082	786	929
24 Agriculture	22,173	12,215	13,259	10,154	5,278	7,129	3,372	2,054	1,732
25 Commerce and housing credit	4,721	5,198	2,244	2,164	2,648	2,572	−737	−805	75
26 Transportation	21,231	24,705	10,686	9,918	13,323	10,616	2,053	1,505	1,583
27 Community and regional development	7,302	7,803	4,187	3,124	4,327	3,154	589	438	538
28 Education, training, employment, social services	25,726	26,616	12,186	12,801	13,246	13,445	2,547	2,628	2,233
29 Health	28,655	30,435	39,072	41,206	42,150	15,748	2,822	2,778	2,685
30 Social security and medicare	223,311	235,764	133,779	143,001			20,930	20,583	21,031
31 Income security	106,211	96,714			135,579	65,212	11,600	10,220	11,530
32 Veterans benefits and services	24,845	25,640	13,240	11,334	13,621	12,849	928	2,218	2,296
33 Administration of justice	5,014	5,616	2,373	2,522	2,628	2,807	585	453	471
34 General government	4,991	4,836	2,323	2,434	2,479	2,462	244	699	343
35 General-purpose fiscal assistance	6,287	6,577	3,153	3,124	3,290	2,943	1,250	116	75
36 Net interest[6]	89,774	111,007	44,948	42,358	47,674	53,729	10,440	11,820	10,517
37 Undistributed offsetting receipts[7]	−21,424	−15,454	−8,332	−8,887	−7,262	−7,333	−2,513	−2,238	−2,118

1. Old-age, disability, and hospital insurance, and railroad retirement accounts.
2. Old-age, disability, and hospital insurance.
3. Federal employee retirement contributions and civil service retirement and disability fund.
4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.
5. In accordance with the Social Security Amendments Act of 1983, the Treasury now provides social security and medicare outlays as a separate function. Before February 1984, these outlays were included in the income security and health functions.
6. Net interest function includes interest received by trust funds.
7. Consists of rents and royalties on the outer continental shelf and U.S. government contributions for employee retirement.

SOURCE. "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government" and the *Budget of the U.S. Government, Fiscal Year 1985.*

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1982	1983				1984			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
1 **Federal debt outstanding**	**1,201.9**	**1,249.3**	**1,324.3**	**1,381.9**	**1,415.3**	**1,468.3**	**1,517.2**	**1,576.7**	**1,667.4**
2 Public debt securities	1,197.1	1,244.5	1,319.6	1,377.2	1,410.7	1,463.7	1,512.7	1,572.3	1,663.0
3 Held by public	987.7	1,043.3	1,090.3	1,138.2	1,174.4	1,223.9	1,255.1	1,309.2	1,373.4
4 Held by agencies	209.4	201.2	229.3	239.0	236.3	239.8	257.6	264.1	289.6
5 Agency securities	4.8	4.8	4.7	4.7	4.6	4.6	4.5	4.5	4.5
6 Held by public	3.7	3.7	3.6	3.6	3.5	3.5	3.4	3.4	3.4
7 Held by agencies	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
8 **Debt subject to statutory limit**	**1,197.9**	**1,245.3**	**1,320.4**	**1,378.0**	**1,411.4**	**1,464.5**	**1,513.4**	**1,573.0**	**1,663.7**
9 Public debt securities	1,196.5	1,243.9	1,319.0	1,376.6	1,410.1	1,463.1	1,512.1	1,571.7	1,662.4
10 Other debt[1]	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3
11 MEMO: Statutory debt limit	1,290.2	1,290.2	1,389.0	1,389.0	1,490.0	1,490.0	1,520.0	1,573.0	1,823.8

1. Includes guaranteed debt of government agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

NOTE. Data from *Treasury Bulletin* (U.S. Treasury Department).

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1980	1981	1982	1983	1984			1985
					Q2	Q3	Q4	Q1
1 **Total gross public debt**	**930.2**	**1,028.7**	**1,197.1**	**1,410.7**	**1,512.7**	**1,572.3**	**1,663.0**	**1,710.7**
By type								
2 Interest-bearing debt	928.9	1,027.3	1,195.5	1,400.9	1,501.1	1,559.6	1,660.6	1,695.2
3 Marketable	623.2	720.3	881.5	1,050.9	1,126.6	1,176.6	1,247.4	1,271.7
4 Bills	216.1	245.0	311.8	343.8	343.3	356.8	374.4	379.5
5 Notes	321.6	375.3	465.0	573.4	632.1	661.7	705.1	713.8
6 Bonds	85.4	99.9	104.6	133.7	151.2	158.1	167.9	178.4
7 Nonmarketable[1]	305.7	307.0	314.0	350.0	374.5	383.0	413.2	423.6
8 State and local government series	23.8	23.0	25.7	36.7	39.9	41.4	44.4	47.7
9 Foreign issues[2]	24.0	19.0	14.7	10.4	8.8	8.8	9.1	9.1
10 Government	17.6	14.9	13.0	10.4	8.8	8.8	9.1	9.1
11 Public	6.4	4.1	1.7	.0	.0	.0	.0	0
12 Savings bonds and notes	72.5	68.1	68.0	70.7	72.3	73.1	73.3	74.4
13 Government account series[3]	185.1	196.7	205.4	231.9	253.2	259.5	286.2	292.2
14 Non-interest-bearing debt	1.3	1.4	1.6	9.8	11.6	12.7	2.3	15.5
By holder[4]								
15 U.S. government agencies and trust funds	192.5	203.3	209.4	236.3	257.6	263.1	289.6	
16 Federal Reserve Banks	121.3	131.0	139.3	151.9	152.9	155.0	160.9	
17 Private investors	616.4	694.5	848.4	1,022.6	1,102.2	1,154.1	1,212.5	
18 Commercial banks	112.1	111.4	131.4	188.8	182.3	183.0	185.5p	
19 Money market funds	3.5	21.5	42.6	22.8	14.9	13.6	26.0	
20 Insurance companies	24.0	29.0	39.1	56.7	61.6p	58.6p	73.9p	
21 Other companies	19.3	17.9	24.5	39.7	45.3	47.7p	50.2p	
22 State and local governments	87.9	104.3	127.8	155.1	165.0p	n.a.	n.a.	n.a.
Individuals								
23 Savings bonds	72.5	68.1	68.3	71.5	72.9	73.7	74.5	
24 Other securities	44.6	42.7	48.2	61.9	69.3	73.8	70.8	
25 Foreign and international[5]	129.7	136.6	149.5	166.3	171.5	175.5	193.1p	
26 Other miscellaneous investors[6]	122.8	163.0	217.0	259.8	319.4	n.a.	n.a.	

1. Includes (not shown separately): Securities issued to the Rural Electrification Administration; depository bonds, retirement plan bonds, and individual retirement bonds.
2. Nonmarketable dollar-denominated and foreign currency-denominated series held by foreigners.
3. Held almost entirely by U.S. government agencies and trust funds.
4. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
5. Consists of investments of foreign and international accounts. Excludes non-interest-bearing notes issued to the International Monetary Fund.
6. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. government deposit accounts, and U.S. government-sponsored agencies.

SOURCES. Data by type of security, U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States;* data by holder, *Treasury Bulletin.*

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions

Par value; averages of daily figures, in millions of dollars

	Item	1982r	1983	1984	1985 Jan.	1985 Feb.r	1985 Mar.	1985 week ending Wednesday Feb. 20	Feb. 27r	Mar. 6	Mar. 13	Mar. 20	Mar. 27
	Immediate delivery[1]												
1	U.S. government securities	64,531	42,135	52,786r	71,683r	71,544	72,848	69,480r	77,302	67,414	66,064	66,218	77,482
	By maturity												
2	Bills	36,790	22,393	26,040r	32,185	33,354	37,978	35,788	33,718	33,773	36,427	38,976	37,620
3	Other within 1 year	1,620	708	1,305	1,758	1,650	1,720	1,765r	1,740	1,709	1,931	1,671	1,766
4	1–5 years	12,543	8,758	11,734	17,677r	17,452	15,975	16,464r	19,967	13,504	12,618	12,042	22,003
5	5–10 years	7,112	5,279	7,607	12,049	10,419	10,404	8,231r	14,264	11,724	9,304	7,625	10,033
6	Over 10 years	6,466	4,997	6,100r	8,014	8,669	6,771	7,233r	7,613	6,705	5,784	5,903	6,060
	By type of customer												
7	U.S. government securities dealers	3,539	2,257	2,920	4,288	4,356	3,968	4,090	4,272	3,985	3,953	3,202	4,104
8	U.S. government securities brokers	31,453	21,045	25,584r	32,617	33,844	36,263	32,198	36,117	33,995	33,830	33,564	36,480
9	All others[2]	30,041	18,832	24,282r	34,778r	33,343	32,618	33,193r	36,913	29,434	28,281	29,452	36,898
10	Federal agency securities	8,282	5,576	7,845r	9,846	9,479	8,705	11,580r	8,923	7,483	8,161	10,129	8,185
11	Certificates of deposit	10,001	4,333	4,947	5,431r	4,591	3,713	3,929	4,651	3,810	3,771	3,458	3,649
12	Bankers acceptances	5,004	2,642	3,244	3,759r	3,218	2,915	2,860	3,358	3,391	3,043	2,399	2,790
13	Commercial paper	15,190	8,036	10,018	10,780	9,956	10,142	10,066	9,277	10,544	9,589	10,525	10,429
	Futures transactions[3]												
14	Treasury bills	10,086	6,655	6,947	5,512r	7,123	8,034	5,891	7,203	7,932	7,367	10,710	6,018
15	Treasury coupons	2,977	2,501	4,503	5,147	6,097	5,068	5,353	7,204	6,374	5,319	4,776	3,736
16	Federal agency securities	520	265	262	155	127	115	218	117	69	109	109	119
	Forward transactions[4]												
17	U.S. government securities	1,670	1,493	1,362	1,042	1,557	1,332	1,188	1,631	679	1,086	1,502	2,065
18	Federal agency securities	1,960	1,646	2,841r	3,538	3,292	2,137	4,373	3,293	2,174	2,116	2,609	1,768

1. Before 1981, data for immediate transactions include forward transactions.
2. Includes, among others, all other dealers and brokers in commodities and securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System.
3. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.
4. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for government securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues.

NOTE. Averages for transactions are based on number of trading days in the period.

Transactions are market purchases and sales of U.S. government securities dealers reporting to the Federal Reserve Bank of New York. The figures exclude allotments of, and exchanges for, new U.S. government securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing

Averages of daily figures, in millions of dollars

	Item	1982	1983	1984	1985			1985 week ending Wednesday				
					Jan.	Feb.	Mar.	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
		Positions										
	Net immediate[1]											
1	U.S. government securities	13,663	10,701	5,538r	14,111	13,609r	11,200	15,842r	14,574	11,666	8,573	10,816
2	Bills	7,297	8,020	5,500r	11,629	12,441	13,979	13,495	14,181	14,672	13,809	14,342
3	Other within 1 year	972	394	63	−111	851	1,316	1,132	2,068	1,749	1,157	625
4	1–5 years	3,256	1,778	2,159	5,685	3,078r	449	2,254r	791	−783	−1,147	2,011
5	5–10 years	−318	−78	−1,119	−4,024	−2,898	−2,548	−1,434	−1,677	−2,615	−2,828	−3,216
6	Over 10 years	2,026	528	−1,174	823	48	−2,240	294	−917	−1,574	−2,678	−3,256
7	Federal agency securities	4,145	7,232	15,294	19,429	19,603r	19,305	18,795r	20,157	20,346	19,377	18,456
8	Certificates of deposit	5,532	5,839	7,369	10,251	9,487	8,005	8,935	8,753	7,894	7,492	7,883
9	Bankers acceptances	2,832	3,332	3,874	4,839	4,728r	3,562	4,386r	4,191	3,758	3,041	3,249
10	Commercial paper	3,317	3,159	3,788	4,880	5,226	4,646	5,118	5,587	4,529	4,065	4,586
	Futures positions											
11	Treasury bills	−2,507	−4,125	−4,525	−13,133	−2,549	1,215	2,306	4,387	3,522	1,635	−2,658
12	Treasury coupons	−2,303	−1,032	1,794r	1,336	3,143	5,572	3,391	4,496	5,225	5,327	6,729
13	Federal agency securities	−224	171	233	−55	−9	−101	−255	−66	−42	−149	−168
	Forward positions											
14	U.S. government securities	−788	−1,936	−1,643	−845	−1,745r	−1,320	−1,498r	−1,410	−1,582	−535	−1,428
15	Federal agency securities	−1,432	−3,561	−9,205r	−6,990	−8,156	−8,250	−8,001	−8,751	−8,709	−8,136	−7,686
		Financing[2]										
	Reverse repurchase agreements[3]											
16	Overnight and continuing	26,754	29,099	44,078	57,000	59,989	60,818	59,690	63,672	61,988	58,873	59,096
17	Term agreements	48,247	52,493	68,357	72,387	71,570	75,298	71,618	70,344	74,138	76,213	78,752
	Repurchase agreements[4]											
18	Overnight and continuing	49,695	57,946	75,717	93,727	96,535	96,019	100,117	102,523	99,639	91,341	91,832
19	Term agreements	43,410	44,410	57,047	63,188	62,327	62,890	60,975	61,142	61,379	63,137	65,514

1. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, *including any such securities that have been sold under agreements to repurchase* (RPs). The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Prior to 1984, securities owned, and hence dealer positions, do not include all securities acquired under reverse RPs. After January 1984, immediate positions include reverses to maturity, which are securities that were sold after having been obtained under reverse repurchase agreements that mature on the same day as the securities. Before 1981, data for immediate positions include forward positions.

2. Figures cover financing involving U.S. government and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper.

3. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements.

4. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

NOTE. Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period. Positions are shown net and are on a commitment basis. Data for financing are based on Wednesday figures, in terms of actual money borrowed or lent.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1981	1982	1983	1984				1985	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 **Federal and federally sponsored agencies**	**221,946**	**237,085**	**239,716**	**267,399**	**268,964**	**270,314**	**271,564**	**270,965**	**271,479**
2 Federal agencies	31,806	33,055	33,940	34,754	35,012	35,078	35,145	35,235	35,360
3 Defense Department[1]	484	354	243	153	149	146	142	133	122
4 Export-Import Bank[2,3]	13,339	14,218	14,853	15,733	15,721	15,721	15,882	15,882	15,881
5 Federal Housing Administration[4]	413	288	194	140	139	138	133	132	129
6 Government National Mortgage Association participation certificates[5]	2,715	2,165	2,165	2,165	2,165	2,165	2,165	2,165	2,165
7 Postal Service[6]	1,538	1,471	1,404	1,337	1,337	1,337	1,337	1,337	1,337
8 Tennessee Valley Authority	13,115	14,365	14,970	15,160	15,450	15,520	15,435	15,535	15,675
9 United States Railway Association[6]	202	194	111	51	51	51	51	51	51
10 Federally sponsored agencies[7]	190,140	204,030	205,776	232,645	233,952[r]	235,236	236,419	235,730	236,119[p]
11 Federal Home Loan Banks	54,131	55,967	48,930	65,616	66,126	66,230	65,085	64,705	64,706
12 Federal Home Loan Mortgage Corporation	5,480	4,524	6,793	8,950	9,634	10,299	10,270	10,195	11,237
13 Federal National Mortgage Association[8]	58,749	70,052	74,594	80,123	80,357	81,119	83,720	84,612	84,701
14 Farm Credit Banks	71,359	71,896	72,409	73,131	72,859	72,267	71,255	70,642	70,012
15 Student Loan Marketing Association	421	1,591	3,050	4,824	5,143	5,321	5,369	5,576	5,463
MEMO									
16 **Federal Financing Bank debt[9]**	**110,698**	**126,424**	**135,791**	**144,836**	**144,978**	**145,174**	**145,217**	**146,034**	**146,611**
Lending to federal and federally sponsored agencies									
17 Export-Import Bank[3]	12,741	14,177	14,789	15,690	15,690	15,690	15,852	15,852	15,852
18 Postal Service[6]	1,288	1,221	1,154	1,087	1,087	1,087	1,087	1,087	1,087
19 Student Loan Marketing Association	5,400	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
20 Tennessee Valley Authority	11,390	12,640	13,245	13,435	13,725	13,795	13,710	13,810	13,950
21 United States Railway Association[6]	202	194	111	51	51	51	51	51	51
Other Lending[10]									
22 Farmers Home Administration	48,821	53,261	55,266	59,511	59,021	58,801	58,971	59,066	59,041
23 Rural Electrification Administration	13,516	17,157	19,766	20,587	20,694	20,889	20,693	20,653	20,804
24 Other	12,740	22,774	26,460	29,475	29,710	29,861	29,853	30,515	30,826

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: Notes, bonds, and debentures.
8. Before late 1981, the Association obtained financing through the Federal Financing Bank.
9. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.
10. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small. The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1982	1983	1984r	1984 June	July	Aug.	Sept.	Oct.r	Nov.r	Dec.r	1985 Jan.
1 **All issues, new and refunding**[1]	**79,138**	**86,421**	**105,793**	**7,680**	**7,537**	**11,726**	**7,967**	**12,511**	**13,333**	**17,128**	**6,141**
Type of issue											
2 General obligation	21,094	21,566	26,486	2,857	1,919	1,781	1,433	3,764	2,680	2,125	1,767
3 U.S. government loans[2]	225	96	16	0	1	1	4	1	3	2	3
4 Revenue	58,044	64,855	79,307	4,823	5,618	9,945	6,534	8,748	10,653	15,003	4,374
5 U.S. government loans[2]	461	253	17	0	1	1	1	3	1	0	3
Type of issuer											
6 State	8,438	7,140	9,128	447	465	2,157	596	1,109	405	725	368
7 Special district and statutory authority	45,060	51,297	63,023	4,313	5,121	7,321	5,202	7,072	7,153	11,494	3,752
8 Municipalities, counties, townships, school districts	25,640	27,984	33,643	2,920	1,951	2,248	2,169	4,330	5,775	4,909	2,021
9 **Issues for new capital, total**	**74,804**	**72,441**	**93,303**	**6,959**	**6,592**	**10,749**	**7,454**	**11,104**	**12,169**	**15,202**	**4,771**
Use of proceeds											
10 Education	6,482	8,099	7,514	877	466	627	333	743	992	651	650
11 Transportation	6,256	4,387	7,510	464	118	423	590	1,018	2,136	1,312	341
12 Utilities and conservation	14,259	13,588	17,744	1,195	385	1,015	2,013	2,782	512	4,078	1,308
13 Social welfare	26,635	26,910	29,700	2,239	3,728	4,823	3,018	3,500	3,627	3,444	1,133
14 Industrial aid	8,349	7,821	15,067	463	884	1,055	679	1,492	3,803	5,317	718
15 Other purposes	12,822	11,637	15,768	1,721	1,011	2,806	821	1,569	1,099	1,010	621

1. Par amounts of long-term issues based on date of sale.
2. Consists of tax-exempt issues guaranteed by the Farmers Home Administration.

SOURCE. Public Securities Association.

1.46 NEW SECURITY ISSUES Corporations

Millions of dollars

Type of issue or issuer, or use	1982	1983	1984	1984 July	Aug.	Sept.	Oct.	Nov.	Dec.	1985 Jan.	Feb.
1 **All issues**[1,2]	**84,638**	**98,948**	**95,986**	**7,641**	**10,917**	**7,758**	**12,350**	**11,931**	**6,940**	**7,294**	**6,732**
2 **Bonds**	**54,076**	**47,369**	**73,357**	**6,309**	**8,863**	**6,225**	**10,403**	**9,524**	**5,918**	**5,739**	**4,016**
Type of offering											
3 Public	44,278	47,369	73,357	6,309	8,863	6,225	10,403	9,524	5,918	5,739	4,016
4 Private placement	9,798	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Industry group											
5 Manufacturing	12,822	7,842	14,438	950	2,484	1,614	2,989	1,447	1,741	1,326	1,476
6 Commercial and miscellaneous	5,442	5,186	8,745	875	776	576	988	1,198	555	144	469
7 Transportation	1,491	1,039	1,272	40	183	200	161	19	110	297	30
8 Public utility	12,327	7,241	6,754	650	765	758	1,150	555	575	309	80
9 Communication	2,390	3,159	2,407	31	0	0	240	1,557	169	375	353
10 Real estate and financial	19,604	22,900	39,741	3,763	4,654	3,076	4,875	4,749	2,768	3,288	1,607
11 **Stocks**[3]	**30,562**	**51,579**	**22,628**	**1,332**	**2,054**	**1,533**	**1,947**	**2,407**	**1,022**	**1,555**	**2,716**
Type											
12 Preferred	5,113	7,213	4,118	209	334	155	555	655	91	170	218
13 Common	25,449	44,366	18,510	1,123	1,720	1,378	1,392	1,752	931	1,385	2,498
Industry group											
14 Manufacturing	5,649	14,135	4,054	204	258	212	712	227	137	172	229
15 Commercial and miscellaneous	7,770	13,112	6,277	382	558	378	489	1,025	112	234	760
16 Transportation	709	2,729	589	28	0	87	16	66	71	0	153
17 Public utility	7,517	5,001	1,624	136	44	92	146	150	66	225	283
18 Communication	2,227	1,822	419	0	123	9	69	3	26	271	101
19 Real estate and financial	6,690	14,780	9,665	582	1,071	755	515	936	610	653	1,190

1. Figures, which represent gross proceeds of issues maturing in more than one year, sold for cash in the United States, are principal amount or number of units multiplied by offering price. Excludes offerings of less than $100,000, secondary offerings, undefined or exempted issues as defined in the Securities Act of 1933, employee stock plans, investment companies other than closed-end, intracorporate transactions, and sales to foreigners.
2. Data for 1983 include only public offerings.
3. Beginning in August 1981, gross stock offerings include new equity volume from swaps of debt for equity.

SOURCE. Securities and Exchange Commission and the Board of Governors of the Federal Reserve System.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1983	1984	1984						1985	
			July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.
INVESTMENT COMPANIES[1]										
1 Sales of own shares[2]	84,345	107,496	7,488	8,956	8,156	9,517	9,458	10,006	19,152	14,780
2 Redemptions of own shares[3]	57,100	76,380r	5,777	6,497	6,185	6,766	6,343	8,948	9,183	8,006
3 Net sales	27,245	31,116r	1,711	2,459	1,971	2,751	3,115	1,058	9,969	6,774
4 Assets[4]	113,599	137,126	115,481	128,209	129,657	131,539	132,709	137,126	151,534	154,770
5 Cash position[5]	8,343	11,978	11,620	12,698	13,221	11,417	11,518	11,978	13,114	14,554
6 Other	105,256	125,148	103,861	115,511	116,436	120,122	121,191	125,148	138,420	140,216

1. Excluding money market funds.
2. Includes reinvestment of investment income dividends. Excludes reinvestment of capital gains distributions and share issue of conversions from one fund to another in the same group.
3. Excludes share redemption resulting from conversions from one fund to another in the same group.
4. Market value at end of period, less current liabilities.
5. Also includes all U.S. government securities and other short-term debt securities.

NOTE. Investment Company Institute data based on reports of members, which comprise substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect newly formed companies after their initial offering of securities.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Account	1982	1983	1984r	1983				1984			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4r
1 Corporate profits with inventory valuation and capital consumption adjustment	159.1	225.2	285.7	179.1	216.7	245.0	260.0	277.4	291.1	282.8	291.6
2 Profits before tax	165.5	203.2	235.7	161.7	198.2	227.4	225.5	243.3	246.0	224.8	228.7
3 Profits tax liability	60.7	75.8	89.8	59.1	74.8	84.7	84.5	92.7	95.8	83.1	87.7
4 Profits after tax	104.8	127.4	145.9	102.6	123.4	142.6	141.1	150.6	150.2	141.7	141.0
5 Dividends	69.2	72.9	80.5	71.1	71.7	73.3	75.4	77.7	79.9	81.3	83.1
6 Undistributed profits	35.6	54.5	65.3	31.4	51.7	69.3	65.6	72.9	70.2	60.3	58.0
7 Inventory valuation	-9.5	-11.2	-5.6	-4.3	-12.1	-19.3	-9.2	-13.5	-7.3	-.2	-1.6
8 Capital consumption adjustment	3.1	33.2	55.7	21.7	30.6	36.9	43.6	47.6	52.3	58.3	64.5

SOURCE. *Survey of Current Business* (Department of Commerce).

1.49 NONFINANCIAL CORPORATIONS Assets and Liabilities

Billions of dollars, except for ratio

Account	1978	1979	1980	1981	1982	1983	1984			
						Q4	Q1	Q2	Q3r	Q4
1 **Current assets**	**1,043.7**	**1,214.8**	**1,327.0**	**1,418.4**	**1,432.7**	**1,557.3**	**1,600.6**	**1,630.6**	**1,667.2**	**1,680.9**
2 Cash	105.5	118.0	126.9	135.5	147.0	165.8	159.3	155.0	150.6	161.6
3 U.S. government securities	17.2	16.7	18.7	17.6	22.8	30.6	35.1	36.7	32.3	36.4
4 Notes and accounts receivable	388.0	459.0	506.8	532.0	519.2	577.8	596.9	612.4	628.1	617.7
5 Inventories	431.8	505.1	542.8	583.7	578.6	599.3	623.1	633.3	662.2	659.0
6 Other	101.1	116.0	131.8	149.5	165.2	183.7	186.3	193.2	194.0	206.3
7 **Current liabilities**	**669.5**	**807.3**	**889.3**	**970.0**	**976.8**	**1,043.0**	**1,079.0**	**1,111.9**	**1,143.3**	**1,149.6**
8 Notes and accounts payable	383.0	460.8	513.6	546.3	543.0	577.9	584.1	604.6	624.8	627.7
9 Other	286.5	346.5	375.7	423.7	433.8	465.2	495.0	507.3	518.5	521.9
10 **Net working capital**	**374.3**	**407.5**	**437.8**	**448.4**	**455.9**	**514.3**	**521.6**	**518.6**	**523.9**	**531.4**
11 MEMO: Current ratio[1]	1.559	1.505	1.492	1.462	1.467	1.493	1.483	1.466	1.458	1.462

1. Ratio of total current assets to total current liabilities.
NOTE. For a description of this series, see "Working Capital of Nonfinancial Corporations" in the July 1978 BULLETIN, pp. 533-37.
All data in this table reflect the most current benchmarks. Complete data are available upon request from the Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.
SOURCE. Federal Trade Commission and Bureau of the Census.

1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment ▲

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry[1]	1983	1984	1985[1]	1983		1984				1985	
				Q3	Q4	Q1	Q2	Q3	Q4	Q1[1]	Q2[1]
1 **Total nonfarm business**	**304.78**	**353.74**	**384.40**	**309.25**	**325.45**	**337.48**	**348.34**	**361.12**	**367.21**	**380.05**	**388.86**
Manufacturing											
2 Durable goods industries	53.08	65.95	75.01	54.15	57.56	61.26	63.12	68.31	71.13	74.01	76.84
3 Nondurable goods industries	63.12	72.43	78.62	62.59	66.19	68.71	72.21	73.72	75.07	77.00	80.16
Nonmanufacturing											
4 Mining	15.19	16.88	16.49	15.66	16.27	17.61	16.01	16.96	16.93	16.93	16.21
Transportation											
5 Railroad	4.88	6.77	7.35	5.31	6.04	5.76	7.46	7.47	6.40	6.21	7.20
6 Air	4.36	3.55	3.86	4.20	3.75	3.23	3.52	3.73	3.73	3.64	3.90
7 Other	4.72	6.17	6.33	4.69	5.48	5.96	6.06	6.50	6.16	6.11	6.21
Public utilities											
8 Electric	37.27	37.09	36.13	37.64	37.79	38.36	37.82	36.82	35.37	36.73	36.14
9 Gas and other	7.70	10.30	12.27	7.13	8.07	8.77	10.07	11.07	11.31	11.97	12.45
10 Commercial and other[2]	114.45	134.39	148.35	117.88	124.30	127.83	132.07	136.55	141.10	148.17	149.10

▲Trade and services are no longer being reported separately. They are included in Commercial and other, line 10.
1. Anticipated by business.
2. "Other" consists of construction; wholesale and retail trade; finance and insurance; personal and business services; and communication.
SOURCE. *Survey of Current Business* (Department of Commerce).

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities

Billions of dollars, end of period

Account	1978	1979	1980	1981	1982	1983 Q3	1983 Q4	1984 Q1	1984 Q2	1984 Q3
ASSETS										
Accounts receivable, gross										
1 Consumer	52.6	65.7	73.6	85.5	89.5	92.3	92.8	96.9	99.6	103.4
2 Business	63.3	70.3	72.3	80.6	81.0	86.8	95.2	101.1	104.2	103.2
3 Total	116.0	136.0	145.9	166.1	170.4	179.0	188.0	198.0	203.8	206.6
4 LESS: Reserves for unearned income and losses	15.6	20.0	23.3	28.9	30.5	30.1	30.6	31.9	33.4	34.7
5 Accounts receivable, net	100.4	116.0	122.6	137.2	139.8	148.9	157.4	166.1	170.4	171.9
6 Cash and bank deposits	3.5									
7 Securities	1.3	24.9[1]	27.5	34.2	39.7	45.0	45.3	47.1	48.1	49.1
8 All other	17.3									
9 **Total assets**	122.4	140.9	150.1	171.4	179.5	193.9	202.7	213.2	218.5	220.9
LIABILITIES										
10 Bank loans	6.5	8.5	13.2	15.4	18.6	17.0	19.1	14.7	15.3	16.0
11 Commercial paper	34.5	43.3	43.4	51.2	45.8	49.7	53.6	58.4	62.0	60.1
Debt										
12 Short-term, n.e.c.	8.1	8.2	7.5	9.6	8.7	8.7	11.3	12.2	15.0	15.1
13 Long-term, n.e.c.	43.6	46.7	52.4	54.8	63.5	66.2	65.4	68.7	67.6	71.2
14 Other	12.6	14.2	14.3	17.8	18.7	24.4	27.1	29.8	29.0	29.2
15 Capital, surplus, and undivided profits	17.2	19.9	19.4	22.8	24.2	27.9	26.2	29.4	29.6	29.2
16 **Total liabilities and capital**	122.4	140.9	150.1	171.4	179.5	193.9	202.7	213.2	218.5	220.9

1. Beginning Q1 1979, asset items on lines 6, 7, and 8 are combined.
NOTE. Components may not add to totals due to rounding.

These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

1.52 DOMESTIC FINANCE COMPANIES Business Credit

Millions of dollars, seasonally adjusted except as noted

Type	Accounts receivable outstanding Feb. 28, 1985[1]	Changes in accounts receivable			Extensions			Repayments		
		1984	1985		1984	1985		1984	1985	
		Dec.	Jan.	Feb.	Dec.	Jan.	Feb.	Dec.	Jan.	Feb.
1 **Total**	137,947	2,969	4,368	869	27,088	28,010	26,444	24,119	23,642	25,575
Retail financing of installment sales										
2 Automotive (commercial vehicles)	11,213	−20	−25	43	720	720	797	740	745	754
3 Business, industrial, and farm equipment	20,332	477	−218	−25	1,491	1,254	1,272	1,014	1,472	1,297
Wholesale financing										
4 Automotive	20,186	1,295	1,096	709	9,898	10,165	9,394	8,603	9,069	8,685
5 Equipment	4,778	−82	157	−15	573	711	485	655	554	500
6 All other	6,597	212	147	106	1,690	1,824	1,690	1,478	1,677	1,584
Leasing										
7 Automotive	13,436	377	623	305	917	1,121	966	540	498	661
8 Equipment	36,399	453	928	39	1,528	1,767	916	1,075	839	877
9 Loans on commercial accounts receivable and factored commercial accounts receivable	16,037	226	1,659	−687	9,285	9,475	9,650	9,059	7,816	10,337
10 All other business credit	10,969	31	1	394	986	973	1,274	955	972	880

1. Not seasonally adjusted.

NOTE. These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1982	1983	1984	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.	1985 Feb.	1985 Mar.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms[1]										
1 Purchase price (thousands of dollars)	94.6	92.8	96.8	97.4	98.4	99.5	102.6	94.8	101.8r	90.8
2 Amount of loan (thousands of dollars)	69.8	69.5	73.7	72.5	74.0	75.2	76.9	71.4	76.5r	69.3
3 Loan/price ratio (percent)	76.6	77.1	78.7	77.3	78.2	77.9	77.9	77.9	77.6r	79.5
4 Maturity (years)	27.6	26.7	27.8	27.6	27.6	27.5	28.0	27.7	28.1r	27.0
5 Fees and charges (percent of loan amount)[2]	2.95	2.40	2.64	2.63	2.58	2.54	2.65	2.65	2.58r	2.58
6 Contract rate (percent per annum)	14.47	12.20	11.87	12.03	12.27	12.27	12.05	11.77	11.74r	11.42
Yield (percent per annum)										
7 FHLBB series[3]	15.12	12.66	12.37	12.53	12.77	12.75	12.55	12.27	12.21r	11.91
8 HUD series[4]	15.79	13.43	13.80	13.98	13.59	13.20	13.05	12.88	13.06	13.26
SECONDARY MARKETS										
Yield (percent per annum)										
9 FHA mortgages (HUD series)[5]	15.30	13.11	13.81	13.99	13.43	12.90	12.99	13.01	13.27	13.43
10 GNMA securities[6]	14.68	12.25	13.13	13.36	13.09	12.71	12.54	12.26	12.23	12.68
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	66,031	74,847	83,339	84,851	85,539	86,416	87,940	89,353	90,369	91,975
12 FHA/VA-insured	39,718	37,393	35,148	34,844	34,791	34,752	34,711	34,602	34,553	34,585
13 Conventional	26,312	37,454	48,191	50,006	50,749	51,664	53,229	54,751	55,816	57,391
Mortgage transactions (during period)										
14 Purchases	15,116	17,554	16,721	1,145	1,087	1,297	1,962	1,943	1,559	2,256
15 Sales	2	3,528	978	0	0	0	0	0	0	100
Mortgage commitments[7]										
16 Contracted (during period)	22,105	18,607	21,007	1,142	1,638	2,150	2,758	1,230	1,895	1,636
17 Outstanding (end of period)	7,606	5,461	6,384	6,235	6,656	5,916	6,384	5,678	5,665	5,019
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
18 Total	5,131	5,996	9,283	9,447	9,726	9,900	10,399	10,362		
19 FHA/VA	1,027	974	910	896	891	886	881	876		
20 Conventional	4,102	5,022	8,373	8,551	8,835	9,014	9,518	9,485		
Mortgage transactions (during period)										
21 Purchases	23,673	23,089	21,886	1,262	2,864	2,241	4,137	2,197	n.a.	n.a.
22 Sales	24,170	19,686	18,506	1,137	2,573	1,961	3,635	2,162		
Mortgage commitments[9]										
23 Contracted (during period)	28,179	32,852	32,603	3,440	2,663	4,158	4,174	4,264		
24 Outstanding (end of period)	7,549	16,964	26,990	22,013	25,676	27,550	26,990	29,654		

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.
4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.
5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates.
6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are averages of Friday figures from the *Wall Street Journal*.
7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.
8. Includes participation as well as whole loans.
9. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING

Millions of dollars, end of period

Type of holder, and type of property	1982	1983	1984r	1983 Q4	1984 Q1	1984 Q2	1984 Q3	1984 Q4r
1 All holders	1,658,450	1,827,563	2,031,459	1,827,563	1,874,489	1,934,437	1,987,130	2,031,459
2 1- to 4-family	1,110,315	1,219,145	1,350,576	1,219,145	1,250,678	1,287,537	1,320,515	1,350,576
3 Multifamily	140,063	150,149	164,017	150,149	153,655	158,349	161,893	164,017
4 Commercial	301,362	348,958	406,059	348,958	360,540	377,974	393,600	406,059
5 Farm	106,710	109,311	110,807	109,311	109,616	110,577	111,122	110,807
6 Major financial institutions	1,024,680	1,110,165	1,247,047	1,110,165	1,138,931	1,183,480	1,221,779	1,247,047
7 Commercial banks[1]	301,272	328,323	374,186	328,323	340,797	353,946	365,386	374,186
8 1- to 4-family	173,804	181,300	197,944	181,300	185,530	190,706	194,933	197,944
9 Multifamily	16,480	18,288	21,142	18,288	20,005	20,670	21,412	21,142
10 Commercial	102,553	119,411	144,623	119,411	125,550	132,447	138,774	144,623
11 Farm	8,435	9,324	10,477	9,324	9,712	10,123	10,267	10,477
12 Mutual savings banks	97,805	136,054	160,301	136,054	143,180	147,517	150,462	160,301
13 1- to 4-family	66,777	96,569	114,061	96,569	101,868	105,063	106,944	114,061
14 Multifamily	15,305	17,785	20,119	17,785	18,441	18,752	19,138	20,119
15 Commercial	15,694	21,671	26,090	21,671	22,841	23,672	24,349	26,090
16 Farm	29	29	31	29	30	30	31	31
17 Savings and loan associations	483,614	494,789	555,277	494,789	503,509	528,172	550,129	555,277
18 1- to 4-family	393,323	390,883	431,450	390,883	397,017	414,087	429,101	431,450
19 Multifamily	38,979	42,552	48,309	42,552	43,553	45,951	47,861	48,309
20 Commercial	51,312	61,354	75,518	61,354	62,939	68,134	73,167	75,518
21 Life insurance companies	141,989	150,999	157,283	150,999	151,445	153,845	155,802	157,283
22 1- to 4-family	16,751	15,319	14,180	15,319	14,917	14,437	14,204	14,180
23 Multifamily	18,856	19,107	19,017	19,107	19,083	19,028	18,828	19,017
24 Commercial	93,547	103,831	111,642	103,831	104,890	107,796	110,149	111,642
25 Farm	12,835	12,742	12,444	12,742	12,555	12,584	12,621	12,444
26 Federal and related agencies	138,138	147,370	157,901	147,370	150,784	152,669	153,355r	157,901
27 Government National Mortgage Association	4,227	3,395	2,301	3,395	2,900	2,715	2,389	2,301
28 1- to 4-family	676	630	585	630	618	605	594	585
29 Multifamily	3,551	2,765	1,716	2,765	2,282	2,110	1,795	1,716
30 Farmers Home Administration	1,786	2,141	1,800	2,141	2,094	1,344	738	1,800
31 1- to 4-family	783	1,159	449	1,159	1,005	281	206	449
32 Multifamily	218	173	124	173	303	463	126	124
33 Commercial	377	409	652	409	319	81	113	652
34 Farm	408	400	575	400	467	519	293	575
35 Federal Housing and Veterans Administration	5,228	4,894	4,782	4,894	4,832	4,753	4,749r	4,782
36 1- to 4-family	1,980	1,893	2,007	1,893	1,956	1,894	1,982r	2,007
37 Multifamily	3,248	3,001	2,775	3,001	2,876	2,859	2,767r	2,775
38 Federal National Mortgage Association	71,814	78,256	87,940	78,256	80,975	83,243	84,850	87,940
39 1- to 4-family	66,500	73,045	82,175	73,045	75,770	77,633	79,175	82,175
40 Multifamily	5,314	5,211	5,765	5,211	5,205	5,610	5,675	5,765
41 Federal Land Banks	50,350	51,052	50,679	51,052	51,004	51,136	51,182	50,679
42 1- to 4-family	3,068	3,000	2,948	3,000	2,982	2,958	2,954	2,948
43 Farm	47,282	48,052	47,731	48,052	48,022	48,178	48,228	47,731
44 Federal Home Loan Mortgage Corporation	4,733	7,632	10,399	7,632	8,979	9,478	9,447	10,399
45 1- to 4-family	4,686	7,559	9,654	7,559	8,847	8,931	8,841	9,654
46 Multifamily	47	73	745	73	132	547	606	745
47 Mortgage pools or trusts[2]	216,654	285,073	331,532	285,073	296,481	305,051	317,548	331,532
48 Government National Mortgage Association	118,940	159,850	179,981	159,850	166,261	170,893	175,770	179,981
49 1- to 4-family	115,831	155,801	175,084	155,801	161,943	166,415	171,095	175,084
50 Multifamily	3,109	4,049	4,897	4,049	4,318	4,478	4,675	4,897
51 Federal Home Loan Mortgage Corporation	42,964	57,895	70,822	57,895	59,376	61,267	63,964	70,822
52 1- to 4-family	42,560	57,273	70,253	57,273	58,776	60,636	63,352	70,253
53 Multifamily	404	622	569	622	600	631	612	569
54 Federal National Mortgage Association[3]	14,450	25,121	36,215	25,121	28,354	29,256	32,888	36,215
55 1- to 4-family	14,450	25,121	35,965	25,121	28,354	29,256	32,730	35,965
56 Multifamily	n.a.	n.a.	250	n.a.	n.a.	n.a.	158	250
57 Farmers Home Administration	40,300	42,207	44,514	42,207	42,490	43,635	44,926	44,514
58 1- to 4-family	20,005	20,404	21,578	20,404	20,573	21,331	21,595	21,578
59 Multifamily	4,344	5,090	5,835	5,090	5,081	5,081	5,618	5,835
60 Commercial	7,011	7,351	7,403	7,351	7,456	7,764	7,844	7,403
61 Farm	8,940	9,362	9,698	9,362	9,380	9,459	9,869	9,698
62 Individual and others[4]	278,978	284,955	294,979	284,955	288,293	293,237	294,448	294,979
63 1- to 4-family[5]	189,121	189,189	192,243	189,189	190,522	193,304	192,809	192,243
64 Multifamily	30,208	31,433	32,754	31,433	31,776	32,169	32,622	32,754
65 Commercial	30,868	34,931	40,131	34,931	36,545	38,080	39,204	40,131
66 Farm	28,781	29,402	29,851	29,402	29,450	29,684	29,813	29,851

1. Includes loans held by nondeposit trust companies but not bank trust departments.
2. Outstanding principal balances of mortgages backing securities insured or guaranteed by the agency indicated.
3. Outstanding balances on FNMA's issues of securities backed by pools of conventional mortgages held in trust. Implemented by FNMA in October 1981.
4. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and U.S. agencies for which amounts are small or for which separate data are not readily available.
5. Includes estimate of residential mortgage credit provided by individuals.

NOTE. Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve in conjunction with the Federal Home Loan Bank Board and the Department of Commerce. Separation of nonfarm mortgage debt by type of property, if not reported directly, and interpolations and extrapolations when required, are estimated mainly by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.

1.55 CONSUMER INSTALLMENT CREDIT[1] Total Outstanding, and Net Change▲

Millions of dollars

Holder, and type of credit	1983	1984	1984^r							1985	
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Amounts outstanding (end of period)										
1 **Total**	**383,701**	**460,500**	**414,738**	**422,008**	**430,795**	**437,469**	**441,358**	**447,783**	**460,500**	**461,530**	**464,940**
By major holder											
2 Commercial banks	171,978	212,391	191,519	195,265	199,654	202,452	204,582	206,635	212,391	213,951	215,778
3 Finance companies	87,429	96,747	91,006	92,534	94,070	95,594	95,113	95,753	96,747	96,732	97,360
4 Credit unions	53,471	67,858	59,893	61,151	62,679	63,808	64,716	66,528	67,858	68,538	70,251
5 Retailers[2]	37,470	40,913	35,242	35,058	35,359	35,595	35,908	37,124	40,913	38,978	37,483
6 Savings and loans	23,108	29,945	25,428	26,057	26,922	27,880	28,781	29,358	29,945	30,520	31,405
7 Gasoline companies	4,131	4,315	4,289	4,472	4,452	4,328	4,290	4,217	4,315	4,329	4,012
8 Mutual savings banks	6,114	8,331	7,361	7,471	7,659	7,812	7,968	8,168	8,331	8,482	8,651
By major type of credit											
9 Automobile	143,114	172,589	158,215	161,834	165,177	167,231	168,923	170,731	172,589	173,769	176,119
10 Commercial banks	67,557	85,501	78,018	80,103	81,786	82,706	83,620	84,326	85,501	86,223	87,333
11 Credit unions	25,574	32,456	28,646	29,248	29,979	30,519	30,953	31,820	32,456	32,781	33,601
12 Finance companies	49,983	54,632	51,551	52,483	53,412	54,006	54,350	54,585	54,632	54,765	55,185
13 Revolving	81,977	101,555	85,027	86,003	88,202	90,231	91,505	93,944	101,555	100,565	99,316
14 Commercial banks	44,184	60,549	49,374	50,358	52,313	54,258	55,276	56,641	60,549	61,445	61,978
15 Retailers	33,662	36,691	31,364	31,173	31,437	31,645	31,939	33,086	36,691	34,791	33,326
16 Gasoline companies	4,131	4,315	4,289	4,472	4,452	4,328	4,290	4,217	4,315	4,329	4,012
17 Mobile home	23,862	24,556	24,300	24,639	24,947	25,198	24,573	24,439	24,556	24,281	24,393
18 Commercial banks	9,842	9,610	9,621	9,681	9,711	9,761	9,627	9,613	9,610	9,498	9,456
19 Finance companies	9,547	9,243	9,729	9,883	9,992	10,065	9,470	9,235	9,243	9,053	9,044
20 Savings and loans	3,906	4,985	4,316	4,428	4,581	4,697	4,791	4,887	4,985	5,005	5,150
21 Credit unions	567	718	634	647	663	675	685	704	718	725	743
22 Other	134,748	161,800	147,196	149,532	152,469	154,809	156,357	158,669	161,800	162,915	165,112
23 Commercial banks	50,395	56,731	54,506	55,123	55,844	55,727	56,059	56,055	56,731	56,785	57,011
24 Finance companies	27,899	32,872	29,726	30,168	30,666	31,523	31,293	31,933	32,872	32,914	33,131
25 Credit unions	27,330	34,684	30,613	31,256	32,037	32,614	33,078	34,004	34,684	35,032	35,907
26 Retailers	3,808	4,222	3,878	3,885	3,922	3,950	3,969	4,038	4,222	4,187	4,157
27 Savings and loans	19,202	24,960	21,112	21,629	22,341	23,183	23,990	24,471	24,960	25,515	26,255
28 Mutual savings banks	6,114	8,331	7,361	7,471	7,659	7,812	7,968	8,168	8,331	8,482	8,651
	Net change (during period)[3r]										
29 **Total**	**48,742**	**76,799**	**7,082**	**6,481**	**6,022**	**4,982**	**5,631**	**6,080**	**6,819**	**7,223**	**10,373**
By major holder											
30 Commercial banks	19,488	40,413	3,835	3,192	2,631	1,384	2,756	2,483	3,028	3,799	5,071
31 Finance companies	18,572	18,636	942	1,138	1,381	1,571	398	778	1,196	901	1,203
32 Credit unions	6,218	14,387	1,049	1,360	927	871	1,224	1,731	1,336	1,290	2,755
33 Retailers[2]	5,075	3,443	330	36	197	225	128	278	389	251	269
34 Savings and loans	7,285	6,837	813	586	804	770	864	546	576	922	997
35 Gasoline companies	68	184	37	−23	−63	−38	98	86	117	−91	−102
36 Mutual savings banks	1,322	2,217	76	192	145	199	163	178	177	151	180
By major type of credit											
37 Automobile	16,856	29,475	2,725	3,087	2,482	1,513	2,504	2,549	2,687	2,887	3,837
38 Commercial banks	8,002	17,944	1,907	1,852	1,150	434	1,057	1,019	1,275	1,616	1,790
39 Credit unions	2,978	6,882	503	650	444	416	587	828	640	598	1,335
40 Finance companies	11,752	9,298	315	585	888	663	860	702	772	673	712
41 Revolving	12,353	19,578	1,356	772	1,263	1,484	1,488	1,614	1,445	1,957	2,527
42 Commercial banks	7,518	16,365	1,047	764	1,159	1,323	1,279	1,289	1,001	1,809	2,429
43 Retailers	4,767	3,029	272	31	167	199	111	239	327	239	200
44 Gasoline companies	68	184	37	−23	−63	−38	98	86	117	−91	−102
45 Mobile home	1,452	694	191	334	217	127	−392	−91	117	−159	296
46 Commercial banks	237	−232	10	31	4	4	−91	−1	29	−89	41
47 Finance companies	776	−608	46	137	63	19	−381	−192	−13	−144	33
48 Savings and loans	763	1,079	123	152	140	95	67	84	88	60	192
49 Credit unions	64	151	12	14	10	9	13	18	13	14	30
50 Other	18,081	27,052	2,810	2,288	2,060	1,858	2,031	2,008	2,570	2,538	3,713
51 Commercial banks	3,731	6,336	871	545	318	−377	511	176	723	463	811
52 Finance companies	6,044	9,946	581	416	430	889	−81	268	437	372	458
53 Credit unions	3,176	7,354	534	696	473	446	624	885	683	678	1,390
54 Retailers	308	414	58	5	30	26	17	39	62	12	69
55 Savings and loans	6,522	5,758	690	434	664	675	797	462	488	862	805
56 Mutual savings banks	1,322	2,217	76	192	145	199	163	178	177	151	180

▲ These data have not been revised this month due to revisions that were not available at time of publication.

1. The Board's series cover most short- and intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repayment) in two or more installments.

2. Includes auto dealers and excludes 30-day charge credit held by travel and entertainment companies.

3. For 1982 and earlier, net change equals extensions, seasonally adjusted less liquidations, seasonally adjusted. Beginning 1983, net change equals outstandings, seasonally adjusted less outstandings of the previous period, seasonally adjusted.

NOTE. Total consumer noninstallment credit outstanding—credit scheduled to be repaid in a lump sum, including single-payment loans, charge accounts, and service credit—amounted to, not seasonally adjusted, $80.7 billion at the end of 1981, $85.9 billion at the end of 1982, and $96.9 billion at the end of 1983.

These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT

Percent unless noted otherwise

Item	1982	1983	1984	1984 Aug.	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.	1985 Feb.
INTEREST RATES										
Commercial banks[1]										
1 48-month new car[2]	16.82	13.92	13.71	14.08	n.a.	n.a.	13.91	n.a.	n.a.	13.37
2 24-month personal	18.64	16.50	16.47	16.75	n.a.	n.a.	16.63	n.a.	n.a.	16.21
3 120-month mobile home[2]	18.05	16.08	15.58	15.72	n.a.	n.a.	15.60	n.a.	n.a.	15.42
4 Credit card	18.51	18.78	18.77	18.81	n.a.	n.a.	18.82	n.a.	n.a.	18.85
Auto finance companies										
5 New car	16.15	12.58	14.62	15.01	15.16	15.18	15.24	15.24	15.11	13.78
6 Used car	20.75	18.74	17.85	17.99	18.10	18.19	18.30	18.34	17.88	17.91
OTHER TERMS[3]										
Maturity (months)										
7 New car	45.9	45.9	48.3	49.2	49.5	49.7	50.0	50.2	50.7	51.4
8 Used car	37.0	37.9	39.7	39.8	39.9	39.9	39.9	39.8	41.3	41.1
Loan-to-value ratio										
9 New car	85	86	88	88	89	88	89	89	90	90
10 Used car	90	92	92	93	93	93	93	93	93	93
Amount financed (dollars)										
11 New car	8,178	8,787	9,333	9,409	9,402	9,449	9,577	9,707	9,654	9,196
12 Used car	4,746	5,033	5,691	5,753	5,792	5,826	5,900	5,975	5,951	5,968

1. Data for midmonth of quarter only.
2. Before 1983 the maturity for new car loans was 36 months, and for mobile home loans was 84 months.
3. At auto finance companies.

NOTE. These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; half-yearly data are at seasonally adjusted annual rates.

Transaction category, sector	1979	1980	1981	1982	1983	1984	1982		1983		1984	
							H1	H2	H1	H2	H1	H2
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**386.0**	**344.6**	**380.4**	**404.1**	**526.4**	**715.3**	**358.1**	**450.1**	**448.9**	**563.8**	**697.9**	**732.6**
By sector and instrument												
2 U.S. government	37.4	79.2	87.4	161.3	186.6	198.8	104.1	218.4	222.0	151.1	177.4	220.2
3 Treasury securities	38.8	79.8	87.8	162.1	186.7	199.0	105.5	218.8	222.1	151.2	177.6	220.3
4 Agency issues and mortgages	−1.4	−.6	−.5	−.9	−.1	−.2	−1.4	−.4	−.1	−.1	−.2	−.1
5 Private domestic nonfinancial sectors	348.6	265.4	293.1	242.8	339.8	516.5	254.0	231.7	266.9	412.7	520.5	512.4
6 Debt capital instruments	211.2	192.0	159.1	158.9	239.3	288.4	140.7	177.2	214.4	264.2	280.4	296.4
7 Tax-exempt obligations	30.3	30.3	22.7	53.8	56.3	54.6	43.9	63.7	62.8	49.7	37.9	71.3
8 Corporate bonds	17.3	26.7	21.8	18.7	15.7	32.2	12.0	25.3	23.0	8.4	24.1	40.3
9 Mortgages	163.6	135.1	114.6	86.5	167.3	201.5	84.8	88.2	128.6	206.0	218.3	184.8
10 Home mortgages	120.0	96.7	76.0	52.5	108.7	128.9	53.6	51.3	83.8	133.6	140.9	116.9
11 Multifamily residential	7.8	8.8	4.3	5.5	8.4	13.8	5.1	5.8	2.8	13.9	17.1	10.4
12 Commercial	23.9	20.2	24.6	23.6	47.3	57.3	19.7	27.5	40.3	54.3	58.5	56.1
13 Farm	11.8	9.3	9.7	5.0	2.9	1.6	6.5	3.5	1.6	4.1	1.8	1.3
14 Other debt instruments	137.5	73.4	134.0	83.9	100.5	228.1	113.2	54.6	52.5	148.5	240.2	216.1
15 Consumer credit	45.4	6.3	26.7	21.0	51.3	100.6	20.6	21.4	35.9	66.6	103.0	98.2
16 Bank loans n.e.c.	51.2	36.7	54.7	55.5	27.3	71.5	69.0	42.0	13.3	41.2	83.2	59.7
17 Open market paper	11.1	5.7	19.2	−4.1	−1.2	23.8	10.0	−18.2	−10.6	8.3	31.5	16.0
18 Other	29.7	24.8	33.4	11.5	23.1	32.3	13.6	9.4	13.9	32.3	22.4	42.1
19 By borrowing sector	348.6	265.4	293.1	242.8	339.8	516.5	254.0	231.7	266.9	412.7	520.5	512.4
20 State and local governments	17.6	17.2	6.2	31.3	36.7	33.0	24.1	38.5	41.9	31.6	18.9	47.0
21 Households	179.3	122.1	127.5	94.5	175.4	241.6	94.7	94.3	134.8	216.0	236.6	246.6
22 Farm	21.4	14.4	16.3	7.6	4.3	2.2	9.6	5.6	.8	7.9	.6	3.8
23 Nonfarm noncorporate	34.4	33.7	40.2	39.5	63.9	76.3	36.6	42.3	50.1	77.6	86.1	66.5
24 Corporate	96.0	78.1	102.9	70.0	59.5	163.5	89.0	51.0	39.3	79.6	178.3	148.6
25 Foreign net borrowing in United States	20.2	27.2	27.2	15.7	18.9	1.7	10.2	21.2	15.3	22.5	19.2	−15.7
26 Bonds	3.9	.8	5.4	6.7	3.8	2.7	2.4	11.0	4.6	2.9	1.1	4.4
27 Bank loans n.e.c.	2.3	11.5	3.7	−6.2	4.9	−6.2	−7.6	−4.7	11.3	−1.5	−6.0	−6.3
28 Open market paper	11.2	10.1	13.9	10.7	6.0	.4	12.5	9.0	−4.6	16.5	18.9	−18.1
29 U.S. government loans	2.9	4.7	4.2	4.5	4.3	4.8	3.0	6.0	3.9	4.6	5.3	4.4
30 ***Total domestic plus foreign***	**406.2**	**371.8**	**407.6**	**419.8**	**545.3**	**717.0**	**368.3**	**471.4**	**504.2**	**586.3**	**717.1**	**717.0**
	Financial sectors											
31 **Total net borrowing by financial sectors**	**82.4**	**62.9**	**84.1**	**69.0**	**90.7**	**126.5**	**84.2**	**53.8**	**74.0**	**107.3**	**121.0**	**131.9**
By instrument												
32 U.S. government related	47.9	44.8	47.4	64.9	67.8	74.2	60.0	69.7	66.2	69.4	69.1	79.2
33 Sponsored credit agency securities	24.3	24.4	30.5	14.9	1.4	30.0	22.4	7.5	−4.1	6.9	30.8	29.2
34 Mortgage pool securities	23.1	19.2	15.0	49.5	66.4	44.2	36.8	62.2	70.3	62.5	38.3	50.0
35 Loans from U.S. government	.6	1.2	1.9	.4	......	......	.8	......	......	......	......	......
36 Private financial sectors	34.5	18.1	36.7	4.1	22.9	52.3	24.2	−16.0	7.8	38.0	51.9	52.7
37 Corporate bonds	7.8	7.1	−.8	2.5	17.1	14.5	−2.5	7.6	15.2	18.9	14.9	14.1
38 Mortgages	*	−.1	−.5	.1	*	*	.1	.1	*	*	*	*
39 Bank loans n.e.c.	−.5	−.9	.9	1.9	−.2	.9	3.2	.6	−2.5	2.2	.1	1.7
40 Open market paper	18.0	4.8	20.9	−1.2	13.0	21.2	12.3	−14.7	7.2	18.8	21.2	21.1
41 Loans from Federal Home Loan Banks	9.2	7.1	16.2	.8	−7.0	15.7	11.1	−9.5	−12.1	−2.0	15.7	15.7
By sector												
42 Sponsored credit agencies	24.8	25.6	32.4	15.3	1.4	30.0	23.2	7.5	−4.1	6.9	30.8	29.2
43 Mortgage pools	23.1	19.2	15.0	49.5	66.4	44.2	36.8	62.2	70.3	62.5	38.3	50.0
44 Private financial sectors	34.5	18.1	36.7	4.1	22.9	52.3	24.2	−16.0	7.8	38.0	51.9	52.7
45 Commercial banks	1.6	.5	.4	1.2	.5	2.7	.7	1.7	.8	.2	4.8	.6
46 Bank affiliates	6.5	6.9	8.3	1.9	8.6	10.8	9.7	−5.8	6.1	11.1	20.0	1.5
47 Savings and loan associations	12.6	7.4	15.5	2.5	−2.7	20.1	14.3	−9.3	−10.0	4.5	18.2	21.9
48 Finance companies	16.5	5.8	12.8	−.9	17.0	19.5	*	−1.9	11.4	22.7	9.6	29.4
49 REITs	−1.3	−2.2	.2	.1	.2	.1	.1	.1	.2	.2	.1	.1
	All sectors											
50 **Total net borrowing**	**488.7**	**434.7**	**491.8**	**488.8**	**635.9**	**843.5**	**452.5**	**525.1**	**578.2**	**693.6**	**838.1**	**848.9**
51 U.S. government securities	84.8	122.9	133.0	225.9	254.4	273.1	163.5	288.3	288.4	220.5	246.7	299.5
52 State and local obligations	30.3	30.3	22.7	53.8	56.3	54.6	43.9	63.7	62.8	49.7	37.9	71.3
53 Corporate and foreign bonds	29.0	34.6	26.4	27.8	36.5	49.4	11.8	43.8	42.8	30.3	40.1	58.8
54 Mortgages	163.5	134.9	113.9	86.5	167.2	201.5	84.8	88.2	128.5	206.0	218.2	184.7
55 Consumer credit	45.4	6.3	26.7	21.0	51.3	100.6	20.6	21.4	35.9	66.6	103.0	98.2
56 Bank loans n.e.c.	52.9	47.3	59.3	51.2	32.0	66.2	64.6	37.9	22.1	41.9	77.3	55.1
57 Open market paper	40.3	20.6	54.0	5.4	17.8	45.3	34.8	−23.9	−8.0	43.6	71.5	19.0
58 Other loans	42.4	37.8	55.8	17.2	20.3	52.8	28.5	5.9	5.7	35.0	43.4	62.2
	External corporate equity funds raised in United States											
59 **Total new share issues**	**−3.8**	**22.2**	**−4.1**	**35.3**	**67.8**	**−29.8**	**23.3**	**47.2**	**83.5**	**52.0**	**−43.3**	**−16.4**
60 Mutual funds	.1	5.2	6.3	18.4	32.8	38.1	12.5	24.3	36.8	28.9	39.0	37.2
61 All other	−3.9	17.1	−10.4	16.9	34.9	−67.9	10.9	22.9	46.8	23.1	−82.3	−53.6
62 Nonfinancial corporations	−7.8	12.9	−11.5	11.4	28.3	−72.1	7.0	15.8	38.2	18.4	−84.5	−59.6
63 Financial corporations	3.2	2.1	.8	4.0	2.7	3.0	3.9	4.1	2.8	2.5	2.9	3.2
64 Foreign shares purchased in United States	.8	2.1	.3	1.5	4.0	1.1	−.1	3.0	5.7	2.2	−.7	2.9

1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, except as noted; half-yearly data are at seasonally adjusted annual rates.

Transaction category, or sector	1979	1980	1981	1982	1983	1984	1982 H1	1982 H2	1983 H1	1983 H2	1984 H1	1984 H2
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**386.0**	**344.6**	**380.4**	**404.1**	**526.4**	**715.3**	**358.1**	**450.1**	**488.9**	**563.8**	**697.9**	**732.6**
By public agencies and foreign												
2 Total net advances	75.2	97.0	97.7	109.1	117.1	142.6	100.8	117.3	119.7	114.6	123.7	161.5
3 U.S. government securities	−6.3	15.7	17.2	18.0	27.6	35.8	9.7	26.2	40.5	14.6	33.4	38.2
4 Residential mortgages	35.8	31.7	23.5	61.0	76.1	56.5	47.6	74.4	80.1	72.0	52.0	61.1
5 FHLB advances to savings and loans	9.2	7.1	16.2	.8	−7.0	15.7	11.1	−9.5	−12.1	−2.0	15.7	15.7
6 Other loans and securities	36.5	42.4	40.9	29.3	20.5	34.6	32.4	26.2	11.1	29.9	22.6	46.6
Total advanced, by sector												
7 U.S. government	19.0	23.7	24.1	16.0	9.7	16.7	14.8	17.1	9.1	10.3	6.1	27.2
8 Sponsored credit agencies	53.0	45.6	48.2	65.3	69.5	71.8	61.8	68.7	68.2	70.7	73.0	70.6
9 Monetary authorities	7.7	4.5	9.2	9.8	10.9	8.4	3.8	15.7	15.6	6.2	17.1	−.3
10 Foreign	−4.6	23.2	16.3	18.1	27.1	45.7	20.4	15.8	26.8	27.4	27.5	64.0
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	47.9	44.8	47.4	64.9	67.8	74.2	60.0	69.7	66.2	69.4	69.1	79.2
12 Foreign	20.2	27.2	27.2	15.7	18.9	1.7	10.2	21.2	15.3	22.5	19.2	−15.7
Private domestic funds advanced												
13 Total net advances	379.0	319.6	357.3	375.6	495.9	648.6	327.5	423.8	450.8	541.1	662.5	634.7
14 U.S. government securities	91.1	107.2	115.8	207.9	226.9	237.3	153.7	262.0	247.8	205.9	213.2	261.3
15 State and local obligations	30.3	30.3	22.7	53.8	56.3	54.6	43.9	63.7	62.8	49.7	37.9	71.3
16 Corporate and foreign bonds	18.5	19.3	18.8	14.8	14.6	17.4	−.1	29.6	22.9	6.3	18.0	16.9
17 Residential mortgages	91.9	73.7	56.7	−3.2	40.9	86.1	11.0	−17.4	6.4	75.5	105.9	66.2
18 Other mortgages and loans	156.3	96.2	159.5	103.2	150.2	268.9	130.2	76.3	98.7	201.7	303.2	234.7
19 LESS: Federal Home Loan Bank advances	9.2	7.1	16.2	.8	−7.0	15.7	11.1	−9.5	−12.1	−2.0	15.7	15.7
Private financial intermediation												
20 Credit market funds advanced by private financial institutions	313.9	281.5	323.4	285.6	376.7	541.9	274.4	296.7	323.2	430.1	522.2	561.6
21 Commercial banking	123.1	100.6	102.3	107.2	136.1	176.1	99.9	114.5	121.6	150.6	192.8	159.4
22 Savings institutions	56.5	54.5	27.8	31.3	136.8	147.7	25.2	37.4	128.9	144.6	157.0	138.4
23 Insurance and pension funds	85.9	94.3	97.4	108.8	98.8	113.2	111.4	106.3	89.5	108.1	95.6	130.8
24 Other finance	48.5	32.1	96.0	38.3	5.0	104.9	37.9	38.6	−16.8	26.8	76.7	133.1
25 Sources of funds	313.9	281.5	323.4	285.6	376.7	541.9	274.4	296.7	323.2	430.1	522.2	561.6
26 Private domestic deposits and RPs	137.4	169.6	211.9	174.7	203.5	283.9	147.6	201.9	192.7	214.2	277.0	290.7
27 Credit market borrowing	34.5	18.1	36.7	4.1	22.9	52.3	24.2	−16.0	7.8	38.0	51.9	52.7
28 Other sources	142.0	93.9	74.8	106.7	150.4	205.8	102.6	110.8	122.8	177.9	193.2	218.3
29 Foreign funds	27.6	−21.7	−8.7	−26.7	22.1	20.8	−28.3	−25.1	−14.2	58.5	15.7	25.9
30 Treasury balances	.4	−2.6	−1.1	6.1	−5.3	3.8	−2.0	14.1	10.1	−20.8	.9	6.8
31 Insurance and pension reserves	72.8	83.9	90.4	104.6	99.2	108.2	111.4	97.8	90.0	108.4	107.6	108.9
32 Other, net	41.2	34.2	−5.9	22.8	34.4	72.9	21.5	24.1	36.8	31.9	69.0	76.8
Private domestic nonfinancial investors												
33 Direct lending in credit markets	99.6	56.1	70.6	94.2	142.1	159.0	77.3	111.0	135.3	148.9	192.3	125.7
34 U.S. government securities	52.5	24.6	29.3	37.4	88.7	114.0	35.3	39.5	95.9	81.4	139.4	88.6
35 State and local obligations	9.9	7.0	10.5	34.4	42.5	31.8	30.1	38.7	52.7	32.3	21.5	42.1
36 Corporate and foreign bonds	−1.4	−5.7	−8.1	−5.2	2.0	−6.2	−17.7	7.3	−1.7	5.7	7.8	−20.1
37 Open market paper	8.6	−3.1	2.7	−.1	3.9	1.0	3.5	−3.7	−8.1	15.9	3.0	−1.0
38 Other	30.0	33.3	36.3	27.8	5.0	18.4	26.2	29.3	−3.4	13.5	20.7	16.2
39 Deposits and currency	146.8	181.1	221.9	181.9	222.6	294.6	152.1	211.7	214.5	230.7	290.2	299.0
40 Currency	8.0	10.3	9.5	9.7	14.3	14.2	6.7	12.7	14.8	13.8	17.7	10.7
41 Checkable deposits	18.3	5.2	18.0	15.7	21.7	16.4	1.9	29.5	48.0	−4.7	36.6	−3.9
42 Small time and savings accounts	59.3	82.9	47.0	138.2	219.1	148.0	83.2	193.1	278.6	159.7	124.9	171.2
43 Money market fund shares	34.4	29.2	107.5	24.7	−44.1	47.2	39.4	10.0	−84.0	−4.2	30.2	64.2
44 Large time deposits	18.8	45.8	36.9	−7.7	−7.5	69.8	21.9	−37.3	−61.0	45.9	80.0	59.7
45 Security RPs	6.6	6.5	2.5	3.8	14.3	2.4	1.1	6.6	11.0	17.5	5.3	−.5
46 Deposits in foreign countries	1.5	1.1	.5	−2.5	4.8	−3.4	−2.2	−2.9	7.0	2.7	−4.5	−2.3
47 **Total of credit market instruments, deposits and currency**	**246.5**	**237.2**	**292.5**	**276.1**	**364.7**	**453.6**	**229.4**	**322.7**	**349.8**	**379.6**	**482.5**	**424.8**
48 Public holdings as percent of total	18.5	26.1	24.0	26.0	21.5	19.9	27.4	24.9	23.7	19.5	17.2	22.5
49 Private financial intermediation (in percent)	82.8	88.1	90.5	76.0	76.0	83.5	83.8	70.0	71.7	79.5	78.8	88.5
50 Total foreign funds	23.0	1.5	7.6	−8.6	49.2	66.5	−7.9	−9.3	12.6	85.9	43.1	89.9
MEMO: Corporate equities not included above												
51 **Total net issues**	**−3.8**	**22.2**	**−4.1**	**35.3**	**67.8**	**−29.8**	23.3	**47.2**	**83.5**	**52.0**	**−43.3**	**−16.4**
52 Mutual fund shares	.1	5.2	6.3	18.4	32.8	38.1	12.5	24.3	36.8	28.9	39.0	37.2
53 Other equities	−3.9	17.1	−10.4	16.9	34.9	−67.9	10.9	22.9	46.8	23.1	−82.3	−53.6
54 Acquisitions by financial institutions	12.9	24.9	20.1	39.2	57.5	19.4	11.0	67.3	75.9	39.2	7.6	31.3
55 Other net purchases	−16.7	−2.7	−24.2	−3.9	10.2	−49.2	12.3	−20.1	7.6	12.8	−50.8	−47.6

NOTES BY LINE NUMBER.
1. Line 1 of table 1.58.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.
18. Includes farm and commercial mortgages.
26. Line 39 less lines 40 and 46.
27. Excludes equity issues and investment company shares. Includes line 19.
29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates.
30. Demand deposits at commercial banks.
31. Excludes net investment of these reserves in corporate equities.
32. Mainly retained earnings and net miscellaneous liabilities.
33. Line 12 less line 20 plus line 27.
34–38. Lines 14–18 less amounts acquired by private finance. Line 38 includes mortgages.
40. Mainly an offset to line 9.
47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.
48. Line 2/line 1.
49. Line 20/line 13.
50. Sum of lines 10 and 29.
51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

1967 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1982	1983	1984	1984						1985		
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.r	Feb.r	Mar.
1 **Industrial production**	**138.6**	**147.6**	**166.3**	**165.9**	**166.0**	**165.0**	**164.4**	**164.8**	**164.8r**	**165.2**	**164.9**	**165.4**
Market groupings												
2 Products, total	141.8	149.2	164.7	167.4	167.2	166.4	166.9	167.7	168.1r	168.2	167.7	168.0
3 Final, total	141.5	147.1	162.7	165.2	165.1	164.6	165.2	166.2	166.7r	166.9	166.1	166.2
4 Consumer goods	142.6	151.7	161.7	163.8	162.5	161.6	161.6	162.6	162.2r	162.5	161.1	161.3
5 Equipment	139.8	140.8	164.1	167.0	168.7	168.9	170.1	171.2	172.8r	172.9	172.9	173.0
6 Intermediate	143.3	156.6	172.3	175.8	175.1	173.0	173.4	173.1	173.2r	173.0	173.7	174.5
7 Materials	133.7	145.2	161.2	163.5	164.0	162.8	160.4	160.4	159.8r	160.5	160.6	161.3
Industry groupings												
8 Manufacturing	137.6	148.2	164.8	167.3	167.6	166.6	166.2	166.6	166.6r	166.8	166.5	167.1
Capacity utilization (percent)[1]												
9 Manufacturing	71.1	75.2	81.6	82.9	82.8	82.2	81.7	81.6	81.4r	81.3	80.9	81.0
10 Industrial materials industries	70.1	75.2	82.0	83.1	83.3	82.4	81.0	80.9	80.4r	80.5	80.4	80.5
11 Construction contracts (1977 = 100)[2]	111.0	137.0r	149.0r	150.0r	148.0r	146.0r	145.0r	151.0	150.0r	153.0	145.0	162.0
12 Nonagricultural employment, total[3]	136.1	137.0	143.1	143.4	143.6	144.1	144.6	145.1	145.4	146.0	146.1	146.7
13 Goods-producing, total	102.2	100.4	106.8	107.5	107.7	107.3	107.6	107.8	108.4	108.7	108.2	108.7
14 Manufacturing, total	96.6	95.1	100.7	101.3	101.4	100.9	101.2	101.4	101.8	101.9	101.5	101.4
15 Manufacturing, production-worker	89.1	87.9	94.0	94.6	94.8	94.0	94.3	94.4	94.8	94.8	94.3	94.1
16 Service-producing	154.7	157.1	163.0	163.1	163.4	164.2	164.9	165.6	165.7	166.4	166.9	167.6
17 Personal income, total	410.3	435.6	478.1	480.6	483.5	487.0	488.8	491.7	493.9	496.7	498.4	500.9
18 Wages and salary disbursements	367.4	388.6	422.5	424.4	425.5	428.4	428.8	432.6	436.7	438.5	440.4	443.8
19 Manufacturing	285.5	294.7	323.6	324.4	326.2	325.7	326.7	330.0	333.2	334.4	332.9	334.5
20 Disposable personal income[4]	398.0	427.1	470.3	472.5	475.5	479.1	480.6	482.9	484.5	487.5	483.6	481.3
21 Retail sales[5]	326.0	373.0	412.0	411.0	410.4	414.1	416.4	421.3	422.3	424.0	430.8	422.4
Prices[6]												
22 Consumer	289.1	298.4	311.1	311.7	313.0	314.5	315.3	315.3	315.5	316.1	317.4	318.8
23 Producer finished goods	280.7	285.2	291.2	292.3	291.3	289.5	291.5	292.3	292.4	292.7	292.5	292.4

1. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, Department of Commerce, and other sources.

2. Index of dollar value of total construction contracts, including residential, nonresidential and heavy engineering, from McGraw-Hill Information Systems Company, F. W. Dodge Division.

3. Based on data in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.

4. Based on data in *Survey of Current Business* (U.S. Department of Commerce).

5. Based on Bureau of Census data published in *Survey of Current Business*.

6. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5, and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the last two months are preliminary and estimated, respectively.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; *monthly data are seasonally adjusted. Exceptions noted.*

Category	1982	1983	1984	1984					1985		
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.r	Mar.
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population**[1]	**174,450**	**176,414**	**178,602**	**178,821**	**179,005**	**179,181**	**179,353**	**179,524**	**179,600**	**179,742**	**179,891**
2 Labor force (including Armed Forces)[1]	112,383	113,749	115,763	115,867	116,006	116,241	116,292	116,682	117,091	117,310	117,738
3 Civilian labor force	110,204	111,550	113,544	113,629	113,764	114,016	114,074	114,464	114,875	115,084	115,514
Employment											
4 Nonagricultural industries[2]	96,125	97,450	101,685	101,884	102,075	102,480	102,598	102,888	103,071	103,345	103,757
5 Agriculture	3,401	3,383	3,321	3,264	3,319	3,169	3,334	3,385	3,320	3,340	3,362
Unemployment											
6 Number	10,678	10,717	8,539	8,481	8,370	8,367	8,142	8,191	8,484	8,399	8,396
7 Rate (percent of civilian labor force)	9.7	9.6	7.5	7.5	7.4	7.3	7.1	7.2	7.4	7.3	7.3
8 Not in labor force	62,067	62,665	62,839	62,954	62,999	62,940	63,061	62,842	62,509	62,432	62,153
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment**[3]	**89,566**	**90,138**	**94,166**	**94,523**	**94,807**	**95,157**	**95,497**	**95,681**	**96,045r**	**96,157**	**96,538**
10 Manufacturing	18,781	18,497	19,589	19,725	19,616	19,686	19,718	19,801	19,808r	19,739	19,713
11 Mining	1,128	957	999	1,017	1,020	1,012	1,009	1,000	1,000r	999	997
12 Contract construction	3,905	3,940	4,315	4,356	4,374	4,382	4,396	4,457	4,530r	4,489	4,618
13 Transportation and public utilities	5,082	4,958	5,169	5,202	5,213	5,225	5,226	5,249	5,266r	5,279	5,266
14 Trade	20,457	20,804	21,790	21,839	21,930	22,080	22,267	22,267	22,372r	22,427	22,521
15 Finance	5,341	5,467	5,665	5,679	5,684	5,705	5,725	5,749	5,764r	5,800	5,828
16 Service	19,036	19,665	20,666	20,748	20,861	20,964	21,030	21,095	21,231	21,331	21,474
17 Government	15,837	15,851	15,973	15,957	16,109	16,103	16,126	16,063	16,074r	16,093	16,121

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).
2. Includes self-employed, unpaid family, and domestic service workers.
3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1983 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION

Seasonally adjusted

Series	1984			1985	1984			1985	1984			1985
	Q2	Q3	Q4r	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4r	Q1
	Output (1967 = 100)				Capacity (percent of 1967 output)				Utilization rate (percent)			
1 **Total industry**	**163.1**	**165.6**	**164.7**	**165.2**	**199.7**	**201.1**	**202.4**	**204.0**	**81.7**	**82.4**	**81.3**	**80.9**
2 Mining	125.1	129.0	124.3	123.9	165.9	166.1	166.3	166.5	75.4	77.7	74.7	74.4
3 Utilities	183.1	181.1	183.0	184.3	215.3	216.8	218.3	219.8	85.0	83.5	83.8	83.8
4 **Manufacturing**	**164.4**	**167.2**	**166.5**	**166.8**	**201.0**	**202.5**	**204.0**	**205.7**	**81.8**	**82.5**	**81.6**	**81.1**
5 Primary processing	162.5	162.2	159.8	160.8	197.2	198.0	198.7	199.7	82.4	81.9	80.4	80.5
6 Advanced processing	165.2	169.7	169.6	170.4	203.0	204.9	206.8	208.9	81.4	82.8	82.0	81.6
7 **Materials**	**162.1**	**163.4**	**160.2**	**160.8**	**195.9**	**197.2**	**198.4**	**199.7**	**82.7**	**82.9**	**80.7**	**80.5**
8 Durable goods	162.0	164.6	162.1	161.4	198.3	199.5	200.8	202.4	81.7	82.5	80.7	79.8
9 Metal materials	100.3	97.2	91.0	92.0	138.5	137.9	137.3	136.8	72.4	70.5	66.3	67.3
10 Nondurable goods	186.6	185.7	181.5	181.5	223.4	225.2	226.9	228.4	83.5	82.5	80.0	79.5
11 Textile, paper, and chemical	195.9	194.9	189.6	189.4	236.2	238.2	240.3	242.0	82.9	81.8	79.0	78.3
12 Paper	168.5	171.0	168.3	n.a.	169.5	170.5	171.5	n.a.	99.4	100.3	98.1	n.a.
13 Chemical	240.4	238.4	233.5	n.a.	305.2	308.0	310.9	n.a.	78.8	77.4	75.1	n.a.
14 Energy materials	132.4	133.1	129.4	133.7	156.4	157.0	157.6	158.4	84.6	84.8	82.1	84.4

Series	Previous cycle[1]		Latest cycle[2]		1984	1984						1985		
	High	Low	High	Low	Mar.	July	Aug.	Sept.	Oct.	Nov.	Dec.r	Jan.r	Feb.r	Mar.
	Capacity utilization rate (percent)													
15 **Total industry**	**88.4**	**71.1**	**87.3**	**69.6**	**80.9**	**82.7**	**82.5**	**81.9**	**81.4**	**81.4**	**81.2**	**81.2**	**80.8**	**80.8**
16 Mining	91.8	86.0	88.5	69.6	74.7	78.3	77.3	77.4	74.3	75.1	74.8	75.1	73.9	74.1
17 Utilities	94.9	82.0	86.7	79.0	84.0	84.1	83.3	83.2	82.9	84.6	83.9	83.7	84.0	83.8
18 **Manufacturing**	**87.9**	**69.0**	**87.5**	**68.8**	**81.0**	**82.8**	**82.8**	**82.0**	**81.7**	**81.6**	**81.4**	**81.3**	**80.9**	**81.0**
19 Primary processing	93.7	68.2	91.4	66.2	82.2	82.3	82.1	81.5	81.2	80.6	79.5	80.2	80.6	80.7
20 Advanced processing	85.5	69.4	85.9	70.0	80.6	83.0	83.1	82.4	81.8	82.0	82.2	82.1	81.3	81.3
21 **Materials**	**92.6**	**69.3**	**88.9**	**66.6**	**82.2**	**83.1**	**83.2**	**82.4**	**81.0**	**80.9**	**80.4**	**80.5**	**80.4**	**80.5**
22 Durable goods	91.4	63.5	88.4	59.8	80.7	82.5	82.9	82.2	81.3	80.8	80.0	80.0	79.5	79.7
23 Metal materials	97.8	68.0	95.4	46.2	71.5	70.8	70.8	69.8	67.6	66.7	64.5	65.2	67.2	69.4
24 Nondurable goods	94.4	67.4	91.7	70.7	83.6	83.0	82.9	81.5	80.5	80.2	79.4	79.3	79.3	79.7
25 Textile, paper, and chemical	95.1	65.4	92.3	68.6	83.1	82.5	82.4	80.5	79.7	79.1	78.0	78.1	78.1	78.5
26 Paper	99.4	72.4	97.9	86.3	96.8	101.5	99.7	99.7	98.7	97.2	98.5	98.0	96.2	n.a.
27 Chemical	95.5	64.2	91.3	64.0	79.5	77.9	78.1	76.1	75.7	75.7	73.9	74.5	74.7	n.a.
28 Energy materials	94.5	84.4	88.9	78.5	84.1	85.3	84.7	84.3	81.0	82.1	83.2	83.9	84.7	84.6

1. Monthly high 1973; monthly low 1975.
2. Monthly highs 1978 through 1980; monthly lows 1982.

NOTE. These data also appear in the Board's G.3 (402) release. For address, see inside front cover.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value

Monthly data are seasonally adjusted

Grouping	1967 pro-portion	1984 avg.	1984 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.r	1985 Jan.	Feb.p	Mar.e
			Index (1967 = 100)												
MAJOR MARKET															
1 **Total index**	**100.00**	**163.3**	**160.8**	**162.1**	**162.8**	**164.4**	**165.9**	**166.0**	**165.0**	**164.4**	**164.8**	**164.8**	**165.2**	**164.9**	**165.4**
2 Products	60.71	164.7	161.1	162.5	163.3	165.3	167.4	167.2	166.4	166.9	167.7	168.1	168.2	167.7	168.0
3 Final products	47.82	162.7	158.6	160.2	161.1	163.1	165.2	165.1	164.6	165.2	166.2	166.7	166.9	166.1	166.2
4 Consumer goods	27.68	161.6	160.2	161.4	161.7	163.0	163.8	162.5	161.6	161.6	162.6	162.2	162.5	161.1	161.3
5 Equipment	20.14	164.1	156.4	158.5	160.3	163.3	167.0	168.7	168.9	170.1	171.2	172.8	172.9	172.9	173.0
6 Intermediate products	12.89	172.3	170.2	171.0	171.6	173.5	175.8	175.1	173.0	173.4	173.1	173.2	173.0	173.7	174.5
7 Materials	39.29	161.2	160.4	161.5	162.0	162.9	163.5	164.0	162.8	160.4	160.4	159.8	160.5	160.6	161.3
Consumer goods															
8 Durable consumer goods	7.89	162.0	163.1	162.2	161.4	163.6	163.7	162.6	159.6	158.7	161.5	161.0	160.7	161.2	161.5
9 Automotive products	2.83	181.3	184.1	180.9	179.8	184.3	185.0	181.8	173.0	171.9	184.1	186.0	192.0	189.8	190.5
10 Autos and utility vehicles	2.03	158.1	164.1	158.4	155.9	158.7	161.1	159.2	145.6	145.0	161.5	164.7	174.3	169.8	171.9
11 Autos	1.90	135.3	142.4	134.5	132.9	136.2	138.7	134.3	121.1	123.6	138.9	142.5	151.5	144.9	147.3
12 Auto parts and allied goods	.80	240.2	234.7	238.0	240.6	249.3	245.8	239.1	242.7	240.2	241.2	239.9	236.8	240.7	237.8
13 Home goods	5.06	151.1	151.3	151.7	151.1	152.0	151.8	151.9	152.0	151.4	148.9	147.0	143.2	145.2	145.3
14 Appliances, A/C, and TV	1.40	*134.3*	*134.4*	*136.1*	*134.0*	*134.9*	*133.4*	*132.3*	*136.4*	*133.5*	*130.5*	*133.0*	*121.9*	*126.7*	*126.6*
15 Appliances and TV	1.33	137.5	138.0	138.8	136.7	138.0	136.9	135.9	140.2	136.8	133.2	136.0	124.2	128.8	.....
16 Carpeting and furniture	1.07	179.2	180.2	181.0	179.6	179.4	179.5	180.8	179.3	178.1	177.5	173.2	169.9	175.3	.....
17 Miscellaneous home goods	2.59	148.6r	148.5	148.0	148.6	150.0	150.3	150.6	149.2	150.0	147.0	143.8	143.6	142.8	142.9
18 Nondurable consumer goods	19.79	161.5r	159.1	161.1	161.8	162.7	163.9	162.4	162.4	162.7	163.0	162.7	163.2	161.1	161.2
19 Clothing	4.29	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
20 Consumer staples	15.50	171.5r	168.0	170.2	171.6	173.2	174.5	172.7	173.1	173.8	173.9	173.2	173.6	171.6	172.0
21 Consumer foods and tobacco	8.33	160.6r	157.6	160.4	161.0	161.9	162.9	161.8	162.1	162.4	161.2	162.1	162.7	.....	.....
22 Nonfood staples	7.17	184.2	180.1	181.6	183.9	186.3	188.0	185.4	185.9	187.0	188.6	186.1	186.2	184.5	184.9
23 Consumer chemical products	2.63	240.7r	231.3	233.4	235.9	241.5	247.1	244.3	247.3	247.5	245.7	246.4	247.6	243.9	.....
24 Consumer paper products	1.92	145.7r	141.8	144.0	145.6	147.9	151.5	148.7	146.7	146.9	148.5	146.7	147.7	146.8	.....
25 Consumer energy products	2.62	155.6	156.8	157.1	159.8	159.0	155.3	153.3	153.0	155.6	160.7	154.4	152.7	152.4	.....
26 Residential utilities	1.45	177.9	177.7	177.4	181.1	182.4	178.6	175.0	174.1	177.4	186.5	178.6	177.9	.....	.....
Equipment															
27 Business	12.63	181.0	172.1	173.5	176.5	181.1	185.5	187.6	186.4	187.3	188.4	189.6	189.0	188.9	188.5
28 Industrial	6.77	140.6	134.8	135.9	138.5	140.4	143.1	143.3	143.5	145.3	145.6	147.0	144.6	143.4	141.9
29 Building and mining	1.44	187.6	175.2	173.6	182.9	185.8	190.0	191.6	190.7	194.6	197.2	199.8	195.0	186.5	177.0
30 Manufacturing	3.85	127.4	124.2	126.2	127.4	128.6	130.1	129.7	129.8	131.0	129.9	130.9	129.3	130.1	130.7
31 Power	1.47	128.8	122.7	124.1	124.1	126.7	131.0	131.2	133.0	134.5	135.8	137.3	135.2	136.1	136.6
32 Commercial transit, farm	5.86	227.6r	215.3	217.0	220.5	228.1	234.5	238.9	235.9	235.8	237.9	238.8	240.2	241.5	242.4
33 Commercial	3.26	325.1r	306.9	309.6	315.5	326.3	333.4	339.2	336.5	338.5	342.1	343.5	347.4	350.5	352.7
34 Transit	1.93	115.4	109.2	108.9	109.7	115.1	120.4	124.5	121.4	117.8	118.2	119.6	118.5	118.6	117.8
35 Farm	.67	76.4	75.0	78.0	77.1	76.1	81.8	80.3	76.4	76.1	76.2	72.2	69.2	65.2	.....
36 Defense and space	7.51	135.6r	130.1	133.2	133.1	133.5	135.9	136.8	139.5	141.1	142.2	144.7	145.8	145.9	146.9
Intermediate products															
37 Construction supplies	6.42	158.9r	159.1	159.6	159.5	160.9	161.9	160.9	158.2	158.6	156.9	157.5	157.4	158.5	159.2
38 Business supplies	6.47	185.7	181.3	182.3	183.5	186.1	189.5	189.1	187.6	188.0	189.2	188.8	188.4	188.9	.....
39 Commercial energy products	1.14	193.5	187.0	190.0	190.8	195.3	194.9	193.3	194.5	194.8	199.8	196.1	196.0	197.2	.....
Materials															
40 Durable goods materials	20.35	161.6	159.5	161.3	161.6	163.0	164.2	165.3	164.3	162.9	162.3	161.0	161.6	160.9	161.8
41 Durable consumer parts	4.58	134.4	133.0	133.2	132.6	134.7	135.1	136.6	136.2	136.3	134.8	136.9	138.3	137.7	137.5
42 Equipment parts	5.44	212.5	206.7	210.9	210.6	214.0	218.8	220.1	219.6	216.1	216.4	215.0	212.2	206.9	207.4
43 Durable materials n.e.c.	10.34	146.9	146.3	147.7	148.6	148.7	148.3	149.2	147.7	146.7	146.0	143.3	145.2	147.0	148.6
44 Basic metal materials	5.57	100.9r	103.0	105.7	104.5	104.1	103.4	102.0	99.8	97.8	95.7	91.7	93.5	96.3	.....
45 Nondurable goods materials	10.47	184.3	185.9	185.7	187.4	186.7	186.5	186.7	184.0	182.1	181.9	180.4	180.9	181.2	182.5
46 Textile, paper, and chemical materials	7.62	193.3	195.3	195.0	196.8	195.8	195.9	196.3	192.4	190.7	190.2	187.8	188.7	189.0	190.5
47 Textile materials	1.85	117.1	120.6	118.9	121.9	119.6	118.8	120.1	115.6	112.0	109.3	108.8	107.2	108.4	.....
48 Paper materials	1.62	168.2r	163.5	166.7	169.2	169.5	172.8	170.0	170.3	168.9	166.7	169.2	168.7	165.9	.....
49 Chemical materials	4.15	237.2r	241.1	240.0	241.1	240.2	239.3	240.6	235.3	234.5	235.5	230.5	232.9	234.1	.....
50 Containers, nondurable	1.70	175.5	176.0	175.7	176.6	176.7	176.6	175.3	175.8	174.3	176.5	177.2	175.5	174.2	.....
51 Nondurable materials n.e.c.	1.14	137.3r	137.7	138.6	140.5	140.5	138.8	139.6	140.8	136.0	134.7	135.7	137.2	139.2	.....
52 Energy materials	8.48	131.5r	131.3	132.1	131.9	133.2	133.7	133.0	132.7	127.6	129.4	131.3	132.7	134.2	134.1
53 Primary energy	4.65	119.5	119.6	119.5	119o8	120.1	122.7	121.8	121.6	113.1	115.3	117.9	119.5	120.9	.....
54 Converted fuel materials	3.82	146.3	145.4	147.3	146.5	149.0	147.1	146.8	146.1	145.2	146.7	147.6	148.8	150.5	.....
Supplementary groups															
55 Home goods and clothing	9.35	139.4	140.1	141.0	139.8	139.6	139.7	139.6	138.9	138.3	137.2	136.7	135.2	135.0	134.6
56 Energy, total	12.23	142.5r	141.9	142.8	143.3	144.5	144.0	143.0	142.8	139.8	142.7	142.3	142.9	144.0	144.1
57 Products	3.76	167.1	166.0	167.1	169.2	170.0	167.3	165.4	165.5	167.5	172.6	167.0	165.9	166.0	.....
58 Materials	8.48	131.5r	131.3	132.1	131.9	133.2	133.7	133.0	132.7	127.6	129.4	131.3	132.7	134.2	134.1

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value—Continued

Grouping	SIC code	1967 proportion	1984 avg.	1984										1985		
				Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.	Feb.[p]	Mar.[e]
				Index (1967 = 100)												
MAJOR INDUSTRY																
1 Mining and utilities	......	12.05	152.0	150.4	151.3	152.1	154.1	154.4	153.0	153.3	150.5	153.1	152.4	152.6	152.2	152.4
2 Mining	......	6.36	125.7	123.8	123.3	125.0	127.0	129.9	128.3	128.7	123.6	124.8	124.4	125.1	123.1	123.5
3 Utilities	......	5.69	181.5[r]	180.0	182.7	182.3	184.3	181.8	180.6	180.9	180.6	184.7	183.7	183.5	184.6	184.7
4 Electric	......	3.88	205.4[r]	204.6	207.7	206.8	209.6	205.9	204.0	204.4	203.8	209.1	205.3	206.5	208.3	207.9
5 Manufacturing	......	87.95	164.8	162.1	163.4	164.2	165.7	167.3	167.6	166.6	166.2	166.6	166.5	166.6	166.5	167.1
6 Nondurable	......	35.97	179.4	177.6	179.1	179.9	181.3	181.8	181.7	180.3	179.4	179.6	179.5	179.6	179.1	179.5
7 Durable	......	51.98	154.6[r]	151.4	152.6	153.3	154.9	157.2	157.8	157.1	157.1	157.6	157.6	157.9	157.7	158.5
Mining																
8 Metal	10	.51	91.7	100.0	98.5	98.0	96.8	96.4	83.4	84.5	91.2	87.5	76.3	82.8	78.7	.....
9 Coal	11.12	.69	155.8	164.0	151.4	153.9	161.5	176.5	171.7	173.7	127.8	134.4	142.1	144.5	154.8	156.8
10 Oil and gas extraction	13	4.40	121.7	118.2	118.8	120.4	121.6	122.8	122.5	122.4	122.6	123.8	123.6	123.2	119.4	118.9
11 Stone and earth minerals	14	.75	145.0	135.8	140.4	144.0	147.9	151.9	153.5	154.6	147.8	147.5	146.0	146.7	146.0	.....
Nondurable manufactures																
12 Foods	20	8.75	163.2	161.2	163.1	164.2	165.1	164.9	164.7	164.3	164.0	162.9	164.1	164.9	.....	.....
13 Tobacco products	21	.67	115.2	111.8	113.3	112.8	118.3	115.1	113.8	113.1	119.5	117.4	120.5	116.7	.....	.....
14 Textile mill products	22	2.68	138.6[r]	143.5	140.0	140.5	140.7	139.8	140.3	135.4	133.3	132.0	132.0	131.5	130.3	.....
15 Apparel products	23	3.31	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
16 Paper and products	26	3.21	174.4	173.8	172.4	174.1	174.6	176.7	176.7	177.5	173.5	173.0	173.7	174.1	176.0	175.9
17 Printing and publishing	27	4.72	169.7[r]	165.2	166.3	167.5	169.0	172.6	173.1	170.5	172.3	174.0	174.1	175.0	175.3	175.3
18 Chemicals and products	28	7.74	228.1[r]	225.0	228.3	227.9	231.0	232.0	231.6	230.8	228.0	230.2	228.1	227.8	227.2	.....
19 Petroleum products	29	1.79	124.4	127.0	126.8	127.9	127.5	124.7	124.3	122.6	122.9	124.0	120.3	117.0	119.3	120.6
20 Rubber and plastic products	30	2.24	331.7[r]	323.8	328.0	334.1	341.0	341.4	341.5	338.4	338.6	332.2	331.3	334.7	333.8	.....
21 Leather and products	31	.86	59.9	63.9	63.5	61.4	60.0	60.6	59.1	57.9	55.0	55.9	56.6	54.1	54.6	.....
Durable manufactures																
22 Ordnance, private and government	19.91	3.64	103.5	100.6	101.4	100.8	101.7	102.7	105.5	107.1	107.7	108.6	108.3	107.4	107.9	108.0
23 Lumber and products	24	1.64	148.7[r]	149.3	151.2	146.3	148.5	146.0	148.8	149.2	152.6	152.2	150.4	150.4	148.5	.....
24 Furniture and fixtures	25	1.37	190.2	184.6	186.6	190.5	191.9	192.6	195.3	194.3	194.7	192.1	190.6	188.0	189.6	.....
25 Clay, glass, stone products	32	2.74	159.7[r]	160.2	160.0	160.6	159.7	160.9	160.0	158.0	160.1	159.0	158.9	161.2	161.0	.....
26 Primary metals	33	6.57	95.1[r]	97.5	99.3	98.2	97.9	94.5	94.4	94.1	92.7	91.5	87.8	89.7	92.8	93.8
27 Iron and steel	331.2	4.21	79.8	84.4	84.0	83.5	83.5	76.5	77.7	77.5	74.6	73.9	72.1	72.2	76.1	.....
28 Fabricated metal products	34	5.93	137.5[r]	134.9	135.5	136.5	138.7	140.6	140.0	139.5	140.7	139.0	140.2	139.8	140.4	141.7
29 Nonelectrical machinery	35	9.15	181.5[r]	171.9	174.9	178.8	182.0	186.9	189.1	187.9	187.7	188.9	188.3	189.2	188.4	189.0
30 Electrical machinery	36	8.05	217.4[r]	212.0	214.6	214.5	216.0	221.5	221.5	222.8	222.3	222.5	224.5	220.9	219.8	220.6
31 Transportation equipment	37	9.27	137.6	135.8	134.5	135.0	137.2	140.6	141.0	137.6	137.2	141.3	143.3	145.8	144.2	144.7
32 Motor vehicles and parts	371	4.50	165.7	165.8	161.9	163.0	165.3	169.0	169.6	162.4	161.7	170.8	171.8	176.3	172.3	172.8
33 Aerospace and miscellaneous transportation equipment	372–9	4.77	111.2	107.5	108.8	108.6	110.8	113.8	113.9	114.2	114.1	113.6	116.4	117.2	117.8	118.2
34 Instruments	38	2.11	174.2	169.7	171.0	171.8	174.5	176.7	177.4	178.5	176.5	177.5	180.3	179.3	178.3	179.3
35 Miscellaneous manufactures	39	1.51	148.9	152.3	152.1	151.5	150.8	152.4	149.2	147.0	148.3	143.5	137.7	140.0	141.6	142.0
				Gross value (billions of 1972 dollars, annual rates)												
MAJOR MARKET																
36 Products, total	......	**507.4**	**670.1**	**661.8**	**661.1**	**665.9**	**671.5**	**682.4**	**678.2**	**673.6**	**674.7**	**679.1**	**680.5**	**682.1**	**681.2**	**681.4**
37 Final	......	390.9	516.9[r]	509.6	509.0	514.0	518.1	525.9	522.3	519.7	521.3	525.8	527.0	527.5	527.3	526.8
38 Consumer goods	......	277.5	348.2[r]	347.7	347.8	349.5	350.9	353.2	347.4	345.4	346.7	350.1	349.4	350.1	349.4	349.2
39 Equipment	......	113.4	168.7	161.9	161.2	164.4	167.2	172.8	174.9	174.4	174.5	175.7	177.6	177.4	177.9	177.7
40 Intermediate	......	116.6	153.2	152.2	152.2	151.9	153.4	156.5	155.9	153.8	153.5	153.3	153.5	154.6	154.0	154.5

NOTE. These data also appear in the Board's G.12.3 (414) release. For address, see inside front cover.

see inside front cover.

2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1981	1982	1983	1984 May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.r	1985 Jan.r	Feb.
	Private residential real estate activity (thousands of units)												
NEW UNITS													
1 Permits authorized	986	1,000	1,605	1,774	1,819	1,590	1,508	1,481	1,436	1,613	1,627	1,676	1,636
2 1-family	564	546	902	943	941	849	835	865	817	838	852	924	957
3 2-or-more-family	421	454	703	831	878	741	673	616	619	775	775	752	679
4 Started	1,084	1,062	1,703	1,787	1,837	1,730	1,590	1,669	1,564	1,600	1,630	1,849	1,631
5 1-family	705	663	1,067	1,118	1,077	996	962	1,009	979	1,043	1,112	1,060	1,123
6 2-or-more-family	379	400	635	669	760	734	628	660	585	557	518	789	508
7 Under construction, end of period[1]	682	720	1,003	1,090	1,098	1,100	1,091	1,088	1,081	1,077	1,073	1,074	1,035
8 1-family	382	400	524	585	587	582	574	568	571	574	579	573	561
9 2-or-more-family	301	320	479	505	511	518	517	520	510	503	495	501	473
10 Completed	1,266	1,005	1,390	1,731	1,718	1,699	1,681	1,657	1,614	1,587	1,635	1,710	1,746
11 1-family	818	631	924	1,072	1,045	1,062	1,035	1,040	972	1,001	985	1,112	1,036
12 2-or-more-family	447	374	466	659	673	637	646	617	642	586	650	598	710
13 Mobile homes shipped	241	240	296	295	298	301	302	282	302	291	282	273	276
Merchant builder activity in 1-family units													
14 Number sold	436	413	622	617	636	615	557	670	652	596	604	622	641
15 Number for sale, end of period[1]	278	255	304	332	338	340	343	343	346	349	356	356	362
Price (thousands of dollars)[2]													
Median													
16 Units sold	68.8	69.3	75.5	81.4	80.5	80.7	82.0	81.3	80.1	82.5	78.3	82.9	83.4
Average													
17 Units sold	83.1	83.8	89.9	101.9	98.8	97.1	96.9	101.3	95.7	101.4	96.3	98.8	98.5
EXISTING UNITS (1-family)													
18 Number sold	2,418	1,991	2,719	2,970	2,920	2,790	2,770	2,730	2,740	2,830	2,870	3,000	2,880
Price of units sold (thousands of dollars)[2]													
19 Median	66.1	67.7	69.8	72.7	73.4	74.2	73.5	71.9	71.9	71.9	72.1	73.8	73.5
20 Average	78.0	80.4	82.5	85.9	87.2	87.9	87.6	85.4	86.2	85.1	85.9	87.7	87.2
	Value of new construction[3] (millions of dollars)												
CONSTRUCTION													
21 Total put in place	**239,112**	**230,068**	**262,167**	**316,398**	**315,279**	**314,223**	**318,031**	**318,685**	**312,849r**	**308,111r**	**307,579**	**316,218**	**320,572**
22 Private	185,761	179,090	211,369	261,182	257,789	258,245	261,165	260,871	256,121r	251,607r	251,283	258,967	264,125
23 Residential	86,564	74,808	111,727	138,401	136,418	137,818	138,926	137,106	131,143r	125,906r	122,727	128,515	132,465
24 Nonresidential, total	99,197	104,282	99,642	122,781	121,371	120,427	122,239	123,765	124,978r	125,701r	128,556	130,452	131,660
Buildings													
25 Industrial	17,031	17,346	12,863	15,170	14,065	13,784	14,613	14,917	14,867r	15,287r	15,353	15,058	15,575
26 Commercial	34,243	37,281	35,787	49,718	48,947	48,436	49,496	50,861	53,509r	54,579r	56,661	58,458	59,234
27 Other	9,543	10,507	11,660	13,821	13,327	12,744	12,059	12,079	12,111r	11,975r	12,396	11,876	12,018
28 Public utilities and other	38,380	39,148	39,332	44,072	45,032	45,463	46,071	45,908	44,491r	43,860r	44,146	45,060	44,833
29 Public	53,346	50,977	50,798	55,216	57,490	55,979	56,866	57,814	56,729r	56,504r	56,296	57,252	56,448
30 Military	1,966	2,205	2,544	2,649	2,703	2,345	2,851	3,508	2,890r	3,082r	2,974	3,249	3,330
31 Highway	13,599	13,428	14,225	16,949	16,824	17,136	17,322	17,209	16,794r	17,458r	17,588	17,735	17,475
32 Conservation and development	5,300	5,029	4,822	4,356	4,492	4,520	4,520	4,890	4,591r	5,073r	4,555	4,585	4,622
33 Other	32,481	30,315	29,207	31,262	33,471	31,978	32,173	32,207	32,454r	30,891r	31,179	31,683	31,021

1. Not at annual rates.
2. Not seasonally adjusted.
3. Value of new construction data in recent periods may not be strictly comparable with data in prior periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C-30-76-5), issued by the Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (a) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (b) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from originating agency. Permit authorizations are those reported to the Census Bureau from 16,000 jurisdictions beginning with 1978.

2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data, except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (at annual rate)				Change from 1 month earlier					Index level Mar. 1985 (1967 = 100)[1]
	1984 Mar.	1985 Mar.	1984			1985	1984		1985			
			June	Sept.	Dec.	Mar.	Nov.	Dec.	Jan.	Feb.	Mar.	
CONSUMER PRICES[2]												
1 All items	**4.7**	**3.7**	**3.2**	**4.5**	**3.0**	**4.1**	**.2**	**.3**	**.2**	**.3**	**.5**	**318.8**
2 Food	4.0	2.5	−.5	3.9	3.7	2.6	.2	.4	.2	.5	.0	309.7
3 Energy items	4.6	−.4	.3	.1	−.7	−.8	.1	−.2	−.8	−1.4	1.9	416.6
4 All items less food and energy	5.0	4.8	4.8	5.3	3.5	5.5	.2	.3	.4	.6	.4	310.8
5 Commodities	4.5	3.8	3.9	3.8	.9	6.6	.0	.2	.5	.8	.3	259.3
6 Services	5.3	5.3	5.2	6.2	5.0	5.0	.4	.4	.4	.4	.4	369.4
PRODUCER PRICES												
7 Finished goods	2.8	.3	−.4	.0	1.8	.3	.3	.2	.0	−.1	.2	292.4
8 Consumer foods	5.9	−.9	−7.5	4.5	4.5	−3.6	.5r	.7r	−.6	−.1	−.2	274.2
9 Consumer energy	−2.1	−8.4	5.0	−19.7	5.7	−21.1	.6	−.6	−2.4	−2.5	−.9	694.0
10 Other consumer goods	2.7	2.4	.8	2.5	.0	6.5	.2r	.2	.7	.2	.6	250.6
11 Capital equipment	2.3	2.5	2.2	2.3	.0	5.4	.3r	.0	.4	.5	.4	299.5
12 Intermediate materials[3]	3.0	.1	2.7	−1.1	1.1	−2.4	.2	−.1	.0	−.5	−.1	324.7
13 Excluding energy	3.6	.8	2.0	.9	1.3	−.9	.1r	.0	.0	−.2	−.1	305.2
Crude materials												
14 Foods	8.3	−9.7	−19.2	−1.7	12.0	−25.0	3.5r	.5r	−2.4	−2.0	−2.8	243.6
15 Energy	−2.7	−4.2	4.0	.4	−6.5	−13.7	−1.1r	−.4r	−2.2	−.4	−1.0	747.3
16 Other	12.3	−7.0	14.3	−15.3	−10.7	−13.4	−.2r	−.6r	−1.4	−4.3	2.3	255.2

1. Not seasonally adjusted.
2. Figures for consumer prices are those for all urban consumers and reflect a *rental equivalence measure of homeownership after 1982.*
3. Excludes intermediate materials for food manufacturing and manufactured animal feeds.

SOURCE. Bureau of Labor Statistics.

2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data are at seasonally adjusted annual rates.

Account	1982	1983	1984	1984				1985
				Q1	Q2	Q3	Q4	Q1
GROSS NATIONAL PRODUCT								
1 **Total**	**3,069.3**	**3,304.8**	**3,662.8**	**3,553.3**	**3,644.7**	**3,694.6**	**3,758.7**	**3,819.9**
By source								
2 Personal consumption expenditures	1,984.9	2,155.9	2,341.8	2,276.5	2,332.7	2,361.4	2,396.5	2,442.8
3 Durable goods	245.1	279.8	318.8	310.9	320.7	317.2	326.3	333.1
4 Nondurable goods	757.5	801.7	856.9	841.3	858.3	861.4	866.5	877.9
5 Services	982.2	1,074.4	1,166.1	1,124.4	1,153.7	1,182.8	1,203.8	1,231.8
6 Gross private domestic investment	414.9	471.6	637.8	623.8	627.0	662.8	637.8	657.4
7 Fixed investment	441.0	485.1	579.6	550.0	576.4	591.0	601.1	610.8
8 Nonresidential	349.6	352.9	425.7	398.8	420.8	435.7	447.7	455.9
9 Structures	142.1	129.7	150.4	142.2	150.0	151.4	157.9	164.5
10 Producers' durable equipment	207.5	223.2	275.3	256.7	270.7	284.2	289.7	291.4
11 Residential structures	91.4	132.2	153.9	151.2	155.6	155.3	153.5	155.0
12 Nonfarm	86.6	127.6	148.8	146.4	150.5	150.1	148.3	149.7
13 Change in business inventories	−26.1	−13.5	58.2	73.8	50.6	71.8	36.6	46.6
14 Nonfarm	−24.0	−3.1	49.6	60.6	47.0	63.7	27.2	40.5
15 Net exports of goods and services	19.0	−8.3	−64.2	−51.5	−58.7	−90.6	−56.0	−73.0
16 Exports	348.4	336.2	364.3	358.9	362.4	368.6	367.2	361.4
17 Imports	329.4	344.4	428.5	410.4	421.1	459.3	423.2	434.4
18 Government purchases of goods and services	650.5	685.5	747.4	704.4	743.7	761.0	780.5	792.6
19 Federal	258.9	269.7	295.4	267.6	296.4	302.0	315.7	320.2
20 State and local	391.5	415.8	452.0	436.8	447.4	458.9	464.8	472.5
By major type of product								
21 Final sales, total	3,095.4	3,318.3	3,604.6	3,479.5	3,594.1	3,622.8	3,722.1	3,773.3
22 Goods	1,276.7	1,355.7	1,542.9	1,498.0	1,544.8	1,549.1	1,579.8	1,590.9
23 Durable	499.9	555.3	655.6	632.3	647.9	654.7	687.7	673.9
24 Nondurable	776.9	800.4	887.3	865.7	896.9	894.4	892.1	917.0
25 Services	1,510.8	1,639.3	1,763.3	1,713.7	1,742.6	1,783.3	1,813.7	1,856.4
26 Structures	281.7	309.8	356.5	341.6	357.2	362.1	365.2	372.5
27 Change in business inventories	−26.1	−13.5	58.2	73.8	50.6	71.8	36.6	46.6
28 Durable goods	−18.0	−2.1	30.4	34.9	18.2	41.7	26.7	26.1
29 Nondurable goods	−8.1	−11.3	27.8	38.9	32.4	30.1	9.9	20.5
30 **MEMO: Total GNP in 1972 dollars**	**1,480.0**	**1,534.7**	**1,639.3**	**1,610.9**	**1,638.8**	**1,645.2**	**1,662.4**	**1,668.0**
NATIONAL INCOME								
31 **Total**	**2,446.8**	**2,646.7**	**2,959.9r**	**2,873.5**	**2,944.8**	**2,984.9**	**3,036.3r**	**n.a.**
32 Compensation of employees	1,864.2	1,984.9	2,173.2	2,113.4	2,159.2	2,191.9	2,228.1	2,272.7
33 Wages and salaries	1,568.7	1,658.8	1,804.1	1,755.9	1,793.3	1,819.1	1,848.2	1,882.8
34 Government and government enterprises	306.6	328.2	349.8	342.9	347.5	352.0	357.2	365.5
35 Other	1,262.2	1,331.1	1,454.2	1,413.0	1,445.8	1,467.1	1,490.9	1,517.3
36 Supplement to wages and salaries	295.5	326.2	369.0	357.4	365.9	372.8	380.0	389.9
37 Employer contributions for social insurance	140.0	153.1	173.5	169.4	172.4	174.7	177.5	183.6
38 Other labor income	155.5	173.1	195.5	188.1	193.5	198.1	202.5	206.3
39 Proprietors' income[1]	111.1	121.7	154.4	154.9	149.8	153.7	159.1	156.7
40 Business and professional[1]	89.2	107.9	126.2	122.5	126.3	126.4	129.7	134.4
41 Farm[1]	21.8	13.8	28.2	32.5	23.4	27.3	29.4	22.4
42 Rental income of persons[2]	51.5	58.3	62.5	61.0	62.0	63.0	64.1	65.2
43 Corporate profits[1]	159.1	225.2	285.7r	277.4	291.1	282.8	291.6r	n.a.
44 Profits before tax[3]	165.5	203.2	235.7r	243.3	246.0	224.8	228.7r	n.a.
45 Inventory valuation adjustment	−9.5	−11.2	−5.7	−13.5	−7.3	−.2	−1.6	−.6
46 Capital consumption adjustment	3.1	33.2	55.7	47.6	52.3	58.3	64.5	71.0
47 Net interest	260.9	256.6	284.1	266.8	282.8	293.5	293.4	288.8

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.
3. For after-tax profits, dividends, and the like, see table 1.48.

SOURCE. *Survey of Current Business* (Department of Commerce).

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars; quarterly data are at seasonally adjusted annual rates. Exceptions noted.

Account	1982	1983	1984	1984				1985
				Q1	Q2	Q3	Q4	Q1
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**2,584.6**	**2,744.2**	**3,012.1**	**2,920.5**	**2,984.6**	**3,047.3**	**3,096.2**	**3,141.6**
2 Wage and salary disbursements	1,568.7	1,659.2	1,804.0	1,755.7	1,793.1	1,819.5	1,847.6	1,882.6
3 Commodity-producing industries	509.3	519.3	569.3	555.9	567.0	573.3	580.9	591.0
4 Manufacturing	382.9	395.2	433.9	424.6	432.2	436.4	442.4	447.8
5 Distributive industries	378.6	398.6	432.0	419.2	429.5	436.4	443.1	448.8
6 Service industries	374.3	413.1	452.9	437.9	449.3	457.3	466.9	477.5
7 Government and government enterprises	306.6	328.2	349.8	342.8	347.3	352.4	356.7	365.3
8 Other labor income	155.5	173.1	195.5	188.1	193.5	198.1	202.5	206.3
9 Proprietors' income[1]	111.1	121.7	154.4	154.9	149.8	153.7	159.1	156.7
10 Business and professional[1]	89.2	107.9	126.2	122.5	126.3	126.4	129.7	134.4
11 Farm[1]	21.8	13.8	28.2	32.5	23.4	27.3	29.4	22.4
12 Rental income of persons[2]	51.5	58.3	62.5	61.0	62.0	63.0	64.1	65.2
13 Dividends	66.5	70.3	77.7	75.0	77.2	78.5	80.2	81.4
14 Personal interest income	366.6	376.3	433.7	403.9	425.6	449.3	456.1	456.2
15 Transfer payments	376.1	405.0	416.7	411.3	415.2	418.6	421.8	439.6
16 Old-age survivors, disability, and health insurance benefits	204.5	221.6	237.3	232.1	235.2	238.2	243.5	249.8
17 LESS: Personal contributions for social insurance	111.4	119.6	132.5	129.6	131.8	133.4	135.2	146.5
18 EQUALS: Personal income	2,584.6	2,744.2	3,012.1	2,920.5	2,984.6	3,047.3	3,096.2	3,141.6
19 LESS: Personal tax and nontax payments	404.1	404.2	435.3	418.3	430.3	440.9	451.7	489.0
20 EQUALS: Disposable personal income	2,180.5	2,340.1	2,576.8	2,502.2	2,554.3	2,606.4	2,644.5	2,652.6
21 LESS: Personal outlays	2,044.5	2,222.0	2,420.7	2,349.6	2,409.5	2,442.3	2,481.5	2,531.6
22 EQUALS: Personal saving	136.0	118.1	156.1	152.5	144.8	164.1	163.0	121.0
MEMO								
Per capita (1972 dollars)								
23 Gross national product	6,369.7	6,543.4	6,926.1	6,829.4	6,933.2	6,943.2	6,998.3	7,006.1
24 Personal consumption expenditures	4,145.9	4,302.8	4,488.7	4,426.5	4,502.3	4,498.4	4,527.1	4,569.5
25 Disposable personal income	4,555.0	4,670.0	4,939.0	4,865.0	4,930.0	4,965.0	4,996.0	4,962.0
26 Saving rate (percent)	6.2	5.0	6.1	6.1	5.7	6.3	6.2	4.6
GROSS SAVING								
27 **Gross saving**	**408.8**	**437.2**	**551.8r**	**543.9**	**551.0**	**556.4**	**556.0r**	**n.a.**
28 Gross private saving	524.0	571.7	674.8r	651.3	660.2	689.4	698.2r	n.a.
29 Personal saving	136.0	118.1	156.1	152.5	144.8	164.1	163.0	121.0
30 Undistributed corporate profits[1]	29.2	76.5	115.4r	107.0	115.3	118.4	120.8r	n.a.
31 Corporate inventory valuation adjustment	-9.5	-11.2	-5.7	-13.5	-7.3	-.2	-1.6	-.6
Capital consumption allowances								
32 Corporate	221.8	231.2	246.2	239.9	244.1	248.1	252.8	257.4
33 Noncorporate	137.1	145.9	157.0	151.8	156.0	158.8	161.5	164.7
34 Wage accruals less disbursements	.0	.0	.0	.0	.0	.0	.0	.0
35 Government surplus, or deficit (−), national income and product accounts	-115.3	-134.5	-122.9r	-107.4	-109.2	-133.0	-142.2r	n.a.
36 Federal	-148.2	-178.6	-175.8r	-161.3	-163.7	-180.6	-197.8r	n.a.
37 State and local	32.9	44.1	52.9r	53.9	54.5	47.6	55.6r	n.a.
38 Capital grants received by the United States, net	.0	.0	.0	.0	.0	.0	.0	.0
39 **Gross investment**	**408.3**	**437.7**	**544.4**	**546.1**	**542.0**	**543.4**	**546.1**	**554.2**
40 Gross private domestic	414.9	471.6	637.8	623.8	627.0	662.8	637.8	657.4
41 Net foreign	-6.6	-33.9	-93.4	-77.7	-85.0	-119.4	-91.6	-103.3
42 **Statistical discrepancy**	**-.5**	**.5**	**-7.4r**	**2.2**	**-9.0**	**-13.0**	**-9.9r**	**n.a.**

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. *Survey of Current Business* (Department of Commerce).

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.[1]

Item credits or debits	1982	1983	1984[p]	1983	1984			
				Q4	Q1	Q2	Q3	Q4[p]
1 Balance on current account	−9,199	−41,563	−101,647	−17,213	−19,669	−24,704	−33,599	−23,679
2 Not seasonally adjusted	....	....	....	−15,964	−18,616	−24,380	−36,190	−22,461
3 Merchandise trade balance[2]	−36,469	−61,055	−107,435	−19,407	−25,813	−25,802	−32,941	−22,879
4 Merchandise exports	211,198	200,257	220,343	51,829	53,920	54,548	55,616	56,259
5 Merchandise imports	−247,667	−261,312	−327,778	−71,236	−79,733	−80,350	−88,557	−79,138
6 Military transactions, net	195	515	−1,635	−273	−370	−404	−320	−542
7 Investment income, net[3]	27,802	23,508	18,115	5,119	7,744	3,455	2,876	4,039
8 Other service transactions, net	7,331	4,121	506	434	917	204	−352	−263
9 Remittances, pensions, and other transfers	−2,635	−2,590	−2,946	−688[r]	−717	−726	−693	−811
10 U.S. government grants (excluding military)	−5,423	−6,060	−8,253	−2,398	−1,430	−1,431	−2,169	−3,223
11 Change in U.S. government assets, other than official reserve assets, net (increase, −)	−6,143	−5,013	−5,460	−1,429	−2,037	−1,235	−1,440	−748
12 Change in U.S. official reserve assets (increase, −)	−4,965	−1,196	−3,130	−953	−657	−565	−799	−1,109
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	−1,371	−66	−979	545	−226	−288	−271	−194
15 Reserve position in International Monetary Fund	−2,552	−4,434	−995	−1,996	−200	−321	−331	−143
16 Foreign currencies	−1,041	3,304	−1,156	498	−231	44	−197	−772
17 Change in U.S. private assets abroad (increase, −)[3]	−107,790	−43,281	−12,574	−12,461	742	−17,200	19,245	−15,362
18 Bank-reported claims	−111,070	−25,391	−7,337	−8,239	1,955	−20,612	16,871	−5,551
19 Nonbank-reported claims	6,626	−5,333	5,566	−1,671	1,659	2,120	1,787	n.a.
20 U.S. purchase of foreign securities, net	−8,102	−7,676	−4,761	−983	637	−820	−1,322	−3,257
21 U.S. direct investments abroad, net[3]	4,756	−4,881	−6,043	−1,568	−3,509	2,112	1,909	−6,554
22 Change in foreign official assets in the United States (increase, +)	3,318	5,339	2,998	6,555	−2,784	−345	−830	6,956
23 U.S. Treasury securities	5,728	6,989	4,644	2,603	−288	−310	−577	5,819
24 Other U.S. government obligations	−694	−487	12	417	−8	147	85	−212
25 Other U.S. government liabilities[4]	382	199	333	161	242	448	−153	−205
26 Other U.S. liabilities reported by U.S. banks	−1,747	433	676	3,498	−2,131	349	302	2,156
27 Other foreign official assets[5]	−351	−1,795	−2,667	−124	−599	−979	−487	−602
28 Change in foreign private assets in the United States (increase, +)[3]	91,863	76,383	89,800	27,249	18,444	40,750	3,662	26,945
29 U.S. bank-reported liabilities	65,922	49,059	27,571	22,325	8,775	20,789	−5,410	3,417
30 U.S. nonbank-reported liabilities	−2,383	−1,318	5,529	−228	4,404	4,055	−2,930	n.a.
31 Foreign private purchases of U.S. Treasury securities, net	7,062	8,731	22,487	1,673	1,358	6,477	5,121	9,531
32 Foreign purchases of other U.S. securities, net	6,396	8,612	13,036	1,134	1,516	587	1,609	9,325
33 Foreign direct investments in the United States, net[3]	14,865	11,299	21,177	2,345	2,391	8,842	5,272	4,672
34 Allocation of SDRs	0	0	0	0	0	0	0	0
35 Discrepancy	32,916	9,331	30,015	−1,748	5,961	3,299	13,761	6,997
36 Owing to seasonal adjustments	....	....	....	2,657	−195	−140	−2,410	2,748
37 Statistical discrepancy in recorded data before seasonal adjustment	32,916	9,331	30,015	−4,405	6,156	3,439	16,171	4,249
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	−4,965	−1,196	−3,131	−953	−657	−566	−799	−1,110
39 Foreign official assets in the United States (increase, +)	2,936	5,140	2,665	6,394	−3,026	−793	−677	7,161
40 Change in Organization of Petroleum Exporting Countries official assets in the United States (part of line 22 above)	7,291	−8,639	−4,198	−1,640	−2,447	−2,170	−494	913
41 Transfers under military grant programs (excluded from lines 4, 6, and 10 above)	593	205	187	84	41	44	45	58

1. Seasonal factors are no longer calculated for lines 6, 10, 12–16, 18–20, 22–34, and 38–41.
2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing; military exports are excluded from merchandise data and are included in line 6.
3. Includes reinvested earnings.
4. Primarily associated with military sales contracts and other transactions arranged with or through foreign official agencies.
5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

NOTE. Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

3.11 U.S. FOREIGN TRADE

Millions of dollars; monthly data are seasonally adjusted.

Item	1981	1982	1983	1984					1985	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments	233,677	212,193	200,486	18,123	18,210	18,411	18,395	19,142	19,401	17,853
2 GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses	261,305	243,952	258,048	26,866	28,409	26,783	27,331	25,933	28,297	27,985
3 **Trade balance**	**−27,628**	**−31,759**	**−57,562**	**−8,743**	**−10,199**	**−8,372**	**−8,936**	**−6,791**	**−8,896**	**−10,131**

NOTE. The data through 1981 in this table are reported by the Bureau of Census data of a free-alongside-ship (f.a.s.) value basis—that is, value at the port of export. Beginning in 1981, foreign trade of the U.S. Virgin Islands is included in the Census basis trade data; this adjustment has been made for all data shown in the table. Beginning with 1982 data, the value of imports are on a customs valuation basis.

The Census basis data differ from merchandise trade data shown in table 3.10, U.S. International Transactions Summary, for reasons of coverage and timing. On the *export side*, the largest adjustments are: (1) the addition of exports to Canada not covered in Census statistics, and (2) the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions; military payments are excluded and shown separately as indicated above.

SOURCE. FT900 "Summary of U.S. Export and Import Merchandise Trade" (Department of Commerce, Bureau of the Census).

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Type	1981	1982	1983	1984				1985		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 **Total**	**30,075**	**33,958**	**33,747**	**34,306**	**34,570**	**34,727**	**34,934**	**34,380**	**34,272r**	**35,493**
2 Gold stock, including Exchange Stabilization Fund[1]	11,151	11,148	11,121	11,097	11,096	11,096	11,096	11,095	11,093	11,093
3 Special drawing rights[2,3]	4,095	5,250	5,025	5,554	5,539	5,693	5,641	5,693	5,781	5,973
4 Reserve position in International Monetary Fund[2]	5,055	7,348	11,312	11,619	11,618	11,675	11,541	11,322	11,097r	11,386
5 Foreign currencies[4]	9,774	10,212	6,289	6,036	6,317	6,263	6,656	6,270	6,301	7,041

1. Gold held under earmark at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13. Gold stock is valued at $42.22 per fine troy ounce.
2. Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; from January 1981, 5 currencies have been used. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.
3. Includes allocations by the International Monetary Fund of SDRs as follows: $867 million on Jan. 1, 1970; $717 million on Jan. 1, 1971; $710 million on Jan. 1, 1972; $1,139 million on Jan. 1, 1979; $1,152 million on Jan. 1, 1980; and $1,093 million on Jan. 1, 1981; plus transactions in SDRs.
4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS

Millions of dollars, end of period

Assets	1981	1982	1983	1984				1985		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Deposits	505	328	190	206	270	392	253	244	331	253
Assets held in custody										
2 U.S. Treasury securities[1]	104,680	112,544	117,670	115,678	115,542	117,433	118,267	117,330	115,179	113,532
3 Earmarked gold[2]	14,804	14,716	14,414	14,256	14,260	14,265	14,265	14,261	14,260	14,264

1. Marketable U.S. Treasury bills, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.
2. Earmarked gold is valued at $42.22 per fine troy ounce.

NOTE. Excludes deposits and U.S. Treasury securities held for international and regional organizations. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data

Millions of dollars, end of period

Asset account	1981	1982	1983	1984					1985	
				Aug.	Sept.	Oct.r	Nov.r	Dec.r	Jan.	Feb.p
						All foreign countries				
1 **Total, all currencies**	**462,847**	**469,712**	**477,090**	**462,028r**	**453,711r**	**448,499**	**452,914**	**452,205**	**445,588**	**453,414**
2 Claims on United States	63,743	91,805	115,542	116,620r	113,789r	109,292	112,815	113,435	115,523	119,022
3 Parent bank	43,267	61,666	82,026	81,979r	79,664r	75,736	77,958	78,151	79,324	84,062
4 Other banks in United States[1]	20,476	30,139	33,516	13,209	13,125	12,591	13,554	13,915	13,931	13,978
5 Nonbanks[1]				21,432	21,000	20,965	21,303	21,369	22,268	20,982
6 Claims on foreigners	378,954	358,493	342,689	324,474	319,375	319,075	319,431	318,710	309,712	314,790
7 Other branches of parent bank	87,821	91,168	96,004	93,507	92,646	90,821	91,313	94,738	87,476	89,360
8 Banks	150,763	133,752	117,668	103,346	101,567	102,258	103,050	100,307	100,004	104,483
9 Public borrowers	28,197	24,131	24,517	22,654	22,568	23,053	22,907	22,872	22,532	22,303
10 Nonbank foreigners	112,173	109,442	107,785	104,967	102,594	102,943	102,161	100,793	99,700	98,644
11 Other assets	20,150	19,414	18,859	20,934	20,547	20,132	20,668	20,060	20,353	19,602
12 **Total payable in U.S. dollars**	**350,735**	**361,982**	**371,508**	**352,334r**	**346,543r**	**340,675**	**345,685**	**349,542**	**343,834**	**352,158**
13 Claims on United States	62,142	90,085	113,436	114,281r	111,291r	106,651	110,442	111,468	113,269	116,715
14 Parent bank	42,721	61,010	80,909	80,833r	78,476r	74,366	76,763	77,271	78,398	83,052
15 Other banks in United States[1]	19,421	29,075	32,527	12,890	12,769	12,338	13,356	13,745	13,732	13,699
16 Nonbanks[1]				20,558r	20,046r	19,947	20,323	20,452	21,139	19,964
17 Claims on foreigners	276,937	259,871	247,406	227,132	224,603	223,376	224,251	227,303	220,154	225,139
18 Other branches of parent bank	69,398	73,537	78,431	75,969	75,509	73,472	74,600	78,300	72,451	74,423
19 Banks	122,110	106,447	93,332	77,402	76,566	76,915	77,096	76,851	75,877	79,324
20 Public borrowers	22,877	18,413	17,890	16,783	16,946	17,337	17,374	17,160	17,084	16,847
21 Nonbank foreigners	62,552	61,474	60,977	56,978	55,582	55,652	55,181	54,992	54,742	54,545
22 Other assets	11,656	12,026	10,666	10,921	10,649	10,648	10,992	10,771	10,411	10,304
						United Kingdom				
23 **Total, all currencies**	**157,229**	**161,067**	**158,732**	**154,250**	**147,696**	**147,562**	**149,377**	**144,385**	**146,130**	**149,534**
24 Claims on United States	11,823	27,354	34,433	31,691	29,333	28,952	29,502	27,731	28,783	31,910
25 Parent bank	7,885	23,017	29,111	26,054	23,772	23,283	23,773	21,918	22,296	25,313
26 Other banks in United States[1]	3,938	4,337	5,322	1,087	1,327	1,214	1,484	1,429	1,540	1,561
27 Nonbanks[1]				4,550	4,234	4,455	4,245	4,384	4,947	5,036
28 Claims on foreigners	138,888	127,734	119,280	117,255	113,299	113,524	114,264	111,772	112,284	112,937
29 Other branches of parent bank	41,367	37,000	36,565	39,313	37,499	37,638	37,395	37,897	36,367	35,381
30 Banks	56,315	50,767	43,352	39,906	39,133	38,696	39,262	37,443	39,063	40,961
31 Public borrowers	7,490	6,240	5,898	5,510	5,330	5,441	5,424	5,334	5,345	5,296
32 Nonbank foreigners	33,716	33,727	33,465	32,526	31,337	31,749	32,183	31,098	31,509	31,299
33 Other assets	6,518	5,979	5,019	5,304	5,064	5,086	5,611	4,882	5,063	4,687
34 **Total payable in U.S. dollars**	**115,188**	**123,740**	**126,012**	**118,337**	**114,358**	**113,437**	**114,895**	**112,809**	**112,919**	**116,212**
35 Claims on United States	11,246	26,761	33,756	30,641	28,282	27,917	28,610	26,924	27,807	30,945
36 Parent bank	7,721	22,756	28,756	25,509	23,323	22,825	23,378	21,551	21,960	24,911
37 Other banks in United States[1]	3,525	4,005	5,000	950	1,195	1,113	1,437	1,363	1,496	1,498
38 Nonbanks[1]				4,182	3,764	3,979	3,795	4,010	4,351	4,536
39 Claims on foreigners	99,850	92,228	88,917	84,553	83,082	82,456	82,971	82,889	82,161	82,268
40 Other branches of parent bank	35,439	31,648	31,838	33,623	32,704	32,461	32,669	33,551	31,899	31,099
41 Banks	40,703	36,717	32,188	27,961	27,986	27,093	27,290	26,805	27,465	28,523
42 Public borrowers	5,595	4,329	4,194	3,983	3,879	4,063	4,094	4,030	4,021	3,964
43 Nonbank foreigners	18,113	19,534	20,697	18,986	18,513	18,839	18,918	18,503	18,776	18,682
44 Other assets	4,092	4,751	3,339	3,143	2,994	3,064	3,314	2,996	2,951	2,999
						Bahamas and Caymans				
45 **Total, all currencies**	**149,108**	**145,156**	**152,083**	**146,861r**	**144,207r**	**138,981**	**141,610**	**146,811**	**142,140**	**144,986**
46 Claims on United States	46,546	59,403	75,309	78,424r	76,642r	71,911	75,655	77,296	76,872	76,457
47 Parent bank	31,643	34,653	48,720	50,926r	49,707r	45,641	48,202	49,449	48,892	50,044
48 Other banks in United States[1]	14,903	24,750	26,589	11,540	11,072	10,716	11,284	11,795	11,571	11,546
49 Nonbanks[1]				15,958	15,863	15,554	16,169	16,052	16,409	14,867
50 Claims on foreigners	98,057	81,450	72,868	64,263	63,545	63,031	62,024	65,598	61,493	64,719
51 Other branches of parent bank	12,951	18,720	20,626	16,093	15,639	15,117	13,837	17,682	14,447	16,330
52 Banks	55,151	42,699	36,842	30,505	30,075	30,263	30,529	30,225	29,331	31,016
53 Public borrowers	10,010	6,413	6,093	5,883	6,119	6,057	6,075	6,089	6,253	6,175
54 Nonbank foreigners	19,945	13,618	12,592	11,782	11,712	11,594	11,583	11,602	11,462	11,198
55 Other assets	4,505	4,303	3,906	4,174	4,020	4,039	3,931	3,917	3,775	3,810
56 **Total payable in U.S. dollars**	**143,743**	**139,605**	**145,641**	**140,666r**	**138,307r**	**133,002**	**136,211**	**141,562**	**137,392**	**139,860**

1. Data for assets vis-a-vis other banks in the United States and vis-a-vis nonbanks are combined for dates prior to June 1984.

3.14 Continued

Liability account	1981	1982	1983	1984 Aug.	1984 Sept.	1984 Oct.r	1984 Nov.r	1984 Dec.r	1985 Jan.	1985 Feb.p
	All foreign countries									
57 **Total, all currencies**	**462,847**	**469,712**	**477,090**	**462,028r**	**453,711r**	**448,499**	**452,914**	**452,205**	**445,588**	**453,414**
58 Negotiable CDs[2]	n.a.	n.a.	n.a.	41,656	39,866	38,520	37,915	37,725	38,804	41,798
59 To United States	137,767	179,015	188,070	152,177r	146,632r	139,567	138,498	146,955	143,980	141,218
60 Parent bank	56,344	75,621	81,261	76,702r	74,655r	74,757	70,346	78,111	75,459	72,606
61 Other banks in United States	19,197	33,405	29,453	19,693	20,120	18,937	18,601	18,394	18,124	17,970
62 Nonbanks	62,226	69,989	77,356	55,782	51,857	45,873	49,551	50,450	50,397	50,642
63 To foreigners	305,630	270,853	269,685	246,565	245,746	248,164	253,925	246,894	241,591	249,297
64 Other branches of parent bank	86,396	90,191	90,615	90,747	90,426	89,492	90,681	93,206	87,844	90,016
65 Banks	124,906	96,860	92,889	78,796	77,471	82,235	86,822	78,203	79,361	84,043
66 Official institutions	25,997	19,614	18,896	20,238	21,566	19,501	20,883	20,281	19,488	19,362
67 Nonbank foreigners	68,331	64,188	68,845	56,784	56,283	56,936	55,539	55,204	54,898	55,876
68 Other liabilities	19,450	19,844	19,335	21,630	21,467	22,248	22,576	20,631	21,213	21,101
69 **Total payable in U.S. dollars**	**364,447**	**379,270**	**388,291**	**369,898r**	**363,876r**	**356,601**	**361,875**	**365,859**	**358,329**	**366,495**
70 Negotiable CDs[2]	n.a.	n.a.	n.a.	39,610	37,629	36,102	35,608	35,227	36,295	39,544
71 To United States	134,700	175,528	184,305	147,644r	142,111r	135,296	134,303	142,943	140,107	137,455
72 Parent bank	54,492	73,295	79,035	74,116r	71,883r	72,246	67,821	75,626	73,118	70,350
73 Other banks in United States	18,883	33,040	28,936	19,019	19,457	18,283	18,052	17,920	17,585	17,440
74 Nonbanks	61,325	69,193	76,334	54,509	50,771	44,767	48,430	49,397	49,404	49,665
75 To foreigners	217,602	192,510	194,139	171,880	173,610	174,107	180,841	177,638	171,655	178,904
76 Other branches of parent bank	69,299	72,921	73,522	73,501	73,412	72,204	74,552	77,222	72,770	75,040
77 Banks	79,594	57,463	57,022	42,373	42,772	46,227	50,509	45,131	44,975	48,766
78 Official institutions	20,288	15,055	13,855	15,476	16,850	14,850	16,068	15,773	14,865	14,657
79 Nonbank foreigners	48,421	47,071	51,260	40,530	40,576	40,826	39,712	39,512	39,045	40,441
80 Other liabilities	12,145	11,232	9,847	10,764	10,526	11,096	11,123	10,051	10,272	10,592
	United Kingdom									
81 **Total, all currencies**	**157,229**	**161,067**	**158,732**	**154,250**	**147,696**	**147,562**	**149,377**	**144,385**	**146,130**	**149,534**
82 Negotiable CDs[2]	n.a.	n.a.	n.a.	38,265	36,600	34,948	34,269	34,413	35,455	38,281
83 To United States	38,022	53,954	55,799	29,667	27,280	26,558	25,338	25,250	27,757	23,439
84 Parent bank	5,444	13,091	14,021	18,127	16,130	16,598	15,116	14,651	16,714	13,763
85 Other banks in United States	7,502	12,205	11,328	3,548	3,451	3,388	3,002	3,110	3,556	3,086
86 Nonbanks	25,076	28,658	30,450	7,992	7,699	6,572	7,220	7,489	7,487	6,590
87 To foreigners	112,255	99,567	95,847	78,469	75,901	77,985	81,217	77,424	75,039	80,188
88 Other branches of parent bank	16,545	18,361	19,038	22,252	21,536	21,023	20,846	21,631	20,199	22,146
89 Banks	51,336	44,020	41,624	30,735	28,996	32,436	34,739	30,436	31,216	33,789
90 Official institutions	16,517	11,504	10,151	10,480	10,625	9,650	10,505	10,154	9,084	9,374
91 Nonbank foreigners	27,857	25,682	25,034	15,002	14,744	14,876	15,127	15,203	14,540	14,879
92 Other liabilities	6,952	7,546	7,086	7,849	7,915	8,071	8,553	7,298	7,879	7,626
93 **Total payable in U.S. dollars**	**120,277**	**130,261**	**131,167**	**124,260**	**119,337**	**118,103**	**119,287**	**117,497**	**117,198**	**120,623**
94 Negotiable CDs[2]	n.a.	n.a.	n.a.	37,219	35,398	33,703	33,168	33,070	34,084	37,033
95 To United States	37,332	53,029	54,691	28,027	25,763r	25,178	24,024	24,105	26,587	22,386
96 Parent bank	5,350	12,814	13,839	17,701	15,679	16,209	14,742	14,339	16,349	13,506
97 Other banks in United States	7,249	12,026	11,044	3,244	3,131	3,144	2,792	2,965	3,407	2,942
98 Nonbanks	24,733	28,189	29,808	7,082	6,953	5,825	6,490	6,801	6,831	5,938
99 To foreigners	79,034	73,477	73,279	55,337	54,590	55,482	58,163	56,923	52,954	57,654
100 Other branches of parent bank	12,048	14,300	15,403	18,384	18,175	17,600	17,562	18,294	16,940	18,772
101 Banks	32,298	28,810	29,320	16,984	16,015	18,309	20,262	18,356	17,889	20,022
102 Official institutions	13,612	9,668	8,279	8,920	9,375	8,306	9,072	8,871	7,748	7,854
103 Nonbank foreigners	21,076	20,699	20,277	11,049	11,025	11,267	11,267	11,402	10,377	11,006
104 Other liabilities	3,911	3,755	3,197	3,677	3,586	3,740	3,932	3,399	3,563	3,550
	Bahamas and Caymans									
105 **Total, all currencies**	**149,108**	**145,156**	**152,083**	**146,861r**	**144,207r**	**138,981**	**141,610**	**146,811**	**142,140**	**144,986**
106 Negotiable CDs[2]	n.a.	n.a.	n.a.	905	788	878	898	615	734	953
107 To United States	85,759	104,425	111,299	103,457r	100,311r	95,249	95,975	102,955	98,753	99,503
108 Parent bank	39,451	47,081	50,980	41,915r	41,693r	42,851	40,517	47,161	43,999	43,625
109 Other banks in United States	10,474	18,466	16,057	14,742	15,459	14,167	14,187	13,938	13,332	13,591
110 Nonbanks	35,834	38,878	44,262	46,800	43,159	38,231	41,271	41,855	41,422	42,287
111 To foreigners	60,012	38,274	38,445	39,598	40,213	39,872	41,764	40,302	39,802	41,543
112 Other branches of parent bank	20,641	15,796	14,936	14,446	15,283	14,823	16,455	16,782	16,014	17,111
113 Banks	23,202	10,166	11,876	12,200	11,978	13,068	13,993	12,405	12,287	12,982
114 Official institutions	3,498	1,967	1,919	2,674	3,028	2,211	2,376	2,054	2,020	1,992
115 Nonbank foreigners	12,671	10,345	11,274	10,278	9,924	9,770	8,940	9,079	9,481	9,458
116 Other liabilities	3,337	2,457	2,339	2,901	2,895	2,982	2,973	2,921	2,851	2,987
117 **Total payable in U.S. dollars**	**145,284**	**141,908**	**148,278**	**142,836r**	**140,531r**	**135,326**	**137,874**	**143,590**	**138,505**	**141,293**

2. Before June 1984, liabilities on negotiable CDs were included in liabilities to the United States or liabilities to foreigners, according to the address of the initial purchaser.

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1982	1983	1984 Aug.	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.p	1985 Feb.p
1 **Total**[1]	**172,718**	**177,950**	**177,276**	**173,407**	**176,177**	**178,158**	**180,640**	**176,806**	**173,179**
By type									
2 Liabilities reported by banks in the United States[2]	24,989	25,534	26,381	24,038	26,893	25,789	26,197	23,288	23,266
3 U.S. Treasury bills and certificates[3]	46,658	54,341	54,022	54,627	55,780	59,570	59,976	56,662	52,474
U.S. Treasury bonds and notes									
4 Marketable	67,733	68,514	70,441	68,471	67,647	67,003	68,995	71,522	72,845
5 Nonmarketable[4]	8,750	7,250	5,800	5,800	5,800	5,800	5,800	5,800	5,300
6 U.S. securities other than U.S. Treasury securities[5]	24,588	22,311	20,632	20,471	20,057	19,996	19,672	19,534	19,294
By area									
7 Western Europe[1]	61,298	67,645	70,399	68,091	68,682	70,384	69,755	68,261	67,215
8 Canada	2,070	2,438	1,434	1,069	1,321	1,466	1,528	1,491	1,136
9 Latin America and Caribbean	6,057	6,248	8,170	7,053	8,109	8,894	8,646	7,451	7,279
10 Asia	96,034	92,572	90,464	90,403	91,491	90,047	93,951	93,031	91,024
11 Africa	1,350	958	838	897	967	1,316	1,291	1,120	1,397
12 Other countries[6]	5,909	8,089	5,971	5,894	5,607	6,051	5,469	5,452	5,128

1. Includes the Bank for International Settlements.
2. Principally demand deposits, time deposits, bankers acceptances, commercial paper, negotiable time certificates of deposit, and borrowings under repurchase agreements.
3. Includes nonmarketable certificates of indebtedness (including those payable in foreign currencies through 1974) and Treasury bills issued to official institutions of foreign countries.
4. Excludes notes issued to foreign official nonreserve agencies. Includes bonds and notes payable in foreign currencies.
5. Debt securities of U.S. government corporations and federally sponsored agencies, and U.S. corporate stocks and bonds.
6. Includes countries in Oceania and Eastern Europe.

NOTE. Based on Treasury Department data and on data reported to the Treasury Department by banks (including Federal Reserve Banks) and securities dealers in the United States.

3.16 LIABILITIES TO AND CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in Foreign Currencies

Millions of dollars, end of period

Item	1981	1982	1983	1984 Mar.	1984 June	1984 Sept.	1984 Dec.
1 Banks' own liabilities	3,523	4,844	5,219	5,817	6,402	5,901	7,501
2 Banks' own claims	4,980	7,707	7,231	9,034	9,623	9,006	10,801
3 Deposits	3,398	4,251	2,731	4,024	4,280	3,696	3,964
4 Other claims	1,582	3,456	4,501	5,010	5,344	5,310	6,837
5 Claims of banks' domestic customers[1]	971	676	1,059	361	227	281	569

1. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of their domestic customers.

NOTE. Data on claims exclude foreign currencies held by U.S. monetary authorities.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States Payable in U.S. dollars

Millions of dollars, end of period

Holder and type of liability	1981▲	1982	1983	1984					1985	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.p
1 **All foreigners**	**243,889**	**307,056**	**369,607**	**396,436**	**398,598**	**388,951**	**398,481**	**406,381r**	**400,295**	**404,783**
2 Banks' own liabilities	163,817	227,089	279,087	296,595	299,732	290,282	296,833	306,758r	302,536	311,208
3 Demand deposits	19,631	15,889	17,470	16,229	17,198	16,490	17,448	19,542r	17,976	19,368
4 Time deposits[1]	29,039	68,797	90,632	107,604	111,901	109,612	112,678	110,235r	114,260	117,041
5 Other[2]	17,647	23,184	25,874	23,630	22,087	24,423	23,642	26,332	23,710	25,353
6 Own foreign offices[3]	97,500	119,219	145,111	149,132	148,546	139,758	143,065	150,650r	146,590	149,446
7 Banks' custody liabilities[4]	80,072	79,967	90,520	99,842	98,866	98,669	101,648	100,074	97,759	93,575
8 U.S. Treasury bills and certificates[5]	55,315	55,628	68,669	74,148	73,160	73,295	76,531	75,838	73,635	69,189
9 Other negotiable and readily transferable instruments[6]	18,788	20,636	17,467	20,567	20,833	20,281	19,703	18,775	18,128	17,995
10 Other	5,970	3,702	4,385	5,127	4,873	5,094	5,414	5,460	5,997	6,391
11 **Nonmonetary international and regional organizations**[7]	**2,721**	**4,922**	**5,957**	**5,748**	**6,279**	**4,801**	**5,831**	**4,083**	**6,929**	**5,812**
12 Banks' own liabilities	638	1,909	4,632	1,960	3,305	2,053	2,779	1,644	3,571	2,092
13 Demand deposits	262	106	297	325	209	144	354	263	417	341
14 Time deposits[1]	58	1,664	3,584	1,446	2,526	1,513	2,114	1,093r	2,682	936
15 Other[2]	318	139	750	189	570	396	311	288	472	815
16 Banks' custody liabilities[4]	2,083	3,013	1,325	3,788	2,975	2,748	3,052	2,440	3,358	3,719
17 U.S. Treasury bills and certificates	541	1,621	463	2,722	1,834	1,455	1,448	916	1,921	2,258
18 Other negotiable and readily transferable instruments[6]	1,542	1,392	862	1,067	1,140	1,292	1,604	1,524	1,429	1,461
19 Other	0	0	0	0	0	0	0	0	8	1
20 **Official institutions**[8]	**79,126**	**71,647**	**79,876**	**80,403**	**78,665**	**82,673**	**85,359**	**86,173r**	**79,950**	**75,740**
21 Banks' own liabilities	17,109	16,640	19,427	18,222	16,274	19,247	18,748	19,065r	16,958	17,115
22 Demand deposits	2,564	1,899	1,837	2,003	1,969	1,725	2,133	1,823	1,780	1,881
23 Time deposits[1]	4,230	5,528	7,318	8,060	7,877	8,695	9,457	9,391r	8,356	8,654
24 Other[2]	10,315	9,212	10,272	8,158	6,429	8,828	7,159	7,852	6,821	6,580
25 Banks' custody liabilities[4]	62,018	55,008	60,448	62,181	62,391	63,426	66,611	67,108	62,992	58,625
26 U.S. Treasury bills and certificates[5]	52,389	46,658	54,341	54,022	54,627	55,780	59,570	59,976	56,662	52,474
27 Other negotiable and readily transferable instruments[6]	9,581	8,321	6,082	8,149	7,746	7,626	7,010	7,038	6,267	6,064
28 Other	47	28	25	10	18	20	31	94	63	87
29 **Banks**[9]	**136,008**	**185,881**	**226,887**	**243,552**	**246,077**	**233,654**	**238,349**	**248,360r**	**242,858**	**249,848**
30 Banks' own liabilities	124,312	169,449	205,347	218,081	221,185	209,529	214,783	225,512r	220,141	227,494
31 Unaffiliated foreign banks	26,812	50,230	60,236	68,949	72,640	69,771	71,718	74,862r	73,551	78,047
32 Demand deposits	11,614	8,675	8,759	7,884	8,453	8,389	8,528	10,526r	9,030	9,656
33 Time deposits[1]	8,720	28,386	37,439	46,901	49,763	46,755	47,703	47,059r	48,762	51,053
34 Other[2]	6,477	13,169	14,038	14,164	14,424	14,627	15,488	17,278	15,759	17,338
35 Own foreign offices[3]	97,500	119,219	145,111	149,132	148,546	139,758	143,065	150,650r	146,590	149,446
36 Banks' custody liabilities[4]	11,696	16,432	21,540	25,471	24,892	24,124	23,566	22,848	22,717	22,355
37 U.S. Treasury bills and certificates	1,685	5,809	10,178	12,766	12,234	11,828	11,409	10,927	10,933	10,488
38 Other negotiable and readily transferable instruments[6]	4,400	7,857	7,485	8,172	8,421	7,802	7,360	7,156	6,489	6,217
39 Other	5,611	2,766	3,877	4,534	4,236	4,494	4,797	4,766	5,295	5,650
40 **Other foreigners**	**26,035**	**44,606**	**56,887**	**66,733**	**67,576**	**67,824**	**68,942**	**68,215r**	**70,557**	**73,383**
41 Banks' own liabilities	21,759	39,092	49,680	58,332	58,968	59,453	60,523	60,537r	61,866	64,507
42 Demand deposits	5,191	5,209	6,577	6,017	6,567	6,232	6,433	6,930r	6,748	7,490
43 Time deposits	16,030	33,219	42,290	51,195	51,735	52,648	53,405	52,693r	54,460	56,399
44 Other[2]	537	664	813	1,120	665	573	685	914	658	619
45 Banks' custody liabilities[4]	4,276	5,514	7,207	8,401	8,609	8,372	8,419	7,678	8,692	8,876
46 U.S. Treasury bills and certificates	699	1,540	3,686	4,639	4,465	4,232	4,103	4,020	4,118	3,970
47 Other negotiable and readily transferable instruments[6]	3,265	3,065	3,038	3,180	3,525	3,560	3,730	3,058	3,943	4,253
48 Other	312	908	483	582	619	580	586	601	631	653
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	10,747	14,307	10,346	11,415	11,048	10,714	10,437	10,476	9,287	9,126

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

1. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
2. Includes borrowing under repurchase agreements.
3. U.S. banks: includes amounts due to own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due to head office or parent foreign bank, and foreign branches, agencies or wholly owned subsidiaries of head office or parent foreign bank.
4. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks.
5. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
6. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
7. Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks.
8. Foreign central banks and foreign central governments, and the Bank for International Settlements.
9. Excludes central banks, which are included in "Official institutions."

3.17 Continued

	Area and country	1981▲	1982	1983	1984 Aug.	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.	1985 Feb.[p]
1	**Total**	**243,889**	**307,056**	**369,607**	**396,436**	**398,598**	**388,951**	**398,481**	**406,831[r]**	**400,295**	**404,783**
2	**Foreign countries**	**241,168**	**302,134**	**363,649**	**390,688**	**392,319**	**384,151**	**392,650**	**402,748[r]**	**393,365**	**398,971**
3	Europe	91,275	117,756	138,072	150,785	147,244	146,413	149,577	152,395[r]	149,461	152,165
4	Austria	596	519	585	758	693	744	627	615	734	598
5	Belgium-Luxembourg	4,117	2,517	2,709	4,789	4,278	4,093	3,613	4,114	4,007	4,636
6	Denmark	333	509	466	408	341	337	434	438	452	545
7	Finland	296	748	531	489	638	407	487	418	425	789
8	France	8,486	8,171	9,441	11,539	11,547	11,641	11,935	12,701	11,908	12,430
9	Germany	7,645	5,351	3,599	3,758	3,036	3,331	3,405	3,353[r]	3,581	3,258
10	Greece	463	537	520	566	567	609	602	699	615	583
11	Italy	7,267	5,626	8,462	8,356	8,266	8,976	11,056	10,757	9,657	9,148
12	Netherlands	2,823	3,362	4,290	5,116	5,239	4,421	5,077	4,799	4,663	4,622
13	Norway	1,457	1,567	1,673	2,026	1,912	1,895	1,693	1,548	1,717	1,647
14	Portugal	354	388	373	539	434	540	552	597	570	613
15	Spain	916	1,405	1,603	1,971	1,984	1,905	1,873	2,082	2,016	1,887
16	Sweden	1,545	1,390	1,799	2,095	2,008	1,945	1,839	1,676[r]	2,133	1,551
17	Switzerland	18,716	29,066	32,246	32,919	32,995	32,461	31,494	31,054[r]	31,397	31,542
18	Turkey	518	296	467	354	320	557	457	584	495	501
19	United Kingdom	28,286	48,172	60,683	67,976	65,445	65,384	66,944	68,553[r]	68,043	70,216
20	Yugoslavia	375	499	562	435	514	579	565	602	545	602
21	Other Western Europe[1]	6,541	7,006	7,403	6,114	6,247	6,062	6,387	7,184[r]	5,855	6,500
22	U.S.S.R.	49	50	65	47	41	50	54	79	66	66
23	Other Eastern Europe[2]	493	576	596	532	738	476	481	542[r]	581	432
24	Canada	10,250	12,232	16,026	18,170	17,536	16,767	16,549	16,048[r]	16,233	18,163
25	Latin America and Caribbean	85,223	114,163	140,088	150,972	152,069	145,771	149,574	153,985[r]	151,228	154,174
26	Argentina	2,445	3,578	4,038	4,411	4,384	4,484	4,607	4,424	4,523	4,361
27	Bahamas	34,856	44,744	55,818	60,077	58,321	52,912	55,102	56,955[r]	55,394	56,789
28	Bermuda	765	1,572	2,266	2,763	3,177	3,043	3,222	2,370	2,704	3,456
29	Brazil	1,568	2,014	3,168	4,697	4,427	4,714	4,978	5,332	4,928	6,136
30	British West Indies	17,794	26,381	34,545	33,789	35,926	34,419	34,336	36,949[r]	35,271	34,568
31	Chile	664	1,626	1,842	2,070	1,874	2,052	2,185	2,001	1,944	1,916
32	Colombia	2,993	2,594	1,689	1,791	1,957	2,022	2,057	2,514	2,356	2,453
33	Cuba	9	9	8	7	8	8	8	10	26	8
34	Ecuador	434	455	1,047	951	931	924	1,029	1,092	912	981
35	Guatemala	479	670	788	831	810	855	884	896	920	915
36	Jamaica	87	126	109	126	180	122	110	183[r]	157	182
37	Mexico	7,235	8,377	10,392	12,268	12,869	12,466	13,422	12,695[r]	13,297	13,061
38	Netherlands Antilles	3,182	3,597	3,879	4,261	4,179	4,187	4,180	4,153	4,346	4,662
39	Panama	4,857	4,805	5,924	6,506	6,811	6,578	6,847	6,928	6,872	7,156
40	Peru	694	1,147	1,166	1,273	1,343	1,304	1,258	1,247	1,152	1,063
41	Uruguay	367	759	1,244	1,319	1,418	1,361	1,309	1,394	1,485	1,413
42	Venezuela	4,245	8,417	8,632	10,046	9,615	10,367	10,013	10,545	10,667	10,742
43	Other Latin America and Caribbean	2,548	3,291	3,535	3,786	3,839	3,952	4,027	4,297[r]	4,275	4,311
44	Asia	49,822	48,716	58,570	61,559	66,397	66,028	67,182	71,139[r]	67,393	65,288
	China										
45	Mainland	158	203	249	671	876	861	844	1,153	1,078	1,068
46	Taiwan	2,082	2,761	4,051	4,799	4,970	5,041	5,355	4,975[r]	5,098	5,231
47	Hong Kong	3,950	4,465	6,657	6,110	6,977	6,236	6,535	7,240	7,417	6,642
48	India	385	433	464	800	644	616	606	507	554	721
49	Indonesia	640	857	997	1,137	939	1,339	884	1,033	1,136	914
50	Israel	592	606	1,722	726	750	2,017	1,023	1,268	1,003	995
51	Japan	20,750	16,078	18,079	19,792	21,310	19,644	20,750	20,929	21,662	22,726
52	Korea	2,013	1,692	1,648	1,641	1,572	1,552	1,609	1,691	1,561	1,623
53	Philippines	874	770	1,234	1,084	1,020	1,097	1,252	1,396	1,334	1,144
54	Thailand	534	629	747	782	741	980	1,458	1,257	1,161	1,062
55	Middle-East oil-exporting countries[3]	12,992	13,433	12,976	13,200	13,754	13,890	13,436	16,804[r]	15,970	15,219
56	Other Asia	4,853	6,789	9,748	10,815	12,844	12,755	13,432	12,886[r]	9,418	7,945
57	Africa	3,180	3,124	2,827	3,052	3,018	3,329	3,492	3,506[r]	3,431	3,572
58	Egypt	360	432	671	743	629	763	739	757	798	649
59	Morocco	32	81	84	119	136	115	117	118	115	121
60	South Africa	420	292	449	350	318	459	460	328	376	371
61	Zaire	26	23	87	101	148	141	163	153	76	79
62	Oil-exporting countries[4]	1,395	1,280	620	775	821	998	1,034	1,189	1,187	1,450
63	Other Africa	946	1,016	917	964	966	852	978	961[r]	878	903
64	Other countries	1,419	6,143	8,067	6,150	6,055	5,844	6,277	5,674[r]	5,619	5,608
65	Australia	1,223	5,904	7,857	5,749	5,687	5,464	5,598	5,290[r]	5,241	5,043
66	All other	196	239	210	401	368	379	679	384[r]	379	564
67	Nonmonetary international and regional organizations	2,721	4,922	5,957	5,748	6,279	4,801	5,831	4,083	6,929	5,812
68	International	1,661	4,049	5,273	4,973	5,411	4,086	5,055	3,376	6,165	4,453
69	Latin American regional	710	517	419	445	488	518	593	587	600	580
70	Other regional[5]	350	357	265	330	381	196	183	120	165	778

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.

2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.

3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

4. Comprises Algeria, Gabon, Libya, and Nigeria.

5. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Western Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in U.S. Dollars

Millions of dollars, end of period

Area and country	1981▲	1982	1983	1984					1985	
				Aug.	Sept.	Oct.	Nov.	Dec.^r	Jan.	Feb.^p
1 **Total**	**251,589**	**355,705**	**391,312**	**396,232**	**393,959**	**383,444**	**384,517**	**398,722**	**387,197**	**392,684**
2 **Foreign countries**	**251,533**	**355,636**	**391,148**	**396,034**	**393,888**	**382,762**	**383,954**	**398,048**	**386,273**	**392,388**
3 Europe	49,262	85,584	91,927	100,084	98,173	95,370	97,812	97,962	96,038	97,981
4 Austria	121	229	401	581	572	521	532	433	339	367
5 Belgium-Luxembourg	2,849	5,138	5,639	6,156	6,286	5,363	4,988	4,794	4,683	5,097
6 Denmark	187	554	1,275	1,088	1,057	544	520	648	589	589
7 Finland	546	990	1,044	872	882	887	1,098	898	817	907
8 France	4,127	7,251	8,766	9,985	9,094	8,822	9,299	9,085	8,617	9,601
9 Germany	940	1,876	1,284	1,257	1,220	1,097	1,261	1,305	988	939
10 Greece	333	452	476	974	1,086	929	819	817	896	840
11 Italy	5,240	7,560	9,018	7,832	7,803	7,820	8,854	9,079	8,040	8,483
12 Netherlands	682	1,425	1,267	1,440	1,470	1,190	1,229	1,351	1,480	1,490
13 Norway	384	572	690	649	649	676	602	675	651	808
14 Portugal	529	950	1,114	1,433	1,387	1,346	1,262	1,243	1,209	1,269
15 Spain	2,095	3,744	3,573	3,700	3,355	3,189	3,017	2,884	2,848	3,134
16 Sweden	1,205	3,038	3,358	2,404	2,596	2,362	2,313	2,220	2,497	2,580
17 Switzerland	2,213	1,639	1,863	1,580	1,741	2,067	2,275	2,201	2,308	2,112
18 Turkey	424	560	812	1,145	1,132	1,145	1,097	1,130	1,232	1,197
19 United Kingdom	23,849	45,781	47,364	54,752	53,676	53,269	54,520	55,184	54,849	54,565
20 Yugoslavia	1,225	1,430	1,718	1,857	1,888	1,868	1,866	1,886	1,862	1,783
21 Other Western Europe[1]	211	368	477	732	660	660	625	596	668	683
22 U.S.S.R	377	263	192	175	176	159	169	142	118	219
23 Other Eastern Europe[2]	1,725	1,762	1,598	1,471	1,442	1,454	1,467	1,391	1,345	1,318
24 Canada	9,193	13,678	16,341	16,326	16,604	16,634	15,778	16,057	16,343	19,080
25 Latin America and Caribbean	138,347	187,969	205,491	203,465	203,001	198,372	199,058	207,577	199,663	200,256
26 Argentina	7,527	10,974	11,749	11,021	11,108	11,014	10,983	11,043	11,453	11,203
27 Bahamas	43,542	56,649	59,633	56,612	55,216	52,006	54,084	58,027	54,604	55,022
28 Bermuda	346	603	566	509	508	551	635	592	594	429
29 Brazil	16,926	23,271	24,667	25,991	26,140	26,146	26,275	26,307	25,886	26,146
30 *British West Indies*	21,981	29,101	35,527	35,390	36,002	34,866	33,722	38,105	35,372	36,824
31 Chile	3,690	5,513	6,072	6,619	6,836	6,795	6,703	6,839	6,746	6,713
32 Colombia	2,018	3,211	3,745	3,444	3,438	3,343	3,406	3,499	3,369	3,406
33 Cuba	3	3	0	0	0	0	0	0	0	1
34 Ecuador	1,531	2,062	2,307	2,380	2,365	2,452	2,431	2,420	2,477	2,489
35 Guatemala[3]	124	124	129	130	120	141	148	158	154	157
36 Jamaica[3]	62	181	215	216	225	234	222	252	244	253
37 Mexico	22,439	29,552	34,802	35,016	35,602	35,364	35,288	34,697	34,057	33,654
38 Netherlands Antilles	1,076	839	1,154	1,302	1,296	1,337	1,337	1,350	1,273	1,393
39 Panama	6,794	10,210	7,848	8,202	7,639	7,540	7,360	7,707	6,864	6,200
40 Peru	1,218	2,357	2,536	2,401	2,397	2,416	2,358	2,384	2,414	2,337
41 Uruguay	157	686	977	930	934	962	990	1,088	1,053	1,021
42 Venezuela	7,069	10,643	11,287	11,137	10,982	11,029	10,994	11,017	10,968	10,929
43 Other Latin America and Caribbean	1,844	1,991	2,277	2,165	2,191	2,175	2,123	2,091	2,135	2,079
44 Asia	49,851	60,952	67,837	65,979	66,006	62,356	61,398	66,380	64,395	65,348
China										
45 *Mainland*	107	214	292	639	563	409	543	710	507	646
46 Taiwan	2,461	2,288	1,908	1,573	1,651	1,588	1,679	1,849	1,745	1,921
47 Hong Kong	4,132	6,787	8,489	6,809	7,139	7,155	6,945	7,368	6,801	7,346
48 India	123	222	330	295	354	302	381	425	299	354
49 Indonesia	352	348	805	906	886	821	797	734	710	780
50 Israel	1,567	2,029	1,832	1,869	1,802	1,890	1,938	2,088	1,993	2,041
51 Japan	26,797	28,379	30,354	29,005	30,601	26,862	26,421	29,059	28,495	29,110
52 Korea	7,340	9,387	9,943	9,547	9,586	9,253	8,896	9,285	8,807	8,795
53 Philippines	1,819	2,625	2,107	2,756	2,578	2,510	2,487	2,550	2,499	2,560
54 Thailand	565	643	1,219	1,262	1,113	1,072	1,112	1,125	1,123	1,076
55 Middle East oil-exporting countries[4]	1,581	3,087	4,954	4,924	4,506	4,650	4,687	5,054	5,004	4,856
56 Other Asia	3,009	4,943	5,603	6,396	5,227	5,844	5,512	6,133	6,412	5,860
57 Africa	3,503	5,346	6,654	6,969	6,830	6,862	6,719	6,615	6,536	6,375
58 Egypt	238	322	747	613	650	674	693	728	668	584
59 Morocco	284	353	440	556	545	582	536	583	552	582
60 South Africa	1,011	2,012	2,634	3,281	3,152	3,140	2,960	2,795	2,791	2,666
61 Zaire	112	57	33	30	18	18	19	18	41	29
62 Oil-exporting countries[5]	657	801	1,073	996	944	938	911	842	812	791
63 Other	1,201	1,802	1,727	1,493	1,522	1,510	1,600	1,649	1,672	1,724
64 Other countries	1,376	2,107	2,898	3,210	3,274	3,169	3,189	3,456	3,297	3,348
65 Australia	1,203	1,713	2,256	2,582	2,673	2,508	2,487	2,778	2,593	2,635
66 All other	172	394	642	628	601	661	702	678	704	713
67 Nonmonetary international and regional organizations[6]	56	68	164	198	71	681	562	674	925	295

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.
2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.
3. Included in "Other Latin America and Caribbean" through March 1978.
4. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
5. Comprises Algeria, Gabon, Libya, and Nigeria.
6. Excludes the Bank for International Settlements, which is included in "Other Western Europe."

NOTE. Data for period before April 1978 include claims of banks' domestic customers on foreigners.

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1981▲	1982	1983	1984					1985	
				Aug.	Sept.	Oct.	Nov.	Dec.r	Jan.	Feb.p
1 **Total**	**287,557**	**396,015**	**426,215**	....	**427,985**	....	....	**431,639**	....	....
2 Banks' own claims on foreigners	251,589	355,705	391,312	396,232	393,959	383,444	384,517	398,722	387,197	392,684
3 Foreign public borrowers	31,260	45,422	57,569	58,477	59,617	61,361	61,443	61,371	61,321	61,673
4 Own foreign offices[1]	96,653	127,293	146,393	153,652	152,030	143,576	144,329	156,497	153,829	154,004
5 Unaffiliated foreign banks	74,704	121,377	123,837	123,716	122,482	120,873	121,258	123,775	116,965	121,589
6 Deposits	23,381	44,223	47,126	46,990	47,379	46,778	45,788	48,112	45,070	47,763
7 Other	51,322	77,153	76,711	76,725	75,103	74,094	75,469	75,663	71,894	73,826
8 All other foreigners	48,972	61,614	63,514	60,387	59,830	57,634	57,487	57,080	55,083	55,418
9 Claims of banks' domestic customers[2]	35,968	40,310	34,903	....	34,026	....	....	32,916	....	....
10 Deposits	1,378	2,491	2,969	....	4,575	....	....	3,380	....	....
11 Negotiable and readily transferable instruments[3]	26,352	30,763	26,064	....	23,396	....	....	23,805	....	....
12 Outstanding collections and other claims	8,238	7,056	5,870	....	6,055	....	....	5,732	....	....
13 MEMO: Customer liability on acceptances	29,952	38,153	37,715	....	38,586	....	....	36,575	....	....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[4]	40,369	42,499	45,856	44,615r	44,201r	42,774r	43,931r	39,924	41,667	n.a.

1. *U.S. banks:* includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. *Agencies, branches, and majority-owned subsidiaries of foreign banks:* principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the account of their domestic customers.
3. Principally negotiable time certificates of deposit and bankers acceptances.
4. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 BULLETIN, p. 550.

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

NOTE. Beginning April 1978, data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States Payable in U.S. Dollars

Millions of dollars, end of period

Maturity; by borrower and area	1981▲	1982	1983	1984			
				Mar.	June	Sept.	Dec.r
1 **Total**	**154,590**	**228,150**	**243,715**	**238,819**	**249,646**	**240,674**	**243,049**
By borrower							
2 Maturity of 1 year or less[1]	116,394	173,917	176,158	163,567	172,144	162,914	165,200
3 Foreign public borrowers	15,142	21,256	24,039	20,453	21,018	21,059	22,076
4 All other foreigners	101,252	152,661	152,120	143,114	151,126	141,854	143,124
5 Maturity of over 1 year[1]	38,197	54,233	67,557	75,252	77,501	77,760	77,849
6 Foreign public borrowers	15,589	23,137	32,521	36,333	37,797	38,410	39,620
7 All other foreigners	22,608	31,095	35,036	38,919	39,704	39,350	38,229
By area							
Maturity of 1 year or less[1]							
8 Europe	28,130	50,500	56,117	54,393	59,666	56,769	58,170
9 Canada	4,662	7,642	6,211	6,509	6,925	5,896	5,978
10 Latin America and Caribbean	48,717	73,291	73,660	65,658	65,109	61,479	60,692
11 Asia	31,485	37,578	34,403	31,206	34,002	32,252	33,450
12 Africa	2,457	3,680	4,199	4,472	4,790	4,798	4,442
13 All other[2]	943	1,226	1,569	1,330	1,652	1,720	2,468
Maturity of over 1 year[1]							
14 Europe	8,100	11,636	13,576	13,334	12,827	11,269	9,590
15 Canada	1,808	1,931	1,857	2,038	2,203	1,801	1,890
16 Latin America and Caribbean	25,209	35,247	43,888	51,233	54,271	56,577	57,834
17 Asia	1,907	3,185	4,850	5,150	5,098	5,106	5,386
18 Africa	900	1,494	2,286	2,291	1,865	1,857	2,033
19 All other[2]	272	740	1,101	1,206	1,237	1,150	1,116

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

1. Remaining time to maturity.
2. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks[1]

Billions of dollars, end of period

Area or country	1980	1981	1982	1983				1984			
			Dec.	Mar.	June	Sept.	Dec.	Mar.	June[7]	Sept.	Dec.[p]
1 **Total**	**352.0**	**415.2**	**438.7**	**443.7**	**439.9**	**431.0**	**437.3**	**434.2**	**429.2**	**409.7**	**407.6**
2 G-10 countries and Switzerland	162.1	175.5	179.7	182.5	177.1	168.8	168.0	166.1	157.8	148.1	147.5
3 Belgium-Luxembourg	13.0	13.3	13.1	13.8	13.3	12.6	12.4	11.0	10.8	9.8	8.8
4 France	14.1	15.3	17.1	17.1	17.1	16.2	16.3	15.9	14.3	14.3	14.0
5 Germany	12.1	12.9	12.7	13.4	12.6	11.6	11.3	11.7	11.0	10.0	9.0
6 Italy	8.2	9.6	10.3	10.2	10.5	9.9	11.4	11.2	11.5	9.7	10.1
7 Netherlands	4.4	4.0	3.6	4.3	4.0	3.6	3.5	3.4	3.0	3.4	3.9
8 Sweden	2.9	3.7	5.0	4.3	4.7	4.9	5.1	5.2	4.3	3.5	3.2
9 Switzerland	5.0	5.5	5.0	4.5	4.8	4.2	4.3	4.3	4.2	3.9	4.0
10 United Kingdom	67.4	70.1	72.1	73.4	70.8	67.8	65.4	65.1	60.2	57.4	59.7
11 Canada	8.4	10.9	10.4	12.5	10.8	8.9	8.3	8.6	8.9	8.1	7.8
12 Japan	26.5	30.2	30.2	29.0	28.5	29.0	29.9	29.8	29.5	27.9	27.1
13 Other developed countries	21.6	28.4	33.7	34.0	34.5	34.3	36.1	35.7	37.1	36.3	33.8
14 Austria	1.9	1.9	1.9	2.1	2.1	1.9	1.9	2.0	2.0	1.8	1.7
15 Denmark	2.3	2.3	2.4	3.3	3.4	3.3	3.4	3.4	3.1	2.9	2.2
16 Finland	1.4	1.7	2.2	2.1	2.1	1.8	2.4	2.1	2.3	1.9	1.9
17 Greece	2.8	2.8	3.0	2.9	2.9	2.9	2.8	3.0	3.3	3.2	2.9
18 Norway	2.6	3.1	3.3	3.3	3.4	3.2	3.3	3.2	3.2	3.2	3.0
19 Portugal	.6	1.1	1.5	1.4	1.4	1.4	1.5	1.4	1.7	1.6	1.4
20 Spain	4.4	6.6	7.5	7.0	7.2	7.1	7.1	7.1	7.3	6.9	6.5
21 Turkey	1.5	1.4	1.4	1.5	1.4	1.5	1.7	1.9	2.0	2.0	1.9
22 Other Western Europe	1.7	2.1	2.3	2.3	2.0	2.1	1.8	1.8	1.9	1.7	1.7
23 South Africa	1.1	2.8	3.7	3.6	3.9	4.7	4.7	4.8	4.7	5.0	4.5
24 Australia	1.3	2.5	4.4	4.6	4.5	4.4	5.5	5.2	5.7	6.2	6.1
25 OPEC countries[2]	22.7	24.8	27.4	28.5	28.3	27.2	28.9	28.6	26.7	25.0	25.6
26 Ecuador	2.1	2.2	2.2	2.2	2.2	2.1	2.2	2.1	2.1	2.1	2.2
27 Venezuela	9.1	9.9	10.5	10.4	10.4	9.8	9.9	9.7	9.5	9.2	9.3
28 Indonesia	1.8	2.6	3.2	3.5	3.2	3.4	3.8	4.0	4.0	3.8	3.7
29 Middle East countries	6.9	7.5	8.7	9.3	9.5	9.1	10.0	9.8	8.4	7.4	8.2
30 African countries	2.8	2.5	2.8	3.0	3.0	2.8	3.0	3.0	2.7	2.5	2.3
31 Non-OPEC developing countries	77.4	96.3	107.1	108.1	108.8	109.8	111.6	112.1	112.7	111.9	112.3
Latin America											
32 Argentina	7.9	9.4	8.9	9.0	9.4	9.5	9.5	9.5	9.2	9.1	8.7
33 Brazil	16.2	19.1	22.9	23.2	22.7	23.1	23.1	25.1	25.4	26.3	26.3
34 Chile	3.7	5.8	6.3	6.0	5.8	6.3	6.4	6.5	6.7	7.1	7.0
35 Colombia	2.6	2.6	3.1	2.9	3.2	3.2	3.2	3.1	3.0	2.9	2.9
36 Mexico	15.9	21.6	24.5	25.1	25.3	25.9	26.1	25.6	26.0	26.1	25.8
37 Peru	1.8	2.0	2.6	2.4	2.6	2.4	2.4	2.3	2.3	2.2	2.2
38 Other Latin America	3.9	4.1	4.0	4.2	4.3	4.2	4.2	4.4	4.0	3.9	3.9
Asia											
China											
39 Mainland	.2	.2	.2	.2	.2	.2	.3	.3	.6	.5	.7
40 Taiwan	4.2	5.1	5.3	5.1	5.1	5.2	5.3	4.9	5.3	5.2	5.1
41 India	.3	.3	.6	.7	.7	.8	1.0	1.0	1.0	1.1	1.0
42 Israel	1.5	2.1	2.3	2.0	2.3	1.7	1.9	1.6	1.9	1.7	1.8
43 Korea (South)	7.1	9.4	10.9	10.9	10.9	10.9	11.3	11.1	11.2	10.3	10.7
44 Malaysia	1.1	1.7	2.1	2.5	2.6	2.8	2.9	2.8	2.7	3.0	2.8
45 Philippines	5.1	6.0	6.3	6.6	6.4	6.2	6.2	6.7	6.3	5.9	6.0
46 Thailand	1.6	1.5	1.6	1.6	1.8	1.8	2.2	2.1	1.9	1.8	1.8
47 Other Asia	.6	1.0	1.1	1.4	1.2	1.0	1.0	.9	1.1	1.0	1.1
Africa											
48 Egypt	.8	1.1	1.2	1.1	1.3	1.4	1.5	1.4	1.4	1.2	1.2
49 Morocco	.7	.7	.7	.8	.8	.8	.8	.8	.8	.8	.8
50 Zaire	.2	.2	.1	.1	.1	.1	.1	.1	.1	.1	.1
51 Other Africa[3]	2.1	2.3	2.4	2.3	2.2	2.4	2.3	2.2	1.9	1.9	2.1
52 Eastern Europe	7.4	7.8	6.2	5.7	5.8	5.3	5.3	4.9	4.9	4.5	4.5
53 U.S.S.R.	.4	.6	.3	.3	.4	.2	.2	.2	.2	.2	.1
54 Yugoslavia	2.3	2.5	2.2	2.2	2.3	2.3	2.4	2.3	2.3	2.3	2.3
55 Other	4.6	4.7	3.7	3.2	3.0	2.8	2.8	2.5	2.4	2.1	2.1
56 Offshore banking centers	47.0	63.7	66.8	68.0	69.3	68.7	70.5	70.5	73.0	66.5	66.8
57 Bahamas	13.7	19.0	19.0	18.6	20.7	21.6	21.8	24.6	27.3	23.7	21.6
58 Bermuda	.6	.7	.9	1.0	.8	.8	.9	.7	.7	1.0	.9
59 Cayman Islands and other British West Indies	10.6	12.4	12.9	12.6	12.7	10.5	12.2	11.2	11.3	10.7	11.7
60 Netherlands Antilles	2.1	3.2	3.3	3.1	2.6	4.1	4.2	3.3	3.3	3.1	3.4
61 Panama[4]	5.4	7.7	7.6	7.1	6.6	5.7	6.0	6.3	6.6	5.7	6.8
62 Lebanon	.2	.2	.1	.1	.1	.1	.1	.1	.1	.1	.1
63 Hong Kong	8.1	11.8	13.9	15.1	14.5	15.2	15.0	14.4	13.5	12.7	12.5
64 Singapore	5.9	8.7	9.2	10.4	11.2	10.5	10.3	10.0	10.2	9.5	9.8
65 Others[5]	.3	.1	.0	.0	.0	.1	.0	.0	.0	.0	.0
66 Miscellaneous and unallocated[6]	14.0	18.8	17.9	16.9	16.2	16.9	17.0	16.3	17.3	17.3	17.2

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).

2. Besides the Organization of Petroleum Exporting Countries shown individually, this group includes other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates) as well as Bahrain and Oman (not formally members of OPEC).

3. Excludes Liberia.

4. Includes Canal Zone beginning December 1979.

5. Foreign branch claims only.

6. Includes New Zealand, Liberia, and international and regional organizations.

7. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

	Type, and area or country	1980	1981	1982	1983		1984		
					Sept.	Dec.	Mar.	June	Sept.
1	**Total**	**29,434**	**28,618**	**27,512**	**26,325**	**25,197[r]**	**29,481[r]**	**34,013**	**30,734**
2	Payable in dollars	25,689	24,909	24,280	23,546	22,176[r]	26,243[r]	30,815	27,923
3	Payable in foreign currencies	3,745	3,709	3,232	2,780	3,020[r]	3,237[r]	3,198[r]	2,811
	By type								
4	Financial liabilities	11,330	12,157	11,066	10,900	10,423[r]	14,177[r]	18,339[r]	15,879
5	Payable in dollars	8,528	9,499	8,858	9,025	8,644[r]	12,159[r]	16,297	14,082
6	Payable in foreign currencies	2,802	2,658	2,208	1,875	1,779[r]	2,018[r]	2,043	1,797
7	Commercial liabilities	18,104	16,461	16,446	15,425	14,774[r]	15,304[r]	15,674	14,855
8	Trade payables	12,201	10,818	9,438	8,567	7,765[r]	7,893[r]	7,897	6,921
9	Advance receipts and other liabilities	5,903	5,643	7,008	6,858	7,009[r]	7,411[r]	7,776	7,934
10	Payable in dollars	17,161	15,409	15,423	14,521	13,533[r]	14,085[r]	14,518	13,841
11	Payable in foreign currencies	943	1,052	1,023	904	1,241[r]	1,219[r]	1,155	1,014
	By area or country								
	Financial liabilities								
12	Europe	6,481	6,825	6,501	6,014	5,691[r]	7,087[r]	7,230	6,679
13	Belgium-Luxembourg	479	471	505	379	302	428	359	428
14	France	327	709	783	785	843[r]	956[r]	900	910
15	Germany	582	491	467	449	492[r]	514[r]	561	521
16	Netherlands	681	748	711	730	581	527	583	595
17	Switzerland	354	715	792	500	486	641	563	514
18	United Kingdom	3,923	3,565	3,102	3,014	2,839	3,790	4,013	3,463
19	Canada	964	963	746	788	764[r]	795[r]	735	825
20	Latin America and Caribbean	3,136	3,356	2,751	2,737	2,607[r]	4,912[r]	8,888	6,780
21	Bahamas	964	1,279	904	784	751	1,419	3,603	2,606
22	Bermuda	1	7	14	13	13	51	13	11
23	Brazil	23	22	28	32	32	37	25	33
24	British West Indies	1,452	1,241	1,027	1,095	1,018	2,635	4,457	3,250
25	Mexico	99	102	121	185	213[r]	243	237	260
26	Venezuela	81	98	114	117	124	121	124	130
27	Asia	723	976	1,039	1,327	1,332[r]	1,355	1,462[r]	1,566
28	Japan	644	792	715	896	898[r]	947	1,013[r]	1,085
29	Middle East oil-exporting countries[2]	38	75	169	201	170	170	180	144
30	Africa	11	14	17	19	19	19	16	16
31	Oil-exporting countries[3]	1	0	0	0	0	0	0	1
32	All other[4]	15	24	12	15	10	9	9	14
	Commercial liabilities								
33	Europe	4,402	3,770	3,831	3,633	3,245	3,567	3,409	3,967
34	Belgium-Luxembourg	90	71	52	47	62	40	45	34
35	France	582	573	598	523	437	488	525	430
36	Germany	679	545	468	472	427	417	501	552
37	Netherlands	219	220	346	243	268	259	265	238
38	Switzerland	499	424	367	460	241	477	246	417
39	United Kingdom	1,209	880	1,027	967	732	847	794	1,133
40	Canada	888	897	1,495	1,418	1,841	1,776	1,840	1,923
41	Latin America and Caribbean	1,300	1,044	1,570	1,508	1,473[r]	1,807[r]	1,705	1,758
42	Bahamas	8	2	16	1	1	14	17	1
43	Bermuda	75	67	117	77	67	158	124	110
44	Brazil	111	67	60	48	44	68	31	68
45	British West Indies	35	2	32	14	6	33	5	8
46	Mexico	367	340	436	512	585	682	568	641
47	Venezuela	319	276	642	539	432[r]	560[r]	630	628
48	Asia	10,242	9,384	8,144	7,638	6,741	6,620	6,989	5,554
49	Japan	802	1,094	1,226	1,305	1,247	1,291	1,235	1,388
50	Middle East oil-exporting countries[2,5]	8,098	7,008	5,503	4,817	4,178	3,735	4,190	2,361
51	Africa	817	703	753	628	553	539	684	587
52	Oil-exporting countries[3]	517	344	277	231	167	243	217	251
53	All other[4]	456	664	651	600	921[r]	995[r]	1,046	1,067

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.
5. Revisions include a reclassification of transactions, which also affects the totals for Asia and the grand totals.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1980	1981	1982	1983		1984		
				Sept.	Dec.	Mar.	June	Sept.
1 **Total**	**34,482**	**36,185**	**28,725**	**32,934**	**34,932r**	**33,645r**	**31,740**	**30,078**
2 Payable in dollars	31,528	32,582	26,085	30,029	31,842r	30,755r	28,770r	27,286
3 Payable in foreign currencies	2,955	3,603	2,640	2,905	3,090r	2,890r	2,970r	2,792
By type								
4 Financial claims	19,763	21,142	17,684	22,038	23,801r	22,781r	21,292r	19,794
5 Deposits	14,166	15,081	13,058	16,907	18,356r	17,486r	16,124r	15,014
6 Payable in dollars	13,381	14,456	12,628	16,463	17,859r	17,057r	15,614r	14,574
7 Payable in foreign currencies	785	625	430	445	497	429r	510	439
8 Other financial claims	5,597	6,061	4,626	5,130	5,445r	5,296r	5,168r	4,781
9 Payable in dollars	3,914	3,599	2,979	3,279	3,489r	3,506r	3,407r	3,088
10 Payable in foreign currencies	1,683	2,462	1,647	1,851	1,956r	1,790r	1,761r	1,693
11 Commercial claims	14,720	15,043	11,041	10,896	11,131	10,864r	10,448	10,283
12 Trade receivables	13,960	14,007	9,994	9,562	9,721	9,540	9,105	8,867
13 Advance payments and other claims	759	1,036	1,047	1,334	1,410	1,323r	1,343	1,416
14 Payable in dollars	14,233	14,527	10,478	10,287	10,494	10,193r	9,749	9,624
15 Payable in foreign currencies	487	516	563	609	637	671	699	659
By area or country								
Financial claims								
16 Europe	6,069	4,596	4,873	6,232	6,434r	6,252r	6,364r	5,569
17 Belgium-Luxembourg	145	43	15	25	37	30	37	15
18 France	298	285	134	135	150r	171r	151	146
19 Germany	230	224	178	161	159	148	161	187
20 Netherlands	51	50	97	89	71	57	158	62
21 Switzerland	54	117	107	34	38	90	61	64
22 United Kingdom	4,987	3,546	4,064	5,577	5,767r	5,548r	5,543r	4,863
23 Canada	5,036	6,755	4,377	5,244	6,166r	5,665r	5,180r	4,419
24 Latin America and Caribbean	7,811	8,812	7,546	9,500	10,144r	9,823r	8,469r	8,633
25 Bahamas	3,477	3,650	3,279	3,829	4,745	3,927r	3,213r	3,255
26 Bermuda	135	18	32	62	96	3	5	5
27 Brazil	96	30	62	49	53	87	83	84
28 British West Indies	2,755	3,971	3,255	4,457	4,163r	4,903r	4,348r	4,423
29 Mexico	208	313	274	315	291	279	230	232
30 Venezuela	137	148	139	137	134	130	124	128
31 Asia	607	758	698	764	764	753	963	900
32 Japan	189	366	153	257	297	309	307	371
33 Middle East oil-exporting countries[2]	20	37	15	8	4	7	8	7
34 Africa	208	173	158	151	147	144	158	160
35 Oil-exporting countries[3]	26	46	48	45	55	42	35	37
36 All other[4]	32	48	31	148	145	145	158	113
Commercial claims								
37 Europe	5,544	5,405	3,826	3,394	3,670	3,610r	3,555	3,563
38 Belgium-Luxembourg	233	234	151	116	135	173	142	128
39 France	1,129	776	474	486	459	413	408	410
40 Germany	599	561	357	382	348	363	443	367
41 Netherlands	318	299	350	282	334	310r	306	303
42 Switzerland	354	431	360	292	317	336	250	289
43 United Kingdom	929	985	811	738	809	787	812	888
44 Canada	914	967	633	792	829	1,061	933	1,024
45 Latin America and Caribbean	3,766	3,479	2,526	2,870	2,695	2,419	2,042	1,886
46 Bahamas	21	12	21	15	8	8	4	14
47 Bermuda	108	223	261	246	190	216	89	88
48 Brazil	861	668	258	611	493	357	310	219
49 British West Indies	34	12	12	12	7	7	8	10
50 Mexico	1,102	1,022	775	898	884	745	577	509
51 Venezuela	410	424	351	282	272	268	241	242
52 Asia	3,522	3,959	3,050	2,934	3,063	2,997	3,085	2,879
53 Japan	1,052	1,245	1,047	1,033	1,114	1,186	1,178	1,087
54 Middle East oil-exporting countries[2]	825	905	751	719	737	701	710	702
55 Africa	653	772	588	562	588	497	536	594
56 Oil-exporting countries[3]	153	152	140	131	139	132	128	135
57 All other[4]	321	461	417	344	286	280	297	338

1. For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3. Comprises Algeria, Gabon, Libya, and Nigeria.
4. Includes nonmonetary international and regional organizations.

3.24 FOREIGN TRANSACTIONS IN SECURITIES

Millions of dollars

Transactions, and area or country	1983	1984	1985	1984					1985	
			Jan.–Feb.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.p
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	69,770	60,462r	12,107	7,255	4,052	4,657	4,838	4,487r	5,005	7,102
2 Foreign sales	64,360	63,394	12,828	7,399	4,892	5,398	4,752	5,049	5,701	7,127
3 Net purchases, or sales (–)	**5,410**	**–2,932r**	**–721**	**–144**	**–840**	**–741**	**86**	**–562r**	**–696**	**–26**
4 Foreign countries	**5,312**	**–3,047r**	**–734**	**–290**	**–909**	**–752**	**74**	**–461r**	**–713**	**–21**
5 Europe	3,979	–2,992	–770	–410	–690	–529	–96	–359	–558	–212
6 France	–97	–405	–60	–28	–67	–37	–46	–54	–19	–41
7 Germany	1,045	–50	–243	–125	–63	–10	11	–105	–134	–109
8 Netherlands	–109	–315	–151	–19	–66	–47	–15	–29	–44	–107
9 Switzerland	1,325	–1,490	–292	–358	–335	–130	–34	–249	–159	–133
10 United Kingdom	1,799	–664	–51	146	–131	–251	11	91	–178	127
11 Canada	1,151	1,673	215	129	149	150	47	134	46	169
12 Latin America and Caribbean	529	493	288	213	9	–89	30	67	103	185
13 Middle East[1]	–808	–1,998	–153	–214	–207	–270	–12	–196	–52	–101
14 Other Asia	395	–372r	–363	–57	–160	–92	74	–91r	–264	–99
15 Africa	42	–23	–10	–5	–6	–8	–8	–6	–7	–2
16 Other countries	24	171	59	54	–3	87	39	–11	19	40
17 Nonmonetary international and regional organizations	**98**	**115**	**12**	**147**	**69**	**11**	**11**	**–101**	**17**	**–5**
BONDS[2]										
18 Foreign purchases	24,000	39,198r	14,158	2,885	3,356	6,994	4,899	6,403r	5,937	8,220
19 Foreign sales	23,097	26,029r	6,807	2,030	2,035	3,060	2,556	2,900r	3,106	3,701
20 Net purchases, or sales (–)	**903**	**13,169r**	**7,351**	**855**	**1,321**	**3,934**	**2,342**	**3,503r**	**2,831**	**4,520**
21 Foreign countries	**888**	**12,872r**	**7,274**	**902**	**1,278**	**3,954**	**2,130**	**3,527r**	**2,835**	**4,439**
22 Europe	909	11,693r	6,780	502	1,004	3,956	1,950	3,338r	2,635	4,144
23 France	–89	207	38	17	8	143	–11	24	55	–17
24 Germany	344	1,731r	–87	181	19	606	139	184r	67	–153
25 Netherlands	51	93	54	16	2	22	–1	15	9	44
26 Switzerland	583	644	327	49	9	253	159	276	12	315
27 United Kingdom	434	8,421r	6,459	311	922	2,860	1,599	2,776r	2,441	4,018
28 Canada	123	–71	49	54	3	–3	13	14	59	–11
29 Latin America and Caribbean	100	390	87	76	64	42	44	78	90	–2
30 Middle East[1]	–1,161	–1,011	–207	1	–19	–232	–45	–179	–123	–84
31 Other Asia	865	1,862	477	265	223	192	169	276	140	337
32 Africa	0	1	0	1	1	0	–2	1	0	0
33 Other countries	52	9	89	3	3	0	2	0	35	54
34 Nonmonetary international and regional organizations	**15**	**297**	**77**	**–48**	**43**	**–20**	**213**	**–24**	**–4**	**81**
	Foreign securities									
35 Stocks, net purchases, or sales (–)	–3,765	–1,074	–1,429	–489	–340	–318	–177	–221	–764	–666
36 Foreign purchases	13,281	14,584	2,820	1,284	921	1,333	1,147	1,169	1,160	1,659
37 Foreign sales	17,046	15,658	4,249	1,773	1,261	1,651	1,324	1,390	1,924	2,325
38 Bonds, net purchases, or sales (–)	–3,239	–3,586r	349	–287	–481	–1,187	–231	–1,159r	168	181
39 Foreign purchases	36,333	57,335r	10,675	5,770	4,122	4,527	6,601	5,134r	5,383	5,292
40 Foreign sales	39,572	60,921r	10,327	6,057	4,604	5,714	6,832	6,293r	5,216	5,111
41 Net purchases, or sales (–), of stocks and bonds	**–7,004**	**–4,660r**	**–1,081**	**–777**	**–821**	**–1,505**	**–408**	**–1,379r**	**–596**	**–485**
42 Foreign countries	**–6,559**	**–4,271r**	**–1,510**	**–613**	**–884**	**–1,470**	**–561**	**–671r**	**–725**	**–785**
43 Europe	–5,492	–8,532r	–839	–602	–962	–1,574	–707	–1,086r	–730	–109
44 Canada	–1,328	413	–346	–7	–198	–68	–23	254	75	–422
45 Latin America and Caribbean	1,120	2,474	149	127	28	217	207	104	210	–60
46 Asia	–855	1,345r	–650	–136	169	–30	88	–115r	–395	–255
47 Africa	141	–107	–7	11	–14	–19	–16	3	–4	–3
48 Other countries	–144	137	183	–5	92	6	–110	169	120	64
49 Nonmonetary international and regional organizations	**–445**	**–389**	**429**	**–163**	**64**	**–36**	**153**	**–709**	**129**	**300**

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 Holdings and Transactions

Millions of dollars

	Country or area	1983	1984	1985 Jan.–Feb.	1984 Aug.	1984 Sept.	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.	1985 Feb.
		Transactions, net purchases or sales (−) during period									
1	**Estimated total**[2]	**3,693**	**21,387**	**4,633**	**6,596**	**−3,799**	**2,931**	**2,197**	**7,508**	**2,312**	**2,321**
2	Foreign countries[2]	3,162	16,407	5,962	5,576	−1,736	1,092	2,293	5,066	3,797	2,165
3	Europe[2]	6,226	11,014	451	3,990	−718	795	776	1,300	532	−81
4	Belgium-Luxembourg	−431	289	122	33	20	27	41	46	104	18
5	Germany[2]	2,450	2,958	−249	1,036	−747	−39	36	336	−120	−129
6	Netherlands	375	454	−60	13	−6	458	−7	16	−71	11
7	Sweden	170	46	140	−52	77	−1	1	−88	150	−10
8	Switzerland[2]	−421	635	323	67	99	−172	−288	26	−35	358
9	United Kingdom	1,966	5,175	77	2,857	−313	742	244	716	419	−342
10	Other Western Europe	2,118	1,458	98	35	153	−219	748	248	86	12
11	Eastern Europe	0	0	0	0	0	0	0	0	0	0
12	Canada	699	1,526	−324	231	288	237	193	249	−92	−231
13	Latin America and Caribbean	−212	1,413	886	313	165	320	965	380	149	737
14	Venezuela	−124	14	−6	1	3	1	7	−10	5	−11
15	Other Latin America and Caribbean	60	528	71	231	92	61	57	213	−2	73
16	Netherlands Antilles	−149	871	820	80	69	258	902	177	146	674
17	Asia	−3,535	2,376	4,819	1,000	−1,475	−302	369	3,218	3,093	1,726
18	Japan	2,315	6,062	1,137	529	−18	851	1,287	1,585	578	559
19	Africa	3	−67	3	−100	27	−1	−5	2	2	1
20	All other	−17	145	127	142	−23	43	−5	−83	113	14
21	Nonmonetary international and regional organizations	535	4,982	−1,331	1,020	−2,063	1,839	−96	2,442	−1,485	154
22	International	218	4,612	−1,171	1,099	−2,149	1,651	−188	2,361	−1,675	504
23	Latin American regional	0	0	1	0	0	0	0	0	0	1
	MEMO										
24	Foreign countries[2]	3,162	16,407	5,962	5,576	−1,736	1,092	2,293	5,066	3,797	2,165
25	Official institutions	779	477	3,850	1,366	−1,968	−823	−602	1,919	2,527	1,322
26	Other foreign[2]	2,382	15,930	2,113	4,210	232	1,915	2,895	3,147	1,270	843
	Oil-exporting countries										
27	Middle East[3]	−5,419	−6,277	−345	−411	−144	−983	−1,284	−200	27	−372
28	Africa[4]	−1	−101	0	−100	0	0	0	0	0	0

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.
2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.
3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
4. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per annum

Country	Rate on Mar. 31, 1985		Country	Rate on Mar. 31, 1985		Country	Rate on Mar. 31, 1985	
	Percent	Month effective		Percent	Month effective		Percent	Month effective
Austria	4.5	June 1984	France[1]	10.50	Feb. 1985	Norway	8.0	June 1979
Belgium	11.0	Feb. 1984	Germany, Fed. Rep. of	4.5	June 1984	Switzerland	4.0	Mar. 1983
Brazil	49.0	Mar. 1981	Italy	15.5	Jan. 1985	United Kingdom[2]	....	....
Canada	10.65	Mar. 1985	Japan	5.0	Oct. 1983	Venezuela	11.0	May 1983
Denmark	7.0	Oct. 1983	Netherlands	5.5	Feb. 1985			

1. As of the end of February 1981, the rate is that at which the Bank of France discounts Treasury bills for 7 to 10 days.
2. Minimum lending rate suspended as of Aug. 20, 1981.
NOTE. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper and/or government commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood the central bank transacts the largest proportion of its credit operations.

3.27 FOREIGN SHORT-TERM INTEREST RATES

Percent per annum, averages of daily figures

Country, or type	1982	1983	1984	1984				1985		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Eurodollars	12.24	9.57	10.75	11.67	10.77	9.50	8.90	8.37	9.05	9.32
2 United Kingdom	12.21	10.06	9.91	10.79	10.60	9.87	9.74	11.63	13.69	13.52
3 Canada	14.38	9.48	11.29	12.20	11.99	11.09	10.41	9.70	10.63	11.42
4 Germany	8.81	5.73	5.96	5.81	6.06	5.92	5.81	5.84	6.13	6.36
5 Switzerland	5.04	4.11	4.35	5.04	5.23	5.03	4.96	5.13	5.66	5.77
6 Netherlands	8.26	5.58	6.08	6.23	6.16	5.87	5.77	5.87	6.90	7.14
7 France	14.61	12.44	11.66	11.00	10.75	10.54	10.66	10.43	10.60	10.71
8 Italy	19.99	18.95	17.08	17.28	17.13	17.13	16.86	15.82	15.79	15.82
9 Belgium	14.10	10.51	11.41	11.16	11.00	10.81	10.75	10.75	10.75	10.75
10 Japan	6.84	6.49	6.32	6.33	6.31	6.32	6.33	6.27	6.29	6.30

NOTE. Rates are for 3-month interbank loans except for Canada, finance company paper; Belgium, 3-month Treasury bills; and Japan, Gensaki rate.

3.28 FOREIGN EXCHANGE RATES

Currency units per dollar

Country/currency	1982	1983	1984	1984 Oct.	1984 Nov.	1984 Dec.	1985 Jan.	1985 Feb.	1985 Mar.
1 Australia/dollar[1]	101.65	90.14	87.937	83.64	85.88	84.00	81.51	73.74	69.70
2 Austria/schilling	17.060	17.968	20.005	21.557	21.075	21.802	22.267	23.190	23.247
3 Belgium/franc	45.780	51.121	57.749	62.048	60.475	62.380	63.455	66.310	66.308
4 Brazil/cruzeiro	179.22	573.27	1841.50	2453.64	2734.16	3008.55	3346.67	3768.17	4158.19
5 Canada/dollar	1.2344	1.2325	1.2953	1.3189	1.3168	1.3201	1.3240	1.3547	1.3840
6 China, P.R./yuan	1.8978	1.9809	2.3308	2.6488	2.6785	2.7953	2.8160	2.8347	2.8533
7 Denmark/krone	8.3443	9.1483	10.354	11.090	10.824	11.126	11.330	11.807	11.797
8 Finland/markka	4.8086	5.5636	6.0007	6.3726	6.2653	6.4563	6.6368	6.8616	6.8464
9 France/franc	6.5793	7.6203	8.7355	9.4108	9.1981	9.5083	9.7036	10.093	10.078
10 Germany/deutsche mark	2.428	2.5539	2.8454	3.0678	2.9985	3.1044	3.1706	3.3025	3.2982
11 Greece/drachma	66.872	87.895	112.73	126.06	123.63	127.26	129.38	134.73	140.62
12 Hong Kong/dollar	6.0697	7.2569	7.8188	7.8242	7.8235	7.8287	7.8110	7.8017	7.8009
13 India/rupee	9.4846	10.1040	11.348	12.027	12.078	12.293	12.612	12.922	12.861
14 Ireland/pound[1]	142.05	124.81	108.64	100.85	103.41	100.37	98.23	94.23	94.58
15 Israel/shekel	24.407	55.865	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
16 Italy/lira	1354.00	1519.30	1756.10	1898.98	1863.05	1912.52	1948.76	2042.00	2078.50
17 Japan/yen	249.06	237.55	237.45	246.75	243.63	247.96	254.18	260.48	257.92
18 Malaysia/ringgit	2.3395	2.3204	2.3448	2.4076	2.4300	2.4164	2.4804	2.5513	2.5734
19 Mexico/peso	72.990	155.01	192.31	203.33	210.79	219.56	227.56	236.06	246.15
20 Netherlands/guilder	2.6719	2.8543	3.2083	3.4597	3.3817	3.5035	3.5819	3.7387	3.7290
21 New Zealand/dollar[1]	75.101	66.790	57.837	48.614	49.278	48.260	47.040	45.223	45.276
22 Norway/krone	6.4567	7.3012	8.1596	8.8721	8.7175	8.9805	9.1765	9.4695	9.4608
23 Philippines/peso	8.5324	11.0940	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
24 Portugal/escudo	80.101	111.610	147.70	163.36	163.10	167.31	172.56	183.24	183.98
25 Singapore/dollar	2.1406	2.1136	2.1325	2.1667	2.1554	2.1732	2.2011	2.2557	2.2582
26 South Africa/rand[1]	92.297	89.85	69.534	56.54	55.47	52.66	46.34	50.57	50.33
27 South Korea/won	731.93	776.04	807.91	820.03	818.89	825.73	832.16	839.16	850.71
28 Spain/peseta	110.09	143.500	160.78	172.15	168.10	171.98	175.13	182.35	183.13
29 Sri Lanka/rupee	20.756	23.510	25.428	25.906	26.075	26.213	26.392	26.605	26.836
30 Sweden/krona	6.2838	7.6717	8.2706	8.6887	8.5957	8.8614	9.0716	9.3364	9.4135
31 Switzerland/franc	2.0327	2.1006	2.3500	2.5245	2.4700	2.5602	2.6590	2.8045	2.8033
32 Taiwan/dollar	n.a.	n.a.	39.633	39.226	39.419	39.509	39.209	39.228	39.542
33 Thailand/baht	23.014	22.991	23.582	23.020	26.736	27.091	27.330	27.961	28.097
34 United Kingdom/pound[1]	174.80	151.59	133.66	121.96	123.92	118.61	112.71	109.31	112.53
35 Venezuela/bolivar	4.2981	10.6840	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MEMO									
36 United States/dollar[2]	116.57	125.34	138.19	147.56	144.92	149.24	152.83	158.43	158.14

1. Value in U.S. cents.

2. Index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland. March 1973 = 100. Weights are 1972–76 global trade of each of the 10 countries. Series revised as of August 1978. For description and back data, see "Index of the Weighted-Average Exchange Value of the U.S. Dollar: Revision" on p. 700 of the August 1978 BULLETIN.

NOTE. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) release. For address, see inside front cover.

Guide to Tabular Presentation, Statistical Releases, and Special Tables

GUIDE TO TABULAR PRESENTATION

Symbols and Abbreviations

c	Corrected
e	Estimated
p	Preliminary
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)
0	Calculated to be zero
n.a.	Not available
n.e.c.	Not elsewhere classified
IPCs	Individuals, partnerships, and corporations
REITs	Real estate investment trusts
RPs	Repurchase agreements
SMSAs	Standard metropolitan statistical areas
.....	Cell not applicable

General Information

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

In some of the tables details do not add to totals because of rounding.

STATISTICAL RELEASES

List Published Semiannually, with Latest Bulletin Reference

	Issue	*Page*
Anticipated schedule of release dates for periodic releases	June 1985	A83

SPECIAL TABLES

Published Irregularly, with Latest Bulletin Reference

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4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, February 4–8, 1985[1]

A. Commercial and Industrial Loans

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
			Days	Weighted average effective[3]	Standard error[4]	Interquartile range[5]		
ALL BANKS								
1 Overnight[6]	15,055,130	8,922	*	9.36	.69	8.98–9.59	74.1	4.1
2 One month and under	7,455,435	397	18	9.98	.56	9.32–10.20	69.3	10.7
3 Fixed rate	6,090,143	412	18	9.84	.65	9.25–10.06	66.6	10.8
4 Floating rate	1,365,292	341	19	10.57	.32	9.72–11.03	81.7	10.2
5 Over one month and under a year	7,470,662	64	138	11.35	.31	9.78–12.52	63.2	5.6
6 Fixed rate	4,005,981	50	109	11.13	.42	9.38–12.35	56.5	5.4
7 Floating rate	3,464,681	94	173	11.61	.31	10.87–12.55	70.8	5.8
8 Demand[7]	3,784,929	176	*	10.83	.12	9.52–11.85	78.5	7.9
9 Fixed rate	1,143,819	210	*	9.93	.67	9.05–10.20	81.1	11.1
10 Floating rate	2,641,110	165	*	11.22	.15	10.92–12.13	77.4	6.5
11 **Total short term**	**33,766,156**	**213**	**40**	**10.10**	**.33**	**9.14–10.54**	**71.1**	**6.3**
12 Fixed rate (thousands of dollars)	26,113,902	257	23	9.77	.49	9.06–9.92	69.8	5.6
13 1–24	602,140	7	104	14.50	.23	13.38–15.58	15.4	.1
14 25–49	293,957	31	112	13.68	.35	13.24–14.65	13.2	.3
15 50–99	315,844	69	94	13.63	.41	11.84–15.98	40.0	.3
16 100–499	561,472	154	81	12.52	.63	10.92–14.93	42.2	4.1
17 500–999	251,408	654	40	10.51	.22	9.64–11.07	64.4	11.4
18 1000 and over	24,089,081	7,668	17	9.48	.12	9.03–9.78	72.9	5.9
19 Floating rate (thousands of dollars)	7,652,254	134	125	11.25	.24	10.08–12.13	75.6	8.6
20 1–24	276,318	9	154	13.14	.24	12.13–13.88	56.7	1.7
21 25–49	293,730	34	182	12.61	.16	11.85–13.31	52.0	1.6
22 50–99	512,086	62	152	12.48	.31	11.57–13.24	65.8	2.2
23 100–499	1,547,981	189	155	11.93	.11	11.02–12.55	66.9	5.3
24 500–999	723,034	645	146	11.59	.14	11.02–12.13	73.1	7.9
25 1000 and over	4,299,106	3,224	102	10.58	.25	9.54–11.23	83.2	11.6
			Months					
26 **Total long term**	**4,675,130**	**152**	**50**	**11.10**	**.36**	**9.65–12.01**	**80.9**	**9.8**
27 Fixed rate (thousands of dollars)	1,631,773	84	42	11.02	1.08	9.18–12.13	82.7	3.9
28 1–99	242,086	13	36	16.29	1.19	14.37–16.08	41.3	.1
29 100–499	98,036	123	27	12.88	.56	12.86–13.24	15.3	5.6
30 500–999	47,493	623	64	11.42	.88	9.75–13.00	62.1	23.6
31 1000 and over	1,244,157	8,704	43	9.84	.80	9.06–10.10	96.8	3.8
32 Floating rate (thousands of dollars)	3,043,357	272	54	11.14	.22	10.06–12.01	79.9	13.0
33 1–99	210,147	23	42	12.92	.18	12.13–13.24	32.6	2.3
34 100–499	291,740	205	46	12.12	.18	11.07–12.96	63.7	9.6
35 500–999	190,140	678	45	11.54	.33	10.92–12.13	80.7	13.6
36 1000 and over	2,351,330	5,598	57	10.82	.19	9.90–11.60	86.1	14.3
			Days	Loan rate (percent) Effective[3]	Loan rate (percent) Nominal[8]	Prime Rate[9]		
LOANS MADE BELOW PRIME[10]								
37 Overnight[6]	14,842,322	9,981	*	9.33	8.92	10.50	74.2	4.1
38 One month and under	6,328,878	2,839	17	9.61	9.20	10.51	71.6	11.8
39 Over one month and under a year	3,347,345	461	125	9.67	9.33	10.57	75.7	7.8
40 Demand[7]	1,567,359	1,058	*	9.41	9.07	10.51	86.9	9.6
41 **Total short term**	**26,085,904**	**2,095**	**22**	**9.45**	**9.05**	**10.51**	**74.5**	**6.8**
42 Fixed rate	23,719,738	2,218	17	9.43	9.03	10.51	73.1	6.0
43 Floating rate	2,366,166	1,346	89	9.63	9.24	10.54	89.2	15.2
			Months					
44 **Total long term**	**2,158,867**	**908**	**46**	**9.76**	**9.45**	**10.66**	**93.5**	**7.5**
45 Fixed rate	1,088,075	739	35	9.60	9.41	10.68	95.5	4.6
46 Floating rate	1,070,792	1,181	56	9.91	9.48	10.63	91.4	10.4

For notes see end of table.

4.23 Continued

A. Continued

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
			Days	Weighted average effective[3]	Standard error[4]	Interquartile range[5]		
48 LARGE BANKS								
1 Overnight[6]	12,634,640	11,022	*	9.36	.02	8.98–9.62	76.0	4.8
2 One month and under	5,717,495	2,435	18	9.78	.02	9.28–10.08	74.7	10.8
3 Fixed rate	4,717,469	3,873	17	9.64	.05	9.25–9.89	71.7	10.7
4 Floating rate	1,000,025	885	18	10.40	.22	9.73–11.02	89.2	11.6
5 Over one month and under a year	3,674,726	393	127	10.37	.09	9.37–11.30	78.5	4.4
6 Fixed rate	2,258,664	1,478	107	9.88	.11	9.31–10.25	73.5	5.1
7 Floating rate	1,416,062	181	160	11.16	.05	10.30–12.13	86.4	3.5
8 Demand[7]	1,887,515	393	*	10.52	.02	9.29–11.30	86.3	9.5
9 Fixed rate	801,058	1,009	*	9.66	.08	9.05–9.65	94.8	15.7
10 Floating rate	1,086,457	271	*	11.16	.10	10.92–12.01	80.0	5.0
11 Total short term	**23,914,376**	**1,356**	**27**	**9.71**	**.00**	**9.06–9.99**	**76.9**	**6.6**
12 Fixed rate (thousands of dollars)	20,247,890	4,342	18	9.50	.03	9.01–9.80	75.2	6.0
13 1–24	11,330	9	101	13.16	.04	11.91–14.37	48.8	.6
14 25–49	11,113	34	91	12.03	.06	11.63–13.31	64.6	3.1
15 50–99	16,434	66	76	11.81	.15	11.57–12.75	62.9	1.1
16 100–499	99,237	207	72	11.33	.02	10.41–12.13	77.4	5.6
17 500–999	114,039	649	31	10.38	.10	9.55–11.07	76.4	13.4
18 1000 and over	19,995,736	8,958	17	9.48	.03	9.01–9.80	75.2	5.9
19 Floating rate (thousands of dollars)	3,666,486	283	95	10.88	.11	9.91–11.85	85.9	9.9
20 1–24	55,257	11	184	12.63	.01	12.01–13.24	73.7	2.6
21 25–49	75,701	34	187	12.35	.06	11.85–12.96	73.2	3.1
22 50–99	137,389	66	191	12.19	.05	11.63–12.68	76.1	3.9
23 100–499	519,658	196	155	11.77	.04	11.02–12.13	74.8	5.7
24 500–999	309,662	650	139	11.54	.05	11.02–12.13	77.1	8.6
25 1000 and over	2,568,819	3,899	72	10.48	.11	9.63–11.02	90.4	11.6
			Months					
26 Total long term	**3,223,270**	**1,293**	**49**	**10.46**	**.05**	**9.45–11.46**	**91.2**	**4.7**
27 Fixed rate (thousands of dollars)	1,258,558	1,983	43	9.84	.20	9.06–10.10	95.8	4.6
28 1–99	8,464	22	51	13.51	.08	11.91–14.65	12.4	1.5
29 100–499	19,856	229	45	11.62	.49	11.02–12.86	56.3	25.6
30 500–999	32,383	637	51	10.83	.36	9.71–11.30	86.6	19.6
31 1000 and over	1,197,855	9,976	43	9.76	.22	9.06–9.94	97.3	3.9
32 Floating rate (thousands of dollars)	1,964,712	1,058	52	10.85	.03	9.90–11.85	88.2	4.8
33 1–99	27,409	30	38	12.64	.02	12.01–13.24	65.3	3.7
34 100–499	119,425	226	41	11.83	.02	11.02–12.55	78.0	9.8
35 500–999	108,245	664	44	11.49	.09	10.92–12.13	84.8	17.5
36 1000 and over	1,709,632	6,712	54	10.71	.05	9.81–11.46	89.5	3.6

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)		Prime Rate[9]	Loans made under commitment (percent)	Participation loans (percent)
			Days	Effective[3]	Nominal[8]			
LOANS MADE BELOW PRIME[10]								
37 Overnight[6]	12,523,809	11,403	*	9.35	8.94	10.50	76.3	4.8
38 One month and under	5,187,426	5,364	17	9.61	9.19	10.50	74.3	11.5
39 Over one month and under a year	2,394,759	4,001	113	9.63	9.29	10.50	79.2	5.1
40 Demand[7]	509,236	3,020	*	9.36	9.02	10.50	94.7	13.2
41 Total short term	**21,056,230**	**7,069**	**19**	**9.44**	**9.04**	**10.50**	**77.0**	**6.9**
42 Fixed rate	19,563,402	7,898	16	9.43	9.03	10.50	75.6	6.0
43 Floating rate	1,492,828	2,977	52	9.68	9.29	10.50	94.5	18.0
			Months					
44 Total long term	**1,863,649**	**7,639**	**43**	**9.52**	**9.25**	**10.50**	**99.0**	**4.4**
45 Fixed rate	1,020,410	6,889	34	9.33	9.18	10.50	99.4	4.9
46 Floating rate	843,239	8,799	54	9.75	9.33	10.50	98.5	3.7

For notes see end of table.

4.23 Continued

A. Continued

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity[2]	Loan rate (percent)			Loans made under commitment (percent)	Participation loans (percent)
			Days	Weighted average effective[3]	Standard error[4]	Inter-quartile range[5]		
OTHER BANKS								
1 Overnight[6]	2,420,489	4,474	*	9.33	.69	9.03–9.42	64.3	.3
2 One month and under	1,737,941	106	21	10.64	.56	9.37–11.30	51.5	10.3
3 Fixed rate	1,372,674	101	21	10.53	.64	9.37–11.02	49.0	11.3
4 Floating rate	365,267	127	22	11.06	.24	9.52–12.14	61.2	6.5
5 Over one month and under a year	3,795,936	35	149	12.30	.30	10.92–13.65	48.3	6.7
6 Fixed rate	1,747,317	22	111	12.74	.40	10.13–14.93	34.5	5.9
7 Floating rate	2,048,619	70	182	11.91	.31	10.98–13.03	60.1	7.4
8 Demand[7]	1,897,414	114	*	11.13	.12	9.60–12.13	70.8	6.2
9 Fixed rate	342,761	74	*	10.55	.67	9.01–10.92	49.1	.1
10 Floating rate	1,554,653	130	*	11.26	.12	10.92–12.13	75.6	7.6
11 Total short term	**9,851,780**	**70**	**76**	**11.05**	**.33**	**9.28–12.14**	**57.1**	**5.7**
12 Fixed rate (thousands of dollars)	5,866,012	60	41	10.69	.49	9.19–11.30	51.0	4.4
13 1–24	590,811	7	104	14.53	.23	13.38–15.59	14.7	.0
14 25–49	282,845	30	112	13.74	.34	13.24–14.93	11.2	.1
15 50–99	299,410	70	94	13.73	.39	12.01–15.98	38.8	.3
16 100–499	462,235	146	83	12.78	.63	10.92–14.93	34.7	3.8
17 500–999	137,368	658	47	10.61	.20	9.66–11.07	54.5	9.9
18 1000 and over	4,093,345	4,502	19	9.48	.12	9.04–9.69	61.6	5.6
19 Floating rate (thousands of dollars)	3,985,767	91	157	11.58	.21	10.92–12.40	66.2	7.5
20 1–24	221,061	9	146	13.27	.24	12.13–14.37	52.4	1.4
21 25–49	218,029	34	181	12.70	.15	12.01–13.31	44.6	1.1
22 50–99	374,696	61	139	12.59	.30	11.57–13.31	62.1	1.5
23 100–499	1,028,323	186	155	12.01	.11	11.06–12.68	62.9	5.2
24 500–999	413,372	642	150	11.62	.13	11.02–12.13	70.2	7.3
25 1000 and over	1,730,286	2,565	163	10.73	.22	9.52–11.63	72.6	11.7
			Months					
26 Total long term	**1,451,860**	**51**	**53**	**12.52**	**.36**	**11.01–13.24**	**58.0**	**21.1**
27 Fixed rate (thousands of dollars)	373,214	20	35	15.01	1.07	13.24–15.50	38.3	1.5
28 1–99	233,622	13	36	16.39	1.19	14.45–16.08	42.4	.1
29 100–499	78,180	110	23	13.20	.26	13.24–13.24	4.9	.5
30 500–999	15,110	595	92	12.69	.80	9.98–14.37	9.6	32.2
31 1000 and over	46,302	2,024	36	11.87	.77	10.92–12.94	83.6	.0
32 Floating rate (thousands of dollars)	1,078,645	116	59	11.66	.22	10.92–12.41	64.8	27.9
33 1–99	182,738	22	42	12.96	.18	12.13–13.24	27.7	2.1
34 100–499	172,314	193	50	12.32	.18	11.46–13.24	53.8	9.5
35 500–999	81,895	696	46	11.59	.32	10.92–12.13	75.4	8.5
36 1000 and over	641,698	3,882	68	11.12	.18	10.75–11.85	77.0	42.6
			Days	Loan rate (percent) Effective[3]	Loan rate (percent) Nominal[8]	Prime Rate[9]		
LOANS MADE BELOW PRIME[10]								
37 Overnight[6]	2,318,513	5,964	*	9.24	8.84	10.50	63.2	.3
38 One month and under	1,141,453	904	20	9.62	9.21	10.55	59.4	13.5
39 Over one month and under a year	952,586	143	155	9.78	9.44	10.76	66.7	14.7
40 Demand[7]	617,123	529	*	9.49	9.13	10.54	75.0	3.9
41 Total short term	**5,029,674**	**531**	**39**	**9.46**	**9.07**	**10.56**	**64.4**	**6.5**
42 Fixed rate	4,156,336	506	21	9.45	9.05	10.56	61.1	5.6
43 Floating rate	873,338	695	177	9.54	9.17	10.60	80.2	10.4
			Months					
44 Total long term	**295,218**	**138**	**62**	**11.25**	**10.69**	**11.65**	**58.9**	**27.4**
45 Fixed rate	67,664	51	57	13.68	12.87	13.43	37.1	.0
46 Floating rate	227,553	281	64	10.53	10.04	11.12	65.3	35.5

For notes see end of table.

4.23 Continued

B. Construction and Land Development Loans

Characteristics	Amount of loans (thousands of dollars)	Average size (thousands of dollars)	Weighted average maturity (months)[2]	Loan rate (percent): Weighted average effective[3]	Loan rate (percent): Standard error[4]	Loan rate (percent): Inter-quartile range[5]	Loans made under commitment (percent)	Participation loans (percent)
ALL BANKS								
1 **Total**	**$1,535,632**	**92**	**8**	**12.05**	**.62**	**10.64–13.24**	**63.8**	**15.7**
2 Fixed rate (thousands of dollars)	747,253	80	6	12.13	.68	10.42–14.90	67.2	22.5
3 1–24	41,095	8	9	15.54	.70	14.72–15.51	58.3	.0
4 25–49	57,592	37	12	14.28	.39	13.65–14.93	0.9	.0
5 50–99	100,331	65	4	14.61	*	13.60–15.77	42.7	.0
6 100–499	91,306	118	32	14.59	.72	14.90–14.90	5.8	.4
7 500 and over	456,928	9,886	1	10.52	1.01	10.27–10.64	93.9	36.7
8 Floating rate (thousands of dollars)	788,379	108	11	11.97	.24	11.02–12.68	60.5	9.2
9 1–24	25,345	6	7	13.07	.21	12.55–13.31	87.8	2.8
10 25–49	52,841	41	11	13.02	.18	12.96–13.24	89.8	1.8
11 50–99	26,467	67	12	12.57	.11	12.13–13.10	67.0	9.1
12 100–499	278,228	209	12	11.67	.29	10.92–12.40	39.6	5.7
13 500 and over	406,299	1,854	10	11.94	.37	11.46–12.68	69.0	13.0
By type of construction								
14 Single family	371,563	32	8	13.33	.38	12.19–14.93	59.1	.5
15 Multifamily	114,404	225	14	12.94	.59	12.13–13.80	44.5	13.5
16 Nonresidential	1,049,665	236	8	11.50	.60	10.47–12.13	67.5	21.3
48 LARGE BANKS								
1 **Total**	**695,920**	**916**	**4**	**11.07**	**.46**	**10.46–12.00**	**89.5**	**24.4**
2 Fixed rate (thousands of dollars)	401,266	3,826	1	10.46	.21	10.27–10.64	96.3	34.2
3 1–24	565	11	7	14.26	.37	13.87–15.60	61.3	.0
4 25–49	*	*	*	*	*	*	*	*
5 50–99	*	*	*	*	*	*	*	*
6 100–499	*	*	*	*	*	*	*	*
7 500 and over	397,721	15,072	1	10.44	.09	10.27–10.64	96.4	34.4
8 Floating rate (thousands of dollars)	294,654	450	8	11.89	.04	11.46–12.13	80.2	11.0
9 1–24	2,411	10	7	12.75	.04	12.19–13.31	95.3	2.0
10 25–49	3,660	36	7	12.55	.01	12.13–12.68	97.0	.0
11 50–99	5,016	68	9	12.57	.06	12.13–12.96	81.5	.0
12 100–499	42,134	260	11	12.45	.05	12.13–12.68	89.6	6.6
13 500 and over	241,433	3,468	7	11.75	.06	11.46–12.13	78.1	12.2
By type of construction								
14 Single family	66,973	265	5	10.66	.21	9.48–12.13	94.1	.0
15 Multifamily	34,903	264	15	12.60	.48	12.13–12.68	59.1	3.9
16 Nonresidential	594,044	1,585	3	11.02	.45	10.47–11.73	90.7	28.3
OTHER BANKS								
1 **Total**	**839,712**	**53**	**13**	**12.86**	**.42**	**11.02–14.17**	**42.4**	**8.5**
2 Fixed rate (thousands of dollars)	345,987	37	13	14.06	.65	13.60–14.93	33.4	8.8
3 1–24	40,530	7	9	15.56	.59	14.72–15.51	58.3	.0
4 25–49	57,159	37	12	14.27	.32	13.65–14.93	.5	.0
5 50–99	100,027	65	4	14.61	.49	13.60–15.77	42.5	.0
6 100–499	89,063	117	33	14.64	.71	14.90–14.90	3.4	.0
7 500 and over	*	*	*	*	*	*	*	*
8 Floating rate (thousands of dollars)	493,725	74	13	12.02	.24	10.92–13.03	48.8	8.2
9 1–24	22,934	6	7	13.10	.21	12.55–13.31	87.0	2.9
10 25–49	48,381	42	11	13.06	.18	13.24–13.24	89.2	1.9
11 50–99	21,451	67	12	12.57	.09	12.13–13.18	63.6	11.2
12 100–499	236,094	202	13	11.53	.28	10.92–12.13	30.7	5.6
13 500 and over	164,865	1,103	15	12.20	.36	11.55–13.52	55.7	14.2
By type of construction								
14 Single family	304,590	26	9	13.94	.32	13.24–15.03	51.4	.7
15 Multifamily	79,501	211	13	13.09	.35	12.13–13.80	38.1	17.7
16 Nonresidential	455,621	112	17	12.11	.39	10.92–13.37	37.2	12.1

For notes see end of table.

4.23 Continued

C. Loans to Farmers[11]

Characteristics	Size class of loans (thousands)						
	All sizes	$1–9	$10–24	$25–49	$50–99	$100–249	$250 and over
ALL BANKS							
1 Amount of loans (thousands of dollars)	$1,185,227	$132,846	$133,565	$138,408	$171,334	$276,439	$332,636
2 Number of loans	56,474	38,327	9,215	4,120	2,597	1,753	462
3 Weighted average maturity (months)[2]	6.8	6.2	7.6	8.1	11.4	5.8	4.8
4 Weighted average interest rate (percent)[3]	13.49	14.06	13.77	13.94	13.72	13.65	12.72
5 Standard error[4]	.49	.30	.51	.28	.27	.37	.77
6 Interquartile range[5]	12.63–14.49	13.43–14.91	13.08–14.48	13.00–14.79	13.37–14.34	13.00–14.49	11.02–15.04
By purpose of loan							
7 Feeder livestock	13.79	13.92	13.85	13.70	12.70	12.60	14.15
8 Other livestock	13.65	13.79	13.25	13.20	14.45	*	*
9 Other current operating expenses	13.98	14.28	14.05	14.35	13.69	14.16	13.18
10 Farm machinery and equipment	13.43	14.02	13.48	13.83	13.42	*	*
11 Other	12.42	13.26	13.42	12.99	13.57	13.48	11.08
Percentage of amount of loans							
12 With floating rates	39.0	23.3	26.1	36.3	34.6	26.7	64.0
13 Made under commitment	34.5	20.6	26.9	25.6	36.2	23.1	55.4
By purpose of loan							
14 Feeder livestock	17.3	9.4	6.4	12.2	7.9	9.5	38.4
15 Other livestock	7.0	11.7	8.7	5.2	19.7	*	*
16 Other current operating expenses	42.5	55.2	51.7	52.4	50.4	49.6	19.6
17 Farm machinery and equipment	8.3	14.1	16.1	16.3	11.2	*	*
18 Other	24.9	9.6	17.1	13.9	10.7	34.8	37.9
48 LARGE BANKS[11]							
1 Amount of loans (thousands of dollars)	$282,920	$5,532	$9,011	$13,277	$19,976	$34,174	$200,950
2 Number of loans	3,073	1,369	604	401	298	224	177
3 Weighted average maturity (months)[2]	5.2	7.1	8.1	6.3	6.4	8.0	4.4
4 Weighted average interest rate (percent)[3]	11.69	12.92	12.74	12.51	12.45	12.04	11.42
5 Standard error[4]	.43	.19	.20	.15	.08	.16	.51
6 Interquartile range[5]	10.92–12.55	12.13–13.65	12.13–13.31	11.63–13.24	11.83–13.10	11.21–12.75	10.40–12.13
By purpose of loan							
7 Feeder livestock	11.78	12.05	12.34	12.35	12.13	11.87	11.59
8 Other livestock	12.24	12.88	12.54	12.11	12.32	*	*
9 Other current operating expenses	12.46	12.98	12.79	12.79	12.52	12.24	12.35
10 Farm machinery and equipment	12.82	13.13	*	*	*	*	*
11 Other	11.22	13.35	12.98	12.14	12.72	11.93	11.08
Percentage of amount of loans							
12 With floating rates	90.0	79.3	87.4	91.8	88.8	90.8	90.3
13 Made under commitment	76.7	69.0	70.6	74.1	79.2	83.5	76.0
By purpose of loan							
14 Feeder livestock	20.7	12.7	14.9	18.7	30.6	43.4	16.4
15 Other livestock	7.1	8.0	13.9	9.8	10.3	*	*
16 Other current operating expenses	20.7	57.2	46.7	48.5	31.1	30.5	14.0
17 Farm machinery and equipment	1.6	4.1	*	*	*	*	*
18 Other	49.9	17.8	21.6	19.2	19.6	17.2	62.7
OTHER BANKS[11]							
1 Amount of loans (thousands of dollars)	$902,307	127,314	$124,554	$125,131	$151,359	$242,265	*
2 Number of loans	53,401	36,958	8,611	3,720	2,299	1,529	*
3 Weighted average maturity (months)[2]	7.3	6.2	7.6	8.3	12.0	5.5	*
4 Weighted average interest rate (percent)[3]	14.05	14.10	13.84	14.09	13.89	13.88	*
5 Standard error[4]	.23	.23	.47	.23	.26	.33	*
6 Interquartile range[5]	13.45–15.04	13.43–14.92	13.16–14.49	13.25–15.02	13.45–14.34	13.42–14.49	*
By purpose of loan							
7 Feeder livestock	14.59	14.03	14.14	13.93	*	*	*
8 Other livestock	14.09	13.82	*	*	*	*	*
9 Other current operating expenses	14.18	14.34	14.13	14.51	13.78	14.32	*
10 Farm machinery and equipment	13.46	14.03	13.49	13.86	*	*	*
11 Other	13.51	13.25	13.46	13.12	13.81	*	*
Percentage of amount of loans							
12 With floating rates	23.0	20.9	21.7	30.4	27.5	17.7	*
13 Made under commitment	21.2	18.5	23.7	20.5	30.5	14.5	*
By purpose of loan							
14 Feeder livestock	16.3	9.2	5.8	11.5	*	*	*
15 Other livestock	7.0	11.9	*	*	*	*	*
16 Other current operating expenses	49.3	55.1	52.0	52.8	53.0	52.3	*
17 Farm machinery and equipment	10.3	14.6	17.1	17.6	*	*	*
18 Other	17.1	9.3	16.8	13.3	9.5	*	*

For notes see following page.

NOTES TO TABLE 4.23

1. The survey of terms of bank lending to business collects data on gross loan extensions made during the first full business week in the midmonth of each quarter by a sample of 340 commercial banks of all sizes. The sample data are blown up to estimate the lending terms at all insured commercial banks during that week. The estimated terms of bank lending are not intended for use in collecting the terms of loans extended over the entire quarter or residing in the portfolios of those banks. Construction and land development loans include both unsecured loans and loans secured by real estate. Thus, some of the construction and land development loans would be reported on the statement of condition as real estate loans and the remainder as business loans. The survey of terms of bank lending to farmers covers about 250 banks selected to represent all sizes of banks. Mortgage loans, purchased loans, foreign loans, and loans of less than $1,000 are excluded from the survey.

As of Dec. 31, 1983, average domestic assets of 48 large banks were $14.3 billion and assets of the smallest of these banks were $2.9 billion. For all insured banks total domestic assets averaged $140 million.

2. The weighted average maturity is calculated only for loans with a stated date of maturity (that is, loans payable on demand are excluded). In computing the average, each loan is weighted by its dollar amount.

3. The approximate compounded annual interest rate on each loan is calculated from survey data on the stated rate and other terms of the loan; then, in computing the average of these approximate effective rates, each loan is weighted by its dollar amount.

4. The chances are about two out of three that the average rate shown would differ by less than this amount from the average rate that would be found by a complete survey of lending at all banks.

5. The interquartile range shows the interest rate range that encompasses the middle 50 percent of the total dollar amount of loans made.

6. Overnight loans are loans that mature on the following business day.

7. Demand loans have no stated date of maturity.

8. The approximate annual interest rate on each loan—without regard to compounding—is calculated from survey data on the stated rate and other terms of the loan; then in computing the average of these approximate nominal rates, each loan is weighted by its dollar amount.

9. The prime rate reported by each bank is weighted by the volume of loans extended and then averaged.

10. This survey provides data on gross loan extensions made during one week of each quarter. The proportion of these loan extensions that is made at rates below prime may vary substantially from the proportion of such loans outstanding in bank loan portfolios.

11. Among banks reporting loans to farmers, most "large banks" had over $500 million in total assets, and most "other banks" had total assets below $500 million.

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Anticipated Schedule of Release Dates for Periodic Releases—Board of Governors of the Federal Reserve System[1]

Weekly Releases	*Approximate release days*	*Date or period to which data refer*
Aggregate Reserves of Depository Institutions and Monetary Base. H.3 (502) [1.20]	Thursday	Week ended previous Wednesday
Actions of the Board; Applications and Reports. H.2 (501)	Friday	Week ended previous Saturday
Assets and Liabilities of ~~Commercial Banking Institutions~~. H.8 (510) [1.25]	Wednesday	Wednesday, 2 weeks earlier
Changes in State Member Banks. K.3 (615)	Tuesday	Week ended previous Saturday
Factors Affecting Reserves of Depository Institutions and Condition Statement of Federal Reserve Banks. H.4.1 (503) [1.11]	Thursday	Week ended previous Wednesday
Foreign Exchange Rates. H.10 (512) [3.28]	Monday	Week ended previous Friday
Money Stock, Liquid Assets, and Debt Measures. H.6 (508) [1.21]	Thursday	Week ended Wednesday of previous week
Selected Borrowings in Immediately Available Funds of Large Member Banks. H.5 (507) [1.13]	Wednesday	Week ended Thursday of previous week
Selected Interest Rates. H.15 (519) [1.35]	Monday	Week ended previous Saturday
Weekly Consolidated Condition Report of Large Commercial Banks and Domestic Subsidiaries. H.4.2 (504) [1.26, 1.28, 1.29, 1.30]	Friday	Wednesday, 1 week earlier

Monthly Releases		
Capacity Utilization: Manufacturing, Mining, Utilities and Industrial Materials. G.3 (402) [2.12]	Midmonth	Previous month
Changes in Status of Banks and Branches. G.4.5 (404)	1st of month	Previous month
Commercial and Industrial ~~Loan~~ Commitments at Selected Large Commercial Banks. G.21 (423)	2nd week of month	2nd month previous
Consumer Installment Credit. G.19 (421) [1.55, 1.56]	Midmonth	2nd month previous
Debits and Deposit Turnover at Commercial Banks. G.6 (406) [1.22]	12th of month	Previous month
Finance Companies. G.20 (422) [1.51, 1.52]	5th working day of month	2nd month previous
Foreign Exchange Rates. G.5 (405) [3.28]	1st of month	Previous month
Industrial Production. G.12.3 (414) [2.13]	Midmonth	Previous month
Loans and Securities at all Commercial Banks. G.7 (407) [1.23]	3rd week of month	Previous month
Major Nondeposit Funds of Commercial Banks. G.10 (411) [1.24]	3rd week of month	Previous month
Maturity Distribution of Negotiable Time Certificates of Deposit at Large Commercial Banks. G.9 (410)	3rd week of month	Last Wednesday of previous month
Monthly Report of Assets and Liabilities of International Banking Facilities. G.14 (416)	2nd week of month	Wednesday, 2 weeks earlier
Research Library—Recent Acquisitions. G.15 (417)	1st of month	Previous month

1. Release dates are those anticipated or usually met. However, please note that for some releases there is normally a certain variability 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.

The BULLETIN table that reports these data is designated in brackets.

Monthly Releases—Continued	*Approximate release days*	*Date or period to which data refer*
Selected Interest Rates. G.13 (415) [1.35]	3rd working day of month	Previous month

Quarterly Releases

Agricultural Finance Databook. E.15 (125)	End of March, June, September, and December	January, April, July, and October
Country Exposure Lending Survey. E.16 (126)	January, April, July, and October	Previous 3 months
Domestic Offices, Commercial Bank Assets and Liabilities Consolidated Report of Condition. E.3.4 (113) [1.26, 1.28]	March, June, September, and December	Previous 6 months
Flow of Funds: Seasonally adjusted and unadjusted. Z.1 (780) [1.58, 1.59]	23rd of February, May, August, and November	Previous quarter
Flow of Funds Summary Statistics Z.7. (788) [1.57, 1.58]	15th of February, May, August, and November	Previous quarter
Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks. E.11 (121)	15th of March, June, September, and December	Previous quarter
Survey of Terms of Bank Lending. E.2 (111) [1.34]	Midmonth of March, June, September, and December	February, May, August, and November
List of OTC Margin Stocks. E.7 (117)	January, April, July, and October	February, May, August, and November

Annual Releases

Aggregate Summaries of Annual Surveys of Security Credit Extension. C.2 (101)	February	End of previous June

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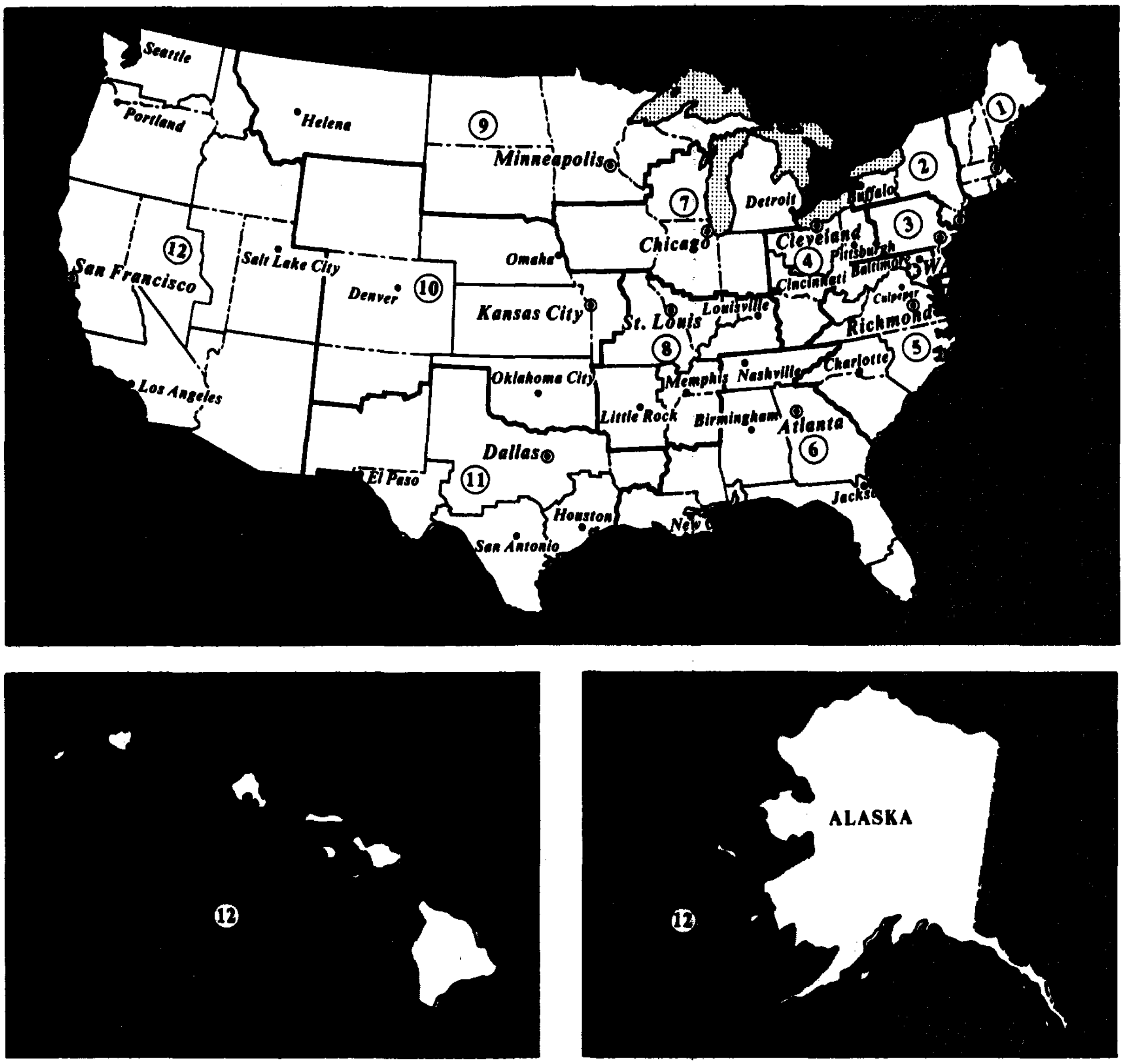
Federal Reserve Banks, Branches, and Offices

FEDERAL RESERVE BANK, branch, or *facility* Zip	Chairman Deputy Chairman	President First Vice President	Vice President in charge of branch
BOSTON* 02106	Joseph A. Baute Thomas I. Atkins	Frank E. Morris Robert W. Eisenmenger	
NEW YORK* 10045	John Brademas Clifton R. Wharton, Jr.	E. Gerald Corrigan Thomas M. Timlen	
Buffalo.....................14240	M. Jane Dickman		John T. Keane
PHILADELPHIA 19105	Robert M. Landis Nevius M. Curtis	Edward G. Boehne Richard L. Smoot	
CLEVELAND*...........44101	William H. Knoell E. Mandell de Windt	Karen N. Horn William H. Hendricks	
Cincinnati................45201	Robert E. Boni		Charles A. Cerino
Pittsburgh................15230	Milton G. Hulme, Jr.		Harold J. Swart
RICHMOND* 23219	Leroy T. Canoles, Jr. Robert A. Georgine	Robert P. Black Jimmie R. Monhollon	
Baltimore 21203	Robert L. Tate		Robert D. McTeer, Jr.
Charlotte 28230	Wallace J. Jorgenson		Albert D. Tinkelenberg
Culpeper Communications and Records Center 22701			John G. Stoides
ATLANTA.................30301	John H. Weitnauer, Jr. Bradley Currey, Jr.	Robert P. Forrestal Jack Guynn	
Birmingham 35283	Martha McInnis		Fred R. Herr
Jacksonville 32231	E. William Nash, Jr.		James D. Hawkins
Miami 33152	Eugene E. Cohen		Patrick K. Barron
Nashville.................37203	Condon S. Bush		Jeffrey J. Wells
New Orleans............70161	Leslie B. Lampton		Henry H. Bourgaux
CHICAGO* 60690	Stanton R. Cook Robert J. Day	Silas Keehn Daniel M. Doyle	
Detroit.....................48231	Russell G. Mawby		Roby L. Sloan
ST. LOUIS.................63166	W.L. Hadley Griffin Mary P. Holt	Thomas C. Melzer Joseph P. Garbarini	
Little Rock 72203	Sheffield Nelson		John F. Breen
Louisville 40232	Henry F. Frigon		James E. Conrad
Memphis 38101	Donald B. Weis		Paul I. Black, Jr.
MINNEAPOLIS..........55480	John B. Davis, Jr. Michael W. Wright	Gary H. Stern Thomas E. Gainor	
Helena.....................59601	Gene J. Etchart		Robert F. McNellis
KANSAS CITY...........64198	Irvine O. Hockaday, Jr. Robert G. Lueder	Roger Guffey Henry R. Czerwinski	
Denver....................80217	James E. Nielson		Wayne W. Martin
Oklahoma City 73125	Patience Latting		William G. Evans
Omaha....................68102	Kenneth L. Morrison		Robert D. Hamilton
DALLAS 75222	Robert D. Rogers Bobby R. Inman	Robert H. Boykin William H. Wallace	
El Paso 79999	John R. Sibley		Joel L. Koonce, Jr.
Houston 77252	Robert T. Sakowitz		J.Z. Rowe
San Antonio.............78295	Robert F. McDermott		Thomas H. Robertson
SAN FRANCISCO 94120	Alan C. Furth Fred W. Andrew	John J. Balles Richard T. Griffith	
Los Angeles.............90051	Richard C. Seaver		Richard C. Dunn
Portland 97208	Paul E. Bragdon		Angelo S. Carella
Salt Lake City..........84125	Don M. Wheeler		E. Ronald Liggett
Seattle 98124	John W. Ellis		Gerald R. Kelly

*Additional offices of these Banks are located at Lewiston, Maine 04240; Windsor Locks, Connecticut 06096; Cranford, New Jersey 07016; Jericho, New York 11753; Utica at Oriskany, New York 13424; Columbus, Ohio 43216; Columbia, South Carolina 29210; Charleston, West Virginia 25311; Des Moines, Iowa 50306; Indianapolis, Indiana 46204; and Milwaukee, Wisconsin 53202.

The Federal Reserve System

Boundaries of Federal Reserve Districts and Their Branch Territories



LEGEND

Boundaries of Federal Reserve Districts

Boundaries of Federal Reserve Branch Territories

Board of Governors of the Federal Reserve System

Federal Reserve Bank Cities

Federal Reserve Branch Cities

Federal Reserve Bank Facility