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Table of Contents

411 *MEASURING THE FOREIGN-EXCHANGE VALUE OF THE DOLLAR*

This article first describes the uses of weighted average exchange-rate indexes; it then focuses on measures of exchange rates suitable for analyzing trade flows and compares their performance in the context of the equations used by the staff of the Federal Reserve Board to forecast trade components and priced deflators for exports and imports.

423 *INDUSTRIAL PRODUCTION*

Industrial production declined 0.3 percent in March.

425 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, reviews some aspects of the world economic situation, particularly exchange market developments and international debt, before the Subcommittee on International Finance and Monetary Policy of the Senate Committee on Banking, Housing, and Urban Affairs, April 7, 1987.

430 Martha R. Seger, Member, Board of Governors, discusses proposed legislation to require disclosures of prices and terms in credit card applications and solicitations and to establish a nationwide ceiling on credit card interest rates; Governor Seger says that the Board believes it is important for consumers to have adequate information to shop for credit and that the Board does not believe the imposition of a federal ceiling on credit card rates is appropriate, before the Subcommittee on Consumer Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, April 21, 1987.

435 Chairman Volcker discusses the joint proposal of the U.S. federal banking agencies

and the Bank of England for the establishment of a risk-based capital framework and says that he believes that adoption by U.S. regulators of a framework along the lines of the U.S.-U.K. proposal represents a reasonable step toward a more rational framework for relating the analysis of capital needs to risk considerations, before the Subcommittee on General Oversight and Investigations of the House Committee on Banking, Finance and Urban Affairs, April 30, 1987.

441 *ANNOUNCEMENTS*

Adoption of policy statement on responsibilities of bank holding companies to their subsidiary banks.

Report available on priced service operations in 1986.

Issuance of revised List of Stocks Subject to OTC Margin Regulations.

Proposal to amend Regulation T.

Admission of four state banks to membership in the Federal Reserve System.

443 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on February 10-11, 1987, the Committee established monetary growth ranges for 1987 of 5½ to 8½ percent for both M2 and M3. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent. The Committee anticipated that growth in M1 would slow in 1987 from its very rapid pace in 1986, but the members decided not to establish a precise target for the year; instead, the appropriateness of M1 changes would be evaluated during the year in the light of the behavior of M1 velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

With regard to the implementation of policy for the period immediately ahead, the Committee adopted a directive that called for no change in the current degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with some reduction in the growth of M2 and M3 to annual rates of about 6 to 7 percent over the two-month period from January to March. Over the same interval, growth in M1 was expected to moderate substantially from an extraordinarily high rate in the closing months of 1986. The members indicated that somewhat greater reserve restraint might be acceptable, over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

453 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

- A1 *FINANCIAL AND BUSINESS STATISTICS*
- A3 Domestic Financial Statistics
- A44 Domestic Nonfinancial Statistics
- A53 International Statistics

- A69 *GUIDE TO TABULAR PRESENTATION, STATISTICAL RELEASES, AND SPECIAL TABLES*

- A82 *BOARD OF GOVERNORS AND STAFF*

- A84 *FEDERAL OPEN MARKET COMMITTEE AND STAFF; ADVISORY COUNCILS*

- A86 *FEDERAL RESERVE BOARD PUBLICATIONS*

- A89 *INDEX TO STATISTICAL TABLES*

- A91 *SCHEDULE OF RELEASE DATES FOR PERIODIC RELEASES*

- A93 *FEDERAL RESERVE BANKS, BRANCHES, AND OFFICES*

- A94 *MAP OF FEDERAL RESERVE SYSTEM*

Measuring the Foreign-Exchange Value of the Dollar

B. Dianne Pauls, of the Board's Division of International Finance, prepared this article.

Some observers, disappointed with the response of the U.S. trade balance to the depreciation of the dollar since February 1985, have concluded that the established weighted average indexes of exchange rates have overstated the dollar's decline. In particular, they note, the dollar has depreciated much less against the currencies of some key newly industrialized trading partners than it has against the currencies of the industrial countries represented in the traditional indexes. This discrepancy has spawned a plethora of new exchange-rate indexes, with the frequent implication that an ideal index exists.

This article first describes the uses of weighted average exchange-rate indexes. An index of the dollar's value may be helpful in assessing the effect of changes in various bilateral exchange rates on a country's trade position. But such indexes have many other uses, and the selection of an index varies with the application. Although the inclusion of currencies of developing countries in an index may be useful for analyzing trade developments, it is not appropriate for some other purposes, such as providing information about monetary conditions. The latter part of the article focuses on measures of exchange rates suitable for analyzing trade flows and compares their performance in the context of the equations used by the staff of the Federal Reserve Board to forecast trade components and price deflators for exports and imports. The results suggest that the addition of the currencies of important developing-country trading partners in an index of exchange rates improves its performance in forecasting export volumes and import prices but makes little difference for the forecasts of export prices.

USES OF WEIGHTED AVERAGE INDEXES OF EXCHANGE RATES

An index of weighted average exchange rates is a summary measure of a set of often divergent changes in bilateral exchange rates. The advent of more frequent adjustments in exchange rates in the 1970s and the broad-based pattern of U.S. trade and capital flows made such a measure necessary because no single bilateral exchange rate could adequately reflect changes in the dollar's value. The index developed by the staff of the Federal Reserve Board in 1971, when the system of fixed exchange rates first broke down, was intended as a summary measure of how the dollar was faring against the currencies of the 10 major foreign countries that participated in the Smithsonian Accord of December 1971.

Generally, an index of weighted average exchange rates may be used to summarize the influence of prices of the dollar, expressed in various foreign currencies, on some macroeconomic variable or policy objective. Because the choice of an index varies with the application, examining the alternative uses of such indexes is crucial to understanding their construction.

Exchange rates potentially play a role in determining at least four important macroeconomic variables, and summary measures of exchange rates for each application should reflect the specific manner in which exchange rates influence the variable of interest.

First, exchange rates affect the price competitiveness of U.S. goods, which is a principal determinant of the country's trade balance. For example, a decline in the average foreign-currency price of the dollar tends to improve U.S. price competitiveness by lowering the average price of U.S. goods relative to the average dollar price of foreign goods. As a result, over time the volume

of U.S. exports tends to increase and that of U.S. imports tends to decrease. Moreover, relative movements in prices in the United States and abroad and in the factors that influence these prices also affect price competitiveness. Thus to construct a summary measure of U.S. price competitiveness requires an index of foreign-currency prices of the dollar—a nominal exchange-rate index—as well as indicators of relative prices in the United States and abroad. These measures can be combined into a weighted average index of real exchange rates.

Second, changes in exchange rates affect the domestic price level. After a depreciation of the dollar, the dollar prices of imported goods and the prices of domestically produced goods that compete with imports tend to rise, thereby putting upward pressure on U.S. prices. In addition, an increase in the demand for U.S. exports, stimulated by a decline in the dollar, contributes to a rise in domestic prices in the United States.

A summary measure of the influence of changes in the dollar prices of foreign goods on domestic prices requires both an index of nominal exchange rates and an index of foreign prices. Foreign exporters may respond differently to changes in production costs in terms of their home currency and to variations in exchange rates; changes in production costs may be regarded as more permanent and hence may appear more readily in import prices. If such differences in response are important, then nominal exchange rates and foreign prices should be treated as separate determinants of domestic inflation rather than combined into a single index of real weighted average exchange rates. In addition, exchange rates influence U.S. inflation indirectly through their effect on U.S. export demand, which, as noted above, is best captured by variations in an index of real exchange rates.

Third, changes in exchange rates may influence asset demands. For example, alternatives to holding domestic currency are offered by holding foreign currencies, or deposits or securities denominated in either foreign or domestic currencies. In this case, expected rates of return on assets denominated in foreign currencies, which consist of the nominal rate of interest on these deposits along with the expected rate of change in the exchange rate, could affect the

demand for money. Movements in domestic prices will also influence the demand for money, and changes in exchange rates thus affect the demand for money indirectly by altering domestic prices.

Furthermore, according to one school of thought, exchange rates are a source of information about monetary conditions. Changes in nominal interest rates can reflect changes either in real rates or in inflation expectations, so that movements in nominal interest rates alone can give ambiguous signals about the stance of monetary policy. In contrast, exchange rates should respond differently to these two phenomena. A rise in real rates of return on assets denominated in dollars increases the demand for such assets, causing the dollar to appreciate. An increase in U.S. inflation tends to make U.S. goods less competitive, so that a future depreciation of the dollar is needed to maintain the relative price of U.S. versus foreign products. Thus the spot exchange rate is relatively unaffected by a rise in nominal interest rates resulting from an increase in expectations of inflation: the rise in the nominal rate of return is offset by an expected depreciation of the dollar. Because of the different responses of exchange rates, the nexus of interest rates and exchange rates may reflect monetary conditions better than the interest rate alone does. For exchange rates to be a useful indicator of monetary conditions, however, they should influence asset demands, including the demand for money, which has yet to be firmly established empirically.

Finally, an index of exchange rates may be used to assess changes in the real value of the wealth of U.S. residents. This use corresponds most closely to the classic application of consumer price indexes in evaluating changes in the standard of living of U.S. residents. However, information about the foreign-currency composition of assets and liabilities required for such an analysis is not available, making such an application difficult.

CONSTRUCTION OF WEIGHTED AVERAGE EXCHANGE RATES

Indexes of the dollar's weighted average foreign-exchange value are constructed by averaging the

dollar's bilateral exchange rates in terms of a number of foreign currencies. The construction of such indexes poses at least four questions: How should the currencies in an index be weighted? Should the indexes summarize nominal or real exchange rates? What are the appropriate deflators for a real index? What currencies should be included? Answers to these questions depend on the purpose of the index.

Weighting Schemes

In principle, the weights assigned to each foreign currency in an index should reflect the importance of that currency with respect to the economic problem being analyzed. Specifically, the weights should be derived from economic models relating the macroeconomic variable of interest to each of the individual bilateral exchange rates as well as to its other determinants. Such weights capture both the direct effect of changes in exchange rates on the variable being analyzed and their indirect influence through other economic variables; they should also capture the relative strength of those effects.

Most indexes of exchange rates are aimed at assessing the effect of changes in exchange rates on U.S. trade flows. Thus the weight of any particular bilateral exchange rate in such indexes depends in part on the extent of competition between the two countries involved. Take the mark-dollar rate, for example. Because the United States and Germany compete in other markets besides their own two, changes in the mark-dollar bilateral rate will influence U.S. exports to third markets and U.S. imports from third markets. Such effects are referred to as third-country effects.

In an index used to measure how changes in the foreign-exchange value of the dollar affect U.S. trade, the appropriate weights for individual currencies come from equations relating U.S. trade components to exchange rates as well as to their other determinants. For the mark, the weight obtained in this way reflects competition between U.S. and German producers in U.S., German, and other markets and the sensitivity of producers and consumers to prices in each of these markets.

One problem in taking a strict theoretical approach to constructing an index of weighted average exchange rates is that reliable estimates of these price sensitivities generally are not available. The International Monetary Fund derives the weights in its index of weighted average exchange rates from its model of multilateral exchange rates; however, some of the price sensitivities are simply assumed. The difficulty in obtaining reliable estimates of these parameters generally forces the analyst to use some measure of trade shares as an approximation to the theoretically preferred weights. The two most common weighting schemes are bilateral trade shares—used by Morgan Guaranty, the U.S. Treasury, the Department of Commerce, the Bundesbank, and the Federal Reserve Banks of Atlanta and Dallas—and multilateral trade shares, which the Federal Reserve Board staff uses. In an index of the dollar's foreign-exchange value, bilateral weights correspond to each country's share of total U.S. exports plus imports (sometimes the weights for imports and exports are calculated separately). By contrast, multilateral weights are the shares of each country in the combined total trade of all the foreign countries included in the index. The mathematical expressions for these weights are given in equations 1 and 2 in the accompanying box.

Each weighting scheme has conceptual advantages and disadvantages. Bilateral weights emphasize trade between two countries but neglect the effects of competition in third markets. In an index of dollar exchange rates, for example, a bilateral weight on the German mark allows for a decline in U.S. demand for German machinery after a depreciation of the dollar against the mark; but it does not allow for a shift in demand toward U.S. machinery and away from German machinery in other markets in which Germany and the United States compete. Bilateral weights are appropriate conceptually only if such third-country effects are absent, which seems an unrealistic assumption.

Multilateral trade weights reflect the role of each country as a competitor in the world market; their use is therefore an attempt to capture the effects of competition in markets besides the home market. However, they do not take account of the specific markets in which countries

**TRADE-WEIGHTING SCHEMES USED IN
ALTERNATIVE INDEXES OF EXCHANGE RATES
FOR THE DOLLAR**

1. Bilateral weights

$$w_i = \frac{x_{iUS} + m_{iUS}}{\sum_k (x_{kUS} + m_{kUS})}$$

2. Multilateral weights

$$w_i = \frac{x_i + m_i}{\sum_{k \neq US} (x_k + m_k)}$$

3. Modified bilateral weights, as defined in the indexes of the European Communities and the Organisation for Economic Co-operation and Development

$$w_i = \left(\frac{y_i}{\sum_{k \neq US} x_k^i + y_i} \right) \left(\frac{x_{iUS}}{\sum_k x_{kUS} + y_{US}} \right) + \sum_{j \neq i} \left(\frac{x_j^i}{\sum_{k \neq US} x_k^i + y_j} \right) \left(\frac{x_{jUS}}{\sum_k x_{kUS} + y_{US}} \right)$$

4. Modified bilateral weights, as defined in Morgan Guaranty's broad index

$$w_i = \left(\frac{y_i}{\sum_k x_k^i + y_i} \right) \left(\frac{x_{iUS}}{\sum_k x_{kUS}} \right) + \frac{m_{iUS}}{\sum_k m_{kUS}}$$

where

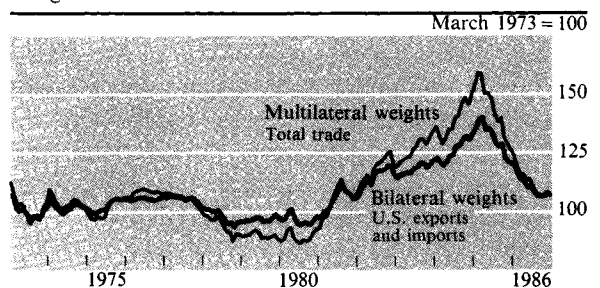
- w_j = weight of currency i
- x_k^i = exports by country i to country j
- m_{iUS} = U.S. imports from country i
- x_i = exports from country i to the rest of the countries in the index
- m_i = imports to country i from the rest of the countries in the index
- y_i = sales by country i in its own domestic market.

SOURCES: Martine Durand, "Method of Calculating Effective Exchange Rates and Indicators of Competitiveness," OECD Working Paper 29, February 1986; European Communities, "The Influence of Exchange Rate Changes on Prices: A Study of 18 Industrial Countries—Technical Annex: The Calculation of Effective Exchange Rates and Indices of Competitiveness," mimeo, September 1986; Morgan Guaranty, *World Financial Markets*, October/November 1986.

compete. If countries trade in very different markets, an index that embodies this weighting scheme will misrepresent changes in overall competitiveness. For example, the yen and the Dutch guilder have appreciated in similar degree against the dollar since its peak in early 1985, and hence those two currencies have also shown similar changes against other currencies. Because a multilateral index weights these other currencies similarly in constructing weighted average exchange rates for the yen and guilder, those two currencies will display roughly comparable appreciation on a weighted-average basis. Yet, Japan obviously has suffered a greater loss of overall competitiveness than the Netherlands has: Japan relies more heavily on the U.S. market and also competes extensively with the newly industrialized countries in Asia, whose currencies have depreciated against the yen, whereas the Netherlands trades mostly with other European countries, whose currencies have changed little against the guilder.

To provide a perspective on the practical significance of this difference in weighting schemes, chart 1 compares bilateral and multilateral trade-weighted indexes of the dollar's value against the currencies of the other Group of Ten countries. (In recent years, Switzerland has joined the Group of Ten, making in fact 11 countries. Nonetheless, by convention, the name remains the Group of Ten.) Both indexes were constructed using average weights for 1978–83. (The index with multilateral weights differs slightly from the current index compiled by the Board staff, which is based on 1972–76 average trade shares.) The bilaterally weighted index shows a less pronounced rise in the dollar's value through early

1. Exchange value of the dollar against the G-10 currencies



Monthly series. Percentage changes are computed logarithmically. Indexes use 1978–83 average weights.

1985 and a smaller decline subsequently. Overall, both indexes suggest that about two-thirds to three-fourths of the dollar's rise after the fourth quarter of 1980 had been reversed by the end of 1986 (see table 1).

The difference in the magnitude of the dollar's swings based on the indexes weighted by multilateral and bilateral trade reflects differences in the weight of the Canadian dollar, which has changed relatively little in terms of the U.S. dollar during this period. Because Canada accounts for such a large share of total U.S. trade, in this 10-currency index Canada's bilateral weight is four times as great as its multilateral weight. Whether it is appropriate to assign the Canadian dollar such a large weight is an open question. More than 50 percent of U.S. trade with Canada consists of intracompany transactions in the automotive industry, and of homogeneous commodities, whose prices are determined in world markets. Because the prices of these goods may be relatively insensitive to changes in U.S.-Canadian exchange rates, bilateral weights may overstate the importance of the Canadian dollar in a summary measure of the price competitiveness of U.S. goods.

Multilateral weighting schemes overlook the importance of specific markets to specific countries. Alternative weighting schemes, used by the European Communities (EC) and the Organisation for Economic Co-operation and Development (OECD), incorporate third-country effects in a more detailed way by taking account of which countries compete in which markets. These so-called modified bilateral weighting schemes begin with estimates of each country's share in each market, or importing country. Germany's market share in France, for example, is calculated as the ratio of German exports to France to total sales to France, including sales of French products. If the index is for the dollar, these market shares do not include U.S. sales in the French market because their purpose is to capture the role of each U.S. competitor. Next, the proportion that the French market represents in total U.S. sales, including sales in the United States, is calculated. Finally, these measures are combined to obtain a set of currency weights that reflect the importance of each U.S. competitor overall. The weight for the mark is the sum of Germany's market share in each market weight-

1. Movements in the value of the dollar, alternative indexes of exchange rates

Percent

Index	Appreciation, 1980:4-February 1985 ¹	Depreciation, February 1985-December 1986 ¹	Proportion of appreciation reversed
<i>Nominal indexes</i>			
G-10, multilateral weights ² . . .	58	40	69
Federal Reserve Board ³	58	40	69
G-10, bilateral weights (total trade) ²	37	27	73
IMF ⁴	47	31	66
Morgan Guaranty, 15 countries ⁴	40	29	73
Atlanta Federal Reserve ⁵	34	21	62
Dallas Federal Reserve ⁶	61	3	5
<i>Real indexes</i>			
G-10, multilateral weights ² . . .	52	40	77
G-10, bilateral U.S. non-oil import weights ²	32	28	88
G-10 and 8 developing countries, multilateral weights ²	48	31	65
G-10 and 8 developing countries, bilateral U.S. non-oil import weights ² . . .	30	18	60

1. Percentage changes are computed logarithmically.

2. 1978-83 weights.

3. 1972-76 weights.

4. 1980 weights.

5. 1984 weights.

6. Annual weights, moving.

ed by the importance of that market to the United States (see equation 3 in the box). Compared with the standard weighting schemes, these alternatives broaden the definition of competing goods to include a country's sales in its own domestic market. Nonetheless, they limit the home country's sales to so-called tradable goods, under the assumptions that such a distinction can be made and that shifts in demand for nontradable goods in response to a change in the price of tradable goods are negligible.

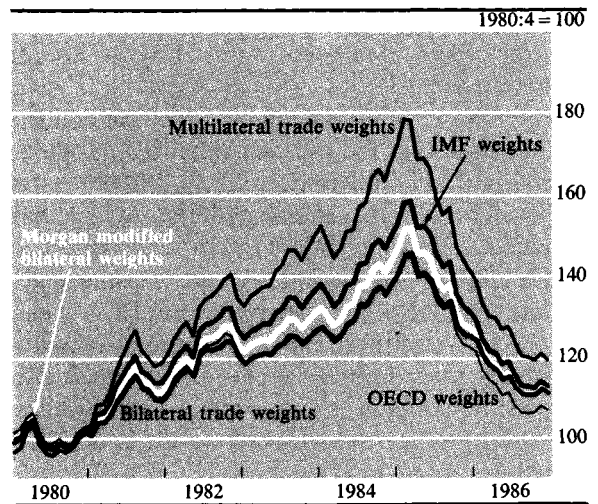
Morgan Guaranty, in its recently developed broad index, employs a slightly different modified bilateral weighting scheme for exports, which does not incorporate third-country effects as fully as the EC and OECD measures do. These weights are combined with simple bilateral import shares to obtain a set of trade weights. In this scheme, the export weight for the mark in an index for the dollar is the bilateral share of U.S. exports to Germany, weighted by the share of German sales in the German market (equation 4 in the box). Unlike the EC and OECD procedures, Morgan's weighting scheme omits the role of German producers in third markets in which the United States and Germany compete, al-

though it takes account of U.S. competition with other countries besides Germany in the German market. Moreover, while those measures include U.S. sales in the home market in defining the importance of each market to the United States, Morgan's index uses simple bilateral U.S. export shares.

To compare these alternative weighting schemes with simple bilateral and multilateral weighting schemes in the context of a standard set of currencies, indexes of the dollar's value against the other G-10 currencies were calculated using two modified bilateral weighting schemes, those of the OECD and Morgan Guaranty. These measures display less absolute variation in the dollar's value than do the indexes of the Board staff or the IMF, which use multilateral weights (chart 2). The index based on Morgan Guaranty's weighting scheme closely parallels the simple bilateral index, which is not surprising given that it uses simple bilateral weights for imports and that its modified bilateral export weights only partially capture third-country effects. (Recall that indexes based on bilateral trade shares show smaller swings in the dollar's value because they assign a larger weight to the Canadian dollar.) The OECD construct tells a different story, suggesting that more than 80 percent of the dollar's appreciation after late 1980 had been reversed by the end of 1986. This result stems from the larger weight assigned to the yen in the OECD scheme, as the depreciation of the dollar against the yen has more than reversed the rise after late 1980, in contrast to its movements against other G-10 currencies. The larger weight of the yen in the OECD weighting scheme apparently indicates a sizable role for Japanese firms as competitors in their home markets and in U.S. markets, as well as with the United States in third markets.

When the object of analysis is something other than trade, the optimal theoretical weights are different. In a weighted average index of the dollar's value focusing on the influence of changes in exchange rates on import prices, the weight for, say, the mark reflects the bilateral share of U.S. imports from Germany, the price sensitivity of U.S. demand for German goods, and the sensitivity of the profit margins of German exporters to a change in the mark-dollar bilateral rate. The weight depends, in addition,

2. Exchange value of the dollar against the G-10 currencies, alternative trade weights



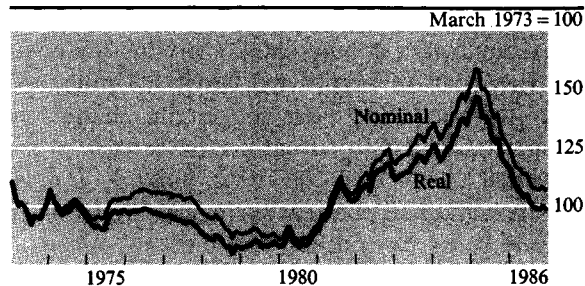
Monthly series. Percentage changes are computed logarithmically. The IMF index, OECD index, and Morgan broad (modified bilateral) index were renormalized to obtain indexes for the G-10 alone based on each weighting scheme.

on the bilateral shares of U.S. imports from other countries and on the sensitivity of import prices for these goods to a change in the mark-dollar rate. These influences introduce the same type of third-country considerations raised in the discussion of the trade-volume case. However, because empirical evidence suggests that import prices of French goods, for example, are affected little by changes in the mark-dollar exchange rate, simple bilateral import shares generally are regarded as acceptable weights for applications involving import prices.

If the objective, more generally, is to assess the influence of changes in exchange rates on U.S. consumer prices, then imports from Germany as a share of U.S. consumption, rather than as a share of the volume of U.S. imports, appear in the weight along with the relevant price sensitivities described above. In addition, to capture the way changes in exchange rates affect consumer prices indirectly through their influence on the price of competing domestic goods, the weight should depend on the share of domestically produced tradable goods in U.S. consumption and the price sensitivity of demand for these goods.

Still other factors matter in other analyses. Take asset demands: the degree to which they respond to changes in exchange rates depends on

3. Nominal and real exchange value of the dollar against the G-10 currencies, multilateral trade weights



Monthly series. Percentage changes are computed logarithmically. Indexes use 1972-76 average weights; the real index is adjusted with the CPI.

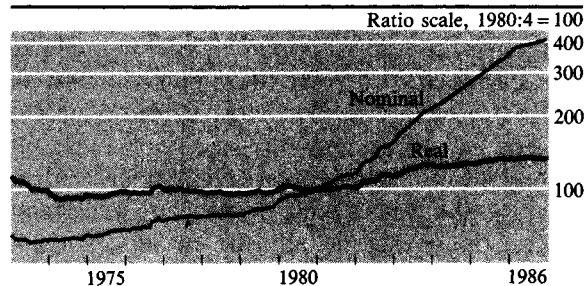
their sensitivity to changes in expected rates of return, including the change attributable to expected rates of change in exchange rates. In a weighted average index used as a source of information about monetary conditions, the weights should reflect these same sensitivities as well as the currency composition of asset portfolios. In the absence of these data and reliable estimates of these parameters, some regard weights based on gross national product as a good proxy.

Real versus Nominal Indexes

As noted previously, a real exchange-rate index is appropriate for examining the effect of changes in exchange rates on trade developments. However, because most standard price measures are available at best monthly, daily movements in nominal exchange-rate indexes often are used as a proxy for changes in real or price-adjusted measures over short intervals. For indexes of the dollar's value against the G-10 currencies, this practice is valid; these measures display about the same behavior in real and nominal terms, reflecting the similarity in inflation rates in the United States and the foreign G-10 economies, on average (chart 3).

In contrast, the nominal value of the dollar against the currencies of certain developing countries behaves quite differently from its real counterpart. Chart 4 depicts the dollar's value in terms of the currencies of eight key developing-country trading partners of the United States: Brazil, Hong Kong, Malaysia, Mexico, the Phil-

4. Nominal and real exchange value of the dollar against the currencies of eight developing countries, multilateral trade weights

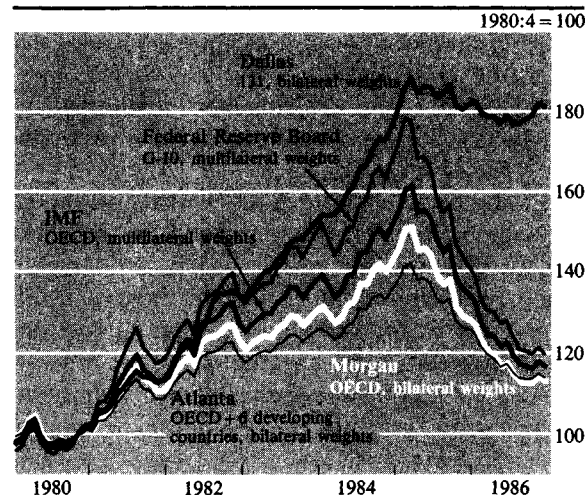


Monthly data. The eight countries are Mexico, Brazil, Hong Kong, Malaysia, the Philippines, Singapore, South Korea, and Taiwan. The real index is adjusted with the CPI.

ippines, Singapore, South Korea, and Taiwan. Although the dollar has appreciated several hundred percent in nominal terms against a multilateral trade-weighted average of these currencies since late 1980, its real appreciation is much smaller because of the enormous rates of inflation in Mexico and Brazil.

Thus, if it includes the currencies of countries with very high rates of inflation, a nominal index of the dollar's value will present a particularly misleading picture of changes in U.S. price competitiveness; this point can be seen by contrasting the behavior of the original index compiled by the Federal Reserve Bank of Dallas, which

5. Indexes of the weighted average foreign-exchange value of the dollar



Percentage changes are computed logarithmically.

includes the currencies of virtually all U.S. trading partners, with that of the more traditional indexes as well as the recently developed index of the Federal Reserve Bank of Atlanta (chart 5). Although the Atlanta Bank's index also includes the currencies of some developing countries, these are mainly newly industrialized countries in Asia, whose inflation rates are not appreciably different from those in the United States. (Subsequently, the Dallas Bank developed a real index for the dollar that includes the currencies of 101 U.S. trading partners.)

Alternative Real Exchange-Rate Indexes

For applications involving real indexes, one issue is which price index to use as a deflator. None of the standard measures is ideal for assessing changes in U.S. competitiveness; each has advantages and disadvantages, both theoretical and empirical. Consumer prices provide a broad measure of the prices of domestic finished goods and services, and they are available on a relatively consistent and timely basis across countries. However, they include the prices of some nontraded items, such as housing and a wide range of services. Indexes of wholesale prices focus more narrowly on the goods sector, but their coverage can vary substantially across countries. In particular, in many countries these indexes give heavy weight to the prices of basic commodities and therefore imperfectly reflect underlying domestic manufacturing costs and output prices. Furthermore, for some developing countries that might be considered in a broader index, these standard measures of domestic consumer and producer prices may be biased downward by the presence of price controls.

Export prices capture the prices of goods actually traded, but they exclude the prices of potentially tradable goods, such as domestic import substitutes. Moreover, to the extent that firms price in the short run to meet competition in foreign markets, varying profit margins to absorb fluctuations in exchange rates, short-run changes in export prices will not mirror changes in underlying cost and price pressures. Unit labor costs reflect a major component of domestic production costs, while avoiding measure-

ment problems associated with fluctuations in profit margins in response to changes in exchange rates. However, they have some important drawbacks as a gauge of competitiveness: they omit other components of production costs such as costs of capital and material inputs, and thus their use overlooks longer-run changes in their relationship to output prices. In view of the deficiencies of each of these individual measures, more than one real exchange-rate measure should be used for assessing competitiveness.

Currency Coverage

If the focus of attention is how exchange rates influence trade and inflation, then currencies of countries with either a significant share in world trade (if multilateral weights are used) or U.S. trade (under a bilateral weighting scheme) are candidates for inclusion in the index. For applications involving asset demands, the index should encompass countries whose assets are widely traded in financial markets.

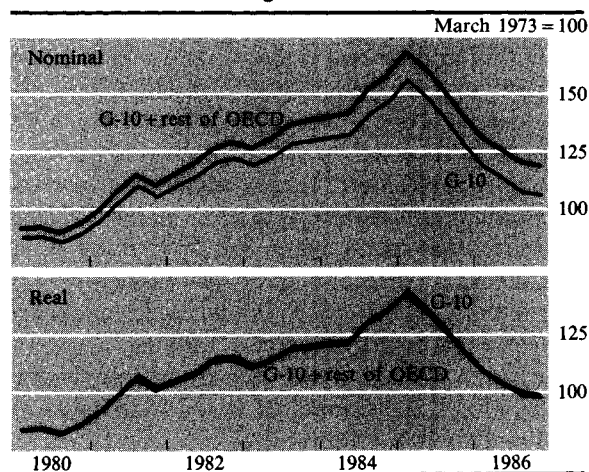
In addition to these theoretical criteria, several practical considerations arise. First, countries included should have well-developed foreign-exchange markets. When developing countries use multiple exchange rates, determining the appropriate exchange rate for inclusion presents difficulties. Second, currencies linked directly to currencies in the index as a result of policy decisions about exchange rates may be omitted provided the weights are appropriately adjusted. In general, so long as the excluded currencies move in close parallel with the currencies in the index, their absence will not appreciably affect the behavior of the index or its usefulness in forecasting other macroeconomic variables. When the application involves real exchange rates, movements in the real value of currencies omitted from the index should be highly correlated with those of currencies in the index.

A comparison between an index of the OECD currencies and one for the G-10 alone offers an illustration (chart 6). The nominal indexes move in parallel because of the relatively small trade shares of those OECD countries that are not among the G-10 and because several of those

currencies are linked to the G-10 currencies. The difference in the movements in nominal exchange rates in the G-10 countries and in the OECD countries that are not in the G-10, which accounts for the spread in the top panel of the chart, largely reflects different inflation experiences; thus the similarity in the behavior of these indexes is even more striking on a CPI-adjusted basis, as shown in the bottom panel.

In contrast, an index of the dollar's value in terms of a weighted average of the currencies of certain developing countries behaves much differently from an index based on the G-10 currencies alone. Take for illustration an index of the dollar's value against the currencies of eight key developing-country trading partners of the United States. Together, these countries account for about 35 percent of world trade by nonindustrialized countries, and in 1978-83 they accounted for the largest shares of U.S. non-oil imports from nonindustrialized countries outside the Organization of Petroleum Exporting Countries. (Recently, the importance of countries that are large producers of primary products, such as Malaysia and the Philippines, has diminished.) From early 1985 through the fourth quarter of 1986, the dollar appreciated about 3 percent in real terms against an index of the currencies of these eight countries weighted by multilateral trade; by contrast, it declined about 40 percent in

6. Indexes of the exchange value of the dollar, multilateral trade weights

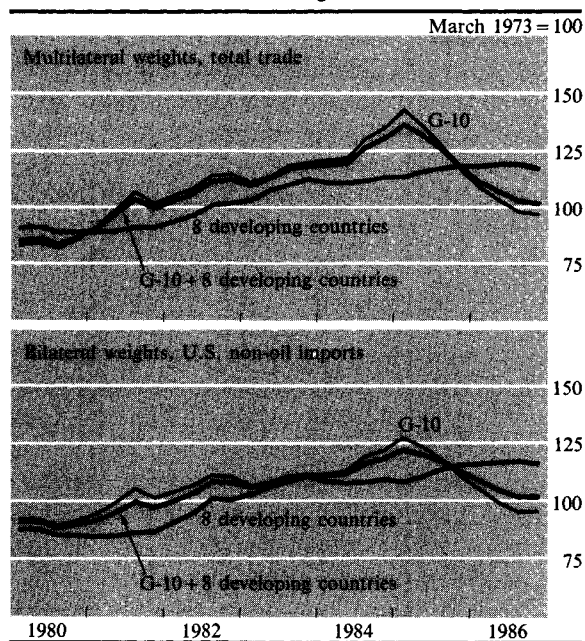


Quarterly data. Indexes use 1978-83 average weights. The real index is adjusted with the CPI.

real terms vis-à-vis a comparably weighted average of the G-10 currencies (chart 7).

This overall figure belies substantial differences in movements in the dollar's real value against the individual currencies of these developing countries. None of the Asian currencies, except the Philippine peso, changed much against the dollar on a CPI-adjusted basis from the first quarter of 1985 through the fourth quarter of 1986. Inasmuch as the inflation rates in these countries are broadly similar to that in the United States, this relative stability in exchange rates reflects the policy in many of these countries during this period of essentially pegging the currency to the dollar's value, with periodic adjustments in the peg. One prominent example of a sliding peg is the Taiwan dollar, which appreciated 5 percent in real terms against the dollar during this period. Political pressure to appreciate its currency developed as Taiwan amassed large current account surpluses and foreign exchange reserves. The Philippine peso, in contrast, depreciated about 13 percent on a CPI-adjusted basis against the dollar from the first quarter of 1985 through the end of 1986 as a

7. Indexes of the real exchange value of the dollar



Quarterly data. Percentage changes are computed logarithmically. Indexes use 1978-83 average weights.

result of several factors: an attempt to rectify the real appreciation of the peso during the previous two years; the difficulties the Philippines has had in servicing its international debts; and the growth in trade of many other Asian countries in the index.

Among the Latin American currencies, the Mexican peso depreciated more than 50 percent in real terms against the dollar from the first quarter of 1985 through the fourth quarter of 1986 as Mexico corrected the real appreciation of the peso in 1984-85 and adjusted to the loss in revenues resulting from the fall in oil prices. The Brazilian cruzado, on the other hand, appreciated nearly 15 percent on a CPI-adjusted basis against the dollar from the first quarter of 1985 through the fourth quarter of 1986. (This figure understates the actual appreciation of the cruzado in real terms because price controls introduce a downward bias in the Brazilian CPI.) Following the rapid depreciation, in parallel with inflation, of the cruzeiro, the predecessor currency, the cruzado was introduced in February 1986. Throughout most of 1986 the nominal value of the cruzado was pegged to the dollar as part of the Cruzado Plan, which was intended to check inflation expectations. With the nominal value of the cruzado fixed or experiencing only mild devaluations, while inflation was much more rapid in Brazil than in the United States, the real value of the cruzado in terms of the dollar rose.

To compare the performance of a broader index of the dollar's value with that of an index based on the G-10 currencies, alternate indexes that include the currencies of these eight developing countries along with those of the G-10 were constructed using two different sets of weights: multilateral trade weights and bilateral U.S. non-oil import weights. (The construction of these indexes is described in the appendix.) According to an index with multilateral trade weights (the upper panel of chart 7), the real dollar depreciated nearly 30 percent against a weighted average of the currencies of all 18 countries from the first quarter of 1985 through the fourth quarter of 1986, in contrast with a decrease of almost 40 percent vis-à-vis the G-10 currencies alone. With bilateral non-oil import weights (the lower panel of chart 7), the index shows a decline in the real value of the dollar of

about 20 percent against the currencies of the 18 countries, versus 30 percent against the G-10 currencies alone. Overall, the more comprehensive indexes indicate that roughly two-thirds of the dollar's rise from the fourth quarter of 1980 had been reversed by the end of 1986, compared with the three-fourths or more that the narrower indexes indicate (see table 1). Since the end of 1986, the dollar has depreciated further in general, but particularly against the yen and European currencies.

FORECASTING PERFORMANCE OF ALTERNATIVE INDEXES

The inclusion of a representative sample of currencies of developing countries in an index of weighted average exchange rates tends to reduce the proportion of the dollar's rise in the first half of the 1980s that has been reversed. The ultimate question, however, is whether a broader index can better account for and forecast movements in the U.S. trade balance and import prices. For insight on this question, the performance of alternative indexes was evaluated in the context of equations used by the Federal Reserve Board staff to forecast the volume of nonagricultural exports and the prices of nonagricultural exports and non-oil imports. This investigation examined indexes of the dollar's value against the currencies of eight developing countries and the G-10 and, alternatively, an index of the G-10 currencies alone weighted by multilateral trade. For non-oil import prices, the broader indexes were based on multilateral trade weights and bilateral non-oil import weights, as constructed in the manner described above. For nonagricultural export volume and prices, these indexes were based on multilateral trade weights and bilateral nonagricultural export weights. The tests did not include other components of U.S. trade flows because (1) the volume of oil imports is not particularly sensitive to changes in exchange rates, according to empirical studies; (2) in the equations used by the Board staff, exchange rates affect the volume of non-oil imports only indirectly, through import prices; and (3) extensive subsidies and restrictions in markets for agricultural products complicate the modeling of agricultural exports.

2. Average absolute prediction errors for selected international trade variables, alternative exchange rate indexes¹

Percent of dependent variable

Dependent variable	G-10, multi-lateral weights	G-10 and 8 developing countries	
		Multi-lateral weights	Bi-lateral weights
	(1)	(2)	(3)
Non-oil import price deflator	2.39	1.10	.76
Nonagricultural export volume	4.06	1.28	1.46
Nonagricultural export price deflator . . . . .	.47	.47	.58

1. The underlying equations were estimated from 1966 through 1983, and the prediction errors were calculated for 1984 and 1985. The multilateral weights are shares of total trade. The bilateral weights are shares of U.S. non-oil imports for the non-oil import price equation and shares of U.S. nonagricultural exports for the nonagricultural export volume and price deflator equations.

Over the whole sample period, from 1966 to 1985, the overall fit of the equations for all three variables differed little across the three indexes; the estimated parameters essentially adjust so as to offset the reduction in the depreciation of the dollar during the recent period exhibited by a broader index.

An evaluation of the forecasting performance of the indexes is presented in table 2. For this analysis, the estimation period was truncated to provide an out-of-sample test. For the prices of nonagricultural exports, the three indexes per-

formed similarly. However, the broader measures substantially improved the predictions for the prices of non-oil imports and the volume of nonagricultural exports, reducing the average absolute forecast error significantly (compare columns 2 and 3 with column 1). Moreover, the improvement in the forecast during this period is greater when an index based on bilateral non-oil import shares is used for predicting import prices and when an index with multilateral trade weights is used for predicting export volume.

CONCLUSION

In summary, no single measure of weighted average exchange rates is suitable for all purposes. The appropriate measure for each application should reflect the unique way changes in bilateral exchange rates affect the variable of interest. Several important macroeconomic applications serve as illustrations here, but weighted average exchange rates have many other uses. If, for example, the outlook for U.S. exports of steel is at issue, it seems reasonable that only the currencies of countries that are large steel producers rather than some other set of U.S. trading partners, should be included in the index. In principle, a myriad of such applications exist, each requiring a different index of weighted average exchange rates.

APPENDIX: CONSTRUCTION OF INDEXES OF THE DOLLAR'S VALUE AGAINST THE CURRENCIES OF THE G-10 AND EIGHT DEVELOPING COUNTRIES

Initially, the individual currencies of the Group of Ten countries and eight developing countries are assigned weights based on 1978-83 average multilateral trade shares, bilateral non-oil import shares, or bilateral nonagricultural export shares. Because the G-10 countries account for roughly 60 percent of world trade by industrial countries while the eight developing countries account for only 35 percent of world trade by nonindustrialized countries, the weights of the various currencies are adjusted so that the two

samples reflect the proportions of world trade, U.S. non-oil imports, or U.S. nonagricultural exports accounted for by industrialized and non-industrialized countries respectively. For example, the weights for each of the G-10 currencies are renormalized to sum to the 78 percent share of world trade accounted for by industrial countries (for the index with multilateral trade weights) and the 71 percent share of U.S. non-oil imports from industrial countries (for the index based on bilateral non-oil import weights).

The alternative weights are displayed in table A.1. For comparison, the weights currently used in the index compiled by the Federal Reserve Board staff are presented in column 1; column 2

shows these weights based on 1978–83 average global trade shares. The weights for the broader indexes constructed here are presented in columns 3, 4, and 5.

A.1. Trade-share weights in alternative indexes of dollar exchange rates

Percent

Country	G-10		G-10 and 8 developing countries		
	Current index, multilateral trade weights, 1972–76	Multilateral trade weights, 1978–83	Multilateral trade weights	Bilateral non-oil import weights	Bilateral non-agricultural export weights
	(1)	(2)	(3)	(4)	(5)
G-10 countries	100.0	100.0	78.2	71.0	64.5
Belgium	6.4	7.1	7.1	1.9	4.9
Canada	9.1	7.8	7.8	36.9	42.1
France	13.1	13.0	13.0	4.7	6.3
Germany	20.8	20.4	20.4	10.5	8.5
Italy	9.0	9.5	9.5	4.2	3.9
Japan	13.6	15.4	15.4	29.8	14.8
Netherlands	8.3	8.1	8.1	1.7	4.2
Sweden	4.2	3.4	3.4	1.5	1.6
Switzerland	3.6	3.5	3.5	2.2	3.0
United Kingdom	11.9	11.8	11.8	6.6	10.7
Developing countries .....	.....	.....	21.8	29.0	35.5
Brazil .....	.....	.....	15.2	11.3	11.4
Mexico .....	.....	.....	11.1	20.0	39.2
Hong Kong .....	.....	.....	15.0	14.9	7.6
Malaysia .....	.....	.....	3.8	5.6	5.1
Philippines .....	.....	.....	4.8	5.1	5.7
Singapore .....	.....	.....	15.5	5.6	10.1
South Korea .....	.....	.....	15.8	14.9	11.4
Taiwan .....	.....	.....	14.3	22.6	9.5

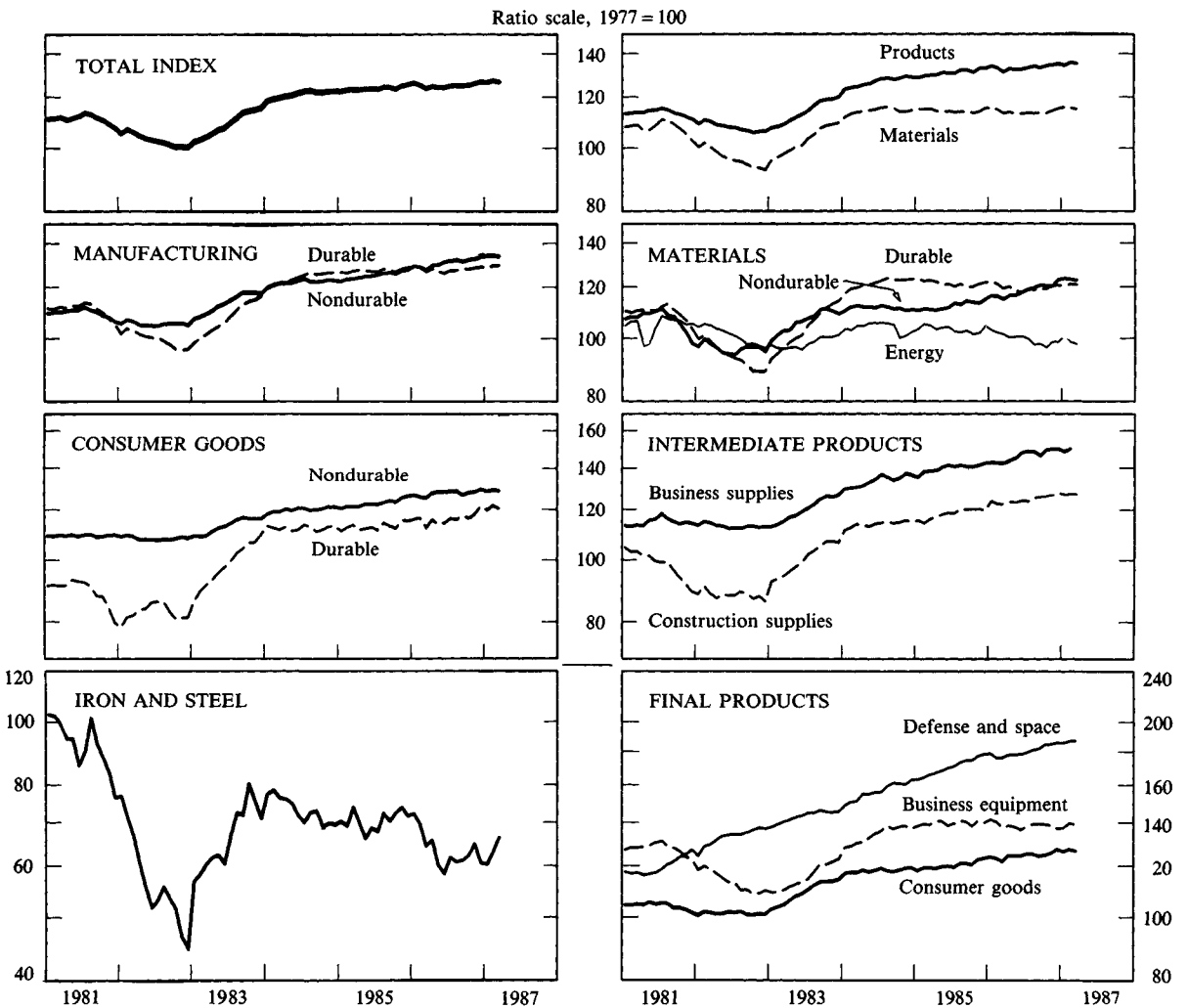
Industrial Production

Released for publication April 15

Industrial production declined an estimated 0.3 percent in March, reflecting widespread reductions in output. Revised levels now indicate a decline of 0.1 percent for January, while the gain in February remained at 0.5 percent. The average level of production in the first quarter of 1987 was 2.6 percent higher, at an annual rate, than it

was in the fourth quarter of 1986. However, the level of output in March 1987, at 126.7 percent of the 1977 average, was essentially the same as it was in December 1986.

In market groupings, production of durable consumer goods declined about 1 percent in March, reflecting a cutback in output of motor vehicles and a further reduction in home goods such as appliances. Autos were assembled at an



All series are seasonally adjusted. Latest figures: March.

Group	1977 = 100		Percentage change from preceding month					Percentage change, Mar. 1986 to Mar. 1987
	1987		1986		1987			
	Feb.	Mar.	Nov.	Dec.	Jan.	Feb.	Mar.	
Major market groups								
Total industrial production	127.1	126.7	.6	.5	-.1	.5	-.3	2.5
Products, total	135.7	135.2	.4	.4	-.5	1.0	-.3	3.0
Final products	134.5	134.0	.4	.4	-.4	1.0	-.4	2.6
Consumer goods	127.2	126.5	.8	1.3	-.8	.8	-.5	3.9
Durable	122.0	120.6	1.8	2.7	-1.3	1.7	-1.1	7.3
Nondurable	129.2	128.7	.4	.8	-.6	.5	-.3	2.7
Business equipment	139.7	139.2	-.4	-1.1	.2	1.7	-.4	1.1
Defense and space	186.8	187.2	.2	.5	.0	.6	.2	6.2
Intermediate products	139.7	139.3	.4	.4	-.8	.8	-.3	4.5
Construction supplies	127.5	127.3	.5	.9	-.6	.3	-.2	3.8
Materials	115.5	115.1	.9	.8	.5	-.2	-.3	1.6
Major industry groups								
Manufacturing	131.7	131.4	.3	.6	-.2	.6	-.2	3.3
Durable	129.8	129.7	.4	.5	-.5	1.1	-.1	2.2
Nondurable	134.3	133.8	.3	.8	.3	.1	-.3	4.8
Mining	95.9	95.1	1.9	-.7	1.2	-2.0	-.8	-7.6
Utilities	113.0	113.2	1.7	-.6	2.2	.1	.1	3.5

NOTE. Indexes are seasonally adjusted.

annual rate of 7.9 million units—down from a rate of 8.3 million units in February. Nondurable consumer goods also were off in March, owing largely to reduced production of apparel and consumer fuels. Output of business equipment declined 0.4 percent as reductions in manufacturing, power, and transit equipment were only partially offset by gains in output of farm equipment, which continued to rebound from strike-affected levels. Following strong growth in 1986, production of construction supplies slowed in the first quarter of 1987. Output of supplies for both construction and business declined in March.

Production of durable materials decreased during the month despite some strike-related come-

back in steel. Output of nondurable materials, which had been rising quite rapidly in 1986 and early 1987, edged down in March for a second month.

In industry groupings, manufacturing output decreased 0.2 percent in March after a gain of 0.6 percent in February. The motor vehicle industry as well as construction-related industries such as lumber and stone, clay, and glass shared in the decline along with electrical machinery and transportation equipment. Nondurable manufacturing was off 0.3 percent, and mining—particularly coal—also declined. Output at utilities edged up in March.

Statements to Congress

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on International Finance and Monetary Policy, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, April 7, 1987.

I welcome the opportunity to appear before you today to review some aspects of the world economic situation. In particular, you asked me to concentrate on exchange market developments and international debt. These issues are in turn related to the overall functioning of the world economy. Indeed, I would argue that the problems of economic growth, balance of payments adjustment, protectionism, and international debt are so intertwined today that a failure to deal constructively with any one of them would risk failure across the board.

INSTABILITY IN EXCHANGE RATES

So far in this decade we have experienced tremendous swings in the value of the dollar. Measured in terms of a multilateral trade-weighted average against the currencies of the other Group of Ten (G-10) countries, the dollar's value rose about 80 percent from 1980 to the first quarter of 1985. It has since retraced most of that rise and is now at a level only about 10 percent above its average in 1980 when our current account was close to balance.

Large swings in exchange rates among industrialized countries over periods of several years were also characteristic of most of the 1970s. However, if anything, the fluctuations have appeared to become greater, rather than less, as the period of floating rates has been extended.

In themselves, such wide swings in exchange rates are troublesome. When exchange rates among nations fluctuate much more widely than relative changes in domestic prices, productivity, and other basic economic variables, econom-

ic units producing internationally tradable goods receive misleading price "signals" over time. Investment decisions may be distorted, and individual firms and workers can be whipsawed by fluctuations in price competitiveness internationally. For the economy generally, deflationary or inflationary impulses may complicate the task of economic management and affect the stability of financial markets.

However, it does little good merely to rail against excessive fluctuations in exchange rates without being prepared to do something about them. And that "something," in the end, involves appropriate national economic policies and reasonable consistency and complementarity among the policies and performance of major nations. In fact, national policies during much of the 1980s have, in important respects, diverged in ways that put pressure on exchange rates and distorted trade positions, even though inflation rates have tended to converge at much lower levels.

For one thing, the U.S. federal budget deficit was high and rising as budget deficits in other countries were being reduced. For several years, growth in the United States was substantially stronger than elsewhere and our interest rates were relatively high. Although U.S. growth overall has since slackened, expanded consumption has depressed further our chronically low personal saving rate.

As a result, there have been strong incentives for a flow of capital from abroad into the United States. For a time, that flow pushed up the dollar, and that strength was probably amplified by more speculative forces. The result of the strong dollar and of our relatively rapid growth in domestic demand was a sharp deterioration in our international competitive position and in our trade and current accounts.

The rising trade deficit, lower interest rates, and slower growth have all worked in the direction of reducing dollar exchange rates over the

past two years. Relative to the Japanese yen and the German mark, the dollar is at, or close to, all-time lows.

No doubt a sizable realignment of currency values has been a necessary part of the process of restoring better balance to our trade and current accounts. Moreover, I believe sustained economic growth and financial stability in the United States over the next few years are importantly dependent on improvements in our trade balance. But I do not believe we can be successful in that effort if we fail to recognize the importance of factors other than exchange rates in redressing our trade balance. There are clear dangers in relying too much on exchange rates alone.

The hard fact is that we have been spending more at home than we have been producing—about 3½ percent more last year. The decline in the dollar has provided incentives for more exports and for less imports. But if we are to improve our trade balance, and do so with a minimum of inflationary pressures, we will also have to slow the growth of spending at home, particularly for consumption. We want to maintain investment. However, we will have to achieve a better balance between that investment and domestic savings if we are to be in a position to dispense with foreign capital. In terms of laying the groundwork for future growth, progress in making these adjustments seems to me more important than achieving a particular rate of growth overall this year.

The constructive way to work in the needed direction would be to reduce our budget deficit, year by year, paving the way for improvements in our trade accounts. In contrast, looking toward depreciation of the dollar alone to improve our trade balance would clearly pose substantial risks of renewed inflationary momentum and undermine confidence in future financial stability—developments that could jeopardize prospects for sustained economic expansion. You are well aware that some warning signs of just such developments have appeared in recent weeks.

I know of no reliable way of judging now whether several years ahead the dollar vis-à-vis other currencies will ultimately need to be higher or lower, consistent with restoration of a sustainable trade position. Too much depends upon

other important factors and policies affecting relative growth and competitive performance here and abroad. What we do know is that a substantial adjustment in the exchange rate has already been made. That adjustment should be large enough, in a context of a growing world economy and fiscal restraint in the United States, to support the widespread expectations of a narrowing in the real trade deficit in the period ahead. There are indications that the volume of our exports is now growing substantially, and some slowdown in the growth, or even a decline, in the volume of imports seems possible this year. *In real terms*, the deficit in our trade narrowed in the fourth quarter of last year.

Whether, and how soon, improvement in the real trade balance this year will be accompanied by a reduced trade deficit in dollar terms—the data published each month—is more problematical. The trouble is that higher dollar prices of imports as the dollar depreciates—the well-known “J-curve” effect—might offset improvement in the volume of net exports for some time. That phenomenon itself points to one of the dangers of looking to depreciation of the dollar alone to deal with the trade problem: it generates inflationary pressures and could actually prolong J-curve effects, perhaps, raising more doubts about our ability to finance our current account deficit.

Prospects for achieving solid and steady improvement in our external trade—and doing so in a context of sustained world growth—is critically dependent upon the strength of markets abroad, and on whether they are open to us. Unfortunately, the evidence on that score is not entirely favorable.

Specifically, growth of real gross national product in foreign G-10 countries on average slowed to about 2¼ percent last year (fourth quarter to fourth quarter), almost ½ percent less than in 1985. To be sure, much of that slowdown reflected reduced export growth rather than reduced domestic demand. But clearly, domestic expansion in those countries was not enough to offset the effects of the trade adjustment. And the clear danger now in most other industrialized countries is that growth may be slowing further.

In that kind of situation, further sizable depreciation of the dollar could well be counterproduc-

tive. It will take time and other policy changes both here and abroad to achieve the shift in resources necessary to achieve better international balance. Excessive volatility in exchange rates could jeopardize, instead of speed, the process by further impairing prospects for investment and growth in the surplus countries.

That, I believe, is the sense of the understandings reached among the leading industrial countries in Paris in February, looking toward greater stability of exchange rates around current levels. Those understandings have been reflected in active intervention in the exchange markets in recent weeks. But intervention, taken alone, is of course a limited tool.

Confidence in the current exchange rate levels will, in the end, depend upon perceptions that more fundamental policies than intervention will in fact be brought to bear. I have emphasized the need for complementary changes in fiscal policies in the United States, Germany, and Japan. The conduct of monetary policy, here and abroad, will be relevant as well. The performance of the dollar in the exchange market might become a factor bearing on our provision of reserves; I should think our central banking colleagues abroad may wish to take account of such circumstances as well.

In sum, we plainly do want, and need, improvement in our trade balance. There are some encouraging signs in that respect. But there are also practical limits as to how fast the necessary massive shift in resources can be accomplished if the momentum of world expansion is to be maintained. Undercutting investment and growth abroad at a time when growth prospects are already relatively weak is neither in their interest nor in ours. Undercutting our own prospects for price and financial stability by a weak dollar is equally unattractive.

What we need now, instead of more depreciation, is action here and abroad to carry through on those other measures needed to support growth and adjustment—specifically action to reduce the budget deficit here and to provide stimulus abroad. We need time for those actions and the earlier depreciation to work their effects. And we need the patience to see it through, without embarking on self-destructive protectionist policies.

THE WORLD DEBT SITUATION—PROGRESS AND PROBLEMS

Patience is difficult enough for rich countries like the United States; for the heavily indebted countries of the developing world, the plea wears thin without supportable prospects for greater economic growth and stability. In that connection, I do not share the sense of some that radical new approaches to the debt problem are necessary or practicable—indeed, writing down and forgiving debts that can reasonably be serviced would risk undermining growth and stability in the borrowing countries. But I also believe that we would be blind to fail to recognize shortcomings in implementing present approaches.

Specifically, there is clearly a danger that adequate financing arrangements are not being negotiated and put in place in a timely way. Borrowing countries that have demonstrated their intent and ability to carry out effective economic programs need to be able to proceed with confidence that necessary funds will in fact be available to support those programs.

More broadly, sluggish growth in the industrialized world has affected the export markets of the heavily indebted countries, slowing their return to full economic and financial health. For a while, in 1983 and 1984, as the United States led world recovery, markets of the borrowing countries expanded at a rapid pace. Then the growth rate for industrialized countries dropped to 3 percent in 1985 and to less than 2½ percent last year. As things stand, prospects are no better—and perhaps worse—in 1987. Taking the whole period since 1982, Europe and Japan have increased their imports from Latin America very little. Plainly, it is in our collective interest, as well as that of the indebted countries, to do better.

Meanwhile, my sense is that there has been too little appreciation of how much progress the heavily indebted countries themselves have made toward laying the groundwork for renewed and more sustainable growth. To take one key measure of adjustment, the combined current account deficit of the so-called Baker-15 countries declined from the \$50 billion range in 1981–82 to essentially zero in 1984–85. The aggregate deficit widened again about \$10 billion in 1986,

but that almost entirely reflected the decline in oil and other commodity prices. Even under those circumstances, the deficits have collectively been within the amounts envisaged when Secretary Baker outlined the "Program for Sustained Growth" in Korea in 1985. At the same time, capital flight in most borrowing countries has tended to slow; it has even reversed in some.

Reflecting those factors, growth in the external debt of the most heavily indebted countries has slowed sharply, averaging less than 3½ percent a year in dollar terms since 1982. With reasonable rates of economic expansion both in the borrowing countries and in the world at large, that rate of increase in external debt should be manageable and consistent both with declining debt burdens for borrowers relative to gross domestic product or exports and with reduced exposures of lenders relative to their capital and assets.

I realize neither world growth nor growth by borrowing countries has recovered to "pre-crisis" levels. Nonetheless, along with the progress in external adjustment, many of the major borrowing countries have also experienced significant recovery in economic activity. A few—Brazil, Chile, Colombia, and Morocco—have achieved a substantial pickup in economic growth, averaging more than 4 percent per year during the past three years. For the 15 heavily indebted countries as a group, real GNP has grown some 8.8 percent since 1983.

Measured against the performance of the 1970s, when foreign finance was so freely available, or against prospective needs, the improvement in economic activity, employment, and living standards has not been satisfactory. But a full measure of success by those criteria was hardly possible in so short a period of time. Plainly, the earlier amounts of lending from abroad are simply not available today. Instead, some fundamental economic adjustments have been required to build a more solid foundation for sustained growth.

Naturally, the degree of success in making those adjustments has varied from country to country. In difficult economic and political circumstances, punctuated by natural disasters and external shocks, some setbacks have been inevitable. But what is so striking overall is the amount of progress that has been achieved.

In country after country, fiscal deficits are under better control than they were at the beginning of the decade. Chronically overvalued exchange rates have been brought into more realistic competitive alignments, enabling their industries to compete more effectively in world markets. At the same time, the exchange rate and fiscal changes have helped create conditions in which the borrowing countries could be more open to international competition—quantitative import restrictions, licensing requirements, and tariffs have, on balance, been reduced. Other efforts are under way to limit the role of the state in the economic system by cutting back on subsidies, credit allocation, and in some instances public ownership of industry.

One area that has been squeezed that reflects adversely on future prospects is investment. That points up the need for some margin of fresh funds from abroad to support growth. The provision of such funds from both public and private sources has been, of course, one of the basic elements of the "Baker Plan."

Both the International Monetary Fund (IMF) and the World Bank have played important roles in that respect. In particular, the World Bank over the past year, complementing the efforts of the Fund, has embarked on an ambitious program to define and to support financially structural changes that would provide a basis for debtor countries to resume more vigorous economic growth. This program has entailed an intensive process of consultation with each of the largest indebted countries to develop policy approaches that are both strategically important for improving economic efficiency and politically feasible.

During the past two years, the most significant structural changes adopted by the major indebted countries have been in the area of trade policy. Nigeria, Mexico, Chile, Colombia, and Ecuador have each taken steps to liberalize their import restrictions—and at the same time, have been able to achieve impressive growth rates for their nontraditional exports. In other instances, huge credit subsidies to agriculture or other sectors have been reduced while other measures have been taken to enhance the efficiency of those sectors.

Overall, disbursements by the World Bank and

the regional development banks to the "Baker 15" countries increased to \$7½ billion in 1986, almost 40 percent above the rate of 1983–85. Disbursements should increase further this year to the levels envisaged by the Baker Plan. These institutions will certainly provide a substantially larger proportion of new funds flowing to Mexico and other heavily indebted countries than in earlier years.

Both governmental and private lenders have restructured outstanding debts of the borrowers, and interest rates on many bank credits have been negotiated downward. More importantly, world interest rates have declined in both nominal and real terms. As a result, the burden of external interest payments has been falling despite some increases in debt.

From the perspective of the commercial bank lenders, progress has been more striking. Exposure to the heavily indebted countries relative to their capital bases has declined sharply. For all U.S. banks, the ratios of such loans to capital have by now declined almost 50 percent. Relative exposure of foreign banks has probably declined even more since 1982 as a result of the depreciation of the dollar.

That progress is welcome in terms of the implications of reduced financial pressure on lenders and borrowers alike. However, there is another side to the coin. The heavily indebted countries need to be able to count on receiving in a timely way those funds that are reasonably necessary to support well-conceived economic programs—and, in particular, necessary levels of domestic investment. Available data suggest that net new commercial bank lending virtually ceased in 1985 and 1986 and certainly was below amounts assumed in the approach outlined by Secretary Baker.

Part of the difficulty has been the length of time required to negotiate and syndicate the large new Mexican loan—the gestation period is now approaching nine months. Underlying the delay in that instance and others have been evident differences in viewpoint and emphasis among banks—those with large exposures as against those with limited exposures, those in one country as against those in others, those with continuing interests in international lending and those who want to withdraw.

While differences in approach and priority are natural, and have been present from the start, what is disturbing to many bankers and borrowers alike is the increasing difficulty in arriving at a consensus, and once reached, implementing that consensus effectively and speedily. What has been lacking is the sense of urgency and willingness to cooperate in the larger general interest that was so evident in 1982 and 1983. The irony is that it is precisely a failure to arrive more expeditiously at mutually satisfactory financing agreements that may be the greatest threat to the success of the overall effort. In some instances, doubts about financing undermine the resolve to carry out needed economic reforms. And an environment of successive financing crises can hardly be in the interests of the banking community itself.

Fortunately, a sense of renewed effort and commitment seems to be emerging. Restructuring agreements were recently completed with Venezuela and the Philippines and financing arrangements with Chile modified, in each case after months of discussions. Initiatives are under way among U.S. regional banks, looking toward the development of innovative approaches to broaden the choices of banks in structuring their participation in new financing programs. Discussions among banks at an international level should help deal with points of friction.

In all these discussions, the issue of "free riders" will need to be dealt with effectively; the cohesion of the entire effort will be undermined to the extent that some creditors "opt out" of participation in new credits or restructurings while continuing to receive interest and principal payments.

The success of all this renewed effort is being tested in important negotiations with Argentina. That country is among those that are making substantial progress in recent years toward greater domestic stability and restoring growth, despite its heavy dependence on severely depressed world grain markets. Argentina has been working closely with the IMF for several years, and the World Bank is prepared to provide additional financing to support sectoral reforms. But it is also clear that restructuring of outstanding loans and some margin of new credit will be necessary to support growth and to maintain

continuity in debt service. Early agreement on those matters seems to me obviously in the interests of Argentina and lenders alike, providing a base for greater confidence that their objectives—some common and some different—can be reached.

The largest developing country debtor—Brazil—is obviously in a difficult position today. After a period of strong domestic growth and large trade surpluses, strong inflationary forces again developed, the external position deteriorated, and the momentum of expansion has been interrupted. In the circumstances, with international reserves rapidly falling, the government suspended servicing medium- and longer-term bank debt.

Given its enormous human and material resources, Brazil clearly has the potential for becoming one of the world's leading economic powers; its competitive strength, vitality, and adaptability have been demonstrated again and again in recent years. At the same time, as for any country, realization of that potential over an extended period will clearly be dependent upon both consistent and effective economic policies at home and strong and harmonious trade and financial relationships with other countries.

As a practical matter, the necessary regularization of external payments by Brazil will take concerted effort. The key prerequisite is clearly in the hands of Brazilian authorities—shaping an economic program that commands the support and confidence of Brazilians themselves and the world community. Given that base, both Brazil and its creditors, official and private, seem to me to have the strongest kind of incentive to work together to develop external financing arrangements consistent with strong and sustained growth.

CONCLUSION

In more general terms, that is, of course, the challenge for all the heavily indebted countries and their creditors. It seems to me a challenge that will continue to be approached best case by case, taking account of the different circumstances and problems of each country. But there are, of course, common needs that run through all the particulars.

First, a successful approach needs to be premised on the requirements for growth. That is not simply a matter of providing external financing, critical as that may be at the margin. It is, first of all, a matter of the intelligent design of effective domestic programs.

Second, sustained economic growth, and the growing imports and exports that are an indispensable part of that process, is importantly dependent on access to world financial markets. Continuity in debt service and negotiated settlements are critically important in maintaining those relationships.

Finally, success in the common effort will depend upon growing and open markets in the industrialized world. That responsibility plainly lies mainly with the United States and its principal trading partners.

It is an effort that, in my judgment, needs to be reinforced by appropriate fiscal and other policies here and abroad. It is an effort that would be placed at risk by excessive instability in exchange rates. And it is an effort that would be undermined entirely by a retreat into protectionism.

I trust that we will have the collective will and wisdom to take those steps that are necessary and to reject those that could only be counterproductive. Too much is at stake to do otherwise.

Statement by Martha R. Seger, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Consumer Affairs of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, April 21, 1987.

I appreciate the opportunity to appear before this subcommittee to discuss the legislation that has

been introduced to require price and term disclosures in credit card applications and solicitations and to establish a nationwide ceiling on credit card interest rates.

All of the disclosure bills that have been introduced (S. 241, S. 242, S. 616, and S. 647) would add an early disclosure requirement to the Truth in Lending Act for credit card plans or open-end

credit plans. Generally, the Board believes in disclosure, and feels it is important for consumers to have adequate information to shop for credit. In considering specific disclosure legislation, such as that before the subcommittee, the Board is guided by several basic principles. First, early disclosure rules should be structured to provide consumers with essential information, without overloading them with less important information or unnecessarily raising creditor costs. Second, the legislation should limit creditors' compliance costs by providing adequate time to comply with any new disclosure rules. Third, any requirements that are adopted should apply evenhandedly to all competitors.

The credit card interest rate bills would limit the interest rate charged on any credit card transactions. S. 242 would limit the credit card interest rate to 4 percentage points above the rate established under section 6621 of the Internal Revenue Code, and S. 647 would limit the rate to 6 percentage points above the average Federal Reserve discount rate for the six-month period preceding the determination. The Board does not believe it would be appropriate to impose a federal ceiling on credit card rates. Among other things, a federal ceiling could have undesirable side effects in the form of reduced credit availability and could lead to changes in nonrate credit card terms.

CURRENT LAW

Currently, the truth in lending law requires early disclosures for open-end credit plans and credit cards only when creditors engage in advertising. Solicitations for credit card accounts are thus subject to some truth in lending disclosure requirements, since they are considered "advertisements" under the statute and the Board's implementing regulation, Regulation Z. The creditor must give price information about the credit plan, however, only if certain credit terms are stated in an advertisement. For example, if the creditor advertises the plan's annual fee, the advertisement must state the annual percentage rate, as well as any finance charges that may be imposed.

If none of the specified credit terms are stated

in the solicitation, the law does not require that price and term information about the plan be given at that time. Consequently, while the act, and the Board's regulation, do at times require that consumers receive price information with solicitations, if a card issuer does not advertise certain price information consumers will not necessarily be given this information before they receive a credit card.

Under the current law, consumers must, however, be given full disclosure of the terms and conditions of the credit card program no later than the time that they receive the card. In addition, the regulation provides that a consumer may not be obligated on a credit program before receiving complete disclosures; this would include, for example, the obligation to pay an annual membership fee. Therefore, consumers do have an opportunity to review all of the terms and conditions of a credit card plan before using the card or being obligated to pay an annual fee.

The issue of how much disclosure to require in credit transactions led the Congress to revise the Truth in Lending Act in 1980. At that time, the Congress cut back on the disclosures required in open-end credit advertisements in the hope that reducing the disclosure requirements would promote more advertising, thereby increasing competition.

LEGISLATIVE PROPOSALS

The proposed bills go beyond the present law by requiring the creditor to include certain disclosures in applications or solicitations without regard to whether the creditor mentions a particular term. The proposed legislation expands the current statutory requirements for advertising in other ways as well. For example, all of the bills except S. 242 would require creditors to disclose whether or not any time period exists for credit to be repaid without incurring a finance charge—a disclosure that is not required by the current advertising rules. Under S. 616, creditors would be required to include a notice in solicitations telling consumers how the balance on which the finance charge is computed is determined. S. 647 would require the disclosure of virtually every charge that might be imposed under an open-end

credit plan, including late payment charges. To the extent that the proposed disclosure requirements might discourage open-end credit advertisements, this legislation could have the unintended effect of decreasing rather than increasing competition. We are inclined to think, however, that if the scope of the increased disclosure requirements in the bills is limited, the legislation would not have this effect. For example, we believe that disclosing the annual percentage rate, annual fee, and grace period in mail solicitations would not be burdensome or complex. Our impression is that many card issuers are already including in their mail solicitations much of this information and, presumably, have not viewed this as an impediment to advertising. Requiring extensive, complex disclosures, on the other hand, may detract from more important disclosures and increase creditor compliance costs.

CONTROLLING COSTS

Increased disclosure requirements invariably result in some increased costs to the industry. The extent of the compliance costs is largely affected by three factors: (1) the breadth of the coverage of the legislation; (2) the number and complexity of the disclosures required by the legislation; and (3) the amount of time that creditors are given to implement the changes required by the legislation and implementing regulations.

Even though all of the bills have the same goal—to require disclosure for all types of credit cards, including bank credit cards, travel and entertainment cards, and retail cards—the bills are not the same in their scope. S. 241 deals with applications and solicitations for any “credit card account;” S. 242 calls for disclosures in initial applications for a “credit card;” S. 616 requires disclosures in applications and solicitations for “open-end credit card accounts;” and S. 647 calls for disclosures in applications and solicitations for any “open-end consumer credit plan.” These different phrases—credit card accounts, credit cards, open-end credit card accounts, and open-end consumer credit plans—result in different credit plans and accounts being subject to the new disclosure requirements. The bills also vary in the number and complexity of

the disclosures they require. It is important that the legislation not be broader than necessary to address the concerns of the Congress, and to ensure that compliance costs for any legislation are minimized. For example, if the concern is with credit card solicitations, we would urge that the legislation be limited to those solicitations. We would be glad to work with your staff to ensure that the coverage of any legislation reflects the intent of the Congress.

The Board believes that one way to help control costs is to provide sufficient time for creditors to implement the changes made by the legislation. We believe that the time periods provided in the bills should be lengthened to avoid unnecessary transition costs and burden for creditors.

One final point that I would like to make is that any new disclosure requirements should apply equally to all credit card issuers. One of the bills—S. 647—applies only to banks. We believe that, if additional disclosures are required for credit card solicitations, the requirements should apply equally to all credit card issuers.

CREDIT CARD CEILINGS

The Board has commented several times on bills that would set floating ceilings on credit card rates that would supersede generally less restrictive state-imposed limits. The Board has on those occasions stated its opposition to those bills that were very similar to the current interest rate bills—S. 242 and S. 647. In doing so, the Board has endorsed the principle that—as with other types of credit—consumer loans are most fairly and efficiently allocated when there are no regulatory constraints on interest rates. Indeed, the Board has been concerned about the adverse impact that interest rate ceilings can have on the availability of funds in local credit markets and on individuals with limited access to credit.

In response to a congressional request made last year, the Board staff prepared an analysis of the economic effects of proposed ceilings on credit card interest rates. A condensed version of the study, which appeared in the *FEDERAL RESERVE BULLETIN*, accompanies this statement. (See “The Economic Effects of Proposed Ceil-

ings on Credit Card Interest Rates” in the January 1987 issue, pp. 1–13.) The following comments focus on the Board’s major concerns with proposed limitations on interest rates.

An effort to establish a federally mandated ceiling on credit card interest rates would encounter substantial difficulties. From experience with the imposition of credit controls in 1980 and the sharp, unexpected contraction in consumer spending that accompanied them, we know that regulatory measures can have unpredictable and unwanted consequences. Setting a federal ceiling on credit card rates below those that currently prevail in many states would likely reduce the amount of credit made available, forcing consumers to rely instead on less convenient and possibly more expensive substitutes, or to lose access to credit at any rate. Moreover, such a curtailment would be apt to fall most heavily on less affluent borrowers with relatively limited access to other sources of credit. The current ceiling for credit card rates under the proposed bills would be between 11.5 and 12 percent, well below the finance rates that have been typical since credit cards emerged in the early 1960s as a major method of consumer financing.

Furthermore, the imposition of stringent rate ceilings might be countered by a tightening of nonrate credit card terms by card issuers, for example, by increasing annual fees, by levying processing charges on each credit card purchase or cash advance, and by stiffening penalties for late payment or for exceeding the authorized credit limit. Some card issuers also might begin applying the reduced finance charges from the date of purchase, when permitted, rather than after the grace period expires, and might seek to increase the discount fees charged to merchants who submit credit card vouchers to the card issuers for payment.

Turning to the specific provisions of the bills before the Congress, it should be emphasized that credit cards are issued by a broad variety of retail merchants and financial institutions that differ both as to their sources of funding and their liability structures. Under these circumstances, a single index rate would be unlikely to mirror changes in costs for such a diverse array of card issuers. In any case, short-term rates, such as the Federal Reserve discount rate, fluctuate a good

deal more widely than costs of funds of most lenders. They do so because a lender’s overall average cost of funds at any point is a blend of current interest rates and rates on previously issued liabilities, and because market rates on longer-term liabilities—which usually make up part of the cost of funds—typically vary less than short-term rates.

If the Congress should nonetheless decide to enact legislation, the Federal Reserve strongly recommends against designating the discount rate as an index for setting ceilings on credit card rates. The discount rate, as you know, is the interest rate charged by the Federal Reserve Banks on extensions of short-term credit to depository institutions. Because it typically applies to very short-term loans, the discount rate is an inexact measure of either marginal or average costs of loanable funds, which may reflect a wide range of maturities. Furthermore, the discount rate is a tool of monetary policy. As such, it is an administered rate that reflects broad policy considerations that frequently are complex and so may deviate from other market rates, even those for instruments of comparable maturity. It would be wrong, in the Board’s view, to employ a tool of monetary policy for this purpose.

Another question is whether any regulation of credit card interest rates is more appropriately a matter for federal or for state regulation. The establishment of interest rate ceilings on consumer loans has long been a state prerogative, and one that the Board feels should not be preempted. In recent years, virtually every state has reviewed and overhauled its laws regulating consumer interest rates. After studying the situation in their own jurisdictions, many of these states have opted to raise or remove interest rate ceilings for credit card borrowings. The Board respects the collective judgment of a growing number of states that higher—not lower—ceilings are appropriate to assure that an adequate supply of credit card services is available from lenders located there. Of course, these states retain the authority to lower or restore ceilings if convincing evidence of excessive rates appears.

I would like to reemphasize the Board’s conviction that financial markets distribute credit most efficiently and productively when interest

rates are determined in markets that are as free from artificial restraints as possible. Efforts to constrain credit card rates through federal regulation are likely to have undesirable side effects in the form of reduced credit availability, especially for those consumers that these bills would seek to aid. Moreover, these bills may encourage less efficient means of offsetting costs of credit card operations. Accordingly, the Board concludes that it would be inappropriate to impose a federal ceiling on credit card rates.

REPORTING REQUIREMENTS FOR CREDIT CARD TERMS

I would like to make a final point concerning the proposed credit card legislation. S. 241 and S. 242 require the Board to collect credit card price and term information from all credit card issuers. While our recently completed Annual Percentage Rate Demonstration Project suggests that shoppers guides enhance competition and are useful to some consumers—especially those who are inclined to shop for credit—the Board urges the Congress not to adopt the proposed reporting requirements. There are three reasons for the Board's opposition to these reporting requirements.

First, a variety of shoppers guides for credit cards are currently prepared by consumer groups, general circulation newspapers, including one with national circulation, and other members of the private sector. Second, if the Congress adopts additional disclosure requirements for credit cards, more credit card price and term information will be readily available to consumers. This information can be used by consumers to shop for credit cards and by others to prepare shoppers guides. Last, and possibly most important, the reporting requirements would be burdensome and costly. Even though the burden to individual credit card issuers may not be great, the total cost may be substantial since many thousands of financial institutions and retailers issue credit cards, many credit card issuers offer more than one type of card, and card issuers would be required to report several times a year.

The cost to the Federal Reserve will be substantial. Since the information from the reporting

requirements will be voluminous, a great deal of time will be required to input the information into our computer systems. This data must then be extensively refined to be of value to the public. We anticipate that the list of credit card issuers and their associated price information would be several hundred pages in length. The reporting requirements will also make it more difficult for the Board to meet the objectives set by the Congress in the Paperwork Reduction Act of 1980, since the requirements will result in an increase in the number of reporting hours imposed on the public due to Federal Reserve Board requirements.

CONDITIONS FOR CHANGING PROVIDERS OF CREDIT INSURANCE

The subcommittee also asked the Board to comment on the appropriate conditions that might be required of banks that choose to change providers of credit insurance. This is a subject that the Board dealt with several months earlier when it revised the rules concerning the ability of bank holding companies to underwrite credit life and credit disability insurance. At that time, the Board was asked to impose specific requirements on bank holding companies if the holding company wanted to change credit life insurance underwriters.

A large credit life insurance company asked the Board to require that any bank holding company changing underwriters of credit life insurance on credit card accounts notify all of the holding company's customers that were purchasers of such insurance of the proposed replacement coverage and of any changes or limitations in the insurance benefits under the new coverage. In addition, the insurance company asked that bank holding companies be required to obtain a new application from each credit card customer with credit life insurance before continuing the credit life insurance coverage with the new underwriter.

The Board declined to adopt the company's proposal when the Board revised its insurance regulation last October. The Board based its decision on the belief that the concerns raised by the credit insurance company are more appropriately handled by the individual states that are

charged with regulating credit life insurance and that set specific rates for such insurance. In addition, the Board believed that the policyholder's contract rights under state law provide adequate protection and that a prior notification requirement would place an unnecessary burden on bank holding companies.

In light of this, the Board does not believe that new requirements for banks that choose to change providers of credit insurance are necessary or appropriate. In fact, imposing a requirement such as soliciting customers for new applications could be so burdensome as to actually preclude banks from changing underwriters.

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 30, 1987.

I appreciate the opportunity to appear before this committee to discuss the joint proposal of the U.S. federal banking agencies and the Bank of England for the establishment of a risk-based capital framework. As you may be aware, the U.S.-U.K. proposal, as well as the Federal Reserve's implementing guidelines, are still out for public comment. Thus, the final shape of the risk-based framework is subject to revision in light of the public comments and further consideration of the important issues involved.

In developing this proposal, the U.S. and U.K. banking authorities faced a number of difficult supervisory and competitive questions, as well as numerous technical questions. They have been at least tentatively resolved in a process of discussion and reasonable compromise. The net result promises, I believe, a framework for significantly strengthening our current regulatory procedures for assessing capital adequacy. In addition, the U.S.-U.K. proposal constitutes an important concrete step in the direction of greater harmonization and convergence of supervisory policies among countries with major banking institutions.

Concern about capital adequacy stems largely from capital's role as a buffer to absorb unexpected losses that a banking organization's current earnings cannot cover. In so doing, capital reduces the likelihood of bank failures and thereby protects depositors, other bank creditors, and the deposit insurance funds. The protection that bank capital provides also serves to maintain

public confidence in the banking system as a whole.

CAPITAL TRENDS AND FEDERAL RESERVE GUIDELINES PROGRAM

Throughout most of the 1970s and early 1980s, bank capital ratios, particularly those of the larger banking organizations, declined significantly. During this period, banks were forced to operate in a difficult environment characterized by accelerating inflation, high and volatile interest rates, and a rising incidence of corporate bankruptcies. The deregulation of interest ceilings on deposits and the growing competition in the market for financial services added to these pressures. At the same time, overseas expansion and competition with foreign banks resulted in significant growth in assets for the large international institutions; and in the process spreads between the cost of money and loans tended to narrow. As a result, the declining capital ratios of some of the larger organizations became of growing concern to regulators. Those concerns were reinforced by evidence that risks in the banking system, both domestically and internationally, had clearly increased.

Against that background, the federal bank regulatory agencies first adopted formal capital guidelines in 1981. These guidelines, which set minimum capital requirements based on the ratios of "primary" and "total" capital to total assets, have been modified and strengthened on several occasions since their adoption. At present, all banks and bank holding companies are required to meet a minimum primary capital-to-assets requirement of 5.5 percent and a minimum total capital-to-assets requirement of 6.0 per-

cent.¹ Since these requirements are minimums, most banking organizations are expected to, and in fact do, operate above the supervisory standards.

When we implemented the more formal capital requirements, we stated that, besides arresting the decline in capital ratios, we intended to modify our regulatory and supervisory policies to encourage banking organizations to strengthen their capital positions over time. The present requirements are higher than the ratios that were established in 1981. The Federal Reserve expects banking institutions seeking to undertake significant expansion to maintain particularly strong capital positions, well above the minimum supervisory standards. In addition, we have encouraged banks with poor earnings or other financial problems to conserve their capital by adopting more conservative dividend policies. Finally, we have used the enforcement process, when appropriate, to require banking organizations to restore or strengthen their capital bases.

From our perspective, these guidelines and procedures have worked reasonably well. Since their adoption in 1981, the banking system has raised significant amounts of new capital, and capital ratios in the industry, particularly those of the larger institutions, have shown marked improvement. For example, at year-end 1981, the average primary capital ratio for the nation's 50 largest bank holding companies stood at 4.7 percent. By the end of 1986, this ratio had climbed to 7.1 percent—well above the minimum guideline level of 5.5 percent.

While helping to encourage the reversal in the earlier downtrend in capital ratios, the guidelines may also have had some unintended side effects. Because the current capital standards are based on simple ratios of capital to total assets, they have created an incentive for banks to move or keep certain exposures off their balance sheets. In recent years, new financing and hedging techniques have, in any event, induced a very large

growth in off-balance-sheet liabilities of major banks, none of which are factored into our current capital standards. In addition, because our existing capital standards treat all bank assets alike, they have had the effect of encouraging some institutions to scale back their holdings of relatively liquid, low-risk assets. These developments suggest that the improvement we have seen in capital ratios in recent years overstates the real improvement in capital positions, measured against more realistic measures of risks.

In an effort to address these shortcomings, the Board issued for public comment in early 1986 a proposal for a risk-adjusted capital ratio. The specific objectives of this proposal were to require an appropriate level of capital support for off-balance-sheet exposures and to temper incentives in the existing guidelines that might encourage banks to reduce their holdings of low-risk assets. An equally important objective of this proposal was to move capital policies of U.S. banks more closely in line with those of other major industrial countries.

INTERNATIONAL CONVERGENCE

This latter objective is particularly important in light of the increased involvement of banks in overseas activities and the growing interdependence of world financial markets. Because of this interdependency, supervisory authorities need to ensure that prudential rules and standards are sufficient to guarantee the stability and smooth functioning of the international banking system. The globalization of markets has also brought about a dramatic increase in international competition and an awareness that differences in rules among supervisory authorities around the world can create competitive distortions. The competitive disadvantages this could cause might make some supervisors more reluctant, or less able, to take otherwise necessary desirable supervisory actions, knowing that the end result of such actions could be a loss of competitiveness for their banking systems.

In light of these concerns, greater comparability in the prudential standards of major industrial countries has been discussed by regulators around the world for several years. Much

1. Primary capital consists of stockholders' equity, perpetual preferred stock, loan-loss reserves, and certain debt instruments that must be converted to common or preferred stock at maturity. Total capital consists of primary capital plus secondary capital instruments—such as limited-life preferred stock and certain qualifying debt instruments.

groundwork has been laid in such international supervisory forums as the Committee on Bank Regulatory and Supervisory Practices ("Basle Supervisors' Committee"). In addition, the U.S. Congress, as you are aware, has recognized the importance of adequate capital levels for banking organizations and has been instrumental in encouraging the bank supervisory authorities to take further action in this area. In particular, the International Lending Supervision Act of 1983 directed the Federal Reserve and the U.S. Treasury Department to "...encourage governments, central banks, and regulatory authorities of other major banking countries to work toward maintaining, and, where appropriate, strengthening the capital bases of banking institutions involved in international lending."

Critical to achieving this objective, of course, is a more internationally consistent definition of capital and comparable procedures for assessing capital adequacy in relation to banking risks.

DESCRIPTION OF U.S.-U.K. CAPITAL PROPOSAL

In developing the capital proposal, we wanted a framework that could meet, as effectively as possible, several partly conflicting objectives. First, the approach needed to address the rapid growth in off-balance-sheet exposure and avoid disincentives to holding liquid, low-risk assets. Second, we wanted to avoid any sense that capital requirements would be used as a tool for encouraging the allocation of credit to particular sectors, and we also wanted to avoid excessive complexity. Finally, we sought a framework that, while providing a clear basic structure for analysis, could be sufficiently flexible to enable supervisory authorities, as they evaluate individual banks, to take into account the many factors that affect overall risk that cannot be incorporated in any single formula.

The approach that we have agreed upon among the U.S. authorities and with the Bank of England has three fundamental elements: a common definition of capital, a common risk weighting framework for relating capital to risk assets and off-balance-sheet items, and a common minimum capital requirement.

The proposal defines primary capital to include the basic elements of common stockholders' equity and general loan-loss reserves. In addition, the definition provides for the inclusion in primary capital of other instruments such as perpetual and long-term preferred stock as well as debt securities that meet certain conditions relating to permanence and loss absorption capacity. While the primary capital definition gives banking organizations some flexibility in building their capital bases, the proposal contains provisions to ensure that common stockholders' equity remains the predominant form of bank capital. In the past, the U.S. regulatory authorities have accommodated reasonable innovations in the development of primary capital instruments. In a similar fashion, this proposal also provides room for an appropriate degree of flexibility, consistent with the basic need for an adequate equity cushion.

The second element, the risk weighting system, is the heart of the proposal. This component establishes a framework for ranking the relative riskiness of broad categories of assets and off-balance-sheet exposures. For practical reasons, we tried to avoid developing a risk measurement system that would attempt to gauge all of the various types of, and subtle differences in, risk faced by banking institutions. Instead, we focused primarily on credit risk, although interest rate risk and liquidity considerations are taken into account to a limited extent.

The proposed risk weighting system establishes five risk categories that reflect in a general way the relative magnitude of risk of the obligations assigned to the category. A bank's assets would be divided among the five categories according to the degree of credit risk of the borrower or obligor. Low-risk assets, such as U.S. government securities and short-term bank claims, would be assigned lower weights and, therefore, require less capital than they do under our present system. Normal commercial and individual loans would generally be assigned to the standard risk category, thereby requiring more capital than the lower-risk assets. Off-balance-sheet exposures that involve risks analogous to loans are treated in the same manner as direct extensions of credit. Other contingent items are also included in the risk framework,

but only after the face or principal value of such items is adjusted to arrive at an equivalent on-balance-sheet amount.

In formulating this framework, we made some basic assumptions. Domestic governments, for example, are assumed to be generally less risky than other obligors because of their power to levy taxes and create money. Short-term claims on banks are also accorded low risk treatment because of supervision and "safety nets" provided by most governments to their banking systems and to facilitate the smooth functioning of the interbank markets. Most private sector loans are assigned to the standard risk category without regard to the industry in which the borrower operates, the purpose of the loan, or, with a few exceptions, the collateral backing the loan. Obviously, the assignment of assets to risk categories, as I have already suggested, involves some arbitrary judgments at the margin and is certainly not an exact science.

The third element of the proposed agreement is the supervisory ratio requirement. The U.S.-U.K. proposal calls for a minimum, publicly announced ratio that would represent a common and equitable standard against which all U.S. and U.K. banks would be compared.

The decision on where to set the minimum risk-based ratio has not yet been made. Obviously, the establishment of the minimum requirement will involve important considerations of safety and soundness, as well as a sensitivity to the effect of the minimum on pricing and competitive factors. Banks with a high level of quality liquid assets and a low level of off-balance-sheet liabilities will not be affected by the proposal, whereas those banks with large contingent exposure and lower liquidity levels may require adjustment. In any respect, the proposal would be implemented in the context of a minimum capital standard. It is primarily the largest banking organizations that are engaged in the activities addressed by the risk-based capital proposal; the overwhelming majority of smaller banks will probably be unaffected.

Even among the larger institutions, the impact of the minimum risk-based ratio will vary. Some institutions may find it necessary to strengthen their capital bases or reduce their overall level of risk, including off-balance-sheet exposures; oth-

ers may find that on a risk-adjusted basis their capital positions look even stronger. Absent other supervisory concerns, such institutions may have room for further prudent growth and expansion.

We at the Federal Reserve intend to use the risk-based ratio to supplement our existing capital guidelines program, at least until sufficient experience is gained with the risk-based standard to justify relying on it more fully as a measure of capital adequacy. The effect of this use of the risk-based ratio is to maintain a reasonable floor below which, under normal circumstances, ratios of capital to total assets would not be allowed to fall. The interest of the government in maintaining some maximum leverage constraint or, put in different words, some minimum ratio of capital to total assets seems entirely consistent with the freedom of banks to change the composition of their assets and the nature of their business within broad limits.

It is important to point out that the risk-based ratio would be but one element in the assessment of a bank's capital position. The on-site examination, together with other important components of our supervisory program, will continue to be the principal means for evaluating a bank's overall financial condition. Thus, those critical factors that affect a bank's soundness, but which are not factored into the risk-based ratio, such as earnings, loan diversification, liquidity, asset quality and collateral, operational risks, and management, will continue to play a central role in our final judgments on capital adequacy.

PRICING AND COMPETITIVE CONSIDERATIONS

I cannot emphasize strongly enough our interest in the competitiveness of U.S. banks. Only a strong, competitive, and profitable banking system can remain healthy in the long run and fulfill the strategic role that banks play in our economic and financial system.

In considering the issue of competitiveness, it is possible that banks that are permitted to operate with lower capital levels may have a competitive advantage, at least in the short run,

over banks that are required to meet higher capital standards. But, from the standpoint of appropriate public policy, those considerations have to be balanced against the long-run safety and soundness of the banking system.

In striking that balance, questions have inevitably been raised about the effects of the risk-based proposal on U.S. banks' ability to price competitively certain banking services. This is especially true of those off-balance-sheet instruments, such as loan commitments, letters of credit, and interest rate and foreign exchange rate contracts, that are being explicitly factored into our capital ratios for the first time. As I have indicated, one of the major objectives of risk-based capital is to address the rapid growth of off-balance-sheet exposures, and bankers themselves clearly acknowledge that these instruments involve some credit risks. In addition, logic and experience suggest that certain indirect extensions of credit or financial guarantees can involve risks that are similar to those stemming from direct loans.

We are aware of the potential pricing implications of the risk-based proposal, and have sought specific comment on how the proposal may affect the ability of banks to compete in the provision of certain services. And we will, of course, carefully consider the comments we receive. However, I am concerned that competitive pressures may have eroded spreads on some of these instruments to the point that banks are not being fully compensated for the credit risks involved. To the extent that this is the case, the risk-based capital proposal may encourage a more rational and appropriate pricing structure that is consistent with the long-run stability and health of our banking system.

Another dimension of this issue relates to the capital requirements of nonbank financial institutions that have become major competitors of commercial banks. In my view, as U.S. banks come into increasing competition with nonbank financial institutions, including thrift institutions and investment banks, appropriate efforts should be made to ensure that capital requirements among different institutions conducting the same activities are brought into closer alignment. For this reason, we strongly support the steps taken by the Federal Home Loan Bank Board to en-

courage thrift institutions to strengthen their capital positions.

The need for parity of capital standards on an international basis is no less pressing. And, of course, as I have indicated before, that parity is an important objective of the U.S.-U.K. proposal. The prospect of major international banking organizations operating throughout the world with vastly different capital requirements and capital resources is not, in my view, in the best long-run interest of sound, stable, and competitive international banking and financial markets. Thus, it is our hope that banking supervisors in other major industrial countries will examine the risk-based capital proposal with a view toward bringing their policies—to the extent possible—into closer alignment with the type of framework spelled out in the U.S.-U.K. agreement.

In the past, we have not applied extraterritorially U.S. bank capital standards on a consolidated basis to foreign banking organizations seeking to expand in the United States. However, the U.S.-U.K. risk-based capital proposal represents a step toward a more consistent and equitable international norm for assessing capital adequacy. For this reason, we believe that such a framework can, under appropriate circumstances, assist in evaluating the capital positions of foreign banks applying to acquire U.S. institutions.

CONCLUSION

The internationalization of banking and financial markets and the intensification of competition among multinational institutions underscore the importance of efforts to better rationalize and harmonize the competitive and prudential framework within which banks must operate. Despite the progress embodied in the U.S.-U.K. proposal, however, much remains to be done. We recognize that significant differences among countries in banking, accounting, and supervisory and regulatory practices suggest that progress toward achieving greater consistency on an international level may be gradual and involve difficult and complex discussions.

Nonetheless, I can assure you that the Federal

Reserve is committed to working with supervisors from other countries to encourage the development and adoption of more consistent and broadly accepted international capital standards. In the meantime, I believe that adoption by U.S.

regulators of a framework along the lines of the U.S.-U.K. proposal, while far from perfect, represents a reasonable step toward a more rational framework for relating the analysis of capital needs to risk considerations. □

Announcements

ADOPTION OF POLICY STATEMENT ON BANK HOLDING COMPANIES

The Federal Reserve Board adopted a policy statement on April 24, 1987, on the responsibility of bank holding companies to act as sources of financial and managerial strength to their subsidiary banks.

The Board's statement reiterates in detail a general policy that has been expressed on numerous occasions in accordance with authority that is provided under the Bank Holding Company Act and the enforcement provisions of the Federal Deposit Insurance Act.

The policy statement is effective immediately. However, the Board will accept comment for review through July 1, 1987.

REPORT AVAILABLE ON PRICED SERVICES IN 1986

The Federal Reserve Board has issued a report summarizing developments in the priced services areas for 1986 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.

ISSUANCE OF REVISED LIST OF OTC STOCKS SUBJECT TO MARGIN REGULATIONS

The Federal Reserve Board has published a revised list of over-the-counter (OTC) stocks that are subject to its margin regulations, effective May 12, 1987.

This List of Marginable OTC Stocks supersedes the revised List of Marginable OTC Stocks

that was effective on February 10, 1987. Changes that have been made in the list, which now includes 3,103 OTC stocks, are as follows: 181 stocks have been included for the first time, 163 under national market system (NMS) designation; 29 stocks previously on the list have been removed for substantially failing to meet the requirements for continued listing; and 37 stocks have been removed for reasons such as listing on a national securities exchange or involvement in an acquisition.

The list includes all OTC securities designated by the Board pursuant to its established criteria as well as all securities qualified for trading in the NMS. This list includes all securities qualified for trading in tier 1 of the NMS through May 12 and those in tier 2 through April 21, 1987. 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 July 1987.

Besides 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.

PROPOSED ACTION

The Federal Reserve Board has issued for public comment a proposal to amend its Regulation T (Margin Credit Extended by Brokers and Dealers) to revise the definition of an OTC margin bond. Comment is requested by May 26.

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, 1987:

Arizona

Fountain Hills Bank of Fountain Hills

Pennsylvania

Newtown Commonwealth State Bank

Philadelphia Rittenhouse Trust
Company

Texas

Mineral Wells . . . First State Bank of Mineral
Wells

Record of Policy Actions of the Federal Open Market Committee

MEETING HELD ON FEBRUARY 10-11, 1987

Domestic Policy Directive

The information reviewed at this meeting suggested on balance that economic activity was continuing to grow at a moderate pace. Nonfarm payroll employment expanded sharply in January, partly reflecting unusual seasonal developments. Industrial production rose considerably in December and over the fourth quarter as a whole. However, consumer spending in real terms changed little during the last quarter of 1986 and business capital spending generally appears to have remained sluggish. Activity in the housing sector picked up toward year-end. The deficit in the merchandise trade balance apparently increased slightly in the fourth quarter; however, net exports of goods and services, after adjusting for changes in prices, improved somewhat during the quarter. Basic trends in wage and price inflation still appear to have been moderate in recent months, although prices of oil and some other industrial commodities have turned up.

Total nonfarm payroll employment rose almost $\frac{1}{2}$ million further in January, after picking up in the latter part of the year. Service-producing industries were responsible for much of this growth. Outside the service-producing sector, the construction industry accounted for the balance of job growth in January, reflecting favorable weather conditions during the survey reference week. Manufacturing employment was essentially unchanged in January, after some improvement in the fourth quarter. The civilian unemployment rate held at 6.7 percent.

The industrial sector of the economy expanded appreciably in the latter part of the year. The index of industrial production rose 0.5 percent in December and for the fourth quarter as a whole increased at an annual rate of $3\frac{1}{4}$ percent, the

largest quarterly advance since late 1984. Recent gains were widespread, with particularly sharp increases in home goods and in defense and space equipment. Production of business equipment, however, remained lackluster. Capacity utilization in manufacturing, mining, and utilities rose 0.2 percentage point in December to 79.6 percent, but was still below its level at the end of 1985.

Consumer spending declined slightly in real terms in the fourth quarter as new car and truck sales slumped. Auto sales revived temporarily in December, when consumers took advantage of sales tax deductions that were to be eliminated after year-end, but fell dramatically in January. Consumer expenditures on items other than autos continued to rise somewhat at the end of 1986 but at a pace considerably slower than that experienced earlier in the year.

Business investment appears to have remained sluggish. On the equipment side, capital outlays were depressed in the fourth quarter by the drop in motor vehicle purchases. However, that drop was almost offset by a pickup in spending on other equipment, which was motivated in part by efforts to take advantage of the favorable depreciation schedules for some types of equipment placed in service before January 1, 1987. Leading indicators of investment spending suggested that overall outlays will remain sluggish in the early months of 1987. New orders for nondefense capital goods other than aircraft dropped in the last quarter of 1986. Also, outlays for nonresidential construction have continued to trend down in recent months, and the value of construction put-in-place in December was more than 10 percent below a year earlier.

Activity in the housing sector picked up at the end of the year. Housing starts rose to an annual rate of 1.8 million units in December, after drifting lower since late spring. Single-family starts were near the pace recorded earlier in the

year. In addition, sales of both new and existing homes rose in December partly in response to lower mortgage interest rates. Multifamily starts rebounded in December, but declined for the fourth quarter as a whole as high vacancy rates and recent tax changes constrained construction of rental housing.

Price and wage increases remained relatively moderate in the latter part of 1986, although the prices of a number of commodities, including oil, have posted large gains in recent months. Consumer prices rose 0.3 percent in November and 0.2 percent in December, remaining within the range of monthly increases evident since last summer. World crude oil prices rose in mid-December following the latest agreement by the Organization of Petroleum Exporting Countries (OPEC) to restrict output, and that rise pushed retail energy prices up in December. At the same time, increases in consumer food prices slowed after several months of sharp advances. Consumer prices, apart from food and energy, continued to rise about in line with the pace registered for 1986 as a whole. Wage increases slowed in 1986 from the rates in other recent years.

The trade-weighted value of the dollar against other G-10 currencies declined about $7\frac{3}{4}$ percent, on balance, since the December 15-16 FOMC meeting. Since that meeting, the dollar has depreciated 10 percent against the mark and about 6 percent against the yen. Over the period, exchange rates were affected in part by data on the U.S. trade balance for November. However, the announcement by the German Federal Bank in late January of a cut in the discount rate and the improvement in U.S. trade figures shown when preliminary December data were released, along with indications of a stronger U.S. economy, tended to relieve downward pressures on the dollar, which had rebounded from its lows in late January. Indicators of economic activity in the major foreign industrial countries still showed low rates of expansion. Available data for the U.S. merchandise trade deficit in the fourth quarter suggested a slight increase from the third quarter as nonpetroleum imports increased more than exports. However, after allowing for price changes, net exports of goods and services improved somewhat during the quarter.

At its meeting in December, the Committee adopted a directive that called for maintaining

the existing degree of pressure on reserve positions. This action was expected to be consistent with growth in both M2 and M3 at an annual rate of about 7 percent from November to March. The Committee agreed that the growth in M1 would continue to be evaluated in light of the behavior of the broader monetary aggregates and other factors. The members also decided that slightly greater or somewhat lesser reserve restraint would be acceptable depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The intermeeting range for federal funds was maintained at 4 to 8 percent.

Growth of M2 and M3 accelerated in December before slowing a little in January. Expansion of these two aggregates for 1986 as a whole was near the upper end of their respective ranges established by the Committee for the year. M1 growth slowed in January from an exceptionally rapid pace in late 1986. Growth of the monetary aggregates was boosted by an unusually large volume of transactions around year-end prompted in part by incentives to complete certain types of transactions before the new tax law took effect at the start of 1987. As a result of these transactions, demand deposits rose at an unprecedented rate from mid-December through early January; by late January the bulge in such deposits had run off. In addition, banks stepped up their issuance of managed liabilities, especially CDs, over the past two months to help fund the rise in credit.

Paralleling the bulge in transaction balances around year-end, growth in total reserves surged in December, but then subsided during January. Excess reserves also increased rapidly in December. The federal funds rate rose sharply at year-end and adjustment plus seasonal borrowing averaged around \$900 million in the statement period ending December 31. Borrowing receded to \$290 million in the first half of January but bulged again in the second half, reflecting another rise in excess reserves. The federal funds rate dropped back to 6 percent or a little above after early January.

Most other short-term rates rose around year-end as credit demands intensified and the federal

funds market tightened, but subsequently those increases were largely reversed. On balance, rates on short-term Treasury securities were up about 25 basis points over the intermeeting period, while rates on private obligations were narrowly mixed. In long-term markets, yields on Treasury securities also were higher than at the time of the December meeting, reflecting market reactions to incoming economic data, but rates in corporate and mortgage markets declined into more typical alignment with Treasury rates. Stock prices soared to new highs over the intermeeting period.

The staff projections presented at this meeting suggested that real gross national product would continue to grow at a moderate rate through the end of 1987. A key element shaping the forecast continued to be the prospects for an improvement in real net exports of goods and services. Export growth was expected to accelerate and import growth to slow as U.S. competitiveness increased. At the same time, the growth in domestic demand was expected to be moderate, primarily reflecting the damping influence of higher import prices on real income gains, a less expansive fiscal policy, and the weakness in nonresidential construction. In contrast, equipment spending was projected to grow moderately as domestic production expanded, and residential construction was expected to provide some stimulus to economic activity over the projection horizon. The rate of inflation was anticipated to rise somewhat as a result of the depreciation of the dollar and a firming in world oil prices. However, the remaining margins of slack in labor and product markets were expected to exert a moderating influence on prices and wages during the year.

In the Committee's discussion of the economic situation and outlook, most of the members viewed recent developments as pointing on balance toward continuing expansion at a moderate pace, in line with that experienced on average over the past two to three years. The members generally agreed that special factors—the delayed effects of the dollar's depreciation and the turnaround in oil prices—were likely to contribute to a modest upturn in the rate of inflation during 1987. The members acknowledged that there were appreciable risks that economic activity and prices might deviate significantly from

current expectations, especially given the uncertainties stemming from persisting—though hopefully diminishing—imbalances in the federal budget and the balance of trade. Financial strains associated with weaknesses in important sectors of the economy such as agriculture and energy and generally rising debt burdens also were cited as sources of vulnerability in the economy.

In keeping with the usual practice at meetings when the Committee considers its long-run objectives for monetary growth, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members had prepared specific projections of economic activity, the rate of unemployment, and the overall level of prices. For the period from the fourth quarter of 1986 to the fourth quarter of 1987, the forecasts for growth of real GNP had a central tendency of 2½ to 3 percent and a full range of 2 to 4 percent. Forecasts of nominal GNP centered on growth rates of 5¾ to 6½ percent and ranged from 4½ to 7½ percent. Estimates of the civilian rate of unemployment in the fourth quarter of 1987 were in a range of 6½ to 6¾ percent. With regard to the rate of inflation, as indexed by the GNP deflator, the projections centered on rates of 3 to 3½ percent and had an overall range of 2½ to 4 percent. In making these forecasts, the members took account of the Committee's objectives for monetary growth in 1987. The members also assumed that future fluctuations in the foreign exchange value of the dollar would not be of sufficient magnitude to have any significant effect on the projections. In addition, the members anticipated that considerable progress would be made in reducing the size of the federal budget deficit.

As they had at previous meetings, members emphasized that sustained economic expansion would depend to an important extent on the achievement of significant improvement in the nation's balance of trade. While indications of some improvement in net exports were multiplying, the members expressed a range of views regarding prospects for the year ahead. On the export side, several observed that the outlook for relatively sluggish economic activity in key industrial nations—and indeed around the world more generally—suggested that continuing gains in exports might be relatively limited. Nonetheless, reports from many parts of the country

indicated that the depreciation of the dollar and the concomitant improvement in the competitive position of U.S. firms were being reflected in new exporting opportunities, if not in a substantial increase in actual exports to date.

With regard to imports, some members saw considerable potential for the substitution of domestic goods for foreign imports as prices of the latter rose. In this view the more recent depreciation of the dollar would tend to be felt more fully in import prices because foreign suppliers had less room than earlier to absorb a depreciated dollar through reductions in their profit margins. Other members were less optimistic about the outlook for imports. In their view, foreign competitors would tend to hold down their prices to maintain their sales, especially given the ample availability of production resources worldwide. Moreover, the import penetration into U.S. markets had become embedded in contractual and other trading arrangements that were difficult to change, and competitive gains against imports would be restrained to the extent that domestic producers responded to rising import prices by raising their own prices, as had already occurred in a major U.S. industry. However, as in the case of exports, a growing number of business contacts were reporting increasing opportunities to compete with imports on the basis of price, including examples of actual or prospective sales to domestic firms that previously had tended to look abroad to meet their outsourcing requirements.

With regard to domestic developments bearing on the outlook, several members commented that the evidence of the last few months suggested, on the whole, that the expansion retained momentum despite its comparative longevity. To some extent, the favorable year-end statistics undoubtedly reflected tax-related spending that had been moved up from 1987 into late 1986, and a number of members observed that the recent statistics should therefore be viewed with a degree of caution. Looking ahead, members observed that overall demands from domestic sectors might moderate over the year. They referred in particular to the possibility that growth in consumer spending, which had been a mainstay of the expansion, might provide less stimulus, especially in the context of an already low saving rate. One member noted that the underlying

demand for new automobiles appeared to be relatively weak, after allowing for the year-end surge related to tax considerations and for the impact of temporary sales incentive programs. Another commented, however, that reduced withholdings of personal income taxes were seen by some business firms as a positive development for retail sales.

In the Committee's discussion of the prospects for inflation, the members generally agreed that the outlook remained basically favorable even though rising import prices and the apparent turnaround in oil prices could be expected to result in somewhat higher average prices over the next several quarters. Price competition remained intense in many industries, notably those subject to competition from abroad, and recent labor contract settlements continued favorable in terms of holding down business costs. Moreover, many business firms were still making vigorous efforts to improve their operating efficiencies and otherwise to curb costs. Nonetheless, several members suggested that the risks of a deviation, if any, from current inflation forecasts appeared to be in the direction of more inflation. Some referred to the risk that rapid monetary growth and buildup of liquidity might exert a delayed impact on future prices, though there was no current evidence of such an impact. One member expressed the view that a key uncertainty in the outlook for inflation was not so much the direct effects of rising import prices, but the price responses of competing domestic producers. Members also noted that for technical reasons the rise in import and oil prices, to the extent that they occurred, would have a relatively large effect on consumer prices. The latter, because of their high visibility, could exacerbate inflationary expectations, with adverse implications for future price and wage decisions. Disappointing progress toward reducing the federal budget deficit also could tend to fuel inflationary sentiment.

At this meeting the Committee completed the review, begun at the December meeting, of the ranges for growth in the monetary and debt aggregates in 1987; those ranges had been set on a tentative basis in July in keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act). The tentative ranges included growth of 5½ to 8½ percent for both M2 and M3 for the

period from the fourth quarter of 1986 to the fourth quarter of 1987. In the case of M1 the Committee had indicated in July on a more tentative basis than usual that it might retain the 1986 range of 3 to 8 percent for 1987, but there had been considerable sentiment against using any numerical range for M1 at the December meeting. The associated range for growth in total domestic nonfinancial debt had been set provisionally in July at 8 to 11 percent for 1987.

During the Committee's discussion of appropriate ranges for growth of M2 and M3 in 1987, most of the members expressed a preference for retaining the tentative range of 5½ to 8½ percent for both of the broader aggregates. That range represented a reduction of ½ percentage point from the one that had been targeted for 1986. Several members stressed the importance of some moderation in money growth and the desirability of adopting reduced ranges from the standpoints of both the substance and the perception of an appropriately anti-inflationary monetary policy. Moreover, a substantial slowing in money growth—perhaps to around the middle of the ranges—could well be consistent with satisfactory economic performance, given the assessment of the economy by Committee members and assuming considerably less movement in interest rates than had been experienced in recent years. Members also commented that the ranges in question were likely to provide adequate room for any policy adjustments that might be needed during the year, assuming that developments bearing on policy formulation did not diverge greatly from current expectations.

While a range of 5½ to 8½ percent for M2 and M3 was acceptable to all of the members, there was some sentiment for slightly higher or lower ranges. Retention of the slightly higher 6 to 9 percent ranges employed in 1986 would accommodate more comfortably the possibility of another sizable decline in the velocities of the broader aggregates (that is, the ratios of nominal GNP to the aggregates). Such a decline might be induced if substantial further reductions in interest rates were needed to sustain economic expansion. On the other hand, slightly lower ranges would provide more leeway on the downside in the event that velocity growth rebounded from the previous marked declines. Insofar as the risks were on the side of greater inflation, a

rebound in velocity appeared more likely and in such circumstances a lower range could provide needed scope for a policy designed to maintain progress toward price stability.

Turning to M1, the members recognized that its prospective behavior remained subject to exceptional uncertainties. To a greater extent than for the broader aggregates, the demand for M1 balances had become highly sensitive to movements in interest rates over the course of recent years; this development evidently reflected in considerable measure the deregulation of deposit rate ceilings and a related increase in the interest-bearing components of M1 as a repository for savings as well as for transactions funds. Adaptations to deregulation were probably not completed and in conjunction with an accelerated pace of other financial innovations and a surging volume of financial transactions, it had become very difficult to assess or predict the implications of specific rates of M1 growth for the future course of business activity and the rate of inflation.

Accordingly, while most members clearly wished to take account of changes in M1 in reaching policy judgments, they felt the meaning of fluctuations in M1 could only be appraised in the light of other economic developments. Consequently, they did not want to specify a numerical target range for this aggregate, at least at this time. Some slowing in 1987 was expected and was felt to be necessary to sustain progress toward price stability, but the appropriate amount of slowing was difficult to predict, given the uncertainties about velocity behavior. These members felt that it would not be meaningful to establish a range that was so wide that it would cover all foreseeable circumstances or a conventional range that might well need to be exceeded in either direction. For example, relatively slow growth in M1 might be desirable—and might require some firming of reserve conditions—if in the context of expanding economic activity, inflation appeared to be worsening, possibly because of a weakening dollar, and the broader monetary aggregates were growing rapidly. Conversely, relatively rapid expansion in M1 might be indicated—and accommodated—in a situation in which economic activity was relatively sluggish, progress was being maintained toward achieving eventual price stability and a sustain-

able pattern of international transactions, and interest rates were declining.

A few of the members preferred that a specific, numerical range be established for M1 growth in 1987, although they also wanted to make clear that growth outside the range might be desirable or acceptable under some circumstances. These members gave considerable emphasis to the possible usefulness of targeting on a narrow monetary aggregate, as well as on the broader aggregates, in underscoring the System's longer-run commitment to an anti-inflationary policy. They also felt the Committee might well want to increase emphasis on M1 in the future, and that a current target would represent appropriate continuity. Moreover, a specific range would have the advantage of indicating the Committee's best judgment regarding appropriate M1 growth if economic and financial conditions did not deviate markedly from current expectations. In contrast, one member felt that M1 provided little or no useful information at present and a more predictable relationship between M1 and economic performance was not likely to be reestablished. Consequently, the Committee should concentrate instead on other broad financial aggregates including the measure for liquidity.

After discussion, the members agreed that the Committee would need to monitor and evaluate M1 developments closely in the light of the behavior of its velocity, the performance of the economy, including the nature of emerging price pressures, and conditions in domestic and international financial markets. While the precise circumstances under which M1 developments might directly influence operating decisions could not be predicted, the members contemplated the possible desirability of reintroducing M1 explicitly during the year as a benchmark, along with the broader monetary aggregates, for making short-run operating decisions. For now, the Committee would indicate in broad terms that the operational significance of M1 could only be judged in the perspective of concurrent economic and financial developments, including the behavior of M2 and M3.

The Committee members also agreed on the desirability of continuing to monitor the growth of total domestic nonfinancial debt. The growth in total debt had exceeded the expansion in nominal GNP by substantial margins in recent

years, and some members expressed concern about the resulting increase in the financial vulnerability of the economy. One member observed that under some circumstances a further rapid growth in debt might lend some weight toward implementing some policy restraint that also was deemed to be advisable for other reasons. The growth in total domestic nonfinancial debt was expected to moderate considerably in 1987, but it appeared likely to remain in excess of the expansion in nominal GNP. The members agreed that the tentative range of 8 to 11 percent contemplated last July for 1987 continued to encompass likely developments.

At the conclusion of the Committee's discussion, all of the members indicated that they favored, or could accept, the ranges for M2 and M3 and the monitoring range for total debt that had been adopted on a tentative basis in July. No numerical range would be established for M1 growth in 1987, but M1 developments would receive careful evaluation in the context of emerging economic and financial conditions and the behavior of the broader monetary aggregates. It was understood that under some circumstances M1 might again be targeted explicitly during the year to provide a guide, along with M2 and M3, for the short-run implementation of monetary policy.

Thereupon, the Committee approved the following paragraphs relating to its objectives for monetary and debt aggregates in 1987:

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee established growth ranges of 5½ to 8½ percent for both M2 and M3, measured from the fourth quarter of 1986 to the fourth quarter of 1987. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for 1987.

With respect to M1, the Committee recognized that, based on experience, the behavior of that aggregate must be judged in the light of other evidence relating to economic activity and prices; fluctuations in M1 have become much more sensitive in recent years to changes in interest rates, among other factors. During 1987, the Committee anticipates that growth in M1 should slow. However, in the light of its sensitivity to a variety of influences, the Committee decided not to establish a precise target for its growth over the year as a whole at this time. Instead, the appropriateness of

changes in M1 during the course of the year will be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

In that connection, the Committee believes that, particularly in the light of the extraordinary expansion of this aggregate in recent years, much slower monetary growth would be appropriate in the context of continuing economic expansion accompanied by signs of intensifying price pressures, perhaps related to significant weakness of the dollar in exchange markets, and relatively strong growth in the broad monetary aggregates. Conversely, continuing sizable increases in M1 could be accommodated in circumstances characterized by sluggish business activity, maintenance of progress toward underlying price stability, and progress toward international equilibrium. As this implies, the Committee in reaching operational decisions during the year, might target appropriate growth in M1 from time to time in the light of circumstances then prevailing, including the rate of growth of the broader aggregates.

Votes for this action: Messrs. Volcker, Corrigan, Angell, Guffey, Heller, Johnson, Keehn, Melzer, Morris, and Ms. Seger. Votes against this action: None. Absent and not voting: Mrs. Horn. Mr. Keehn voted as alternate for Mrs. Horn.

In the Committee's discussion of policy implementation for the weeks immediately ahead, most of the members indicated that they were in favor of directing open market operations, at least initially, toward maintaining the existing degree of pressure on reserve positions. One member preferred to move promptly toward somewhat firmer reserve conditions. A number of others observed that they would be prepared to accept some firming later if recent indications of some strengthening in economic activity were to persist in the context of further rapid monetary expansion and signs of growing inflationary pressures. However, these members felt that the desirability of an immediate move toward restraint had not been established. In particular, they felt that economic and financial developments in the period around the year-end needed to be interpreted with caution, especially because of the tax effects that were probably involved, and that confirming evidence should be awaited before any adjustments in policy implementation were undertaken.

The members anticipated that current conditions in reserve markets were likely to be associated with slower growth in M2 and M3 over the period ahead than the average pace in recent

months. To a considerable extent, the anticipated slowing would represent a reversal of special factors that had contributed to faster expansion—including a bulge in M1—around the year-end. Because of the distortions created by year-end developments, the members generally agreed that use of a January base, instead of November as in the previous directive, or December, would convey more meaningful information regarding the Committee's expectations for growth of the broader aggregates through the remainder of the first quarter. Given the uncertainties that were involved and in keeping with the Committee's decision on the longer-run targets, the members accepted a proposal not to indicate a numerical expectation for the growth of M1 over the period immediately ahead, but to note in a general way that the expansion of this aggregate was likely to moderate substantially. Over a longer perspective, the growth of the aggregates, especially M1, might display a moderating trend as the effects of earlier declines in interest rates subsided.

With regard to possible adjustments during the intermeeting period, the members generally felt that policy implementation should be especially alert to the potential need for some firming of reserve conditions. In this view, somewhat greater reserve restraint would be warranted if monetary growth did not slow in line with current expectations and there were concurrent indications of intensifying inflationary pressures against the background of stronger economic data. One indicator of the possibility of potential pressures on prices might be a further tendency for the dollar to weaken. One member preferred a directive that did not contemplate any easing during the weeks ahead, but most of the members did not want to rule out the possibility of some slight easing during the intermeeting period, although they did not view the conditions for such a move as likely to emerge.

At the conclusion of the Committee's discussion, all but one member indicated that they could vote for a directive that called for no change in the current degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with some reduction in the growth of M2 and M3 to annual rates of about 6 to 7 percent over the two-month period from January to March.

Over the same interval, growth in M1 was expected to moderate substantially from an extraordinarily high rate in the closing months of 1986. The members indicated that somewhat greater reserve restraint would be acceptable, and slightly less reserve restraint might be acceptable, over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests on balance that economic activity continues to grow at a moderate pace. Total nonfarm payroll employment grew sharply in January in part reflecting unusual seasonal developments. The civilian unemployment rate remained at 6.7 percent in January. Industrial production increased considerably in December and over the fourth quarter as a whole. Total retail sales rose substantially in December, largely reflecting a year-end surge in automobile sales, but were little changed on balance in the fourth quarter. Housing starts also strengthened in December after trending lower since late spring. Business capital spending generally appears to have remained sluggish. Available data for the U.S. merchandise trade deficit in the fourth quarter suggest a slight increase from the third quarter; however, after allowing for price changes, net exports of goods and services improved somewhat during the quarter. In late 1986 consumer and producer prices generally were continuing to rise at moderate rates, although prices of crude oil and some other industrial commodities firmed. Labor cost increases were more restrained in 1986 than in other recent years.

Growth of M2 and M3 picked up substantially in December before slowing a little in January. For 1986 as a whole, expansion of these two aggregates was near the upper end of their respective ranges established by the Committee for the year. Growth of M1 slowed in January from an exceptionally rapid pace in late 1986. Expansion in total domestic nonfinancial debt remained appreciably above the Committee's monitoring range for 1986. Although short-term interest rates generally firmed around year-end, on balance interest rates have shown small mixed changes since

the December 15–16 meeting of the Committee; rates on Treasury securities, including bonds, have risen a little over the period while rates on most private obligations have declined slightly. In foreign exchange markets the trade-weighted value of the dollar against the other G-10 currencies has declined substantially on balance since the December meeting.

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee established growth ranges of 5½ to 8½ percent for both M2 and M3, measured from the fourth quarter of 1986 to the fourth quarter of 1987. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent for 1987.

With respect to M1, the Committee recognized that, based on experience, the behavior of that aggregate must be judged in the light of other evidence relating to economic activity and prices; fluctuations in M1 have become much more sensitive in recent years to changes in interest rates, among other factors. During 1987, the Committee anticipates that growth in M1 should slow. However, in the light of its sensitivity to a variety of influences, the Committee decided not to establish a precise target for its growth over the year as a whole at this time. Instead, the appropriateness of changes in M1 during the course of the year will be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

In that connection, the Committee believes that, particularly in the light of the extraordinary expansion of this aggregate in recent years, much slower monetary growth would be appropriate in the context of continuing economic expansion accompanied by signs of intensifying price pressures, perhaps related to significant weakness of the dollar in exchange markets, and relatively strong growth in the broad monetary aggregates. Conversely, continuing sizable increases in M1 could be accommodated in circumstances characterized by sluggish business activity, maintenance of progress toward underlying price stability, and progress toward international equilibrium. As this implies, the Committee in reaching operational decisions during the year, might target appropriate growth in M1 from time to time in the light of circumstances then prevailing, including the rate of growth of the broader aggregates.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from January through March at annual rates of about 6 to 7 percent. Growth in M1 is expected to slow substantially from the high rate of earlier months. Somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable depending on the behavior of the aggregates, taking

into account the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 4 to 8 percent.

Votes for the short-run operational paragraph: Messrs. Volcker, Corrigan, Angell, Guffey, Heller, Johnson, Keehn, Morris, and Ms. Seger. Vote against this action: Mr. Melzer. Absent and not voting: Mrs. Horn. Mr. Keehn voted as alternate for Mrs. Horn.

Mr. Melzer favored some tightening of reserve conditions. He noted the strong growth in bank loans in the November through January period

and the firm federal funds rate that had prevailed despite the extraordinary pace of reserve growth. In addition, he cited the recent declines in the foreign exchange value of the dollar. Finally, looking ahead, he pointed out the potential for a further rise in inflationary expectations and, accordingly, he believed that prompt action toward restraint might avert the need for more substantial tightening later.

At a telephone conference on February 23, the Committee heard a report from the Chairman regarding the deliberations in Paris during the previous weekend of the Ministers of Finance and Central Bank Governors of several major industrial countries. The Committee members discussed the possible implications of the decisions reached in Paris for U.S. intervention in the foreign exchange markets.

Legal Developments

AMENDMENT TO RULES REGARDING AVAILABILITY OF INFORMATION

The Board of Governors is amending 12 C.F.R. Part 261, its Rules Regarding Availability of Information, to implement the Freedom of Information Reform Act ("FOI Reform Act"), Pub. L. 99-570, by revising the schedule of fees applicable to requests for Board records pursuant to the Freedom of Information Act ("FOIA").

Effective May 27, 1987, the Board amends 12 C.F.R. Part 261 as follows:

Part 261—Rules Regarding Availability of Information

1. The authority citation for 12 C.F.R. Part 261 continues to read as follows:

Authority: 5 U.S.C. 552.

2. Part 261.4—Records Available to the Public Upon Request, is amended by removing paragraph (g).

3. Section 261.8 is added to read as follows:

Section 261.8—Fee Schedules; Waiver of Fees

(a) *Fee schedules.* Records of the Board available for public inspection and copying are subject to a written Schedule of Fees for search, review, and duplication. (See the Appendix to section 261.8 for Schedule of Fees.) The fees set forth in the Schedule of Fees reflect the full allowable direct costs of search, duplication, and review, and may be adjusted from time to time by the Secretary to reflect changes in direct costs.

(b) *Fees charged.* The fees charged only cover the full allowable direct costs of search, duplication, or review.

(1) "Direct costs" mean those expenditures which the Board actually incurs in searching for and duplicating (and in the case of commercial requesters, reviewing) documents to respond to a request made under section 261.4 of this Part. Direct costs include, for example, the salary of the employee performing work (the basic rate of pay for the

employee plus a factor to cover benefits) and the cost of operating duplicating machinery. Not included in direct costs are overhead expenses such as costs of space, and heating or lighting the facility in which the records are stored.

(2) "Duplication" refers to the process of making a copy of a document necessary to respond to a request for disclosure of records or for inspection of original records that contain exempt material or that otherwise cannot be inspected directly. Such copies may take the form of paper copy, microform, audio-visual materials, or machine readable documentation (e.g., magnetic tape or disk), among others.

(3) "Review" refers to the process of examining documents located in response to a request that is for a commercial use to determine whether any portion of any document located is permitted to be withheld. It also includes processing any documents for disclosure, e.g., doing all that is necessary to excise them and otherwise to prepare them for release. Review does not include time spent resolving general legal or policy issues regarding the application of exemptions.

(c) *Commercial use.*

(1) The fees in the Schedule of Fees for document search, duplication, and review apply when records are requested for commercial use.

(2) "Commercial use request" refers to a request from or on behalf of one who seeks information for a use or purpose that furthers the commercial, trade, or profit interests of the requester or the person on whose behalf the request is made.

(3) In determining whether a requester properly belongs in this category, the Secretary shall look first to the use to which a requester will put the documents requested. Where a requester does not explain its purpose, or where its explanation is insufficient, the Secretary may seek additional clarification from the requester before categorizing the request as one for commercial use.

(d) *Educational, research, or media use.*

(1) Only the fees in the Schedule of Fees for document duplication apply when records are not sought for commercial use and the requester is a representative of the news media, or an educational

or noncommercial scientific institution, whose purpose is scholarly or scientific research. However, there is no charge for the first one hundred pages of duplication.

(2) "Educational institution" refers to a preschool, a public or private elementary or secondary school, an institution of undergraduate higher education, an institution of graduate higher education, an institution of professional education, and an institution of vocational education, which operates a program of scholarly research.

(3) "Noncommercial scientific institution" refers to an independent nonprofit institution whose purpose is to conduct scientific research.

(4) "Representative of the news media" refers to any person that is actively gathering news for an entity that is organized and operated to publish or broadcast news to the public. The term "news" means information that is about current events or that would be of current interest to the public. Examples of news media entities include, but are not limited to, television or radio stations broadcasting to the public at large, and publishers of periodicals (but only in those instances when they can qualify as disseminators of "news") who make their products available for purchase or subscription by the general public. "Freelance" journalists may be regarded as working for a news organization if they can demonstrate a solid basis for expecting publication through that organization, even though not actually employed by it.

(e) *Other uses.* For all other requests, the fees in the Schedule of Fees for document search and duplication apply. However, there is no charge for the first one hundred pages of duplication or the first two hours of search time.

(f) *Aggregated requests.* A requester may not file multiple requests at the same time, each seeking portions of a document or documents solely in order to avoid payment of fees. If the Secretary reasonably believes that a requester or group of requesters is attempting to break a request down into a series of requests for the purpose of evading the assessment of fees, the Secretary may aggregate any such requests and charge accordingly. It is considered reasonable for the Secretary to presume that multiple requests of this type made within a 30-day period have been made to avoid fees.

(g) *Payment procedures.*

(1) *Fee payment.* The Secretary may assume that a person requesting records pursuant to section 261.4 of this Part will pay the applicable fees, unless a

request includes a limitation on fees to be paid or seeks a waiver or reduction of fees pursuant to paragraph (h) of this section.

(2) *Advance Notification.* If the Secretary estimates that charges are likely to exceed \$25, the requester shall be notified of the estimated amount of fees, unless he has indicated in advance his willingness to pay fees as high as those anticipated. Upon receipt of such notice the requester may confer with the Secretary as to the possibility of reformulating the request in order to lower the costs.

(3) *Advance payment.*

(i) The Secretary may require advance payment of any fee estimated to exceed \$250. The Secretary may also require full payment in advance where a requester has previously failed to pay a fee in a timely fashion.

(ii) For purposes of computing the time period for responding to requests under section 261.4(d) of this Part, the running of the time period will begin only after the Secretary receives the required payment.

(4) *Late charges.* The Secretary may assess interest charges when fee payment is not made within 30 days of the date on which the billing was sent. Interest will be at the rate prescribed in section 3717 of Title 31 U.S.C.A. and will accrue from the date of the billing. This rate of interest is published by the Secretary of the Treasury before November 1 each year and is equal to the average investment rate for Treasury tax and loan accounts for the 12-month period ending on September 30 of each year. The rate is effective on the first day of the next calendar quarter after publication.

(5) *Fees for nonproductive search.* Fees for record searches and review may be charged even if no responsive documents are located or if the request is denied, particularly if the requester insists upon a search after being informed that it is likely to be nonproductive or that any records found are likely to be exempt from disclosure. The Secretary shall apply the standards set out in paragraph (h) of this section in determining whether to waive or reduce fees.

(h) *Waiver or reduction of fees.*

(1) *Standards for determining waiver or reduction.* The Secretary or his or her designee shall grant a waiver or reduction of fees chargeable under paragraph (b) of this section where it is determined both that disclosure of the information is in the public interest because it is likely to contribute significantly to public understanding of the operations or activities of the government, and that the disclosure of information is not primarily in the commercial

interest of the requester. The Secretary or his or her designee shall also waive fees that are less than the average cost of collecting fees. In determining whether disclosure is in the public interest, the following factors will be considered:

- (i) *The subject of the request*: whether the subject of the requested records concerns "the operations or activities of the government";
- (ii) *The informative value of the information to be disclosed*: whether the disclosure is "likely to contribute" to an understanding of government operations or activities;
- (iii) *The contribution to an understanding of the subject by the general public likely to result from disclosure*: whether disclosure of the requested information will contribute to "public understanding";
- (iv) *The significance of the contribution to the public understanding*: whether the disclosure is likely to contribute "significantly" to public understanding of government operations or activities;
- (v) *The existence and magnitude of a commercial interest*: whether the requester has a commercial interest that would be furthered by the requested disclosure; and, if so
- (vi) *The primary interest in disclosure*: whether the magnitude of the identified commercial interest of the requester is sufficiently large, in comparison with the public interest in disclosure, that disclosure is "primarily in the commercial interest of the requester".

(2) *Contents of request for waiver*. The Secretary will normally deny a request for a waiver of fees that does not include:

- (i) a clear statement of the requester's interest in the requested documents;
- (ii) the use proposed for the documents and whether the requester will derive income or other benefit from such use;
- (iii) a statement of how the public will benefit from such use and from the Board's release of the requested documents; and
- (iv) if specialized use of the documents or information is contemplated, a statement of the requester's qualifications that are relevant to the specialized use.

(3) *Burden of proof*. In all cases the burden shall be on the requester to present evidence or information in support of a request for a waiver of fees.

(4) *Employee requests*. In connection with any request by an employee, former employee, or applicant for employment, for records for use in prosecuting a grievance or complaint of discrimination against the Board, fees shall be waived where the total charges (including charges for information pro-

vided under the Privacy Act) are \$50 or less; but the Secretary may waive fees in excess of that amount.

Appendix to Section 261.8 Freedom of Information Fee Schedule

Duplication:

Photocopy, per standard page	\$.08
Paper copies of microfiche, per frame	\$.07
Duplicate microfiche, per microfiche	\$.10

Search and review:

Clerical (Grades FR4-FR7), hourly rate	\$8.50
Technical (Grades FR8-FR11), hourly rate	\$12.80
Management/professional, hourly rate	\$25.90

Computer search and production:

For each request the Secretary will separately determine the actual direct cost of providing the service, including computer search time, tape or printout production, and operator salary.

Special services:

The Secretary of the Board may agree to provide, and set fees to recover the costs of, special services not covered by the Freedom of Information Act, such as certifying records or information and sending records by special methods such as express mail. The Secretary may provide self-service photocopy machines and microfiche printers as a convenience to requesters and set separate per-page fees reflecting the cost of operation and maintenance of those machines.

Fee waivers:

For qualifying educational and noncommercial scientific institution requesters and representatives of the news media the Board will not assess fees for review time, for the first 100 pages of reproduction, or, when the records sought are reasonably described, for search time. For other noncommercial use requests no fees will be assessed for review time, for the first 100 pages of reproduction, or for the first two hours of search time. For requesters qualifying for 100 free pages of reproduction, the fees for duplicate microfiche will be prorated to eliminate the charge for 100 frames.

The Board will waive in full fees that total less than \$4.

The Secretary of the Board or his or her designee will also waive or reduce fees, upon proper request, if disclosure of the information is in the public interest because it is likely to contribute significantly to public understanding of the operations or activities of the government and is not primarily in the commercial interest of the requester. A fee reduction is available to employees, former employees, and applicants for employment who request records for use in prosecuting a grievance or complaint or discrimination against the Board.

* * * * *

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

Orders Issued Under Section 3 of the Bank Holding Company Act

Capital City Bank Group, Inc.
Tallahassee, Florida

Order Approving Acquisition of Bank

Capital City Bank Group, Inc., Tallahassee, Florida, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 *et seq.*) ("Act"), has applied for the Board's approval under section 3(a)(3) of the Act to acquire all the voting shares of Gadsden National Bank, Quincy, Florida ("Bank"), a *de novo* 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 (52 *Federal Register* 2806 (1987)). 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, the sixteenth largest commercial banking organization in Florida, controls eight subsidiary banks, with total deposits of \$434.8 million, representing approximately 0.6 percent of the total deposits in commercial banks in the state.¹ Bank is a *de novo* bank which will assume the deposit liabilities and certain assets of the Quincy branch ("Quincy") of Pioneer Savings Bank, Clearwater, Florida ("Pioneer"). Quincy, the 110th largest banking organization in Florida,

controls total deposits of \$31.4 million, representing less than 0.1 percent of the total deposits in commercial banks in the state.² Upon consummation of the proposal, Applicant would remain the sixteenth largest commercial banking organization in Florida, with total deposits of \$466.2 million, representing 0.6 percent of total deposits in commercial banks in the state. Consummation of this proposal would not have a significant effect on the concentration of banking resources in Florida.

Applicant and Quincy compete in the Gadsden banking market.³ Applicant is the fifth largest of the six commercial banking organizations operating in the market, and controls total deposits of \$12.4 million, representing 8.7 percent of the deposits in commercial banks in the market.⁴ Quincy is the second largest banking organization in the market, with deposits of \$31.4 million, representing 22.2 percent of total deposits in commercial banks in the market. The market is considered to be highly concentrated, with the four largest commercial banks controlling 86.4 percent of the deposits in commercial banks in the market. The Herfindahl-Hirschman Index ("HHI") on a banks-only basis is 2299, and would increase by 386 points to 2685 upon consummation of this proposal.⁵

Although consummation of the proposal would eliminate some competition between Applicant and Quincy in the Gadsden banking market, several factors mitigate the anticompetitive effects of this transaction. First, Pioneer will continue to operate two offices in the Gadsden banking market, so the number of competitors will remain the same. In addition, the presence of two thrift institutions that control approximately 19.4 percent of the market's total deposits mitigates the anticompetitive effects of the transaction.⁶ Thrift institutions already exert a considerable

2. Quincy is treated as a commercial bank in this analysis.

3. The Gadsden banking market is approximated by Gadsden County plus part of Jackson County, Florida.

4. Market data are as of June 30, 1985.

5. Under the revised Department of Justice Merger Guidelines (49 *Federal Register* 26,823 (June 29, 1984)), a market in which the post-merger HHI is above 1800 is considered highly concentrated. In such markets, the department is likely to challenge a merger that increases the HHI by more than 50 points. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other non-depository financial entities.

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

1. State deposit data are as of June 30, 1986.

competitive influence in the market as providers of NOW accounts and consumer loans. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely to substantially lessen competition in the Gadsden banking market.⁷

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

On the basis of the record, the application is approved for the reasons summarized above. The transaction shall not be made before the thirtieth day following the effective date of this Order, or later than three months after the effective date of this Order, and Bank shall be opened for business not later than six months after the effective date of this Order. The latter two periods may be extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 21, 1987.

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

[SEAL] JAMES MCAFEE
Associate Secretary of the Board

Crescent Holding Company
Napoleon, Ohio

Order Approving Formation of a Bank Holding Company

Crescent Holding Company, Napoleon, Ohio, has applied pursuant to section 3(a)(1) of the Bank Holding Company Act ("BHC Act" or "Act"), 12 U.S.C. § 1841 *et seq.*, to become a bank holding company by acquiring up to 39 percent of the voting shares of Henry County Bank, Napoleon, Ohio ("Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been

given in accordance with section 3(b) of the Act, 51 *Federal Register* 43,974 (1986). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act.

Applicant is a non-operating company with no subsidiaries formed for the purpose of becoming a bank holding company by acquiring Bank. Bank is the 91st largest commercial banking organization in Ohio, controlling deposits of \$54.8 million representing less than 0.1 percent of the total deposits in commercial banking organizations in the state.¹ None of the principals of Applicant or Bank is associated with any other financial institutions located within the relevant banking market.² Accordingly, consummation of this proposal would not have any significant effect on existing or probable future competition, nor would it significantly increase the concentration of banking resources in any relevant banking market or the State of Ohio.

Existing management of Bank has submitted comments opposing this proposal. In addition, the Board has received more than 60 comment letters and petitions in opposition to this proposal from members of the community and customers of Bank.

These commenters are concerned that Bank will cease to be an independent, community-owned bank if this application is approved because Applicant, although locally owned, is acquiring this interest in Bank in order to profit from a sale of Bank to a larger non-local bank holding company. In addition, the commenters argue that this proposed transaction will not serve the needs of the community and will adversely affect the future prospects of Bank. They argue that Applicant will not be a source of financial and managerial strength for Bank. Specifically, some commenters suggest that customers will terminate their relationship with Bank if ownership and management changes and that the proposed acquisition of less than an absolute majority of the voting shares of Bank will cause dissension in the management and operation of Bank. Commenters have requested a public hearing on this application.

In response, Applicant has stated its intention to retain Bank as a locally owned, independent bank and has offered to provide Bank a right of first refusal for a period of four years to purchase Bank shares held by Applicant in the event of an offer by a non-local organization. Applicant has stated that it has no plans to make any significant changes in the corporate structure or operations of Bank or in the services

7. If 50 percent of deposits held by thrift institutions in the Gadsden banking market were included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 77.1 percent. Applicant would control 7.8 percent and Bank would control 19.8 percent of the market's deposits. The HHI would increase by 309 points to 2199.

1. All banking data are as of September 30, 1986.

2. The Henry County banking market is approximated by Henry County, Ohio, except for the townships of Flatrock and Pleasant.

provided by Bank to the community. Applicant has specifically offered to retain Bank's senior management and to expand the board of directors of Bank to permit Applicant's principals to be added rather than to displace existing directors.

The Board has carefully considered the comments in opposition to this proposal. The Board notes that Applicant's principals are local residents or from local families, and several have prior affiliations with Bank. This application does not raise the concerns addressed by many commenters about elimination of an independent, locally controlled bank. Moreover, any future sale by Applicant of its interest in Bank to a larger bank holding company will require Board approval and provide an adequate opportunity to raise concerns about local control.

The Board has evaluated the financial and managerial resources of Applicant and Bank and finds them to be consistent with approval of this application. Applicant has indicated its intention to continue the present policies of Bank and the services that it offers to the community and to do so under the direction of the existing management that has been responsible for implementing those policies.³ Applicant has also indicated that it will assume a limited role in directing the operations of Bank, since Applicant plans to provide for retention of current directors and to promote management from within Bank rather than to assume a direct role in Bank's operational management. Applicant's principals have the financial resources and experience to justify a finding by the Board that financial and managerial considerations are consistent with approval, particularly since Bank's condition is satisfactory. The outpouring of community support for Bank's management and policies supports a conclusion that Bank's policies are meeting the needs of the community and the continued provision of those services to the community Bank serves is consistent with approval of this application.

The commenters also contend that the Board should deny the application in this case because the acquisition by Applicant of a minority interest in Bank would only cause dissension and uncertainty in the management of Bank without permitting Applicant to gain actual control. In this case, however, Applicant will become the largest single shareholder of Bank and is not precluded, as in *NBC Co.*, 60 FEDERAL RESERVE BULLETIN 782 (1974), by an absolute majority shareholder from seeking to acquire a majority of the shares

of Bank over time. The Board has previously permitted acquisitions of less than absolute control where there is a possibility or likelihood that the applicant will eventually gain control, despite claims by management of possible dissension, and where, unlike the *NBC Co.* case, the applicant or applicant's principals had adequate resources so that the applicant would not be totally dependent upon dividends from Bank to meet its debt servicing requirements. *Lloyds Bank*, 72 FEDERAL RESERVE BULLETIN 841 (1986); *First Jersey National Corporation*, 71 FEDERAL RESERVE BULLETIN 638 (1985); and *City Holding Company*, 71 FEDERAL RESERVE BULLETIN 575 (1985).

The position taken by the commenters would preclude the Board from approving any proposal to acquire less than an absolute majority of the shares of a bank holding company if the management of the bank holding company opposes the acquisition. Moreover, as in this case, it would limit arbitrarily the market for the stock of locally owned community banks to the detriment of shareholders. The BHC Act recognizes that control is possible without ownership of an absolute majority of voting shares. After careful review of the comments submitted, Applicant's response to these comments, and all of the facts of record in this case, the Board has determined that the comments submitted do not warrant denial of this application.

The Board has also considered the commenters' requests for a hearing. The BHC Act requires the Board to hold a formal hearing regarding an application submitted under section 3 of the BHC Act only in the event that the state supervisory authority, in the case of a state bank such as Bank, expresses written disapproval of the proposed transaction.⁴ This hearing requirement is not triggered in this case because the Superintendent of Banking for the State of Ohio, although suggesting the Board might use a hearing to gather information on the depth of community feeling, has not expressed written disapproval of the proposed transaction.

Further, commenters have been given the opportunity to submit written facts and arguments to the Board regarding this application. There is no indication that the substantial number of comments already before the Board present an incomplete or insufficient basis to permit the Board to evaluate the concerns of the commenters with respect to this application, or that further investigation would produce significant

3. The retention of Bank or its current management is not a condition of the Board's action in this case. The Board expects that all future actions that Applicant takes regarding Bank will be consistent with relevant law, the Board's regulations, this Order, and safe and sound banking practice.

4. 12 U.S.C. § 1842(b); *Northwest Bancorporation v. Board of Governors*, 303 F.2d 832, 843-44 (8th Cir. 1962); *Grandview Bank & Trust Co. v. Board of Governors*, 550 F.2d 415 (8th Cir.), cert. denied, 434 U.S. 821 (1977); and, *Farmers & Merchants Bank of Las Cruces v. Board of Governors*, 567 F.2d 1082 (D.C. Cir. 1977).

additional facts upon which to base a decision. The Board is aware of the depth of the community concern about the future direction of Bank and the effects of this proposed acquisition. The Board concludes, however, that a hearing would not assist it in gathering additional facts upon which to base its decision and hereby denies the requests of commenters for a hearing.

Based on the foregoing and other facts of record, the Board has determined that the application should be and hereby is approved. This 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 Cleveland pursuant to delegated authority.

By order of the Board of Governors, effective April 7, 1987.

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

JAMES MCAFEE
[SEAL] Associate Secretary of the Board

First Midwest Bancorp, Inc.
Naperville, Illinois

Order Approving Merger of Bank Holding Companies

First Midwest Bancorp, Inc., Naperville, Illinois, a bank holding company within the meaning of the Bank Holding Company Act ("Act") (12 U.S.C. § 1842(a)(1)), has applied for the Board's approval pursuant to section 3(a)(5) of the Act (12 U.S.C. § 1842(a)(5)) to merge with Bancorp of Mundelein Inc., Mundelein, Illinois ("Bancorp"), and thereby indirectly to acquire Bank of Mundelein, Mundelein, Illinois ("Mundelein Bank").

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

Applicant is the ninth largest commercial banking organization in Illinois holding deposits of \$1.2 billion, representing 1.2 percent of the total deposits in commercial banking organizations in the state.¹ Mundelein

Bank is among the smaller commercial banking organizations in the state, controlling deposits of \$34.4 million, representing less than one percent of the total deposits in commercial banking organizations in the state. Upon consummation of this proposal, Applicant would remain the ninth largest commercial banking organization in Illinois and would control 1.23 percent of the total deposits in commercial banking organizations in the state. Consummation of this proposal would not result in a significant increase in the concentration of banking resources in Illinois.

Applicant's subsidiary banks compete directly with Mundelein Bank in the Chicago banking market.² Currently, Applicant controls less than one percent of the total deposits in commercial banks in the market. Upon consummation, Applicant would be the 33rd largest commercial banking organization in the market, and would continue to control less than one percent of the market's deposits in commercial banks.³ Accordingly, the Board concludes that consummation of the proposal would not have any significant adverse effect on competition in the Chicago banking market.

In its evaluation of Applicant's managerial resources, the Board has considered certain violations by Applicant's subsidiary banks of the Currency and Foreign Transactions Reporting Act ("CFTRA") and the regulations thereunder.⁴ Applicant has taken appropriate remedial action as a result of the discovery of these violations. The corrective measures include the implementation of a revised audit program and the development of a compliance monitoring program. The audit program was implemented on March 1, 1987 and Applicant has committed to implement its compliance program at all its subsidiary banks by March 31, 1987. Based on the foregoing and other facts of record, the Board concludes that the managerial resources of Applicant, its subsidiary banks and Bancorp are consistent with approval.

The Board also finds that the financial resources of Applicant are consistent with approval. Applicant will serve as a source of financial and managerial strength for Mundelein Bank. In addition, Applicant has committed that it will maintain adequate capital in Mundelein Bank.

2. The Chicago banking market is approximated by Cook, Lake and DuPage Counties, Illinois. Mundelein Bank and five of Applicant's subsidiary banks are located in Lake County.

3. The Chicago banking market is considered unconcentrated, with the four largest commercial banks controlling 50.5 percent of the total deposits in commercial banking organizations in the market. The Herfindahl-Hirschman Index ("HHI") for the market is 807, and would increase by less than 1 point upon consummation of the proposal.

4. 31 U.S.C. § 5311 *et seq.*; 31 C.F.R. § 103.

1. All banking data are as of December 31, 1985.

In considering the convenience and needs of the communities to be served, the Board has taken into account the records of Applicant and Bancorp under the Community Reinvestment Act ("CRA"), 12 U.S.C. § 2901 *et seq.*⁵ The Board has received comments from a Protestant regarding Applicant's CRA record. The Protestant has alleged that Applicant, and specifically its subsidiary bank, First Midwest Bank/North Chicago, Chicago, Illinois ("North Chicago Bank"), have failed generally to comply with the terms of the CRA, and more specifically has failed to serve the credit needs of minority and low- and moderate-income communities within its service area.⁶

The Board has carefully reviewed the records of Applicant and Bancorp in meeting the convenience and needs of their communities. Initially, the Board notes that, with one exception,⁷ all of Applicant's subsidiary banks and Mundelein Bank have achieved satisfactory overall CRA ratings based upon the most recent compliance examinations conducted by the Office of the Comptroller of the Currency.

In response to the Protestant's allegations, the Board has reviewed the record of North Chicago Bank. An analysis of North Chicago Bank's HMDA data for the past five years reveals that relatively little real estate mortgage lending was originated by the Bank during that period. Applicant asserts that it was constrained to deemphasize fixed-rate long-term real estate mortgage lending at the North Chicago Bank in order to match more closely the Bank's asset and liability structure. It appears, moreover, that the majority of the mortgage loans (both by number and dollar amount) originated by North Chicago Bank were within the Bank's service area, and specifically within minority and/or low- and moderate-income areas. Furthermore, when HMDA data of loans originated by Applicant's other bank subsidiaries located near

North Chicago Bank are reviewed, it appears that they are also engaged in substantial lending in the North Chicago area.⁸ Accordingly, it appears that neither North Chicago Bank nor Applicant is discouraging loans to minority or low-income groups within North Chicago Bank's service area.

Moreover, a review of North Chicago Bank's home improvement lending record reflects a large number (from 58 to 77 percent in dollar amount) of such loans originated within its service area.⁹ Analysis of census tract data reveals that low- and moderate-income residents, as well as minority residents of the Bank's service area, received home improvement loans from North Chicago Bank correlative with the number of owner-occupied homes in each area, regardless of each area's racial or income characteristics. In the Board's view, the record does not support the Protestant's assertion that North Chicago Bank used the deposits of minority customers to make loans to affluent customers outside of its service area.

In order to enhance real estate lending activities, North Chicago Bank and Applicant's remaining bank subsidiaries in Lake County, Illinois have established a new mortgage lending program in conjunction with Midwest Mortgage Services, Inc., a secondary market intermediary. This program has recently become operational and Applicant has provided the Board with projections of dollar volumes of mortgage loans to be originated by North Chicago Bank within its service area.¹⁰ Mortgage originations within the service area by year-end 1987 alone are projected to increase over tenfold from year-end 1986 originations. Moreover, Applicant is committed to sustaining this increased level of mortgage lending in its service area to the extent economic conditions allow.

North Chicago Bank also serves the credit needs of its community through its participation in the Illinois Guaranteed Student Loan Program. Applicant expects that the total volume of student loans extended by North Chicago Bank will equal or exceed 1986 levels for each of the next two years. In addition, North Chicago Bank will continue to send representatives to area colleges and universities to inform students of its program, and as well will continue its advertising campaign to increase public awareness of student loan availability at the bank.

5. The CRA requires the Board, in its evaluation of a bank holding company application, to assess the record of an applicant in meeting the credit needs of the entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation.

6. The Protestant alleges: that complete Home Mortgage Disclosure Act ("HMDA"), 12 U.S.C. § 2804-11, statements were not available at Mundelein Bank or North Chicago Bank; that Applicant failed to provide him with a map of North Chicago Bank's delineated service area; and that North Chicago Bank used the funds of minority depositors to make loans to affluent white customers outside of its service area. With respect to the first two concerns, Applicant has made the necessary corrections to the HMDA statements and provided Protestant with all requested information.

7. That exception is First Midwest Bank/Bradley, Bradley, Illinois ("Bradley Bank"). Applicant has entered into a preliminary agreement to sell its Bradley Bank subsidiary. If Bradley Bank is not sold by April 20, 1987, Applicant has committed to implement a comprehensive CRA program at the institution, including: a comprehensive community survey; design of new consumer-oriented credit products and accompanying advertising program; enhanced contact with community groups; and the filing of quarterly written reports with the Federal Reserve Bank of Chicago regarding CRA compliance.

8. HMDA data reflect that for each of the past 5 years from 10 to 48 percent of the conventional real estate lending by these subsidiary banks in total dollar amount (29 to 52 percent of total number of loans originated) occurred within North Chicago Bank's designated service area.

9. North Chicago Bank originated an even higher percentage of its home improvement loans (from 60 to 81 percent) within its service area during this five-year period.

10. Mortgage loans originated by North Chicago Bank within its service area are projected to increase to \$1.8 million by year-end 1988.

North Chicago Bank also engages in substantial small business lending within its service area. Analysis of loan data reveals that North Chicago Bank extended approximately 50 loans to small businesses in its service area during 1986, representing a substantial portion of its total loan portfolio. North Chicago Bank projects that the volume of new loans to small businesses in its service area will remain at these levels for each of the next two years, and has committed to continue to serve the credit needs of local small businesses beyond that period. In addition, North Chicago Bank will initiate a program of increased officer calls on local businesses to enhance awareness of the Bank's credit and other services available to small businesses.

Accordingly, based upon all the evidence, including the measures proposed by Applicant in order to enhance its provisions of credit and other services to local communities, the Board concludes that convenience and needs considerations are consistent with approval of the application.

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

By order of the Board of Governors, effective April 6, 1987.

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

JAMES MCAFEE
[SEAL] Associate Secretary of the Board

First Tennessee National Corporation
Memphis, Tennessee

Order Approving Acquisition of a Bank

First Tennessee National Corporation, Memphis, Tennessee, 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 90 percent or more of the voting shares of Lebanon Bank, Lebanon, Tennessee ("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 (52 *Federal Register* 4385 (1987)). 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 third largest banking organization in Tennessee, with total deposits of \$3.9 billion,¹ representing 13.0 percent of the total deposits in commercial banks in the state. Bank is the 31st largest banking organization in Tennessee and controls deposits of \$108.5 million, representing 0.4 percent of the deposits in commercial banks in Tennessee. Upon consummation of the proposed transaction, Applicant would remain the third largest banking organization in Tennessee and would control deposits of \$4.0 billion, representing 13.3 percent of state deposits in commercial banks in the state.

Applicant and Bank compete directly in the Nashville banking market.² Applicant is the fifth largest of 17 commercial banking organizations operating in the market, with total deposits of \$276.7 million, representing 4.4 percent of the total deposits in commercial banks in the market. Bank is the sixth largest commercial banking organization in the market, with total deposits of \$108.5 million, representing 1.6 percent of the total deposits in commercial banks in the market. Upon consummation of the proposal, Applicant's share of the deposits in commercial banks in the market would increase to 6.0 percent. The Nashville banking market is considered to be highly concentrated, with the four largest commercial banks controlling 89.8 percent of the deposits in commercial banks in the market. The Herfindahl-Hirschman Index ("HHI") for the market is 2306 and would increase by 14 points to 2320 upon consummation of the proposal.³

Although consummation of the proposal would eliminate some competition between Applicant and Bank in the Nashville market, certain factors mitigate the anticompetitive effects of the proposal. Numerous other commercial banking organizations will continue

1. All banking data are as of June 30, 1986.

2. The Nashville banking market is approximated by the Tennessee counties of Davidson, Rutherford, Williamson, and Wilson, plus the southern halves of Robertson and Sumner counties.

3. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger HHI is above 1800 is considered highly concentrated. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other non-depository financial entities.

to operate in the market after consummation of the proposal. In addition, the increase in concentration in the Nashville banking market is small. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely to substantially lessen competition in the Nashville banking market.

The financial and managerial resources of Applicant, its subsidiary bank, and Bank are consistent with approval of this application.

In considering the convenience and needs of the communities to be served, the Board has also taken into consideration Applicant's and Bank's records under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*, ("CRA")). The CRA requires the Board, in its evaluation of a bank holding company application, to assess the record of an applicant in meeting the credit needs of the entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank.

The Board notes that Applicant's subsidiary bank, First Tennessee Bank, N.A., Memphis, Tennessee ("First Tennessee"), has a less than satisfactory CRA record. First Tennessee, however, has recently instituted measures to strengthen its CRA compliance programs to the satisfaction of its primary regulator. In this regard, the bank has adopted a formal CRA compliance system to centralize and coordinate its efforts. Moreover, the Board notes that First Tennessee has participated in a range of government-sponsored lending programs and community development programs. Based on these measures and on the Board's own review of First Tennessee's compliance efforts, the Board concludes that convenience and needs considerations are consistent with approval of this application.

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

By order of the Board of Governors, effective April 29, 1987.

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

JAMES MCAFEE

Associate Secretary of the Board

[SEAL]

Poplar Bluff Bancshares, Inc. Poplar Bluff, Missouri

Order Approving the Merger of Bank Holding Companies

Poplar Bluff Bancshares, Inc., Poplar Bluff, Missouri, a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1841 *et seq.*) ("Act"), has applied for the Board's approval under section 3(a)(5) of the Act to merge with Mingo Bancshares, Inc., Poplar Bluff, Missouri ("Company"), and thereby to acquire all of the voting shares of Puxico State Bank, Puxico, Missouri ("Puxico").

Notice of the application, affording interested persons an opportunity to submit comments, has been given in accordance with section 3(b) of the Act (52 *Federal Register* 2809 (1987)). 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 is a one-bank holding company by virtue of its control of First National Bank of Poplar Bluff, Poplar Bluff, Missouri ("Poplar Bluff"). Applicant is the 121st largest commercial banking organization in Missouri, with total deposits of \$37.3 million,¹ representing 0.09 percent of the total deposits in commercial banks in the state. Company is the 289th largest commercial banking organization in Missouri and controls deposits of \$12.8 million, representing 0.03 percent of total deposits in commercial banks in Missouri. Upon consummation of its proposal, Applicant will become the 86th largest commercial banking organization in Missouri and control deposits of \$50.1 million, representing 0.12 percent of the total deposits in commercial banking organizations in the state. Because Applicant's principal already owns a controlling interest in Company, the proposed transaction represents a reorganization of existing ownership interests. Accordingly, consummation of this proposal would not have any significant adverse effect upon the concentration of banking resources in Missouri.

Applicant operates in the Poplar Bluff banking market,² where it is the third largest of four commercial banking organizations, controlling 16.5 percent of the total deposits in commercial banks in the market.

1. All banking data are as of June 30, 1986.

2. The Poplar Bluff banking market is approximated by Butler County, Missouri.

Company operates in the Dexter banking market,³ where it is the smallest of five commercial banking organizations, controlling 8.0 percent of the total deposits in commercial banks in the market. Because Poplar Bluff and Puxico operate in different banking markets, consummation of this proposal would not substantially lessen competition in these markets. Applicant's principal also controls four other commercial banking organizations in Missouri, one of which, First State Bank of Dexter, has banking offices in the Dexter market where Puxico operates. Because these banks are currently controlled by the same principal, consummation of the transaction will not lessen competition in the market. Accordingly, the Board believes that competitive considerations under the Act are consistent with approval.

In evaluating this application, the Board also has considered the financial and managerial resources of Applicant, Company, and their subsidiary banks, as well as the chain of affiliated banks controlled by Applicant's principal, within the context of the Board's multi-bank holding company standards. Applicant proposes to merge with Company by means of an exchange of shares and an assumption of debt. In its consideration of this proposal, the Board has taken into account the measures that Poplar Bluff and Puxico have adopted to improve their asset quality. The Board believes these measures should result in continued improvement in the earnings and capital base of Poplar Bluff and Puxico.

In addition, as part of this proposal, the Comptroller of the Currency has approved the merger of Applicant's and Company's subsidiary banks. As a result, consummation of Applicant's proposal would eliminate the need for duplicate operating costs, which in turn would provide further capital support and increased earnings potential. Applicant's principal also has committed to provide continued financial support as necessary for debt servicing. Accordingly, based on the facts of record, the Board believes that the financial and managerial resources of Applicant are consistent with approval of this application.

In addition, considerations relating to the convenience and needs of the communities to be served by Poplar Bluff and Puxico are consistent with approval of this application.

Based on the foregoing and other facts of record, the Board has determined 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 by the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 20, 1987.

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

JAMES MCAFEE
[SEAL] Associate Secretary of the Board

Sunwest Financial Services, Inc.
Albuquerque, New Mexico

Order Disapproving the Acquisition of a Bank Holding Company

Sunwest Financial Services, Inc., Albuquerque, New Mexico, a bank holding company within the meaning of the Bank Holding Company Act ("Act" or "BHC Act") (12 U.S.C. § 1841 *et seq.*), has applied for the Board's approval under section 3 of the Act to acquire Rio Grande Bancshares, Inc., Las Cruces, New Mexico ("Company"), and thereby indirectly to acquire First National Bank of Dona Ana County, Las Cruces, New Mexico; First National Bank of Chaves County, Roswell, New Mexico; and First State Bank of Silver City, Silver City, New Mexico. In order to effect the acquisition, Sunwest Financial Corporation, Albuquerque, New Mexico, a wholly owned subsidiary of Applicant, will merge with Company. Sunwest Financial Corporation also has applied to become a bank holding company.

Notice of the application, affording opportunity for interested persons to submit comments and views, has been given in accordance with section 3(b) of the Act. 12 U.S.C. § 1842(b). The time for filing comments has expired, and in acting on the application in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)), the Board has considered all materials submitted concerning the application, including comments from interested parties.¹

Applicant is the largest banking organization in New Mexico, controlling 12 subsidiary banks with total deposits of \$2.1 billion, representing 26.3 percent of

3. The Dexter banking market is approximated by that portion of Stoddard County, Missouri, which lies north of Highways D and H.

1. In connection with this application, the Board received comments from the Director of the Financial Institutions Division of the Regulation and Licensing Department of the State of New Mexico urging the Board to consider "the long-term effects the proposed merger would have on New Mexico should it be approved." Specifically, the letter expressed the concern that the resulting organization would be sufficiently large to have the potential for undue political or economic influence in the state.

the total deposits in commercial banks in the state.² Company is the sixth largest commercial banking organization in New Mexico, controlling three bank subsidiaries with total deposits of \$253.0 million, representing 3.1 percent of the total deposits in commercial banks in the state.

Applicant and Company each operate banks in three geographic areas in New Mexico: Dona Ana County, Grant County, and Chaves County. As a result, this application raises the question whether consummation of the proposal would substantially lessen competition or in any other manner restrain trade in any section of the country. If consummation of the proposal would have this effect, the Board is prohibited by section 3(c)(2) of the Act from approving the application unless the Board finds that the anticompetitive effects of the proposal are clearly outweighed in the public interest by the convenience and needs of the community to be served. 12 U.S.C. § 1842(c)(2).

After considering all the facts of record with respect to this issue, a majority of the Board members present did not vote to approve the application and, therefore, the application is not approved. As set forth in the attached statements, two members of the Board voted to approve the application on the basis that the proposed acquisition would not substantially lessen competition in any relevant geographic market, while two members voted against approval on the basis of the current record that indicated that the proposed acquisition would substantially lessen competition in two of the three relevant geographic banking markets involved in the proposed acquisition.

By order of the Board of Governors, effective April 3, 1987.

Voting to approve this application: Governors Johnson and Heller. Voting against approval of this application: Chairman Volcker and Governor Angell. Absent and not voting: Governor Seger.

JAMES MCAFEE

[SEAL]

Associate Secretary of the Board

STATEMENT BY CHAIRMAN VOLCKER AND GOVERNOR ANGELL

On the basis of the record before the Board, we believe that consummation of the proposed acquisition by Sunwest Financial Services, Inc., Albuquerque, New Mexico of Rio Grande Bancshares, Las Cruces, New Mexico ("Company") would substantially lessen competition in two of the three relevant banking markets in which Applicant and Company compete:

the Las Cruces and Silver City, New Mexico markets. Accordingly, we cannot vote to approve this application. This Statement sets forth the reasons for our conclusion.

Applicant does not dispute the relevant geographic markets used by the Board for analyzing the competitive effects of the proposed acquisition in the Silver City and Roswell, New Mexico areas.¹ Applicant asserts, however, that the Las Cruces banking market should encompass not only the New Mexico county of Dona Ana, where the city of Las Cruces is located, but also the Texas county of El Paso, including the city of El Paso. We disagree.

Relevant Geographic Market—Las Cruces

The Board previously has indicated that the relevant geographic banking market must reflect commercial and banking realities and should consist of the localized area where customers can practicably turn for alternatives.²

Applying the foregoing principles to the facts contained in the record of this case, including a field investigation of the Dona Ana County and El Paso County areas conducted by staffs of the Federal Reserve Banks of Kansas City and Dallas and the Board, we conclude that the Las Cruces banking market is approximated by Dona Ana County, except the towns of Anthony and Santa Teresa, and does not include El Paso County, Texas.³ This conclusion is based on our analysis of local patterns of trade and commerce, geographic distribution of deposits and loans, labor force commutation and highway traffic count statistics, and newspaper circulation and broadcast area data.

The Las Cruces area and El Paso area have distinct local trade patterns with little interaction to integrate them commercially. Each city has the resources to meet the basic shopping needs of their citizens, and major state universities operate near each city. Although each city operates specialty shopping malls and

1. The Silver City banking market is approximated by Grant County, New Mexico. The Roswell banking market is approximated by Chaves County, New Mexico, and the northern one-fourth of Eddy County, New Mexico, including the town of Artesia.

2. *Pikeville National Corporation*, 71 FEDERAL RESERVE BULLETIN 240 (1985); *Dacotah Bank Holding Company*, 70 FEDERAL RESERVE BULLETIN 347 (1984); *Wyoming Bancorporation*, 68 FEDERAL RESERVE BULLETIN 313 (1982), *aff'd*, 729 F.2d 687 (10th Cir. 1984); *Independent Bank Corporation*, 67 FEDERAL RESERVE BULLETIN 436 (1981).

See, *United States v. Philadelphia National Bank*, 374 U.S. 321, 357 and 359 (1963); *United States v. Phillipsburg National Bank*, 399 U.S. 350, 365-65 (1970).

3. Anthony and Santa Teresa, New Mexico, are part of the El Paso Ranally Metropolitan Area and are included in the El Paso banking market.

2. All banking data are as of June 30, 1986.

El Paso operates a regional hospital in the area, these factors do not indicate enough commercial interaction to warrant including El Paso and Las Cruces in the same banking market. The central business districts of Las Cruces and El Paso are separated by 43 miles, and the two cities are central communities of separate Rationally Metropolitan Areas ("RMAs")⁴ and Metropolitan Statistical Areas ("MSAs").⁵ Although Las Cruces and El Paso may be part of a larger regional trade area that includes significant portions of southern New Mexico, western Texas and northern Chihuahua State in Mexico, such regional patterns of trade and commerce are not sufficient to establish that Las Cruces and El Paso are located in the same local banking market.

We note that loan and deposit data provide no indication that banking offices in one area constitute a reasonable alternative source of banking services for residents of the other area. A review of data submitted by Applicant indicates that in terms of dollar volume, Applicant's Las Cruces bank derives only 0.5 percent of its certificates of deposit, 0.5 percent of its demand deposits, and 1.7 percent of its savings deposits from El Paso County. In terms of dollar volume, the bank generates only 0.3 percent of its installment loans and 1.7 percent of its commercial loans in El Paso County. Company's Las Cruces bank derives 4.9 percent of its aggregate deposits and 8.6 percent of its aggregate loans from customers in Texas.⁶ Much of this overlap, however, appears to result from Company's two Las Cruces bank branches in the New Mexico cities of Santa Teresa and Anthony, both suburbs of El Paso across the Texas state line. These two branches report combined deposits of \$31.3 million or 15.1 percent of the total deposits of Company's Las Cruces bank. The Las Cruces area branches of Company's Las Cruces bank do not appear to generate significant loan or deposit business in the El Paso area.⁷

In analyzing this case, we also considered interviews conducted by the Board and Reserve Bank staff with numerous bankers and other lenders in the Las Cruces and El Paso areas. The bankers in one city stated that they generally would not solicit loans from residents in the other city. Evidence from field inter-

views and other sources (such as geographic loan distribution data furnished by Applicant) also indicate that an El Paso bank generally would not consider making loans in the Las Cruces area unless requested to do so by an El Paso customer conducting business (or with a business project) in Las Cruces, or unless the loan were for an unusually large amount. Officials of the El Paso regional office of the Small Business Administration ("SBA") stated that of all SBA guaranteed loans made by El Paso banks in the past two years, only two were extended to Las Cruces area customers. On the basis of these facts, it appears that banks in the Las Cruces and El Paso areas do not regard banks in the other area as being within a common banking market.

Commuting patterns traditionally have provided important indications of economic and commercial integration in defining banking markets. Employment commuting between El Paso and Las Cruces appears to be insignificant. Of the 168,683 persons residing in El Paso County and reporting their place of work in conjunction with the 1980 Census, 2,979 persons (1.8 percent) were employed in Dona Ana County, and only 240 persons (or 0.1 percent) were employed in Las Cruces. Of the 31,178 persons residing in Dona Ana County and reporting their place of work in the 1980 Census, 2,183 persons (7.0 percent) were employed in El Paso County. Of the 16,171 persons residing in the city of Las Cruces, however, only 216 (1.3 percent) were employed in El Paso County. It appears the labor force commuting into El Paso County from nearby New Mexico originates largely from Dona Ana County communities that are remote suburbs of El Paso. We therefore conclude that these communities properly are included in the El Paso, rather than the Las Cruces banking market.

Traffic flow data collected by the Federal Highway Administration in 1985 show an average of about 20,000 vehicles traveling between Las Cruces and El Paso each day. Much of the traffic flow, however, is attributed to vehicles engaged in long distance travel over Interstate Highways 10 and 25, two major cross country routes converging south of Las Cruces. Another substantial portion of the traffic flow between El Paso and nearby areas of New Mexico is attributed to work-related commuting and supply traffic into the White Sands Missile Range. As of March 31, 1986, that facility employed 9,521 persons, of which approximately 36 percent lived in El Paso.

We also observe that newspaper circulation and broadcast transmission data for the El Paso and Las Cruces areas provide little indication that residents in one area are well informed about banking services in the other. The major El Paso newspaper, the *El Paso Times*, delivers 3.2 percent of its daily press run of 87,271 copies to Las Cruces. The major Las Cruces

4. *Rand McNally Commercial Atlas and Marketing Guide*, Chicago: Rand McNally and Company, 1986.

5. United States Bureau of Census.

6. Applicant provided no breakdown of these data to reflect the distribution of loans and deposits in the El Paso area.

7. Applicant submitted certain data on check clearing at its Las Cruces bank, in an effort to show a significant commercial linkage of El Paso with Las Cruces. We regard this check clearing data as ambiguous, however, and can reach no determination from the data as to whether residents of one area regard the other area as a significant alternative source of goods and services.

newspaper, *The Las Cruces Sun-News*, does not distribute any of its daily press run to El Paso, however. While Las Cruces has only one television station with limited programming, El Paso television programming is transmitted to the Las Cruces area, giving banks in Las Cruces the option of reaching Las Cruces area consumers through advertising on El Paso stations. There is no indication, however, that Applicant's expenditures for advertising on El Paso television stations are intended to market its services to El Paso rather than Las Cruces area residents. Neither Applicant nor Company advertises its services in any other broadcast medium originating in El Paso. Based on relevant broadcast transmission and newspaper circulation data, we find that there is minimal commercial interaction between the Las Cruces and El Paso areas.

Competitive Effects—Las Cruces Banking Market

Within the relevant Las Cruces banking market, Applicant is the fourth largest of six commercial banking organizations, controlling deposits of \$42.9 million, representing 9.9 percent of the total deposits in commercial banks in the market.⁸ Company is the largest banking organization in the market, controlling deposits of \$191.0 million, which represents 43.9 percent of the total deposits in commercial banks in the market. The Las Cruces banking market is highly concentrated, with the four largest commercial banks controlling 94.4 percent of the deposits in commercial banks in the market. Upon consummation of the proposed acquisition of Company, Applicant would become the largest commercial banking organization in the market, controlling \$234.0 million in deposits, representing 53.8 percent of the market. The four-firm concentration ratio would increase by 3.6 percentage points to 98.0 percent, and the number of commercial banking competitors would be reduced from six to five. The Herfindahl-Hirschman Index ("HHI") for the market would increase by 868 points to 3738, and would be subject to challenge under the Department of Justice ("DOJ") Merger Guidelines.⁹

In previous decisions, the Board has indicated that thrift institutions have become, or at least have the

potential to become, major competitors of commercial banks.¹⁰ In this instance, however, we conclude that the substantial anticompetitive effects of the transaction are not sufficiently mitigated by the presence of thrift institutions in the Las Cruces banking market to allow for approval of the proposed acquisition. The record indicates that six thrift institutions operate in this market and control 33.2 percent of the total deposits in the market. If, in accordance with Board practice, 50 percent of the deposits held by thrift institutions were included in the calculation of market statistics, Applicant and Company would have market shares of 7.9 percent and 35.2 percent, respectively. The four-firm concentration ratio would be 75.6 percent. Upon consummation of the proposal, Applicant would become the largest commercial banking organization with a 43.1 percent market share. The four-firm concentration ratio would increase by 5.7 percentage points to 81.3 percent, and the HHI would increase by 557 points to 2487.¹¹ On the basis of the substantial increase in concentration in the market, even after giving substantial weight to the competition afforded by thrift institutions, and Applicant's resulting dominant position in the market, we believe that consummation of this proposal would substantially lessen competition in the Las Cruces banking market.

We have considered Applicant's contention that, in evaluating market concentration, the competitive effects of credit unions and other financial institutions that provide loan and deposit services should be taken into account. In delineating the relevant product market in which to assess the probable competitive effects of a bank acquisition or merger, the Supreme Court has determined that "commercial banking" is the appropriate line of commerce¹² on the basis that the

10. *National City Corporation*, 70 FEDERAL RESERVE BULLETIN 743 (1984); *NCNB Bancorporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984); *General Bancshares Corporation*, 69 FEDERAL RESERVE BULLETIN 802 (1983); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

11. If 100 percent of the deposits of thrift institutions were included in the Las Cruces banking market, an assessment that these members of the Board deems unwarranted in this case, Applicant and Company would control 6.6 and 29.4 percent, respectively, of total deposits in the market. Upon consummation of the proposal, Applicant would become the largest depository organization in the market, controlling 36.0 percent of the deposits in the market. The HHI would increase by 388 points to 1915 and the market would become highly concentrated. Thus, even with full inclusion of thrift deposits in the market, Applicant's proposal would be subject to challenge under the DOJ Merger Guidelines.

12. *United States v. Philadelphia National Bank*, 374 U.S. 321, 356 (1963). In *United States v. Phillipsburg National Bank*, 399 U.S. 350 (1970), the Court stressed that banks were the only financial institution in which a wide variety of financial products and services were gathered in one place and that this "clustering" of financial products and services facilitated convenient access to them for all banking customers.

8. Market data are as of June 30, 1986.

9. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), any market in which the post-merger HHI is above 1800 is considered highly concentrated. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other nondepository financial entities.

“cluster of products . . . and services” provided by commercial banks is unique relative to other institutions. In *United States v. Connecticut National Bank*,¹³ the Court rejected the contention that savings banks should be included in the commercial banking line of commerce because of their lack of competition with banks in the provision of certain products and services. The Court acknowledged, however, that at the same point in the development of savings banks, their products and economic behavior could make them indistinguishable from commercial banks for purposes of the antitrust laws. The Court noted particularly that “that point may well be reached when and if savings banks become significant participants in the marketing of bank services to commercial enterprises.” 418 U.S. at 666.

Since the *Connecticut National* decision, legislation at the federal and state level has significantly expanded the power of thrifts, such that they are now in many cases direct competitors or potentially direct competitors of commercial banks. The Board has recognized these developments in the powers and competitive importance of thrifts and accordingly, as in this case, has given substantial weight to such institutions in its analysis of the competitive effects of a bank merger or acquisition.

This expansion of the powers of thrift institutions as well as the expansion of the products and services of other non-depository members of the financial services industry in recent years has raised the question whether the “commercial banking” line of commerce enunciated in the *Philadelphia National* and *Connecticut National* cases should be retained or modified. In this case, we acknowledge the existence in the Las Cruces banking market of credit unions, consumer and commercial finance companies, securities brokerage firms, and other providers of financial services. We do not believe, however, that the record in this case provides evidence to allow us to determine the extent and nature of the services these institutions offer or whether they constitute effective competitive alternatives to bank products and services. Nonetheless, we are willing to consider any additional facts or information that Applicant may be able to submit regarding this issue.

Competitive Effects—Silver City Banking Market

In the Silver City market, Applicant is the largest of three commercial banking organizations and controls total deposits of \$68.1 million, representing 49.2 percent of the total deposits in commercial banks in the

market. Company is the smallest banking organization, controlling total deposits of \$10.6 million, representing 7.6 percent of the total deposits in commercial banks in the market. The Silver City banking market is considered highly concentrated with a three-firm concentration ratio of 100 percent and an HHI of 4340 points. Upon consummation of this proposal, Applicant would remain the largest banking organization in the market and would control total deposits of \$78.7 million, representing 56.8 percent of deposits in commercial banks in the market. The Silver City market would remain highly concentrated and only two banks would operate in the market. The HHI would increase by 752 points to 5092. On the basis of commercial bank deposits only, we consider the effect of this acquisition on existing competition in the Silver City market to be substantially adverse.

Moreover, we do not believe that the anticompetitive effects of this transaction in the market are sufficiently mitigated by the presence of thrift institutions to allow for approval of the acquisition. Two thrifts operate in the market and control 29.6 percent of the total deposits in the market. The record indicates, however, that these firms offer commercial and industrial loans, commercial checking accounts, and consumer installment loans only to a limited extent. Even if 50 percent of the deposits held by thrifts were included in the calculation of market statistics, Applicant would control a 40.6 percent market share. Company would be the fourth largest depository institution, with a 6.3 percent market share. The four-firm concentration ratio would be 94.1 percent. Upon consummation, Applicant would control a 46.9 percent market share, and the market would remain highly concentrated, with the four-firm concentration ratio of 100 percent. The HHI would increase by 513 points to 3642.

The BHC Act authorizes the Board to approve a proposal even if the effect of the transaction would otherwise be substantially anticompetitive if the “anticompetitive effects of the transaction are clearly outweighed in the public interest by the convenience and needs of the community to be served.”¹⁴ The facts of record do not support Applicant’s contention that the anticompetitive effects of its proposal are mitigated by adverse economic conditions in the Silver City market and by the poor prospects for financial viability of its Silver City bank. Economic conditions in the Silver City market are significantly affected by the local copper mining industry. That industry is depressed throughout New Mexico as a result of foreign competition, weakened demand, and excess capacity in the mining industry. Although the poor condition of the

13. 418 U.S. 656, 660–66 (1974).

14. 12 U.S.C. § 1843(c)(2).

mining industry has had a depressive effect on the local economy, available data show that other economic forces have had offsetting favorable effects in the Silver City banking market.

The total population in the Grant County area has remained stable over the three-year period ending in August 1986. During this same period, unemployment decreased from 17.4 percent to 12.3 percent. During a two-year period ending December 31, 1985, commercial bank deposits in Grant County increased at an annual rate of 9.6 percent, compared to 3.7 percent for statewide commercial bank deposits during the same period. We note that Company undertook to charter its Silver City bank in 1982, at a time when economic conditions in Grant County were severely depressed. Since the bank opened for business, moreover, it has reported reasonably strong deposit growth (total deposits of \$10.6 million as of June 30, 1986) and, since its creation, has operated in satisfactory financial condition.

We therefore conclude that the prospects for commercial bank profitability and long-term viability in the Silver City banking market are not unfavorable. Accordingly, neither the condition of the local economy nor the condition of Applicant's or Company's Silver City banks may be regarded as factors that would mitigate the substantial anticompetitive effects of the proposed transaction.

Competitive Effects—Roswell Banking Market

In the Roswell banking market, Applicant is the largest of seven commercial banking organizations, controlling deposits of \$112.6 million, representing 22.2 percent of the total deposits in commercial banks in that market. Company is the smallest commercial banking organization in the Roswell market, controlling deposits of \$13.0 million, representing 2.6 percent of the total deposits in commercial banks in the market. The Roswell banking market is considered highly concentrated with a four-firm concentration ratio of 81.7 and an HHI of 1815. Upon consummation of the proposed acquisition, the four-firm concentration ratio would increase by 2.6 points to 84.3 percent, and the HHI would increase by 113 points to 1928. Applicant would remain the largest commercial banking organization, and would control deposits of \$125.6 million, representing 24.7 percent of the deposits in commercial banks in the market. Although consummation of this transaction would eliminate some existing competition in the Roswell banking market, we believe that the competition eliminated would not be substantial.

We also have considered the presence of thrift institutions in the Roswell market to alleviate the adverse competitive effects of Applicant's proposal. In

this case, four thrift institutions control 43.0 percent of the total deposits in all commercial banks and thrifts. Thrifts also compete directly with banks in the Roswell market to offer a wide range of consumer services and transaction accounts and some commercial and industrial loans.¹⁵

No adverse competitive effects would arise in the El Paso banking market,¹⁶ where, in the cities of Anthony and Santa Teresa, Company's Las Cruces bank operates two branches. Because Applicant does not currently operate a banking office in the El Paso market, consummation of the proposal would not eliminate any existing competition in this market. Consummation of this proposal would not eliminate any significant probable future competition in the El Paso market.

In light of our conclusion on the basis of the record presently before the Board that the proposed acquisition would result in a substantial lessening of competition in the Las Cruces and Silver City banking markets, we are unable to vote to approve this application.

STATEMENT BY GOVERNORS JOHNSON AND HELLER

Although this application did not receive the necessary majority for Board approval on the basis of the present record before the Board, we believe it is important to state the reasons why we would not object to approval of this application.

We believe that consummation of the proposal would not substantially reduce competition in any relevant market. We believe that the concentration ratios and other statistics set out in the statement of the other Board members do not reflect the true state of competition in the Las Cruces and Silver City markets. While these statistics give consideration to the competition afforded by savings and loan institutions, they ignore the substantial competition banks face from a broad array of products and services provided by other financial institutions in these markets.

Since 1974, the last time the Supreme Court considered the appropriateness of commercial banking as a distinct line of commerce, the powers of thrift institutions have been broadly expanded, and they are now

15. If 50 percent of deposits held by thrift institutions in the Roswell banking market were included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 59.3 percent. Applicant would control 16.1 percent of the market's deposits and Company would control 1.9 percent of the market's deposits. The market would remain moderately concentrated, and the HHI would increase by 59 points to 1233.

16. The El Paso banking market is approximated by El Paso County, Texas, plus the towns of Anthony and Santa Teresa in Dona Ana County, New Mexico.

providing in many areas, or have the potential to provide, checking accounts, commercial lending, and other products and services traditionally offered by commercial banks. In addition, there are a variety of financial products offered by nondepository institutions that are reasonably interchangeable with and compete with bank products. These products are offered by mortgage banking firms, securities brokerage firms, insurance companies, consumer and commercial finance companies, and other financial institutions. Moreover, consumers are no longer confined to their neighborhood bank as the sole source of banking services. Improved technology, communications, and marketing has broadened significantly the alternatives available to customers for both credit and deposit services.

In our judgment, these significant developments in the financial services industry in recent years have seriously eroded the commercial banking product market that the Board and the courts have traditionally used in analyzing bank mergers. That product market was developed at a time when commercial banks provided a unique cluster of products and services, a situation that no longer prevails in most banking markets.

This case, in our view, demonstrates the need for a reassessment by the Board of the method it uses to evaluate the competitive effects of bank acquisitions and mergers to take into account the fundamental transformation the financial services industry has undergone in recent years and the significant competitive influence exerted in local banking markets by thrifts, credit unions, securities and insurance companies, consumer and commercial finance companies, and other providers of bank-like products and services. We recognize that this would be a fundamental change in policy that must be supported by an adequate record that demonstrates the competitive vitality of these alternative providers of banking products and services. Accordingly, we would welcome this information to support applications for acquisitions where competitive problems otherwise might be present.

Union Planters Corporation Memphis, Tennessee

Order Approving Acquisition of a Bank Holding Company

Union Planters Corporation, Memphis, Tennessee, 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 of the Act, to acquire 90 percent of the voting shares of Merchants State Holding Company, Humboldt, Tennessee ("Merchants"), and thereby indirectly to acquire Merchants State Bank, also of Humboldt ("Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published (52 *Federal Register* 2809 (1987)). The time for filing comments has expired, and the Board has considered the application and all comments received, including those of The National Association of Life Underwriters and the The National Association of Professional Insurance Agents, in light of the factors set forth in section 3(c) of the Act.

Applicant is the fifth largest commercial banking organization in Tennessee, with deposits of \$1.4 billion, representing 4.8 percent of the total deposits in commercial banking organizations in the state.¹ Bank, with deposits of \$78.9 million, is among the smaller commercial banking organizations in Tennessee, controlling less than 1 percent of the total deposits in commercial banking organizations in the state. Upon consummation of this proposal, Applicant would remain the fifth largest commercial banking organization in Tennessee, controlling deposits of \$1.5 billion, representing 5.0 percent of total deposits in commercial banking organizations in the state. Consummation of the proposal would not have any significant adverse effect on the concentration of commercial banking resources in Tennessee.

Both Applicant and Bank compete in the Gibson County banking market.² Applicant is the fourth largest of thirteen commercial banking organizations in the market, with deposits of \$25.1 million, representing 7.4 percent of the total deposits in the market. Bank is the largest commercial banking organization in the Gibson County market, controlling 20.9 percent of the total deposits in commercial banking organizations in the market. Upon consummation of the proposal, Applicant would become the largest commercial banking organization in the market, with a 28.3 percent market share.³

Although consummation of the proposal would eliminate some existing competition between Applicant and Bank in the Gibson County banking market, numerous other commercial banks would remain as

1. Statewide banking data are as of June 30, 1986.

2. The Gibson County banking market is approximated by Gibson County, Tennessee.

3. Market data are as of June 30, 1985. The Gibson County banking market is considered to be moderately concentrated, with the four largest commercial banking organizations controlling 58.3 percent of the total deposits. Upon consummation of this proposal, the Herfindahl-Hirschman Index ("HHI") would increase by 311 points to 1,456 and the four-firm concentration ratio would increase to 64.3 percent. The market would remain moderately concentrated.

competitors in the market. In addition, three thrift institutions compete with commercial banks in the Gibson County banking market, controlling 20.8 percent of the combined deposits in banks and thrifts in the market. All of the thrift institutions in the Gibson County banking market offer consumer loans and two offer commercial loans, in addition to traditional thrift services. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely to substantially lessen competition in the Gibson County banking market.⁴

The Board has considered the effect of the proposal on probable future competition in the other banking markets where Applicant has branch offices, in light of its proposed guidelines for assessing the competitive effects of market extension mergers and acquisitions.⁵ In evaluating the effects of a proposed acquisition upon probable future competition, the Board considers market concentration, the number of probable future entrants into the market, the size and market position of the bank to be acquired, and the attractiveness of the market for entry on a *de novo* basis, absent approval of the acquisition. After consideration of these factors, the Board concludes that consummation of this proposal would not have any significant adverse effects on probable future competition in any relevant market.⁶

In connection with Applicant's proposal, The National Association of Life Underwriters and the National Association of Professional Insurance Agents ("Protestants") submitted comments opposing approval of this application, alleging that Bank, by making available to its depositors membership in The Financial Services Association ("FSA"), a nationwide organization offering various free or discounted services, including accidental death and travel insurance benefits, is engaged in the sale of life insurance. Such action is prohibited under the amendments to section 4 of the Act, contained in the Garn-St Germain Depository Institutions Act of 1982 ("Garn-St Germain Act").

4. If 50 percent of deposits held by thrift institutions in the Gibson County banking market were included in the calculation of market concentration, Applicant would control 6.6 percent and Bank would control 18.5 percent of the market's deposits. Upon consummation, the HHI would increase by 243 points to 1201.

5. "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 (March 3, 1982). While 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 a proposal on probable future competition.

6. Bank, with assets of \$93.7 million, is not considered to be a probable future entrant into the banking markets in which Applicant operates branch offices.

Bank, as a sponsor member of FSA, makes FSA membership available to its non-business checking account depositors. Depositors who are FSA members pay monthly dues to the Bank and in return receive from FSA a series of benefits, including group accidental death and travel insurance.⁷ The entire portion of the FSA membership dues attributable to the purchase of insurance and other nonbanking benefits is passed by Bank to FSA. The Bank retains only that portion of FSA membership dues attributable to recovering its costs (and earning a slight margin) on the establishment and maintenance of its depositors' accounts, without regard to the provision of insurance by FSA to such depositors. Thus, Bank's depositors receive insurance coverage by virtue of their membership in FSA, and not by virtue of being Bank's depositors or by purchasing insurance from Bank.

Bank does not function as an insurance agent, as it neither advertises nor sells insurance policies. The insurance is offered as a benefit, along with other benefits, to depositors who become FSA members. Bank receives no compensation in connection with the insurance its depositors receive by virtue of their FSA membership. On these facts, Bank cannot be characterized as engaged in the sale of insurance. Indeed, by making available FSA membership to its customers, Bank's activity is closely analogous to the routine placement by banks, for a fee, of "statement stuffers" from various organizations in the monthly account statements mailed to depositors.

The insurance agency activities that are the subject of the Garn-St Germain Act prohibitions cited by the Protestants, in contrast, concern fee or commission income accruing to the bank holding company or its subsidiaries from the sale of insurance.⁸ In this instance, the Bank receives no income from the insurance offered by FSA. Accordingly, the offering of FSA membership does not appear to fall within the Garn-St Germain Act insurance prohibitions.

Based upon the above facts, the Board has determined that Bank is not engaged in an independent, entrepreneurial activity for purposes of section 4(a)(2) of the Act, in connection with the accidental death and

7. Other FSA benefits include: travel discounts; member magazines; no-service-charge checking; personalized club checks; nationwide personal check cashing privileges; the provision of travelers checks, cashiers checks and money orders without charge; local merchant discounts; and an association membership card.

8. For example, Exemption C (allowing bank holding companies located in places with a population not exceeding 5,000 to engage in insurance agency activities) and Exemption F (allowing bank holding companies with assets of \$50 million or less to engage in similar activities) were designed to allow small banking organizations to generate income from insurance sales in order to take advantage of tax benefits designed to facilitate the ownership and transfer of small banks. See *e.g.*, H.R. Rep. No. 845, 96th Cong., 2d Sess. 5, 6 (1980); and 126 Cong. Rec. H4871 (daily ed. June 12, 1980) (remarks of Rep. McGuire).

travel benefits made available through FSA to its members who are depositors of Bank. Accordingly, the availability of insurance through the FSA membership offered to Bank's depositors is not an activity subject to the prohibitions of the Act.⁹

In its evaluation of Applicant's managerial resources, the Board has considered certain violations by Applicant's subsidiary bank, Union Planters National Bank of Memphis, Memphis, Tennessee, of the Currency and Foreign Transactions Reporting Act ("CFTRA") and the regulations thereunder. Applicant has taken appropriate remedial action to correct such violations and prevent their recurrence. The corrective measures include the development of a new compliance policy, enhanced audit procedures, and compliance-procedure meetings with branch managers. In addition, the Office of the Comptroller of the Currency has indicated that all violations were corrected at its most recent compliance examination.

Based on the foregoing and other facts of record, the Board concludes that the financial and managerial resources and future prospects of Applicant, Merchants, and Bank are consistent with approval of the proposal. Considerations relating to the convenience and needs of the communities to be served also are consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the application should be, and hereby is, approved. This 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 St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors, effective April 21, 1987.

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

JAMES MCAFEE
[SEAL] Associate Secretary of the Board

9. In addition, the Protestants implicitly argue that the Act's nonbanking prohibitions, including the Garn-St Germain Act insurance prohibitions, apply to the activities of state bank subsidiaries of a bank holding company as well as to the activities of a bank holding company and its nonbanking subsidiaries. The Board previously has determined that it is appropriate to reserve judgment on the issue of the applicability of the prohibitions of the Act to state bank subsidiaries of bank holding companies and to resolve the matter in the context of pending rulemaking proceedings. *NCNB Corporation*, 72 FEDERAL RESERVE BULLETIN 57 (1986).

U.S. Bancorp Portland, Oregon

Order Approving Acquisition of a Bank Holding Company

U.S. Bancorp, Portland, Oregon, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 *et seq.* ("Act")), has applied for the Board's approval under section 3 of the Act to acquire Valley National Corporation, Forest Grove, Oregon ("Company"), and thereby indirectly to acquire Valley National Bank of Oregon, Forest Grove, Oregon ("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 (52 *Federal Register* 3346 (1987)). 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)).

In 1980, the Board denied Applicant's proposal to acquire Bank.¹ The Board's denial was based on the substantial adverse competitive effect in the Portland banking market that would have resulted from consummation of the proposal. In addition, the Board concluded that consummation of the proposal would reverse the trend of deconcentration in the state of Oregon, which exhibited one of the highest levels of concentration of banking resources in the country. Applicant now asserts that the competitive circumstances in the state and the relevant banking market have changed since 1980 such that consummation of the proposal would not have a substantial anticompetitive effect in any relevant banking market.

The Board has considered the record of this case in light of developments since 1980 and has determined that the effect of the proposed acquisition is not likely substantially to lessen competition in any relevant banking market. Since the Board denied Applicant's 1980 proposal, the financial services industry has undergone significant changes. The Consumer Checking Account Equity Act of 1980² authorized thrift institutions to offer NOW accounts, and the Garn-St Germain Depository Institutions Act of 1982³ greatly expanded the commercial lending powers of federal thrift institutions. In addition, regulatory actions by the Federal Home Loan Bank Board and various state

1. *U.S. Bancorp*, 67 FEDERAL RESERVE BULLETIN 60 (1981).

2. Title III, 96 Stat. 132, 145, codified at 12 U.S.C. § 1832.

3. Title III, 96 Stat. 1469, 1499-1500, codified at 12 U.S.C. § 1464(c)(1).

statutes also have significantly expanded the services that thrifts may offer. In recognition of these developments, the Board in recent years has included thrift institutions in its analysis of the competitive factors of an acquisition or merger because of the competitive alternatives offered by these institutions.⁴ In addition, Oregon now permits out-of-state bank holding companies to expand into Oregon.⁵

Applicant, the largest commercial banking organization in Oregon, controls four subsidiary banks with total deposits of \$5.3 billion, representing approximately 39.4 percent of total deposits in commercial banks in the state.⁶ Company is the tenth largest commercial banking organization in the state, with total deposits of \$79.0 billion, representing 0.6 percent of the total deposits in commercial banks in the state. Upon consummation of the proposed transaction, Applicant would control deposits of \$5.4 billion, representing 40.0 percent of the total deposits in commercial banks in the state. The state of Oregon would remain highly concentrated with the four largest commercial banking organizations controlling 80.1 percent of the deposits in commercial banks in the state.

Although the Board is concerned about the increase in the concentration of banking resources within the state, certain conditions that would exist after the proposed merger mitigate that concern. The Board notes that 39.6 percent of the combined deposits of banks and thrift institutions in the state are controlled by thrift institutions that compete actively with commercial banks throughout the state. Two of the four depository institutions with deposits of over \$1.0 billion are thrifts, while the other two are commercial banks. If 50 percent of deposits held by thrift institutions in the state were included in the calculation of statewide concentration, the share of total deposits held by the four largest organizations in the market would be 63.0 percent. Based upon these facts, the Board does not believe consummation of this proposal would have any significant effect on the concentration of banking resources in Oregon.

Both Applicant and Company compete directly in the Portland banking market.⁷ Applicant is the largest of 29 commercial banking organizations operating in

the market, and controls total deposits of \$2.5 billion, representing 39.2 percent of the deposits in commercial banks in the market. Company is the tenth largest commercial banking organization in the market, with total deposits of \$49 million, representing 0.8 percent of market deposits. Upon consummation of the proposal, Applicant's share of the deposits in commercial banks in the market would increase to 40.0 percent. The Portland banking market is considered to be highly concentrated, with the four largest commercial banks controlling 81.7 percent of the deposits in commercial banks in the market. The Herfindahl-Hirschman Index ("HHI") for the market is 2448, and would increase by 60 points to 2508 upon consummation of the proposal.⁸

Although consummation of the proposal would eliminate some existing competition between Applicant and Company in the Portland banking market, 27 other commercial banking organizations would remain as competitors in the market. In addition, the presence of twelve thrift institutions, controlling approximately 39.6 percent of the market's total deposits, mitigates the anticompetitive effects of the transaction. As noted earlier, thrift institutions already exert a considerable competitive influence as providers of a wide array of deposits and lending services to consumers and commercial customers. Based upon the above considerations, the Board concludes that consummation of the proposal is not likely substantially to lessen competition in the Portland banking market.⁹

The financial and managerial resources of Applicant, its subsidiary banks, and Bank are consistent with approval. In its evaluation of Applicant's managerial resources, the Board considered certain violations by Bank of the Currency and Foreign Transactions Reporting Act ("CFTRA") and the regulations thereunder.¹⁰ Bank has taken remedial action as a

4. See, e.g., *National City Corporation*, 70 FEDERAL RESERVE BULLETIN 743 (1984); *NCNB Corporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

5. Or. Rev. Stat. § 715.065(1).

6. State deposit data are as of June 30, 1986. Market and thrift data are as of June 30, 1985.

7. The Portland banking market is approximated by the Portland RMA, and consists of Multnomah County and parts of Clackamas, Columbia, Marion, Washington, and Yamhill Counties, all in Oregon; and part of Clark County, Washington.

8. Under the revised Department of Justice Merger Guidelines (49 *Federal Register* 26,823 (June 29, 1984)), a market in which the post-merger HHI is above 1800 is considered highly concentrated. In such markets, the Department is likely to challenge a merger that increases the HHI by more than 50 points. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial entities.

9. If 50 percent of deposits held by thrift institutions in the Portland banking market were included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market would be 64.0 percent. Applicant would control 29.5 percent of the market's deposits and Company would control 0.6 percent of the market's deposits. The HHI would increase by 35 points to 1522.

10. 31 U.S.C. § 5311 *et seq.*; 31 C.F.R. § 103.

result of the discovery of these violations. Applicant has committed to implement its compliance program at Bank within 30 days of consummation and to undertake a compliance review at Bank within 90 days of consummation to ensure Bank's compliance. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval. Based on the foregoing and other facts of record, the Board has determined that consummation of the proposed transaction would be in the public interest and that the application should be approved.

On the basis of the record, the application is approved for the reasons summarized above. The transaction shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of San Francisco pursuant to delegated authority.

By order of the Board of Governors, effective April 27, 1987.

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

[SEAL] BARBARA R. LOWREY
Associate Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

Citicorp
New York, New York

J.P. Morgan & Co. Incorporated
New York, New York

Bankers Trust New York Corporation
New York, New York

Order Approving Applications to Engage in Limited Underwriting and Dealing in Certain Securities

Citicorp, J.P. Morgan & Co. Incorporated, and Bankers Trust New York Corporation, New York, New York (collectively "Applicants"), bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have each applied for the Board's approval under 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 through wholly owned subsidiaries, Citicorp Securities, Inc. ("CSI"), J.P. Morgan Securities Inc. ("JPMS"), J.P. Morgan

Municipal Finance Inc. ("JPMMF"), and BT Securities Corporation ("BTSC"), respectively, in underwriting and dealing in, on a limited basis, certain securities that member banks may not underwrite and deal in, specifically:

- (1) municipal revenue bonds, including so-called "public ownership" industrial development bonds;¹
- (2) mortgage-related securities (obligations secured by or representing an interest in residential real estate);
- (3) consumer-receivable-related securities ("CRRs") (obligations secured by or representing an interest in loans or receivables of a type generally made to or due from consumers); and
- (4) commercial paper.²

These securities (hereinafter "ineligible securities") may be held by member banks for investment purposes under section 16 of the Banking Act of 1933 (the "Glass-Steagall Act") (12 U.S.C. § 24, Seventh), but may not under that section be underwritten or dealt in by member banks.

Applicants have previously received Board approval under section 4(c)(8) of the BHC Act for the above-mentioned subsidiaries (collectively the "underwriting subsidiaries") to underwrite and deal in U.S. government and agency and state and municipal securities that state member banks are authorized to underwrite and deal in under section 16 of the Glass-Steagall Act (hereinafter "eligible securities").³ These eligible securities include certain municipal revenue bonds (issued for certain housing, university or dormitory purposes) as well as mortgage-related securities issued or sold by certain agencies of the federal government. The proposed new underwriting and dealing activities would be provided in addition to the previously approved activities, with the subsidiaries serving customers through offices in New York and, in the case of Citicorp, in several other cities in the United States.⁴

1. The industrial development bonds covered by the applications are only those tax exempt bonds in which the governmental issuer, or the governmental unit on behalf of which the bonds are issued, is the owner for federal income tax purposes of the financed facility (such as airports, mass commuting facilities, and water pollution control facilities).

2. J.P. Morgan has not proposed to underwrite and deal in CRRs. Citicorp's present application does not cover commercial paper, although it has filed a separate application with the Board to underwrite commercial paper.

3. These activities are authorized for bank holding companies under section 225.25(b)(16) of Regulation Y, 12 C.F.R. § 225.25(b)(16). In general, member banks may underwrite and deal in obligations of the United States, general obligations of states and political subdivisions, and certain securities issued or guaranteed by government agencies. 12 U.S.C. §§ 24 Seventh, and 335.

4. For purposes of the Order, in accordance with common industry usage, the term dealing refers to the business activity of holding oneself out to the public as being willing to buy and sell securities as principal in the secondary market.

Citicorp, with total consolidated assets of \$196 billion, is the largest banking organization in the nation.⁵ It operates eight banking subsidiaries and engages directly and through subsidiaries in a broad range of permissible nonbanking activities. J.P. Morgan & Co. Incorporated, with total consolidated assets of \$76 billion, is the fourth largest banking organization in the nation. It operates two subsidiary banks and engages directly and through subsidiaries in a variety of permissible nonbanking activities. Bankers Trust New York Corporation, with total consolidated assets of \$56.4 billion, is the eighth largest banking organization in the nation. It also operates two subsidiary banks and engages directly and through subsidiaries in a variety of nonbanking activities.

Notice of the applications, affording interested persons an opportunity to submit comments on the proposals, has been published (50 *Federal Register* 20,847 and 41,025 (1985) and 51 *Federal Register* 16,590 (1986)). In addition, on December 31, 1986, the Board announced that it would hold a public hearing on February 3, 1987, on the applications, and requested specific comment on certain major issues, including a framework of prudential limitations to address the potential for conflicts of interest, unsound banking practices and other adverse effects raised by the proposals.

Four commenters, including the Securities Industry Association ("SIA"), a trade association of the investment banking industry, and the Investment Company Institute ("ICI"), a trade association of the mutual fund industry, opposed one or more of the proposals (collectively the "protestants"). The majority of the written comments were from banking organizations and trade associations representing segments of the banking industry and were in favor of the proposals. The Antitrust Division of the U.S. Department of Justice and the U.S. Treasury Department also supported approval of the proposals.

Because each of the underwriting subsidiaries that propose to underwrite and deal in the ineligible securities would be affiliated through common ownership with a member bank, the Board must determine whether, upon consummation, the subsidiaries would be "engaged principally" in underwriting or the public sale of securities within the meaning of section 20 of the Glass-Steagall Act.⁶ If so, the Board may not

approve the applications.⁷ In addition, the Board must determine whether the proposed activities are so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and are, on this basis, activities in which bank holding companies may engage.

In two previous decisions, the Board considered some of the issues that are raised in the applications now before the Board. On December 24, 1986, the Board approved the application of Bankers Trust New York Corporation ("*Bankers Trust*") to engage in the placement of commercial paper issued by third parties as one activity of a commercial lending affiliate.⁸ In that decision, the Board concluded that the placement activity involved did not constitute underwriting, distributing, or the public sale of securities for purposes of section 20. The Board further concluded that, even assuming this activity is covered by section 20, the term "engaged principally" in section 20 of the Glass-Steagall Act would allow the activity in an affiliate of a member bank if it is relatively insubstantial in terms of the total activity of the affiliate and the size of the market. Specifically, the Board cited the fact that since the gross revenues generated by the commercial paper activities of the affiliate would be no more than 5 percent of the affiliate's total gross revenues and that the affiliate's share of the total market for dealer placed commercial paper would not exceed 5 percent, the proposal would not violate section 20. In addition, the Board established a number of conditions to assure that the conduct of the activity was consistent with safe and sound banking practices and avoided conflicts of interest, concentration of resources, and other adverse effects. The Board applied this same framework of analysis in approving, on March 18, 1987, an application by The Chase Manhattan Corporation ("*Chase*") to engage in underwriting and dealing in commercial paper in a commercial finance subsidiary

Because Applicants propose that certain of their officers and directors will also be officers and directors of the underwriting subsidiaries, the proposal raises an issue under section 32 of the Glass-Steagall Act (12 U.S.C. § 78) which provides that:

No officer, director, or employee of any corporation . . . primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities shall serve [at] the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments.

7. See *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 468 U.S. 207, 216 (1984) (hereinafter "*Schwab*").

8. 73 FEDERAL RESERVE BULLETIN 138 (1987).

5. All asset data are as of December 31, 1986.

6. Section 20 of the Glass-Steagall Act (12 U.S.C. § 377) provides that:

". . . no member bank shall be affiliated . . . with any corporation . . . engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities"

of the parent bank holding company.⁹ The Board has been guided by these two decisions in deciding the applications now before the Board.

An index to this decision is contained in Appendix A to this Order.

Part I. Introduction & Summary of Findings

These applications raise fundamental questions concerning the scope of the Glass-Steagall Act's restrictions on the securities activities of member bank affiliates. Their resolution requires application of a statute adopted over 50 years ago in very different circumstances to a financial services marketplace that technology and other competitive forces have altered in a manner and to an extent never envisioned by the enacting Congress. Applicants' member bank affiliates seek to activate until now dormant provisions in section 20 of the Glass-Steagall Act to participate in underwriting and dealing in certain securities, so long as they are not engaged principally in this activity.

In its evaluation of the issues raised by the applications, the Board has been guided, as it must, by the terms of the statute and the underlying Congressional intent and purposes of the Act as evident in its structure and legislative history. Thus, the Board fully recognizes that Congress, through the Glass-Steagall Act, intended to separate commercial banks from general securities underwriting firms. Both the Board and the federal courts have often articulated the potential dangers to commercial banks from general underwriting activities that motivated the Congress in enacting the Glass-Steagall Act. The Board remains fully sensitive to these concerns.

Nevertheless, despite these dangers, the Congress drew a clear distinction between member banks and their affiliates in the Glass-Steagall Act. Except for certain specifically enumerated securities, including government securities, member banks were prohibited under the Glass-Steagall Act from engaging in any underwriting whatsoever. Member bank affiliates, on the other hand, were given a different statutory treatment under section 20 of the Act.

Member bank affiliates are permitted to participate in otherwise impermissible securities underwriting so long as they are not "engaged principally" in this activity. While prior to this time, there apparently has been no incentive to test the meaning of this authorization, the Board is now asked to apply it to specific proposals to engage in certain underwriting activities. Thus, the Board's task is to apply this explicit Congressional authorization to the proposed activities, but

in a manner that gives effect to the Congressional intent in adopting the Glass-Steagall Act. Because of the precedent-setting nature of these applications, the Board has given them careful attention, extending over a period in excess of a year, during which time the statutory language, the legislative history, and the implications of these proposals for banking organizations and the financial markets generally have been carefully analyzed by the Board on a number of occasions. In addition, the Board conducted a hearing before the Board members on these important issues.

For the reasons set out in its decisions in the *Bankers Trust* and *Chase* cases, the Board believes it is bound by the statutory language of section 20 to conclude that a member bank affiliate may underwrite and deal in the ineligible securities proposed in the applications, provided that this line of business does not constitute a principal or substantial activity for the affiliate. The Board reaffirms its conclusion in those cases that Congress intended that the "engaged principally" standard permit a level of otherwise impermissible underwriting activity in an affiliate that would not be quantitatively so substantial as to present a danger to affiliated banks. The Board believes that it is only on this basis—that the activity would be insubstantial—that Congress concluded that, despite the hazards from underwriting that caused it to ban banks from engaging in underwriting, this activity would be permissible for the affiliates of member banks.

The Board devoted a considerable effort to evaluation of the factors that should be used to determine the level of ineligible underwriting and dealing activity that would not exceed the substantiality threshold. Taking into account its precedent in the administration of the Glass-Steagall Act and the comments at the hearing on this issue, the Board again concluded that the principal factors that should be included in this judgment are gross revenue and market share. As explained in detail below, the Board believes that these factors are not susceptible to manipulation to increase artificially levels of activity and fairly reflect the amount of involvement of a bank affiliate in securities underwriting.

With respect to the appropriate quantitative level of ineligible activity permitted under section 20, the Board concludes that a member bank affiliate would not be substantially engaged in underwriting or dealing in ineligible securities if its gross revenue from that activity does not exceed a range of between five to ten percent of its total gross revenues. The Board also believes that a similar range should apply to the market share test it believes is appropriate under section 20. This range was established by reference to the Board's interpretations of the "primarily engaged" standard in section 32 of the Glass-Steagall Act. As

9. *The Chase Manhattan Corporation*, 73 FEDERAL RESERVE BULLETIN 367 (Order dated March 18, 1987).

discussed below, under these interpretations, a company would not generally be considered engaged substantially in ineligible securities activity if its gross revenues from that activity did not exceed 5 percent of its total gross revenues. Where underwriting volume was not large in absolute terms, however, somewhat higher levels of revenue were permitted, but generally not greater than 10 percent of total gross revenues.

Applying this framework to the current applications, the Board came to the conclusion that, in view of the fact that the volume of ineligible securities activity projected by Applicants would be very large in absolute terms, the lower end of the permissible range, 5 percent, should determine whether Applicants' gross income or market share from ineligible activity would be substantial. The Board recognizes that this 5 percent threshold for measuring the concept of "engaged principally" is a conservative interpretation of the level of activity permitted by section 20. The Board believes that a conservative, step by step approach is merited in applying the provision of a statute that was intended to deal with a crisis in our banking system and that has not been extensively interpreted by the courts as applied to the applications now before the Board. In the light of experience, the Board will consider, not later than one year from the date of this Order, whether, under the framework established by the Board in this Order, somewhat higher levels of activity would be consistent with the Board's finding that underwriting and dealing in ineligible securities in an affiliate of a member bank is permissible so long as the level of this activity measured by gross revenue and market share is not substantial.

In addition, the three applications now before the Board raise an important issue that was not present in the *Bankers Trust* and *Chase* applications. In those two cases, the applicants proposed to place or underwrite commercial paper in a subsidiary that was not engaged in securities underwriting activities at all. Here, the three Applicants propose to underwrite and deal in securities in a subsidiary that is otherwise engaged in underwriting and dealing in government securities and other securities that banks may underwrite and deal in pursuant to section 16 of the Glass-Steagall Act.

Thus, in the three pending applications the Board must consider whether underwriting U.S. government securities and other securities that a bank may underwrite pursuant to section 16 of the Glass-Steagall Act should be considered a permissible activity for the purposes of applying section 20 of the Glass-Steagall Act to the proposed underwriting subsidiaries. If underwriting these securities, and particularly U.S. government securities, is considered permissible under section 20, as it is under section 16, an affiliate engaged

principally in these activities could be then less than principally engaged in underwriting the otherwise impermissible securities proposed in the applications, including commercial paper, mortgage-backed securities and municipal revenue bonds. The answer to this question has vital significance for bank holding companies seeking to underwrite and deal in ineligible securities. Because of the operation of the net capital rules established by the Securities and Exchange Commission for broker-dealers, as a practical matter it is not feasible for bank affiliates to underwrite and deal in ineligible securities, other than commercial paper, within the confines of section 20 unless the subsidiary in which this activity takes place is engaged principally in underwriting and dealing in eligible securities—essentially U.S. government securities.

The question as to whether underwriting and dealing in government securities is included within the prohibition of section 20 of the Glass-Steagall Act depends upon an analysis of the language of the statute, the intention of Congress and the Board's own practice in administering the Act. The Board decided, in December 1986, not to resolve this question until after a hearing had given the parties an opportunity to develop further the record on this matter.

In the light of these considerations, the Board has concluded that U.S. government and other securities specifically made eligible for underwriting and dealing by member banks in section 16 should not be viewed as the kind of activity proscribed by section 20. The Board took into account, first, the fact that the Board has previously decided that a member bank affiliate is not engaged principally in impermissible activities if its sole business is underwriting and dealing in U.S. government and other eligible securities.¹⁰ Second, the Board considered that Congress did not intend to apply a more restrictive underwriting standard to member bank affiliates than it legislated for member banks themselves.

The Board's conclusion with respect to the content and meaning of the authorization of section 20 to member bank affiliates to be less than engaged principally in otherwise impermissible underwriting activities is all the more compelling because the Board has reached the conclusion that the activities proposed in these applications can be conducted by bank affiliates on a safe and sound basis and without undue risk to affiliated banks. On the contrary, the evidence seems to indicate that without this authority banking organizations will be at a disadvantage in the competition to supply the credit needs of the most creditworthy borrowers with access to the less costly commercial

10. See 12 C.F.R. § 225.25(b)(16).

paper market, with a consequent continuing decline in the overall quality of bank loan portfolios.

The Board has also evaluated whether the activities proposed in the applications are closely related to banking and a proper incident thereto under section 4(c)(8) of the BHC Act. 12 U.S.C. § 1843(c)(8). As stated in detail below, the Board has concluded that, because of the considerable experience of banks in underwriting and dealing in eligible securities, which are closely analogous to the proposed ineligible securities activities, and because the proposed commercial paper activities are functionally equivalent to traditional commercial banking functions, banking organizations are fully familiar with the proposed activities and have the expertise and capability to carry out the proposed functions. The Board also concluded that the proposed *de novo* participation in this activity would have the beneficial effect of substantially increasing competition, particularly in the highly concentrated commercial paper market, with the substantial expected public benefits of lowering financing costs as well as providing greater convenience to customers and increased efficiency in the proposed services.

As noted above, Congress recognized that a member bank affiliate that is not engaged principally in underwriting activities covered by section 20 could engage in otherwise impermissible securities underwriting even though it was aware that this activity could give rise to subtle hazards that could impair public confidence in depository institutions. The Board believes Congress was prepared to accept these risks because they could be contained within fully acceptable limits through maintaining the corporate separateness of the underwriting firm and the affiliated bank and through limitations on the relative size of the otherwise impermissible activities to assure their insubstantiality. These prudential limits have been fully implemented in the Board's interpretation of the Glass-Steagall Act.

In addition, other safeguards, both as a practical matter and under other statutory authorities, will be in place. As a practical matter, the securities which the Applicants propose to underwrite and the Board is prepared to authorize are securities that member banks are eligible to purchase for their own account, are of high quality and involve minimum risk. In terms of the statutory framework, the Board notes that bank holding company affiliates that engage in securities underwriting would be subject to SEC jurisdiction under the securities laws. Moreover, although not required by the Glass-Steagall Act, the Board believes it is appropriate to require that member bank affiliates underwriting otherwise impermissible securities observe a number of prudential considerations to assure capital adequacy and to limit both transactions and the

flow of information between an underwriting subsidiary and other affiliates of the parent banking organization. These prudential considerations are explained in Part III below.

Accordingly, the Board has concluded that, subject to the limitations established in this Order, approval of each of the three applications would not result in a violation of the Glass-Steagall Act and would be consistent with the closely related and proper incident to banking standards of section 4(c)(8) of the Bank Holding Company Act.

Part II. Glass-Steagall Act

A. Applicants' Contentions

The Applicants contend that the underwriting subsidiaries would not be "engaged principally" in underwriting securities within the meaning of section 20 of the Glass-Steagall Act because the subsidiaries will limit the volume of their ineligible activity to a small percentage of their total business and so that the subsidiaries would not have a significant share of the market for any of the ineligible securities underwritten or dealt in.¹¹

The Applicants contend that the term "engaged principally" in section 20 means the chief or single largest activity, and that, therefore, their underwriting subsidiaries may underwrite and deal in ineligible securities so long as this ineligible activity does not constitute more than 50 percent of the subsidiaries'

11. Citicorp proposes (in the third year and thereafter) to limit the total sales volume of underwriting by CSI in ineligible municipal revenue bonds, mortgage-related securities and CRRs to no more than 10 percent of all securities (both eligible and ineligible) underwritten by the affiliate during the previous year. Citicorp would similarly limit the affiliate's dealing in ineligible securities to 10 percent of its total securities dealing activity. Citicorp would also restrict the affiliate's underwriting of each type of security to no more than 3 percent of the total amount of each type of ineligible security underwritten domestically during the previous calendar year by all firms (mortgage-related securities and CRRs constitute a single category for this purpose). It would also limit the amount of each type of securities it may hold for dealing so as not to exceed this market cap.

Morgan proposes to limit ineligible underwriting and dealing activity by its affiliates (JPMS and JPMMF) in municipal revenue bonds, mortgage-related securities and commercial paper so that the activity will not, over any two year-period, account for more than 15 percent of the total consolidated eligible and ineligible securities activity of the affiliates as measured by two of the following three criteria: gross income, sales volume and average assets acquired in connection with the activity. Morgan would adopt the same market limitations as Citicorp, except that it proposes a 10 percent market share limitation for commercial paper based upon the average amount of dealer-placed commercial paper outstanding during the previous four calendar quarters.

Bankers Trust proposes to conduct, through its affiliate BTSC, ineligible underwriting and dealing activity involving municipal revenue bonds, commercial paper, and mortgage- and consumer-receivable-related securities under the same tests as proposed by Morgan.

total business activity or represent its single largest business activity.¹² On this basis and subject to the proposed limitations on each subsidiary's ineligible securities underwriting and dealing activity, Applicants contend their underwriting subsidiaries would be "engaged principally" in underwriting and dealing in eligible securities, which is permissible under section 20, and, therefore, the subsidiaries could not by definition be engaged principally in underwriting ineligible securities in violation of section 20 of the Glass-Steagall Act. Applicants further claim that, even under the broadest reading of "principally" as denoting any substantial activity, their subsidiaries would not be engaged principally in ineligible securities activity under the limitations proposed in their applications.

Applicants also argue that the proposed dealing activities are not covered by section 20 of the Glass-Steagall Act, which they claim is limited to activities involving the initial distribution of securities. They base this claim on the fact that section 20 does not refer to "dealing" *per se*, but to the functions of issuance, flotation, underwriting, public sale, or distribution of securities.

B. Protestants' Comments

The protestants claim that Applicants' view of the term "principally" would vitiate the central purpose of the Glass-Steagall Act by allowing member banks to reestablish "security affiliates" that could rival the largest investment banking firms. For this reason, the protestants contend that the term "principally" must be interpreted consistent with Congressional intent to denote any substantial, significant, regular or non-incidental activity, whether or not it is the largest activity of the affiliate.

ICI further contends that the "engaged principally" standard of section 20 also would cover any company "formed for the purpose of" underwriting securities of any sort, the description of a securities company that was contained in the now repealed section 19(e) of the Glass-Steagall Act.¹³ ICI contends that each of the underwriting subsidiaries was formed for the purpose of underwriting securities and thus, in its view, would

be "engaged principally" in underwriting securities under section 20.

The protestants also contend that the terms "stocks, bonds, debentures, notes, or other securities" in section 20 include all securities, both eligible and ineligible. Thus, they argue that, even under Applicants' interpretation of "engaged principally," the proposals to conduct ineligible securities activity in a government securities underwriting subsidiary would violate section 20 because the subsidiary's largest activity would be underwriting and dealing in "securities," albeit the preponderance of these securities would be bank-eligible U.S. government, state, and municipal securities.

Applicants counter that the term "securities" in section 20 does not include government securities and other securities member banks are authorized to underwrite and deal in under section 16, on the theory that a member bank affiliate may engage in any activity authorized for the member bank under the Glass-Steagall Act.

C. Analysis of Glass-Steagall Act Issues

1. Securities that a Member Bank May Underwrite are not Covered by the Prohibition of Section 20.

Protestants contend that the term securities in section 20 encompasses all securities—both ineligible as well as bank eligible securities—and that, therefore, the proposed subsidiaries would be "engaged principally" in underwriting securities for purposes of section 20 even under Applicants' view of the term "principally."

The Board notes that, on its face, section 20 draws no distinction between eligible and ineligible securities, as is the case under other sections of the Glass-Steagall Act. The section simply contains a prohibition on a member bank's affiliation with any corporation engaged principally in underwriting "stocks, bonds, debentures, notes, or other securities."

Looking at the statute as a whole, however, the Board believes that Congress did not intend to include the eligible securities activity authorized for member banks under section 16 of the Glass-Steagall Act within the scope of section 20's prohibition against an affiliate's being engaged principally in the underwriting

12. The Applicants rely on a dictionary definition of the term "principally" to mean the single largest activity and statements in the U.S. Supreme Court decision in *Board of Governors of the Federal Reserve System v. Agnew*, 329 U.S. 441, 446, 448 (1947), concerning section 32 of the Glass-Steagall Act, which they argue indicate that "principally" as used in section 20 means more than 50 percent of the company's business.

13. Banking Act of 1933, Pub. L. No. 66, § 19(e), 48 Stat. 162, 188 (codified at 12 U.S.C. § 61(e) (1964)), *repealed by* Act to Amend the Bank Holding Company Act of 1956, Pub. L. No. 89-485, § 13(c), 80 Stat. 236 (1966).

Section 19(e) prohibited a holding company affiliate, which was defined to include a bank holding company, from voting the shares of its subsidiary member bank if the holding company affiliate controlled, or participated in the management or direction of, any business organization "formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution . . . of stocks, bonds, debentures, notes, or other securities of any sort."

or public sale of "stocks, bonds, debentures, notes, or other securities." In the Board's view, the structure and Congressional intent of the Glass-Steagall Act make clear that in light of the express authorization in section 16 for member banks to underwrite eligible securities, the limitation of section 20 against a member bank affiliate being engaged principally in underwriting securities does not encompass bank eligible securities. In this regard, the Supreme Court has stated that the structure of the Glass-Steagall Act reveals a Congressional intent to impose a "less stringent standard" on member bank affiliates under section 20 than is applied to the direct activities of member banks under section 16 of the Act¹⁴ and that under the Glass-Steagall Act "a bank affiliate may engage in activities that would be impermissible for the bank itself."¹⁵

As section 16 expressly provides, and as was clear prior to its enactment, banks have the power to underwrite and deal in government obligations.¹⁶ Given that section 20 establishes a less rigorous standard for member bank affiliates than is applicable to a member bank, it follows, *a fortiori*, that such bank eligible underwriting and dealing activity is permitted for a member bank affiliate. In reaching this conclusion, the Board has applied a fundamental principle of statutory construction that the various provisions of a statute should be construed as a whole and that a particular section of a statute may not be interpreted in isolation without regard to other sections of the statute of which it is a part.¹⁷

In accordance with this interpretation, the Board has for some time authorized bank holding companies, including those that controlled member banks, to establish subsidiaries to underwrite and deal in securities that are expressly authorized for member banks to underwrite and deal in under section 16,¹⁸ and in 1984 authorized such activity for bank holding companies generally by regulation.¹⁹ The Board's decision in

these cases was premised upon its view that the conduct of such bank eligible securities activities by member bank affiliates is not the type of activity prohibited by section 20 or 32 of the Glass-Steagall Act.

The interpretation of section 20 urged by protestants that a member bank affiliate may not underwrite securities that are expressly authorized for a member bank itself not only runs counter to the Supreme Court's statements regarding the scope of section 20, but is also inconsistent with the fundamental purpose of the Glass-Steagall Act. The Glass-Steagall Act was enacted with one central purpose in mind, to protect bank depositors from the hazards that Congress viewed as attributable to the combination of commercial and investment banking. However, Congress did not view the traditional underwriting activities of banks in government securities as giving rise to these dangers to the bank and its depositors and on this basis permitted the continuation of that activity within the bank itself.²⁰

Section 20 was designed to limit the scope of activities of member bank affiliates as a complement to the restrictions on banks' direct underwriting and dealing activities,²¹ and as a means of enforcing the separation of commercial from investment banking.²² Clearly, therefore, section 20 was not designed to prohibit affiliates from engaging in activity a bank could lawfully conduct.²³ Moreover, there is some evidence in the legislative history of the Glass-Steagall Act that section 20 was not meant to prohibit the underwriting of government securities. 76 Cong. Rec. 2000, 2274 (1933) (remarks of Sen. Long); 76 Cong. Rec. 1941 (1933) (remarks of Sen. Glass).

To read the statute otherwise would mean that Congress intended to impose a substantially stricter standard on an affiliate than on the member bank itself, an interpretation that would be out of harmony with the central purpose of the Act to protect the bank and its depositors. Moreover, with respect to the analogous question raised in *ICI II*, as to whether an activity could be prohibited under section 21 that was authorized under section 16, the Supreme Court stated that section 21 "surely was not intended to require banks to abandon an accepted banking practice that was

14. *Board of Governors of the Federal Reserve System v. Investment Company Institute*, 450 U.S. 46, 61 n.26 ("ICI II").

15. *ICI II*, 450 U.S. at 63-64.

16. 2 F. Redlich, *The Molding of American Banking: Men and Ideas* 389 (1951); W. Peach, *The Security Affiliates of National Banks* 43-44 (1941).

17. See *United States v. Morton*, 467 U.S. 822, 828, rehearing denied, 468 U.S. 1226 (1984); *Philbrook v. Glodgett*, 421 U.S. 707, 713 (1975); *United Mine Workers of America v. Andrews*, 581 F.2d 888, 892 (D.C. Cir.), cert. denied, 439 U.S. 928 (1978). 2A Sutherland Statutor; Construction § 46.05 (4th ed. 1984).

18. *United Bancorp*, 64 FEDERAL RESERVE BULLETIN 222 (1978); *Stepp, Inc.*, 64 FEDERAL RESERVE BULLETIN 223 (1978); *United Oklahoma Bankshares, Inc.*, 65 FEDERAL RESERVE BULLETIN 363 (1979); *Citicorp*, 68 FEDERAL RESERVE BULLETIN 249 (1982).

19. 12 C.F.R. § 225.25(b)(16). The Board notes that protestants did not challenge the Board's rule authorizing this activity for bank holding companies or any of its approvals for bank holding companies to engage in this activity.

20. See *ICI II*, 450 U.S. at 61-62.

21. The Senate Report on the bill that subsequently became the Glass-Steagall Act indicates that Congress was concerned with the fact that banks had formed affiliates to conduct activity "never contemplated by the National Banking Act." S. Rep. No. 77, 73d Cong., 1st Sess. 10 (1933). *Accord*: 75 Cong. Rec. 9887 (1932) (remarks of Sen. Glass) and 75 Cong. Rec. 9911 (1932) (remarks of Sen. Bulkley). See also *Investment Company Institute v. Camp*, 401 U.S. 617, 629 (1971) ("ICI I").

22. See *ICI II*, 450 U.S. at 61-62.

23. *Id.*

subjected to regulation under section 16." 450 U.S. at 63. In affirming the Board's decision authorizing bank holding companies to act as discount brokers, the Court also noted that the fact that section 16 authorizes the activity for member banks suggested that it was not the type of activity at which the Glass-Steagall Act was aimed.²⁴

Similarly, the United States Court of Appeals for the D.C. Circuit has recently stated that "those activities of commercial banks that section 16 places on the acceptable commercial banking side of the line [between commercial and investment banking] cannot be placed by section 21 on the impermissible investment banking side of the line."²⁵ Accordingly, the court concluded that section 21 of the Glass-Steagall Act would not prohibit a bank from selling securities to the extent authorized for member banks under section 16, even before the amendment to section 21 in 1935 excepting from section 21's prohibition activities authorized for member banks under section 16.

The court reached this conclusion on two separate and independent grounds, both of which, in the Board's view, support the conclusion that section 20 does not cover activity authorized under section 16. First, the court noted, as Applicants point out, that the 1935 Amendment to section 21 was termed a clarifying amendment "to make it clear that [section 21] does not prohibit any financial institution or private banker from engaging in the securities business to the limited extent permitted to national banks under [section 16]."²⁶ This the court felt necessarily implied that the authorization under section 16 also applied to the prohibition of section 21 against selling and underwriting securities generally, even before the 1935 amendment. Second, the court noted that, unless the authorization of section 16 was read as an exception to section 21, a member bank would be prohibited by section 21 from conducting activities the bank was expressly authorized to conduct under section 16, a result the court termed absurd. *Id.* at 1058.

The Board believes this reasoning is directly applicable to section 20, which by its terms covers the same types of securities and the same underwriting and selling activities described in section 21. Thus, in order to avoid the illogic of barring a member bank affiliate from activity expressly authorized for the member

bank, the Board believes that section 20 must necessarily not cover securities activity authorized for member banks under section 16.²⁷ Moreover, given the fact that Congress has legislated a less stringent standard for member bank affiliates than for banks and that Congress, as the court concludes, did not intend section 21 even before its amendment to bar member banks from activity authorized under section 16, it follows that Congress must necessarily have intended not to bar their affiliates from such activity.²⁸

Finally, the Board notes that the limited expansion of the activities of Applicants' government securities subsidiaries, as proposed in the applications and limited by this Order, would not transform these subsidiaries, which would derive substantially all of their income from permissible eligible underwriting activities and would not engage in a full investment banking business, into the type of general securities underwriting affiliates Congress intended to divorce from member banks in 1933.

Since eligible securities cannot reasonably be viewed as securities for purposes of section 20, member bank affiliates that conduct such eligible securities underwriting activity cannot be viewed as engaged in the securities underwriting business proscribed by section 20 and thus may—as may any other member bank affiliate—engage in ineligible underwriting and dealing activity where such activity is not a principal

27. The SIA claims that an interpretation of section 20 that prohibits a bank affiliate from underwriting and dealing in even eligible securities is not unreasonable because Congress may have intended the underwriting of government securities to be conducted directly by the bank—a federally regulated entity. Such an explanation is implausible, in the Board's view, because when Congress undertook to regulate broker-dealers generally shortly after passage of the Glass-Steagall Act, companies dealing only in government securities were expressly exempted from federal regulation. Thus, any company that underwrote only government securities would not have been subject to federal regulation.

28. Protestants contend that the failure of Congress to amend section 20 in 1935 to permit member bank affiliates to underwrite securities authorized under section 16 demonstrates member bank affiliates were not intended to be permitted to conduct such activity. The Board, however, believes that the better view is that articulated in *Bankers Trust II* that the 1935 amendment merely clarified the preexisting state of affairs and that, just as banks were not prohibited by section 21 from engaging in activity permitted under section 16 even before the amendment, member bank affiliates must necessarily not have been prohibited from engaging in such activity under section 20. Thus, Congress' failure to amend section 20 in 1935 does not mean that Congress intended to bar member bank affiliates from activity permitted for member banks. Moreover, it was necessary to clarify section 21 because it is a criminal statute and the Attorney General had expressed the view with respect to certain aspects of section 21 that clarification would be desirable. *Banking Act of 1935: Hearings on S.1715 and H.R. 7617 Before a Subcomm. of the Senate Comm. on Banking and Currency, 74th Cong., 1st Sess. 139-140 (1935) (Testimony of J.F.T. O'Connor)*. Section 20, however, is not a criminal statute and in light of the Board's ability to issue interpretations of that statute, there was no pressing need for clarification, as was the case with section 21.

24. *Schwab*, 468 U.S. at 221.

25. *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 807 F.2d 1052, 1058 (D.C. Cir. 1987), petition for cert. pending No. 86-1429 ("Bankers Trust II").

26. H. Rep. No. 742, 74th Cong., 1st Sess. 16 (1935). Relying on the legislative history, the court in *Bankers Trust II* said the 1935 amendment to section 21 was "simply to leave no doubt of the need to read the two sections [16 and 21] harmoniously . . ." 807 F.2d at 1058.

line of business for the affiliate. In the Board's view, there is no basis in the terms or legislative intent of section 20 to prohibit an eligible securities underwriting subsidiary from underwriting and dealing in any ineligible securities activity while allowing a subsidiary engaged in commercial finance, mortgage banking, securities brokerage or other nonbanking activity permissible for bank holding companies to engage to some extent in ineligible securities activities.

In this regard, the Board has considered the proposed limited expansion of Applicants' government securities subsidiaries' activities in light of the hazards to the bank and its customers that the Glass-Steagall Act is intended to prevent. As noted, Congress clearly did not view the underwriting of bank-eligible securities as harmful to the bank or its depositors and Congress plainly permitted ineligible underwriting activity so long as it did not amount to a principal activity. Moreover, as noted, the Board's order in this case goes further than Congress under the Glass-Steagall Act and establishes limitations on the conduct of the activity under the Bank Holding Company Act to assure that the activity will not produce significant conflicts of interest, unsound banking practices, unfair or decreased competition, undue concentration of resources or other adverse effects.²⁹

For the above reasons, the Board believes that the term "securities" in section 20 must be read as not including those securities that member banks are expressly authorized to underwrite and deal in under section 16.

2. Dealing Constitutes the Underwriting or Public Sale of Securities Under Section 20.

Applicants maintain that "dealing" is not an activity covered by the terms "issue, flotation, underwriting, public sale, or distribution" in section 20, particularly

if dealing is limited only to secondary market sales and does not involve an initial distribution of securities. For the reasons set out below and more fully in the attached Appendix B, the Board concludes that the securities activity covered by section 20 is not limited to the initial distribution of securities, but also includes the activity of holding oneself out to the public as being willing to buy and sell securities as a principal in the secondary market, or "dealing" as that term is used by the Applicants. This conclusion is consistent with the literal meaning of the term "public sale" in section 20, the legislative history of the section, judicial interpretation, the purposes of the Act, and the Board's longstanding practice.

Literally, the term "public sale" in section 20 is broad enough to encompass dealing in securities. A dealer commonly refers to a person who holds himself out to the public as being willing to buy and sell securities for its own account. 2 L. Loss, *Securities Regulation* 1215, 1297 (2d ed. 1961). Moreover, the legislative history of the Glass-Steagall Act indicates that Congress intended to cover not only underwriting activity but also stock speculation, market making and participation in trading pools—activities attributable to dealing and not generally associated with initial distribution activities.³⁰

On this basis, the Board for many years has consistently ruled that dealing is covered by section 32 of the Act, which, as noted, is identical to section 20 in terms of its coverage of issuance, flotation, underwriting, public sale, or distribution activities.³¹

The conclusion that dealing constitutes the "public sale" of securities under section 20 is also supported by the Supreme Court's observation in *Schwab*, 468 U.S. at 217-18, that the activities described in section 20 refer, at a minimum, to operations in which the affiliate acts as a principal.

3. The Term "Engaged Principally" in Section 20 Denotes any Substantial Activity.

In its *Bankers Trust* decision, the Board concluded that, even if the placement as agent of commercial

29. In its evaluation of this case, the Board has carefully considered the fact that Applicants' underwriting subsidiaries were formed in major part through the transfer to the subsidiaries of government securities activities previously conducted as departments or divisions of the Applicants' member bank subsidiaries. As indicated, the Board has previously approved the transfer of such activities to the holding companies' underwriting subsidiaries as a permissible nonbanking activity under the BHC Act. Accordingly, the Applicants are engaged in this activity pursuant to law and regulatory authorization. While the transfer of these functions could result in the deliberate creation of a large base of eligible activity, the size of the ineligible activity that may be conducted by these affiliates is sharply limited by the "engaged principally" provisions of the Glass-Steagall Act as interpreted by the Board. As discussed below, these provisions involve the concept of a quantitative limitation on underwriting activity which is embodied in the income and market share criteria for establishing "substantiality" contained in this Order. The Board wishes to stress that the latter criterion, in particular, creates a limitation on underwriting activity which is independent of the size of the affiliate that might be established by purposeful transfer of activities from the bank to the underwriting affiliate.

30. See S. Rep. No. 77, 73d Cong., 1st Sess. 10 (1933). See also *Operation of the National and Federal Reserve Banking Systems, 1931: Hearings on S. Res. 71 Before a Subcomm. of the Senate Comm. on Banking and Currency, 71st Cong., 3d Sess. 198-199, 306-309, 1063-1064*. The conclusion that section 20 covers dealing is also more consistent with the purposes of the Glass-Steagall Act to address the Congress' concern over the "subtle hazards" of a bank having a pecuniary interest in the purchase and sale of particular securities. *ICI I*, 401 U.S. at 629-34; *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 468 U.S. 137, 145 (1984) ("*Bankers Trust I*"); *Schwab*, 468 U.S. at 220.

31. 20 FEDERAL RESERVE BULLETIN 393 (1934); 20 FEDERAL RESERVE BULLETIN 750 (1934); 51 FEDERAL RESERVE BULLETIN 810 (1965); 12 C.F.R. § 218.110(d).

paper were deemed to constitute an activity covered by section 20 of the Glass-Steagall Act, Bankers Trust's commercial lending affiliate would not be "engaged principally" in underwriting or dealing in securities within the meaning of section 20 under the 5 percent income and market share limits at issue in that case. The Board held that the term "engaged principally" in section 20 denotes any activity of the underwriting affiliate that is substantial, even if the activity does not represent more than 50 percent of the affiliate's total business activity or its single largest or most important activity. A similar decision was made in the *Chase* case.

After considering the submissions by the parties and other interested persons at the hearing and in post-hearing materials, the Board continues to be of the view, for the reasons expressed in full in *Bankers Trust*, that the term "engaged principally" in section 20 denotes any substantial activity of the affiliate.

In this regard, the Board has considered the argument by ICI regarding the now repealed section 19(e) of the Glass-Steagall Act. While section 19(e) and section 20 were designed to accomplish the same general objective and overlap to some extent in the case of a securities company affiliated with a member bank within a bank holding company system, section 20 does not contain the "formed for the purpose of" language found in section 19(e).

Moreover, nothing in the legislative history of the Glass-Steagall Act or the 1966 legislation which repealed section 19(e) indicates that the "engaged principally" standard of section 20 incorporated the "formed for the purpose of" standard. Section 19(e) was repealed, at the recommendation of the Board, because it was "doubtful" whether section 19(e) was "sufficiently useful" to justify its retention in light of the enactment of the Bank Holding Company Act.³²

The Board has also considered the Supreme Court's discussion of section 19(e) in *ICI II*, 450 U.S. at 70 n.43. In the Board's view, the Court's statements merely reflect the view that if a company is formed in order to underwrite securities, one would expect the company to be "engaged principally" in that activity. The Court was not presented with a situation, such as that presented here, in which the company's largest activity is permissible government securities underwriting activities and its ineligible activities are insubstantial. In this regard, the Board is unaware of any

instance of a member bank affiliated in a bank holding company system with a securities company that was covered by the "formed for the purpose of" language of section 19(e), but not by "engaged principally" language.

Finally, the Board notes that the "formed for the purpose of" language—like the "engaged principally" terminology in section 20—is susceptible to different meanings. For example, the "formed for the purpose of" language could be construed to refer to the situation where the company was specifically formed to underwrite ineligible securities and would not cover the situation where the company was formed for the purpose of commercial finance (as in the *Bankers Trust* and *Chase* cases previously approved by the Board) or to underwrite bank-eligible securities as in these cases.

Nevertheless, while the Board does not believe the "formed for the purpose of" standard has been incorporated in the "engaged principally" standard of section 20, the Board does note that section 19(e), because of its overlap with and close relationship to section 20, does tend to confirm the Board's conclusion that the "engaged principally" standard of section 20 must be read to cover any substantial ineligible activity of the affiliate in order to carry out Congressional intent to separate member banks from securities affiliates.

The Board has also considered Applicants' contention, reiterated at the hearing and in post-hearing materials, that the Board is required by the Supreme Court's *Agnew* decision to determine that the "engaged principally" standard of section 20 denotes only that activity of the affiliate that constitutes more than 50 percent of its total business activity or its single largest activity. The Board has carefully considered Applicants' position, but remains of the view that the Supreme Court in the *Agnew* case did not determine dispositively the meaning of "engaged principally" in section 20. As the Board noted in its *Bankers Trust* Order, section 20 was not at issue in *Agnew* because of the absence of a stockholder affiliation between the member bank and the securities company involved. 73 FEDERAL RESERVE BULLETIN 143, 144 (1987). Nor was any such determination necessary to the Court's decision regarding the term "primarily engaged" in section 32, since even if the Court determined that the two standards were identical, it would not have been precluded from reaching the same conclusion—that "primarily" meant any substantial activity, given that "principally" can also mean any substantial activity. As was explained in the *Bankers Trust* Order, at the time the Glass-Steagall Act was passed, an accepted dictionary definition of principally included "important" and "primarily."

32. S. Rep. No. 1179, 89th Cong., 2d Sess. 12 (1966); *Bank Holding Company Act, Report of the Board of Governors of the Federal Reserve System to the Comm. on Banking and Currency, U.S. Senate*, 85th Cong., 2d Sess. 26 (Comm. Print 1958).

As noted in *Bankers Trust*, the Board believes its conclusion regarding the meaning of section 20 is particularly appropriate in light of the fact that to hold otherwise would mean that section 20 would apply to no one, since investment banking firms typically engage in numerous other activities in addition to securities underwriting and dealing. This rationale led the Court in *Agnew* to affirm the Board's interpretation that section 32 denoted any substantial activity. Indeed, such a view would permit member banks to establish the very affiliations with the nation's largest investment banking businesses that section 20 was precisely designed to prohibit.³³

At the hearing, Applicants also disputed the Board's conclusion that common sense would suggest that Congress could not have intended to apply a less stringent standard where a member bank and an underwriter were affiliated through common stock ownership than was applied where a member bank and an unaffiliated underwriter merely shared a common director. In *Bankers Trust*, the Board pointed out that Applicants' view of principally would mean that a member bank could be affiliated through common stock ownership with a securities company substantially but not predominantly engaged in underwriting, but could not establish a single management interlock with the company, a seemingly anomalous result in light of the greater potential in common ownership situations for adverse effects of the type that led Congress to enact the Glass-Steagall Act.³⁴ Applicants contend that Congress in fact intended to apply a more lenient standard in common ownership situations because the securities affiliate of a member bank would be subject to examination and rules limiting transactions between the member bank and its affiliates.

At the outset, the Board notes that there is nothing in the legislative history to support Applicants' view. Moreover, the Supreme Court has stated that Congress in 1933 rejected the view that examination and regulation of bank securities affiliates would address

the concerns Congress perceived when commercial and investment banking functions are combined. *Bankers Trust I*, 468 U.S. at 147. Rather, Congress felt that most commercial and investment banking functions were "fundamentally incompatible." *Id.* The Board also notes that the examination authority and affiliate transaction restrictions contained in the Glass-Steagall Act were not comprehensive and did not foreclose the possibility of the type of adverse effects that concerned Congress and resulted in enactment of the Glass-Steagall Act. For example, section 23A of the Federal Reserve Act,³⁵ to which Applicants point, did not apply to purchases of assets by a member bank from an affiliate until 1982, thus allowing dumping of securities in a member bank or the purchase by a member bank of low quality assets from a securities affiliate, a hazard Congress was specifically concerned with in 1933.

APPROPRIATE MEASURES OF "ENGAGED PRINCIPALLY"

Having determined that the "engaged principally" standard of section 20 denotes any substantial activity, the Board must determine whether, under the limitations proposed by the Applicants, their subsidiaries' ineligible underwriting and dealing activity would be substantial. In making this determination, the Board has been guided by the Congressional intent underlying section 20 of the Glass-Steagall Act to insulate member banks from the dangers Congress associated with the combination of commercial and investment banking by allowing member bank affiliates to underwrite and deal in ineligible securities only at a level that would not be substantial. Taking these factors into account in the *Bankers Trust* and *Chase* cases, the Board determined that where ineligible activity would not exceed 5 percent of the affiliate's gross revenues or 5 percent of the market for the type of security being placed or underwritten, the activity would not be substantial.

Applicants have suggested a number of differing methods for determining when an affiliate is "engaged principally" in underwriting activity, including limitations based on sales volume alone or on sales volume, assets devoted to the activity or income on a two out of three basis. The Board, however, continues to believe that the most appropriate measure of "engaged principally" is the gross revenue the affiliate derives from the ineligible underwriting and dealing activity

33. In order to support its strict interpretation of section 32, the *Agnew* Court observed that the Act distinguished between firms primarily engaged and engaged principally in underwriting. 329 U.S. at 448. In the Board's view, the *Agnew* Court reached its decision on the meaning of "primarily engaged" on the basis of the terms and legislative intent of the statute. 329 U.S. at 447. Its subsequent references in the opinion to "principally" in section 20 were clearly meant to bolster its decision made on the basis of the terms and legislative intent of the statute. While the Court's observation is a part of the Court's reasoning, it is not a legally binding ruling on the scope of section 20. In addition, in the Board's view, the Court's supplemental argumentation should not be accorded controlling weight here, given that the Court in *Agnew* had no occasion to consider the fact that viewing "principally" to mean the chief or single largest activity would produce results that are inconsistent with what the Court understood to be the basic purpose of the legislation.

34. 73 FEDERAL RESERVE BULLETIN at 143, 144.

35. Banking Act of 1933, Pub. L. No. 66, § 13, 48 Stat. 162, 183 (codified at 12 U.S.C. 371c (1976)), amended by Garn-St Germain Depository Institutions Act of 1982, Pub. L. No. 97-320, § 410, 96 Stat. 1469, 1515.

relative to the revenue derived from its total business activities. This is consistent with the Board's practice under the "primarily engaged" standard of section 32 of the Glass-Steagall Act, which gives substantial weight to the size of the company's revenue from underwriting activity relative to its total revenue.³⁶ In addition, the Board believes it appropriate to consider the significance of the organization's presence in the market for the particular activity, also a factor considered by the Board in prior rulings under the Glass-Steagall Act.³⁷

As noted in the *Bankers Trust* Order, the Board believes that gross revenue is the appropriate test to determine whether a subsidiary is "engaged principally" because it is an objective and meaningful measure of the importance of the activity to the subsidiary as a whole and also reflects the level of risk involved in the activity, a major consideration behind enactment of the Glass-Steagall Act. In addition, a gross revenue test goes some way toward avoiding the potential for manipulation present in a test based solely on sales volume. Although gross revenues may be influenced to enlarge ineligible operations, the sales volume of a government securities subsidiary could be easily inflated by daily "matched book" operations³⁸ or be increased through churning of the affiliate's dealing activity in permissible securities in order to create a larger base against which ineligible activity would not appear to be substantial. The Board also notes that the average assets test suggested would not take into account ineligible underwriting activities which do not entail substantial or lengthy investment of the underwriting subsidiary's own funds.³⁹

The Board has considered Applicants' comments at the hearing regarding the desirability of their proposed tests, including their view that the volume tests would not be subject to artificial increases because of increased costs and legal constraints. The Board, however, continues to be of the view that a revenue test is the best overall measure under section 20, posing the fewest operational difficulties and giving the most

accurate indication of the importance of the activity to the affiliate's total business operations. While Applicants argue there are a variety of different tests that could be applied to measure engaged principally status and that the tests should be tailored for each applicant, the Board believes that a uniform standard measure is desirable to assure a rule that would be simple to apply and enforce and to avoid unfairness in application among various applicants.

The Board also believes that in determining whether a company's underwriting activity is substantial it is important to consider in connection with gross revenue the affiliate's market share for the particular type of security underwritten. In the Board's judgment, the fact that an affiliate would be a major force in a particular securities market would be an evidentiary factor suggesting that the affiliate is "engaged principally" in underwriting securities. Thus, the Board has taken into account a firm's market share in decisions under the Glass-Steagall Act, particularly as it is related to the scope and extent of the firm's ineligible activity.⁴⁰

In addition, the Board believes that a market share test would provide a useful and objective proxy for sales volume, which the Board believes is an important factor to be taken into account under the engaged principally test of section 20, and which the Board has considered in its decisions under section 32. Unlike the test based on sales volume of the subsidiary, the market share test would not be subject to manipulation, but would provide for consideration of the volume of business activity of the affiliate in absolute terms.⁴¹

Finally, the Board believes that any decision regarding engaged principally status should take into account other factors and circumstances present in the pending applications. In the instant cases, the Board believes it significant that each of the three underwriting subsidiaries will maintain their fundamental nature as government securities dealers. They will underwrite a limited range of securities that are closely analogous to securities presently underwritten by member banks or to commercial banking functions, and at levels that would not be substantial relative to their eligible

36. Letter from the Board to the Federal Reserve Banks (August 11, 1958), reprinted in *Federal Reserve Regulatory Service* ("F.R.R.S."), ¶ 3-895.

37. *Id.*

38. Matched book activities would consist of repurchase and reverse repurchase agreements for government securities, used by dealers and their financial institutions customers for short term funding, hedging and arbitrage. As government securities dealers, Applicants' subsidiaries would have a high volume of such activity.

39. Bankers Trust's and Morgan's reliance on tests based on assets devoted to the activity, income and sales volume, on a "two out of three" basis, are similarly flawed because an affiliate could derive a substantial amount of its income from ineligible activity even though the ineligible activity met the asset and sales volume test, both of which, in the Board's judgment, would be open to increasing the base of eligible activity to support ineligible activity.

40. Letter from the Board to the Federal Reserve Banks (August 11, 1958) F.R.R.S. ¶ 3-895. See also, e.g., Board letter dated September 30, 1947.

41. Applicants and the Antitrust Division of the Department of Justice argue that the Board is precluded from considering market share information in applying section 20, noting that the "engaged principally" terminology focuses on the relative amount of activity within a particular company. However, the Board is not relying on market share information *per se*, but as a qualitative factor and as a substitute for a volume test, which is related solely to the activities of a particular affiliate but which the Board believes, in the context of these proposals, is not a reliable measurement criterion alone.

securities activities. Thus, the proposed limited expansion would not transform the government securities dealers into the type of securities affiliates engaged in the general investment banking and securities underwriting business that Congress intended to separate from member banks through section 20.

QUANTITATIVE LEVEL OF ACTIVITY PERMITTED UNDER SECTION 20

With respect to the appropriate quantitative level of activity permissible under the section 20 authorization, the Board has determined that a member bank affiliate would not be engaged principally or substantially in underwriting or dealing activity covered by section 20 if its gross revenue from that activity does not exceed a range of between 5 and 10 percent of its total gross revenues. The Board believes a similar range should apply to the market share test the Board has adopted under section 20.

The Board established this range by reference to the Board's past practice for many years in interpreting the "primarily engaged" standard in section 32, which, as noted, covers any substantial underwriting and dealing activity. This approach is, in the Board's judgment, consistent with the Congressional intent underlying section 20 to allow member bank affiliates to engage in underwriting and dealing activities at levels that are not substantial and thus would not raise problems of safety or soundness or risk for affiliated member banks.

In a number of cases over the years, the Board has developed a general guideline that a company would not be primarily or substantially engaged in activities covered by section 32 where those activities accounted for no more than 10 percent of the company's total revenue and the company's volume of such activities was not large in absolute terms or relative to other market participants.⁴² If the firm was a leading securities underwriter with a large absolute volume of ineligible securities activities, however, the Board has found the firm to be primarily engaged in section 32 activities where the revenue the firm derived from these activities was between 5 and 10 percent of its total gross revenue.⁴³ Generally, where gross revenues from ineligible activity were less than 5 percent, the Board has not found the securities company to be primarily or substantially engaged in ineligible activity.⁴⁴

In applying these principles to the present proposals, the Board notes that the volume of ineligible securities activity projected by Applicants could be large in absolute terms, and under their projections Applicants could be a substantial factor in the markets they propose to enter. Accordingly, the Board believes that the lower 5 percent end of the permissible range of activity under section 20 is the appropriate quantitative level for applying the gross revenue and market share tests to these proposals. The Board recognizes that this 5 percent threshold for gross income and market share represents a conservative approach to measuring the level of ineligible underwriting and dealing within the framework established by this Order and the Board's prior decisions under section 32. The Board will review this determination, within one year, after Applicants have gained some experience in operating the proposed underwriting subsidiaries, to assess whether somewhat higher levels of activity up to 10 percent may be permissible consistent with the Board's interpretation of the term engaged principally as encompassing any activity that is substantial.

Applicants contend that the activity permitted under their proposed 10 to 15 percent of activity tests would not be substantial in the context of a government securities subsidiary that would derive 85 to 90 percent or more of activity from permissible activities under their standards for measurement. However, as noted above, the Board has carefully considered the standards and quantitative measures for determining whether an affiliate would be "engaged principally" under the provisions of section 20. The quantitative standards proposed by Applicants exceed the levels which the Board believes represent an appropriate interpretation of the provisions of section 20 that is consistent with both its language and the intention of Congress. In the Board's judgment, at the levels proposed by Applicants, the proposed affiliates would be clearly engaged principally in underwriting and dealing in securities.

In sum, the Board will not consider the underwriting subsidiaries to be engaged principally in ineligible underwriting and dealing activities under section 20 of the Glass-Steagall Act under the conditions established below for the conduct of the activity under the BHC Act, if

- (1) the underwriting subsidiaries derive no more than 5 percent of their total gross revenues from ineligible underwriting and dealing activity on average over any two year period,
- (2) their underwriting activities in connection with each particular type of ineligible security do not account for more than 5 percent of the total amount of that type of security underwritten domestically by

42. Letter, dated December 14, 1981, *reprinted* in F.R.R.S. ¶ 3-939, and Board letter dated May 6, 1953.

43. *Id.* and, *e.g.*, Board letters, dated May 12 and June 22, 1954 May 22, 1959, *reprinted* in F.R.R.S. ¶ 3-896.

44. *E.g.*, Board letters, dated May 5, 1934 and May 7, 1962.

all firms (or, in the case of commercial paper, the average amount of dealer-placed commercial paper outstanding) during the previous calendar year, and (3) they limit the amount of each particular type of security held for dealing so as not to exceed the amount of the underwriting market share limitation described in paragraph (2) above.⁴⁵

4. Proposed Interlocks Between Applicants' and Their Underwriting Subsidiaries are not Prohibited by Section 32.

Applicants anticipate that one or more officers of the bank holding company will serve as officers or directors of the subsidiaries that would conduct the proposed limited underwriting and dealing activity. The Board has previously applied the restrictions of section 32 to interlocking relationships between a securities firm and a bank holding company with one or more member bank subsidiaries. 12 C.F.R. § 218.114; F.R.R.S. ¶ 3-912. See also F.R.R.S. ¶ 3-948. The Board, however, has permitted an interlocking relationship between a securities firm and a bank holding company that mainly conducted nonbanking activities. F.R.R.S. ¶ 3-889.

In this case, the proposed interlocking relationships between the parent bank holding company and the underwriting subsidiaries would be permissible under section 32 because, even if it is assumed that the restrictions of section 32 should be applied to the parent holding company, under the limitations discussed above on the level of ineligible activity permitted to the subsidiaries, they would not be "substantially" or "primarily engaged" in ineligible activity.

None of the Applicants has proposed that an officer, director, or employee of its bank affiliates serve as an officer, director, or employee of the underwriting subsidiaries and, as discussed in Part III below, the Board has relied upon the absence of such interlocking relationships in its evaluation of the applications under the proper incident to banking standard of section 4(c) (8) of the BHC Act.

45. J.P. Morgan proposed to measure the amount of ineligible activity it would conduct through JPMS and JPMMF on a consolidated basis. Under that proposal, the total gross income from eligible and ineligible activity of both entities would be combined for purposes of the section 20 "engaged principally" limitation. The Board does not believe that section 20 permits two or more affiliates to combine their ineligible and eligible activity in order to determine whether as a whole the affiliates would be "engaged principally." By its terms, section 20 applies to each individual company affiliated with a member bank. Thus, JPMS and JPMMF each must adhere to the section 20 limitation.

Part III. Bank Holding Company Act Analysis

In every application under section 4(c)(8) of the Bank Holding Company Act, the Board must find that the proposed activity is "so closely related to banking . . . as to be a proper incident thereto." This statutory standard requires that two separate tests be met for an activity to be permissible for a bank holding company. First, the Board must determine that the activity is, as a general matter, "closely related to banking." Second, the Board must find in a particular case that the performance of the activity by the applicant bank holding company may reasonably be expected to produce public benefits that outweigh possible adverse effects.⁴⁶

Based on guidelines established in *National Courier Association v. Board of Governors of the Federal Reserve System*, 516 F.2d 1229, 1237 (D.C. Cir. 1975), a particular activity may be found to meet the "closely related to banking" test if it is demonstrated that:

- (1) banks generally have in fact provided the proposed activity;
- (2) banks generally provide services that are operationally or functionally so similar to the proposed activity so as to equip them particularly well to provide the proposed activity; or
- (3) banks generally provide services that are so integrally related to the proposed activity as to require their provision in a specialized form.

The *National Courier* guidelines are not, however, the exclusive basis for finding a proposed activity closely related to banking,⁴⁷ and the Board may consider any other basis that may demonstrate that the activity has a reasonable or close relationship to banking. 49 *Federal Register* 806 (1984). The U.S. Supreme Court stated in *Schwab* that the use of these factors by the Board in determining the closely-relatedness of an activity is reasonable and within the Board's discretion. 468 U.S. at 210 n.5, 214.

As a threshold matter, Citicorp and certain other commenters argue that the fact that these proposals are consistent with section 20 represents a Congressional determination that they are permissible for bank holding companies, a determination that may not be limited or revised under section 4(c)(8). This argument is premised on the Supreme Court's observation in *ICI II* that the BHC Act does not impose restrictions on the securities activities of banking institutions that are more severe than those in the Glass-Steagall Act. 450 U.S. at 60-61 n.26.

46. See *Schwab*, 468 U.S. at 210; *ICI II*, 450 U.S. at 57 n.22.
47. 516 F.2d at 1237.

In the Board's view, however, the restrictions of the Glass-Steagall Act on the securities activities of member bank affiliates and the closely related to banking and proper incident to banking tests in section 4(c)(8) are by their terms independent provisions, each of which must be satisfied before a bank holding company may engage in securities activities. The *ICI II* opinion, the Board believes, supports this analysis.

In *ICI II*, the lower court had ruled that the BHC Act was intended to prohibit the Board from approving any securities activities for bank holding companies, even if they were permissible under the Glass-Steagall Act. The Supreme Court rejected this ruling, finding no implicit prohibition in section 4(c)(8) that is more restrictive than the Glass-Steagall Act.⁴⁸ However, the Court's opinion did not address the relevant issue here—the scope of the Board's discretion under section 4(c)(8) to deny or place prudential limitations on securities activities that, while consistent with the Glass-Steagall Act, may not comply with the separate requirements of the BHC Act. Moreover, Applicants have produced no evidence in the legislative history that the Board was not to exercise its discretion under the closely related to banking and public benefits tests of section 4(c)(8) regarding specific proposals merely because they involve securities activities that are not unlawful under the Glass-Steagall Act.

A. Closely Related to Banking Analysis.

After carefully considering the facts of record, the Board concludes that underwriting and dealing in commercial paper, municipal revenue bonds and 1-4 family mortgage-related securities, under the limitations discussed in this Order, are closely related to banking, because banks provide services that are so operationally and functionally similar to the proposed services that banking organizations are particularly well equipped to provide such services. As the Board has previously noted, the proposed activities are a natural extension of activities currently conducted by banks, involving little additional risk or new conflicts of interest under the framework established in this Order, and potentially yielding significant public bene-

fits in the form of increased competition and convenience and lower cost.⁴⁹ On this basis, the Board has urged the Congress to authorize these activities for bank holding companies as part of a Congressional reevaluation of the powers of banking organizations generally. This view is not held by the Board alone. The other federal banking agencies as well as the U.S. Departments of Treasury and Justice have also supported these activities.⁵⁰

Accordingly, and for the reasons set forth in the *Chase* decision, the Board believes that underwriting and dealing in commercial paper is closely related to banking within the meaning of section 4(c)(8) of the BHC Act. For the reasons set out below, the Board also concludes that underwriting and dealing in the proposed municipal revenue bonds and 1-4 family mortgage-related securities is closely related to banking.⁵¹

Member banks are actively engaged pursuant to specific legislative authorization in a variety of underwriting and dealing activities that are closely analogous to the proposed municipal revenue bond and mortgage-related securities underwriting activities. Section 16 of the Glass-Steagall Act authorizes member banks to underwrite and deal in certain municipal revenue bonds (generally, those issued for housing, university or dormitory purposes), as well as municipal general obligation bonds ("GOs").⁵² 12 U.S.C. 24 Seventh. Bank-eligible municipal revenue bonds accounted for between 31 and 52 percent of all municipal revenue bonds issued during the years 1980 to 1984, with banks accounting for between 19 to 26 percent of

48. 450 U.S. at 77. The Court stated "Congress did not intend the BHC Act to limit the Board's discretion to approve securities-related activities as closely related to banking beyond the prohibitions already contained in the Glass-Steagall Act." (emphasis added). The Board notes that the legislative history to which the Court refers to support this conclusion indicates that the BHC Act was not intended to liberalize the Glass-Steagall Act. That legislative history does not indicate, as Applicants claim, that activities that do not violate the Glass-Steagall Act are exempt from scrutiny under the standards of the BHC Act. Under the plain terms of the BHC Act, such activities clearly are not permissible for bank holding companies unless they pass muster under the standards of section 4(c)(8) of the Act.

49. See, e.g., *Financial Restructuring: The Road Ahead: Hearings on H.R. 5342, 4506 and 3537 Before the Subcomm. on Telecommunications, Consumer Protection, and Finance of the House Comm. on Energy and Commerce*, 98th Cong., 2d Sess. 91 (1984) (Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System), reprinted in 70 FEDERAL RESERVE BULLETIN 312, 316 (1984); Statement of Chairman Volcker Before the Subcomm. on Commerce, Consumer & Monetary Affairs of the House Comm. on Government Operations (June 11, 1986), reprinted in 72 FEDERAL RESERVE BULLETIN 541, 549 (1986). See also S. Rep. No. 560, 98th Cong. 2d Sess. 15-16 (1984).

50. *Competitive Equity in the Financial Services Industry: Hearings on S.2181 Before the Senate Comm. on Banking, Housing, and Urban Affairs* ("Hearings on S.2181"), 98th Cong., 2d Sess. 1221, 1274, 1550, 1714 (1984) (Statements of C. Todd Conover, Comptroller of the Currency, William M. Isaac, Chairman, F.D.I.C., Douglas H. Ginsburg, Deputy Assistant Attorney General, U.S. Department of Justice, and Donald T. Regan, Secretary of the Treasury, respectively).

51. While Applicants have applied to underwrite and deal in mortgage-related securities generally, the Board believes that, at least on the current record, only underwriting and dealing in mortgage-related securities backed by 1-4 family residential mortgages will avoid significant risks and other adverse effects, as explained below.

52. GOs represent a general debt obligation of a municipality, while a revenue bond represents a charge against the revenues of a facility or project financed by the bonds.

the underwriting market.⁵³ Banks have also historically underwritten a major share of new general obligation bond issues.⁵⁴

Section 16 also authorizes member banks to underwrite and deal in mortgage-related securities that are issued or guaranteed by federal agencies. As Congress has recognized, banks are extensively involved in this activity.⁵⁵

In addition to the fact that banks already underwrite and deal in certain types of municipal revenue bonds and mortgage-related securities, banks have developed extensive expertise in underwriting and dealing in U.S. government and agency securities and are among the nation's leading underwriters of these securities. For example, banks or bank affiliates constitute 17 of the 40 primary dealers in the government securities market and are among its largest participants.⁵⁶ In addition, banks are among the nation's largest underwriters of general obligation bonds.

In the Board's view, definite functional and operational similarities exist between the securities that member banks may underwrite and deal in and the municipal revenue and mortgage-related securities proposed by Applicants for their underwriting subsidiaries. The techniques involved in underwriting and dealing in these bank-eligible securities are the same, or substantially the same, as those that would be involved in conducting the proposed municipal revenue and mortgage-related securities activities. In each case the underwriter must perform substantially identical functions of credit evaluation and analysis, negotiation or bidding, distribution, and dealing. For example, investment banking firms that underwrite and deal in municipal revenue bonds generally utilize the same personnel and marketing techniques for their activity in general obligation bonds.⁵⁷

The Board also notes that the evaluation and credit analysis that would be performed in connection with underwriting municipal revenue bonds and mortgage-

related securities is functionally and operationally similar to the evaluation and credit analysis banks conduct when making loans to customers and in connection with their investment advisory and trust activities. In addition, Applicants' role in advising issuers in structuring an offering and contacting potential purchasers is functionally and operationally similar to a bank's role in advising customers and arranging loan participations and syndications.

The Board also believes that underwriting and dealing in these securities is functionally and operationally similar to the role of a bank in underwriting and dealing in money market instruments, establishing mortgage pools and evaluating the underlying risks of the constituent elements in a pool, advising municipalities and other issuers and assisting them in the private placement of their notes, and generally assessing credit and interest rate risk.⁵⁸

Protestants contend that there is a major difference between underwriting activities permitted member banks under the Glass-Steagall Act and those proposed by Applicants, because bank-eligible securities are generally offered to dealers through competitive bidding while the price of most revenue bonds and other securities involved in Applicants' proposals is usually negotiated. Given the wide commercial bank participation in the underwriting of and dealing in U.S. government, municipal and other bank-eligible securities as a whole, the Board believes that banks are sufficiently familiar with negotiating processes as well as those involved in competitive bidding. The Board also notes that banks are involved in the negotiating process through their private placement activities for ineligible securities, including ineligible municipal revenue bonds, and their securities activities overseas.⁵⁹ Moreover, in the case of municipal securities specifically, this distinction is not significant because many revenue issues are offered by public bid, and the number of general obligations bonds sold by negotiation has been increasing.⁶⁰

With respect to mortgage-related securities, the Board notes that the operations and functions (including credit and cash flow analysis, bidding process, distribution and dealer activities) involved in underwriting and dealing in bank-eligible mortgage-related securities and 1-4 family mortgage-backed securities

53. *Bank Eligible Revenue Bonds Compared to Total Revenue Bonds* (Exhibit E) and *Bank-Eligible Revenue Bonds Managed By Banks* (Exhibit F), Citicorp Application.

54. Dealer Bank Ass'n Comment, Exhibit III, Tables IIb and IIIb (July 22, 1985); Citicorp Application, p. 20, citing data obtained from Securities Data Corporation.

55. See S. Rep. No. 293, 98th Cong., 1st Sess. (1983).

56. For example, in 1984, banks accounted for nearly 30 percent of all U.S. government obligations underwritten. Department of Treasury, *Treasury Bulletin*, Fall 1984, Table PDO4.

57. R. Plotkin, *What Meaning Does Glass-Steagall Have For Today's Financial World?*, 95 *Banking L.J.* 404, 412 (1978).

Municipal securities dealers and brokers, including bank dealers, are subject to the same regulatory system developed by the Municipal Securities Rulemaking Board under Section 15B of the Securities Exchange Act. 15 U.S.C. § 78o-4.

58. See Hearings on S.2181 at 1612 (Statement of Paul A. Volcker).

59. See Comptroller of the Currency, Federal Deposit Insurance Company, and Federal Reserve Board, *Commercial Bank Private Placement Activities* (1978); 12 C.F.R. 211.5(d)(13) (underwriting, distributing, and dealing in debt and equity securities outside the United States).

60. F. Fabozzi, S. Feldstein, I. Pollack, F. Zarb, *The Municipal Bond Handbook*, Volume One 172-73 (1983).

are virtually identical, regardless of whether a federal or private entity issues or guarantees the securities involved.⁶¹ Because the mortgage-backed securities proposed for the subsidiaries are not directly issued or guaranteed by the federal government or government-sponsored agencies, the subsidiaries will be required to conduct a more extensive credit analysis and evaluation of issuers and underlying mortgages than in underwriting bank-eligible mortgage-related securities. Given the experience of Applicants and banking organizations generally in evaluating credit in lending and investment functions⁶² as well as in permissible underwriting activities where credit analyses are commonly made, for example, in connection with underwriting general obligations of States and municipalities, the Board does not believe this difference between bank-eligible mortgage-related securities and Applicants' proposed activity is significant. In this regard, the Board notes that banks underwrite substantial amounts of housing-related municipal bonds,⁶³ an activity that involves substantially the same credit analysis function as will be required for Applicants' mortgage-related securities.

Based on the foregoing analysis, the Board concludes that banking organizations, including Applicants, perform services that are functionally and operationally similar to the proposed activities of underwriting and dealing in certain municipal revenue bonds and 1-4 family mortgage-related securities and that they would be particularly well equipped to provide these underwriting and dealing services.

Citicorp and Bankers Trust also propose to underwrite and deal in CRRs. Although they note certain similarities between CRRs and mortgage-related securities and between banking activities involving the underlying loan obligations represented by those securities, the Board does not believe that the record before the Board at the present time provides a sufficient basis for it to make the formal finding required by the BHC Act that underwriting and dealing in CRRs is closely related to banking and a proper incident thereto. The market for CRRs is relatively new and untested compared to the market for the 1-4 family mortgage-related securities and municipal revenue bonds involved in these proposals. As Citicorp notes, the securitization of consumer loans and receivables is now in its early stages, and for that reason, "it is impossible to predict with certainty the direction in

which this activity will evolve."⁶⁴ The Board, however, will reconsider this matter within the next sixty days on the basis of fuller submissions by Applicants regarding the types of assets that will be securitized, the manner in which this will be accomplished, and other matters bearing on risk. This will enable the Board to examine appropriately the risks involved and whether any safeguards are necessary to meet the requirements of the BHC Act.

B. Proper Incident to Banking Analysis.

In order to approve an application to engage in a nonbanking activity under section 4(c)(8) of the Act, the Board must determine that a proposed activity is a "proper incident" to banking by determining whether the performance of the activity by the applicant bank holding company may reasonably be expected to produce public benefits, 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 interest, or unsound banking practices. 12 U.S.C. § 1843(c)(8). Based upon the facts of record and for the reasons and subject to the limitations set out below, the Board finds that the proposed underwriting and dealing activities (other than for CRRs) may reasonably be expected to result in substantial public benefits that outweigh possible adverse effects.

1. Public Benefits.

The Board believes that the expansion of Applicants' activities to include underwriting and dealing in municipal revenue bonds, 1-4 family mortgage-related securities, and commercial paper should result in substantial public benefits in the form of increased competition, greater convenience and gains in efficiency.

Increased Competition. The Board has previously recognized that the *de novo* expansion by a bank holding company into nonbanking activities generally may be expected to be pro-competitive and result in increased competition.⁶⁵ These proposals represent a

61. See generally C. Edson and B. Jacobs, *Secondary Mortgage Market Guide* (1985).

62. See, e.g., 12 C.F.R. 1.5, 1.8; M. Stigum, *The Money Market* 657 (2d ed. 1983).

63. See S. Rep. No. 293, 98th Cong. 1st Sess. 9 (1983) ("National banks . . . are currently intimately involved in mortgage finance including mortgage revenue bonds and the federal mortgage market agencies.")

64. Letter, dated April 19, 1985, to Federal Reserve Bank of New York, 8-9.

65. See, e.g., section 225.24 of Regulation Y (12 C.F.R. 225.24); 49 *Federal Register* 814 (1984). Congress has also recognized that public benefits of increased competition and innovation may be anticipated through *de novo* expansion by bank holding companies into nonbanking activities. H. R. Rep. No. 1747, 91st Cong. 2d Sess. 16-17 (1970); S. Rep. No. 1084, 91st Cong. 2d Sess. 15-16 (1970); *Alabama Ass'n of Insurance Agents v. Board of Governors of the Federal Reserve System*, 533 F.2d 224, 249 (5th Cir. 1976), cert. denied, 435 U.S. 904 (1978).

de novo expansion by Applicants into new segments of the markets for commercial paper, municipal revenue and 1-4 family mortgage-related securities, and thus may be expected to increase competition. The Board concluded in the *Chase* case that the expansion of a bank holding company's activities in the commercial paper market, which is highly concentrated, would foster competition.

Concentration ratios for those segments of the mortgage-related and municipal securities markets in which banking organizations have not participated are significantly higher than those for the bank-eligible segments of these markets. The introduction of new competitors into these markets may be expected to reduce concentration levels and, correspondingly, to reduce financing costs, underwriting spreads, and increase the availability of services to issuers.⁶⁶ Increased competition may be expected to benefit smaller and infrequent issuers, such as rural communities, which currently have relatively few choices among underwriters.

Benefits in the form of reduced financing costs and increased availability may be expected to accrue as well to the original borrowers under mortgage-related and municipal securities—homeowners and public entities—whose ability to borrow is directly related to the secondary market for their liabilities. Increased competition may also foster innovation among participants in these markets.

In this regard, the report of the Senate Committee on Banking, Housing and Urban Affairs on the proposed Financial Services Competitive Equity Act (S. 2851, 98th Cong., 2d Sess. (1984)) concluded that authorization for bank holding companies to underwrite municipal revenue bonds “will result in significant benefits to governmental issuers of these obligations and thus to their residents and taxpayers who must ultimately bear the cost of public borrowing.”⁶⁷ The Board also notes that associations of state and municipal governmental organizations, including the National Governors Association and the National League of Cities, support bank holding company entry into municipal revenue bond underwriting in order “to increase competition for underwriting municipal revenue bonds and in view of the potential for this initiative to reduce significantly the cost of revenue financ-

ing.”⁶⁸ National trade associations of home builders and realtors support bank holding company entry into the mortgage-backed securities underwriting business in order to increase competition.⁶⁹

Greater Convenience and Increased Efficiency. The Board also finds that approval would result in public benefits in the form of greater convenience to customers and increased efficiency in the provision of the proposed services. As the Board has previously concluded, underwriting and dealing in commercial paper by a bank holding company would produce these public benefits.

Bank holding companies would be able to offer their borrowing customers an additional service and means of financing that may be more economical for the borrower. In addition, Applicants would be able to offer commercial paper to the same institutional investor customers that currently purchase other money market instruments, such as short-term U.S. government securities, certificates of deposit and bankers' acceptances, thereby increasing services to buyers of money market instruments and leading to greater efficiency in the market for short-term debt.

Issuer-customers of Applicants' existing underwriting services in municipal and mortgage-related securities would no longer be restricted to the bank-eligible segments of the markets for those securities when doing business with these bank holding companies. The increase in the number of dealers in these securities would also be likely to enhance liquidity in the markets for these securities, thereby increasing market efficiency.

More efficient operation of the markets for the proposed securities would benefit investors and issuers who are customers of Applicants and other market participants by narrowing the underwriter's and dealer's spread on sales transactions and making it easier to match buyers and sellers of the proposed securities.

2. Adverse Effects.

In the Board's December 1986 decision permitting Bankers Trust to place commercial paper as agent, the Board adopted a framework which had been put in place by Bankers Trust in order to address the possibility of adverse effects, such as unsound banking practices or conflicts of interest, that the Board must

66. See U.S. Department of the Treasury, Public Policy Aspects of Bank Securities Activities 34 (1975); Bank Holding Company Legislation and Related Issues: *Hearings on H.R. 2255, 2747, 2856 and 4004 Before the Subcomm. on Financial Institutions Supervision, Regulation and Insurance of the House Comm. on Banking, Finance and Urban Affairs*, 96th Cong., 1st Sess. 1299-1302 (1979) (statement by J. Charles Partee, Member, Board of Governors of the Federal Reserve System); S. Rep. No. 560, 98th Cong., 2d Sess. 15-16 (1984).

67. S. Rep. No. 560, 98th Cong., 2d Sess. 16 (1984).

68. Letter from the National Governors Association to Jake Garn, Chairman, Committee on Banking, Housing, and Urban Affairs, U.S. Senate (June 12, 1984), quoted in S. Rep. No. 560, 98th Cong., 2d Sess. 16 (1984); letter to the Board from the National League of Cities (July 19, 1985) (commenting on Citicorp application).

69. Letters to the Board from the National Association of Home Builders (July 22, 1985) and from the National Association of Realtors (July 18, 1985) (commenting on Citicorp application).

consider under the "public benefits" test in section 4(c)(8).⁷⁰ When the Board ordered a hearing on these applications, the Board requested specific comment on whether the Bankers Trust framework or other limitations that the Board was considering and that were listed in the Hearing Order should be adopted with respect to these proposals.

Comments of Interested Persons. The protestants believe that significant adverse effects are presented by the proposal, including potential conflicts of interest caused by the underwriting subsidiaries' "salesman's stake" and promotional incentives in the securities it underwrites or deals in, loss of public confidence in the bank if the affiliate experiences losses on its securities activities, risk to the bank holding company as a result of possible underwriting losses by the affiliate, undue concentration of resources resulting from greater domination of financial markets by banking organizations, and unfair competition, such as the affiliate obtaining funding from low cost bank deposits or access to confidential customer information held by the bank.

The protestants and several other commenters also expressed doubts as to the effectiveness of the suggested conditions and limitations to address these concerns. The SIA believes conditions such as those listed in the Board's Hearing Order would be inadequate to address all possible concerns. Salomon Brothers expressed the view that where the same or affiliated entities are both lenders and underwriters, no safeguards would be fully adequate to prevent abuses. Other protestants believe that restrictions must also be directed at establishing a "level playing field" for banking organizations and investment banking firms engaged in the proposed activities.

Applicants and certain other commenters contend no significant adverse effects would arise under these limited proposals involving securities with which bank holding companies have experience, particularly in light of the voluntary controls Applicants would impose on themselves to limit risk and prevent conflicts and the applicable requirements of securities laws and regulations. A few commenters believe the Board should establish further conditions to address risk or conflicts and to insulate the underwriting subsidiaries from their affiliated banks, such as a capital adequacy requirement for the underwriting subsidiary and limitations on transactions between the subsidiary and bank affiliates.

Applicants and certain other banking organizations objected to a number of the conditions listed in the

Board's Hearing Order. In general, Applicants believe that any conflicts presented by the proposals are similar to the conflicts already successfully handled by bank holding companies and investment banking firms and that existing regulation by the SEC of broker-dealers, rules of the National Association of Securities Dealers ("NASD") and the Municipal Securities Rule-making Board ("MSRB") applicable to broker-dealers trading in the proposed securities, and fiduciary requirements under common law and banking regulation are adequate to address the Board's concerns. They commented that a number of the conditions being considered by the Board to address possible conflicts of interest could interfere with their ability to compete or would be unnecessary or confusing in light of existing regulation.

Based on the record of the applications, and after careful consideration of the comments of interested parties, the Board finds that the potential for conflicts of interest, unsound banking practices, as well as other adverse effects are not likely to result from these proposals under the conditions and limitations established by the Board in this Order for the conduct of the proposed activities as well as the various statutory protections Congress has provided over the years to regulate the conduct of these activities. As discussed below, the Board has carefully considered the comments relating to the need for specific limitations and has concluded that, although existing regulation addresses certain of the concerns of the Board, there are areas in which the existing regulatory framework has not been demonstrated on the present record to be effective where commercial banking and investment banking organizations are affiliated. The Board notes that the BHC Act addresses broader concerns relating to safety and soundness and maintenance of public confidence in banking organizations and impartiality in the credit-granting process, concerns that are not addressed by the statutory and regulatory provisions relating to investor protection to which Applicants refer. Accordingly, the Board has determined that this existing regulatory framework needs to be supplemented through additional limitations drawn from the list on which the Board sought comments at the hearing in order to address issues peculiar to the affiliation of ineligible securities underwriters and banking organizations.

General Considerations. At the outset, the Board notes that there are several general considerations that support a finding that these proposals as limited by Applicants and in this Order would not produce significant adverse effects. First, a great many of the adverse effects the Board is charged with considering under the public benefits test of section 4(c)(8), such as unsound banking practices and conflicts of interest, relate to

70. The Board adopted a similar set of limitations to address possible adverse effects in approving the application by Chase to underwrite and deal in commercial paper.

potential damage to the holding company's subsidiary bank that might result from the conduct of proposed nonbanking activity. Accordingly, while a bank cannot be completely insulated from the fortunes of an affiliated nonbanking subsidiary, the Board believes that the greater the extent to which the nonbanking activity of a nonbank subsidiary of a holding company is insulated, both structurally and operationally, from the holding company's subsidiary banks, the less likely it is that adverse effects related to the conduct of the nonbanking activity will affect affiliated banks.⁷¹

In determining that adverse effects are not likely in these cases, the Board places substantial reliance on the fact that the proposed underwriting and dealing activities would be separated from the activities of Applicants' subsidiary banks, both through separate incorporation and through financial and operational limitations, explained below, that are specifically designed to ensure that all aspects of the proposed securities activities are insulated in operation from subsidiary depository institutions. For example, the proposed activities will not be conducted by Applicants' subsidiary banks or by the banks' personnel. Each Applicant has agreed that its underwriting subsidiary will have no common officers, directors, or employees with Applicant's subsidiary banks. The Board believes that the prohibition on personnel interlocks should extend to any thrift subsidiary, as well, in order to assure that all federally-insured depositors are protected as much as possible. In addition, the Board requires that affiliated banks may not act as agents for or engage in marketing activities on behalf of the underwriting subsidiaries. The underwriting subsidiaries should also have offices separate from any affiliated bank.⁷²

Moreover, transactions between the affiliated banks and the underwriting subsidiaries will be strictly limited, as discussed below. The underwriting subsidiaries will also be subject to a number of disclosure requirements designed to ensure that the public will not confuse the underwriting subsidiaries with their affiliated banks, including a requirement that the underwriting subsidiaries provide their customers with a special disclosure statement describing the difference between them and their affiliated banks. Limitations

are also imposed preventing self-dealing in transactions between these subsidiaries and their affiliated banks acting in a fiduciary capacity. The Board also requires that the underwriting subsidiaries' access to customer records of the affiliated banks be limited and that the subsidiaries' affiliates be restricted in extending credit to customers for the purchase of securities from the subsidiaries during the course of the underwriting.

Under limitations imposed by the Board, the underwriting subsidiaries would be capitalized on a stand-alone basis, that is, each subsidiary must be capitalized independently of the parent company and its subsidiary banks in accordance with industry norms.

Second, the limited expansion of activity proposed in the applications and the fact that the subsidiaries would remain fundamentally government securities dealers further support the findings that the specific adverse effects cited by the protestants are not likely to be a significant product of these proposals. The activity of each underwriting subsidiary with regard to ineligible securities would be limited in terms of income and market share so that they would not be substantial in the context of the subsidiary's overall operations and, moreover, each subsidiary would underwrite only a limited number of securities that are closely analogous, if not in most respects identical, to securities banks are authorized to underwrite and deal in or to commercial banking products. The fundamental nature of these subsidiaries would not be changed. They would remain government securities dealers and would in no sense be engaged in a full investment banking business.

Unsound Banking Practices. The Board has considered the extent to which these proposals would result in unsound banking practices or excessive financial risk to Applicants or their subsidiary banks through the underwriting subsidiaries' activities or through imprudent financial transactions with the underwriting subsidiaries or made for their benefit. In addition, the Board has considered whether the public association and economic union between the underwriting subsidiaries and their banking affiliates could lead to a loss of public confidence in Applicants' subsidiary banks if losses are sustained by the underwriting subsidiaries or by persons dealing with those subsidiaries.

Risk of Loss. Protestants allege that the proposals will result in unsound banking practices because the underwriting subsidiaries, acting as principals with respect to ineligible securities, could lose their own funds as a result of these operations. Such losses, protestants allege, could damage public confidence in affiliated banks and the parent company's ability to raise funds to provide to subsidiary banks.

The Board finds, however, that the risk of loss to

71. *Bankers Trust*, 73 FEDERAL RESERVE BULLETIN at 149, quoting *National Westminster Bank, PLC*, 72 FEDERAL RESERVE BULLETIN 584, 588 (1986), petition for review pending, No. 86-1412, (D.C. Cir.).

72. The Board notes that the FDIC has recently proposed to amend its regulations governing the securities activities of affiliates of non-member banks to provide that if the bank conducts business in the same location as the affiliate the bank must use physically separate offices or office space from that used by the affiliate. Such offices would have to be clearly and prominently identified so as to distinguish the bank from the affiliate. 52 *Federal Register* 11,492, 11,498 (April 9, 1987).

Applicants or their underwriting subsidiaries as a result of these proposals is not excessive or inconsistent with prudent banking standards. As a preliminary matter, the Board notes that Applicants have applied to conduct a restricted form of underwriting and dealing that would be limited to securities that Congress has specifically authorized member banks to hold for their own account in the exercise of prudent banking judgment.⁷³ In fact, Congress recently authorized national banks to invest without limitation in private mortgage-related securities subject to regulations of the Comptroller of the Currency⁷⁴ on the basis that these securities do not jeopardize the safety and soundness of depository institutions because of the low-risk characteristics of the investment, *i.e.*, "a pool of many mortgages with relatively low default risk as well as mortgage insurance on both the individual mortgages and the pool."⁷⁵ Thus, to the extent the underwriting subsidiaries may hold ineligible securities for their own account as a result of these proposals, they will not be subject to any excessive or unmanageable risk of loss.

The Board, however, recognizes that in addition to credit risk, an underwriter and market maker also assume the risk of adverse changes in the market price of the securities involved. In addition, an underwriter or market maker may hold at any one time a substantially greater proportion of securities of a particular issuer than would be likely in the case of investors and must generally be prepared to provide liquidity for an issue. Nevertheless, the Board believes that the limited extension of activities proposed for the underwriting subsidiaries, which is substantially similar to operations safely and soundly being conducted presently by member banks, would not result in significant or

excessive risk.⁷⁶ The risks associated with underwriting and dealing in any revenue bond, whether eligible or not, are generally a function of the price volatility of the security, as well as the cash flow and viability of the project being financed. These risks are not, in the Board's view, significantly greater for ineligible revenue bonds than for eligible bonds, given the very close functional similarity between the two kinds of obligations.⁷⁷ The same analysis applies to the proposed underwriting of ineligible mortgage-backed securities, whose risk characteristics are only slightly different from those of certain kinds of eligible mortgage-backed securities.

Finally, as the Board recognized in *Chase*, underwriting and dealing in commercial paper is an activity that is similar to loan syndication and other similar operations presently conducted safely and soundly by member banks and involves a security that member banks may invest in as principal.⁷⁸

The risk of underwriting and dealing in these securities is further mitigated by Applicants' experience in performing key functions that are similar to those performed by an underwriter or dealer in these types of debt securities, including credit analysis, evaluation of interest rate risk, financial planning, advice to issuers and assisting them in the private placement of their notes, and risk reduction techniques, such as hedging, diversification and other precautions applicable to the proposed activities.

Moreover, the Board notes that the underwriting subsidiaries will be subject to regulation under the federal securities laws. In particular, the subsidiaries will register with the SEC as broker-dealers and will be subject to financial reporting, anti-fraud and financial

73. A bank may exercise its prudent banking judgment to invest in any amount of the proposed mortgage-related securities if it is satisfied with the creditworthiness of the obligor. 12 U.S.C. § 24 Seventh; 12 C.F.R. 1.3 and 1.4. In the exercise of its prudent banking judgment, a bank may invest in the proposed municipal revenue bonds if it believes the obligor is creditworthy and the security is marketable. 12 U.S.C. § 24 Seventh; 12 C.F.R. 1.3 and 1.5. Banks have traditionally purchased commercial paper for their own account. *See Bankers Trust I*, 468 U.S. at 158 n.11.

74. Pub. L. No. 98-440, 98 Stat. 1691 (Oct. 3, 1984), amending 12 U.S.C. § 24.

75. S. Rep. No. 293, 98th Cong., 1st Sess. 6 (1983). Statistics also indicate that the performance of mortgage-related securities based on conventional (*i.e.*, non-federally insured) mortgages has been comparable to those issued by or backed by the Federal agencies and/or Federal Housing Administration ("FHA") insurance. M. Waldman and S. Guterman, *Mortgage Securities: 1972-84, Historical Performance and Implications for Investors* (Salomon Brothers Inc., March 1985).

76. *See* S. Rep. No. 560, 98th Cong., 2d Sess 16 (1984).

The record does not show that there has been any particular safety and soundness or conflict of interest problems or abuses in the case of banks underwriting municipal general obligation bonds. *See Moratorium Legislation and Financial Institutions Deregulation: Hearings Before the Senate Comm. on Banking, Housing and Urban Affairs*, 98th Cong., 1st Sess. 192 (1983) (statement of Paul A. Volcker).

77. In some cases, ineligible revenue bonds have higher ratings and lower yields than municipal securities eligible for underwriting by banks, including general obligation bonds. For example, according to Moody's 1985 Municipal and Government Manual, the general obligation bonds of New York City, which are eligible for bank underwriting, were rated "Baa," whereas the ineligible revenue bonds of related agencies, such as the New York City Transit Authority and the Triborough Bridge and Tunnel Authority were rated "Aaa" and "Aa," respectively.

78. In addition, the Board has previously noted that the market risk associated with underwriting commercial paper is minimal. Before commercial paper is issued, dealers usually survey prospective purchasers to ascertain likely interest. Thus, the probability that the underwriter would incorrectly assess market conditions and would accordingly be required to hold large amounts of commercial paper for its own account is small. In any event, the short-term maturity of commercial paper, thirty days on average, limits the potential for large capital losses to the underwriting subsidiary.

responsibility rules applicable to broker-dealers. These rules include the SEC's net capital rule (SEC Rule 15c3-1), which imposes capital requirements on broker-dealers that vary with the degree to which a broker-dealer acts as a principal and deals with the public. As noted below, Applicants' subsidiaries will maintain capital in excess of these requirements. In addition, the underwriting subsidiaries will be subject to the rules and regulations of the NASD and the MSRB. These requirements provide further protection against financial loss as a result of the proposed activities. The Board has previously recognized that in certain areas regulation under the federal securities laws is relevant to and may mitigate the Board's concerns over the possibility of adverse effects under section 4(c)(8) of the BHC Act.⁷⁹

While the Board finds that the proposed activities do not generally present concerns about undue financial loss, the Board believes that underwriting and dealing in certain limited types of ineligible securities could give rise to unacceptable risk of loss, at least as indicated by the record currently before the Board. Therefore, the Board believes it prudent at this stage to place conditions on the types of ineligible securities that may be underwritten and dealt in pursuant to this Order. While municipal revenue bonds have not generally been characterized by substantial risk, certain new types of revenue bonds are being developed, particularly in the area of securities used to promote industrial development, that are riskier than traditional municipal securities or that may be operationally and functionally similar to corporate debt securities. Accordingly, the Board believes it appropriate to require that the underwriting subsidiaries may not, without further authorization from the Board, underwrite or deal in municipal securities other than those that are rated as investment quality (*i.e.*, in one of the top 4 categories) by a nationally recognized rating agency.⁸⁰ The Board notes that most of the types of revenue bonds Applicants propose to underwrite have not generally been associated with excessive risk and are frequently backed by insurance or letters of credit furnished by third parties, which further reduces the risk associated with these securities.

79. *E.g.*, BankAmerica Corporation, 69 FEDERAL RESERVE BULLETIN 105, 113 (1983); Fidelcor, Inc., 70 FEDERAL RESERVE BULLETIN 368, 369 (1984).

80. The Board notes that the underwriting subsidiaries proposed to underwrite "public ownership" industrial development bonds ("IDBs"), *i.e.*, tax exempt bonds where the issuing municipality or the state or local governmental unit on behalf of which the bonds are issued is treated for federal income tax purposes as the sole owner of the facility being financed. Without further approval from the Board, the underwriting subsidiaries may underwrite or deal in only these IDBs.

In light of recent adverse developments in the market for mortgage-related securities involving banking and thrift organizations, the Board also believes it appropriate to impose specific limitations on the types of such securities offered by the underwriting subsidiaries. Accordingly, the Board believes that Applicants' proposals to underwrite and deal in ineligible residential mortgage-related securities should be limited to obligations that are secured by or represent an interest in 1-4 family residential mortgages until additional experience is gained in other residential mortgage-related securities. In the Board's view, there are potentially greater risks associated with larger multi-family housing projects, which often have an element of commercial real estate development. The Board believes that mortgage-related securities (other than those collateralized by 1-4 family residential mortgages) may in many instances involve significantly different and greater risk characteristics more akin to corporate underwriting, which the current record does not demonstrate may be handled safely with minimum risk within a bank holding company system. In addition, the mortgage-related securities collateralized by 1-4 family residential mortgages must be rated as investment quality (*i.e.*, in one of the top 4 categories) by a nationally recognized rating agency.

Finally, to insure that the subsidiaries' commercial paper activities remain limited to the kinds of obligations normally sold in the recognized commercial paper market, the underwriting subsidiaries may underwrite and deal in only prime quality, short-term obligations that are exempt from the registration requirements of the Securities Act of 1933 and that have minimum denominations of at least \$100,000.⁸¹

The Board also finds that even if the underwriting subsidiaries were to encounter losses associated with the conduct of the proposed activities, these losses are not likely to represent any unwarranted risk of loss to the parent companies or Applicants' other subsidiaries under the various limitations and conditions discussed in this Order, which insulate the underwriting and dealing activities, both structurally and operationally from Applicants' subsidiary banks. These limitations serve to prevent the underwriting subsidiaries' functions from draining the resources of the banks or from otherwise producing unsound banking practices.

Damage to Public Confidence. The Board also has determined that the proposed activities are not likely to damage public confidence in Applicants' subsidiary

81. Commercial paper that qualifies for exemption under that Act typically is short-term (maturity of less than nine months), has large minimum denominations, and is issued by the largest and financially strongest corporations.

banks. First, the Board notes that damage to the reputation of affiliated banks is most likely to occur if the underwriting subsidiaries or customers who buy securities from them suffer losses. As explained above, the risk of loss on the kinds of securities that the underwriting subsidiary will underwrite or deal in is carefully circumscribed. Also as explained above, under this proposal as approved by the Board, there are strict barriers between the underwriting subsidiaries and the affiliated banks, so that neither Applicants nor their subsidiary banks are responsible for any losses suffered by the underwriting subsidiaries.

Finally, in order to reduce further the association in the public mind between the bank holding company and its underwriting subsidiary and to prevent the direct or indirect involvement by the holding company in the ineligible activity approved only for the underwriting subsidiary, the Board requires that each underwriting subsidiary provide to each of its customers a special disclosure statement describing the difference between the underwriting subsidiary and its banking affiliates and pointing out that the obligations of the underwriting subsidiary are not obligations of an affiliate bank and that the bank is not responsible for securities sold by the subsidiary. The statement should also disclose that an affiliated bank may be a lender to an issuer of ineligible securities underwritten or dealt in by the subsidiary and refer the customer to relevant disclosure documents for details. The Board notes that the Federal Deposit Insurance Corporation has recently proposed to require such disclosure in the case of affiliates of nonmember banks (52 *Federal Register* 11,492, 11,497 (April 9, 1987)) and that Citicorp has indicated it proposes to provide a similar disclosure statement.

In the Board's view, the underwriting subsidiary should also disclose any material lending relationship between the issuer and a bank or lending affiliate of that subsidiary, as required under the securities laws, and in every case whether the proceeds of that issue will be used to repay outstanding indebtedness to affiliates. In this regard, the Board notes that Citicorp, for example, recognizes that there should be extensive disclosure in the offering documents of any interest of an affiliated bank related to securities underwritten by CSI.⁸²

The Board also requires that each underwriting subsidiary and any affiliated bank or thrift institution not engage in advertising or enter into an agreement stating or suggesting that an affiliated bank or thrift institution is responsible for the underwriting subsidiary's obligations. Applicants have each agreed to this limitation and certain other limits related to bank safety and soundness that are contained in the proposed section 23B of the Federal Reserve Act.⁸³

To guard further against possible erosion of the public confidence in affiliated banks, no bank or thrift affiliate should act as agent for, or engage in marketing activities on behalf of, an underwriting subsidiary. The Board notes that Citicorp and Morgan have voluntarily agreed to such restrictions. In this regard, prospectuses and sales literature relating to securities underwritten or traded by the underwriting subsidiaries may not be distributed by bank or thrift affiliates; nor should any such literature be made available to the public at any offices of any such affiliate, unless specifically requested by a customer. (See 12 C.F.R. 225.125(h) regarding similar limitations on certain investment advisory activities of bank holding companies with respect to investment companies). Additionally, affiliated banks or thrift institutions may not express an opinion with respect to the advisability of the purchase of ineligible securities underwritten or dealt in by the underwriting subsidiary, unless the bank or thrift affiliate notifies the customer that its affiliated underwriting subsidiary is underwriting or making a market in the security.

Conflicts of Interest. In determining whether the proposed underwriting and dealing activities, as limited above, are a proper incident to banking, the Board also has considered whether the activities would result in conflicts of interest. Given that the proposed activities would not be a substantial activity of the underwriting subsidiaries, the fact that banks have engaged in substantially similar activities without giving rise to significant conflicts, and the limitations on the activity as discussed below, the Board believes that any potential conflicts arising from the proposal are manageable and would not be significant.

At the outset, there are, in the Board's view, certain factors that limit the potential conflicts of interest that can reasonably be expected as a result of these proposals. First, as explained above, the limited underwriting and dealing operations in municipal revenue bonds, private mortgage-backed securities, and commercial paper would be performed by separate subsidiaries

82. Morgan and Bankers Trust object to these conditions on the grounds that similar types of disclosures are required under the federal securities laws. In the Board's view, however, specific articulation of these disclosure requirements as a condition of the approval of these applications will help assure that public confidence in the subsidiary banks will not be impaired.

83. See S. 2851, 98th Cong., 2d Sess. (1984), 130 *Cong. Rec. S* 11162, S 11166-67 (September 13, 1984).

that are substantially insulated from the operations of the affiliated banks. Second, although to some extent the potential for conflicts of interest exists in connection with permissible securities and lending activities presently engaged in by member banks, there is no evidence that bank underwriting of eligible securities over the past 50 years has produced serious conflicts of interest or other abuses or encouraged imprudent lending practices.⁸⁴ Because the proposed activities involve securities that are substantially similar to those presently underwritten and dealt in by banks, the Board believes that the potential for significant or new conflicts of interest with respect to the proposed ineligible securities would be manageable.

In this regard, the Board notes that in approving proposed legislation to allow bank holding companies to underwrite municipal revenue bonds, the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate relied on the similarity of the activity to bank eligible underwriting activity and the fact that banks have competed in the activity "safely and fairly for more than 50 years."⁸⁵

The Board notes that, in the case of municipal revenue bonds, the fact that the issuer is a public entity makes potential conflicts less likely since these entities generally do not rely on bank lending for most of their funding. Similarly, issuers of securities backed by mortgages on 1-4 family residences do not rely significantly on bank funding.⁸⁶ Moreover, as the Board noted in approving commercial paper agency and principal activities in *Bankers Trust* and *Chase*, serving as a dealer in commercial paper is very similar in function to that of a lead bank in arranging loan participations or syndications, an operation that banks have traditionally performed. There is no evidence that banks' loan participation activities have produced serious conflicts of interest. Finally, while these general factors clearly reduce the potential for conflicts of interest, the Board believes that certain additional limitations, similar to those applied in the *Bankers Trust* and *Chase* decisions, are appropriate.

Credit to Purchasers of Securities. Protestants allege that Applicants' subsidiary banks may be encouraged to make imprudent loans to depositors for the

purchase of securities underwritten by their affiliates. The Board notes that the possible temptation to extend credit for such purchases was a major concern leading to the enactment of the Glass-Steagall Act and that preserving the soundness and impartiality of credit granting is a major concern of the Board and other bank regulators under the banking laws. In order to address these concerns, the Board believes that it is appropriate to require that no lending affiliate of the underwriting subsidiary may extend credit to a customer that is secured by, or for the purpose of purchasing, any ineligible security that the subsidiary underwrites during the course of the underwriting or for the purpose of purchasing from the underwriting subsidiary any ineligible security in which the underwriting subsidiary makes a market.⁸⁷ The Board notes Citicorp proposed a substantially similar limitation in connection with CSI's underwriting activities.

Credit to Issuers of Securities. The protestants also assert that a related conflict may also arise when Applicants' bank affiliates extend credit to issuers of securities underwritten or dealt in by the underwriting subsidiaries. It is argued that banks might be tempted to make unwise loans to improve the financial condition of companies whose securities are underwritten or dealt in by an affiliated underwriting subsidiary, either to assist in the marketing of the securities or to prevent the customers of the underwriting subsidiary from incurring losses on securities sold by the subsidiary. In order to assure that this conflict does not arise, the Board believes that neither Applicants nor any of their subsidiaries may make loans to issuers of ineligible securities underwritten by the underwriting subsidiaries for the purpose of the payment of principal and interest on such securities. To assure compliance with the foregoing limitation, any lines of credit extended by any lending subsidiary of Applicants to an issuer of ineligible securities underwritten by the underwriting subsidiaries must be for a documented special purpose, or have substantial participation by other lenders, and have substantially different timing, terms, conditions, and maturities from the ineligible securities being underwritten.

Applicants must adopt appropriate procedures, including maintenance of necessary documentary records, to assure that any extensions of credit by Applicants or any of their subsidiaries to the issuer of ineligible securities underwritten or dealt in by the underwriting subsidiary are on an arm's length basis for purposes other than the payment of principal or

84. See Federal Reserve Board Staff Study, *Commercial Bank Private Placement Activities 64-65* (1977); U.S. Department of the Treasury, *Public Policy Aspects of Bank Securities Activities 34* (1975); S. Rep. No. 560, 98th Cong., 2d Sess. 15-16 (1984); *Moratorium Legislation and Financial Institutions Deregulation: Hearings Before the Senate Comm. on Banking, Housing and Urban Affairs*, 98th Cong., 1st Sess. 192 (1983) (statement of Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System).

85. S. Rep. No. 560, 98th Cong., 2d Sess. 15 (1984).

86. See *Hearings on S. 2181*, at 1612 (statement of Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System).

87. This limitation extends to credit to all customers of the lending affiliates, including brokers, dealers, and unaffiliated banks, but does not include lending to a broker-dealer for the purchase of securities where an affiliated bank is the clearing bank for such broker-dealer.

interest on ineligible securities underwritten or dealt in by the securities subsidiaries. An extension of credit is considered to be on an arm's length basis if the terms and conditions are substantially the same as those prevailing at the time for comparable transactions with issuers whose securities are not underwritten or dealt in by the underwriting subsidiaries.

In addition, the Board also believes that, to the extent the creditworthiness of securities sold by the underwriting subsidiaries depends on the existence of explicit financial backing of the issuer, that backing should be supplied by lenders unaffiliated with Applicants. Thus, the Board believes it appropriate to require that neither Applicants nor any of their subsidiaries issue or enter into a stand-by letter of credit, asset purchase agreement, indemnity, insurance, or other facility that might be viewed as enhancing the creditworthiness or marketability of ineligible securities underwritten, placed or dealt in by the underwriting subsidiaries. This limitation will further assure that the proposed activities do not encourage less than sound credit practices. For example, without such a prohibition, an affiliated bank might be tempted to provide a letter of credit to support a commercial paper issue that would otherwise not be of prime quality in an effort to make the issue marketable.

The Board believes that the above requirements relating to credit extensions to issuers should also apply to extensions of credit to parties that will be major users of the projects that are financed by industrial revenue bonds underwritten by the underwriting subsidiary. This restriction will avoid the potential conflict that a bank may be tempted to make imprudent loans to those who will benefit from a particular industrial revenue bond project in order to ensure the success of the project being financed.

Applicants generally oppose any broad restriction on the provision of credit support by affiliated banks to issuers whose securities are sold by the underwriting subsidiaries. Applicants contend that banks currently provide letters of credit and similar facilities to issuers of municipal securities underwritten by the bank. Applicants also argue that economic reality would deter preferential lending in support of an underwriting subsidiary's activity because the potential exposure to the bank on an unsound loan would be greater than the underwriting and trading profits to be gained by the subsidiary.

However, the Board believes that the risk that a bank's credit judgment may be impaired by the existence of an investment banking relationship between a borrower and the bank's affiliate is one of the fundamental hazards at which the Glass-Steagall Act was aimed and is a significant consideration under the standards of section 4(c)(8) of the BHC Act, which are

designed to maintain impartiality in the credit-granting process and thereby promote public confidence in banking organizations. A similar restriction was relied on by the Board in the *Bankers Trust* and *Chase* decisions.

Credit and Advances to Underwriting Subsidiaries. The protestants also assert that Applicants' subsidiary banks may be tempted to make imprudent extensions of credit or other investments to support the underwriting subsidiaries if they encounter financial difficulties. This conflict is inherent in transactions between banks and their affiliates generally and is addressed by section 23A of the Federal Reserve Act. (12 U.S.C. § 371c(c)(1)). That provision limits extensions of credit by a bank to its nonbank affiliates, as well as asset purchases from an affiliate, to 10 percent of the bank's capital and requires that any extensions of credit be collateralized (*e.g.*, 110 percent of the extension of credit if the collateral is composed of revenue bonds). Section 23A also prohibits a bank from purchasing low quality assets or accepting them as collateral. Section 23A thus imposes limits on the techniques that might be used to transfer funds of an affiliated bank to an underwriting subsidiary. Applicants have also agreed to comply with certain of the limits contained in the proposed section 23B of the Federal Reserve Act.⁸⁸ These limitations require that all purchases and sales of assets between a bank affiliate of Applicants and the underwriting subsidiaries, including transactions with third parties if the underwriting subsidiaries are a participant or have a financial interest in the third party or act as agent or broker or receive a fee for their services, be at arm's length and on terms no less stringent than those applicable to unrelated third parties.⁸⁹

An additional potential conflict that might occur is the possibility that Applicants' subsidiary banks might make unwarranted purchases of securities underwritten or dealt in by the underwriting subsidiaries in order to assist the subsidiaries' marketing efforts or to prevent losses by the subsidiaries. The possibility that such securities might be dumped into the bank's inventory was a major concern underlying the Glass-Steagall Act. That such transactions represent a potential adverse effect is also evidenced by the fact that

88. See S. 790, 100th Cong., 1st Sess. § 102(a) (1987), 133 Cong. Rec. S 4061, S 4063 (March 27, 1987).

89. In particular, the transactions must be on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to such bank or its subsidiary, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies or, in the absence of comparable transactions, those terms and circumstances that in good faith would be offered to, or would apply to, nonaffiliated companies.

legislation recently considered by Congress contained a provision (the proposed new section 23B of the Federal Reserve Act) expressly dealing with this possibility in connection with eligible underwriting conducted directly by banks. Applicants maintain that the possibility of this adverse effect is mitigated on the basis that the securities being underwritten by the underwriting subsidiaries are eligible investments for banks and by existing regulatory requirements. Applicants point in particular to rules of the NASD, which prohibit a member engaged in a fixed price offering of securities (other than U.S. government or municipal securities) from selling such securities or placing them with an affiliate during the course of the underwriting.⁹⁰

While the underwriting subsidiaries would be NASD members and subject to this rule against sales to affiliates, the rule does not apply to the offering of municipal securities, which is likely to be an important part of the subsidiaries' ineligible operations, and does not appear to address possible sales of unsold securities to an affiliate at the termination of the underwriting syndicate. In addition, although the limitations in section 23A would also be applicable in this situation, section 23A does not reach all inter-affiliate transactions.⁹¹

Accordingly, the Board believes that, in view of the significance of this concern, and a record indicating a basis for the Board's concern in these cases, Applicants and their subsidiaries (other than the underwriting subsidiaries) should not purchase, as principal, ineligible securities underwritten by the underwriting subsidiary during the underwriting period and for 60 days after termination of the underwriting and should not purchase from the underwriting subsidiary any ineligible security in which the underwriting subsidiary makes a market. The Board believes this requirement is essential to address the potential for conflicts of interest that could have a detrimental impact on the financial resources of the affiliates of the underwriting subsidiaries.

Biased Investment Advice. Protestants also raise concerns relating to whether the proposals will impair Applicants' obligation to provide unbiased investment advice to trust department customers.⁹² Applicants object to a proposed condition that would address this

concern by precluding Applicants and their subsidiaries from purchasing as trustee or in any other fiduciary capacity ineligible securities underwritten or dealt in by their underwriting subsidiaries or from recommending to their customers the purchase of such securities.

Applicants note that banks and broker-dealers are already subject to extensive restrictions against self-dealing under the securities laws and banking regulations as well as under common law fiduciary requirements and that an absolute prohibition is unnecessary given these restrictions and may not in fact be in the best interests of the bank's customers. In accordance with these standards, a bank or other investment adviser must disclose to an advisory customer any interest of its affiliate as underwriter or market maker in the securities being purchased or recommended and may not purchase such securities for a customer unless the purchases are specifically authorized under the instrument creating the fiduciary relationship, by court order, or by the law of the jurisdiction under which the trust is administered. For example, OCC Trust Banking Circular 19 generally prohibits national banks from purchasing in a fiduciary capacity securities underwritten by a commercial department of the bank either individually or as a syndicate member during the period of any underwriting or selling syndicate and creates a presumption that such purchases made for a period of 60 days after termination of the syndicate are also unlawful, except where authorized under the provisions of the governing trust instrument as noted above.

In addition, under fiduciary principles, affiliated banks may not express opinions about the advisability of investing in ineligible securities underwritten by the bank or its affiliates without disclosure. This limitation, which the Board believes should be explicitly applied to the underwriting subsidiaries, will assure that less than objective advice will not be provided by Applicants.⁹³ Moreover, each Applicant has committed that any dealings with the underwriting subsidiaries (or a company in which the subsidiary has an interest or for which it is acting as agent or underwriter) will be conducted on an arm's length basis and will not involve preferential terms or conditions. As discussed above, each Applicant will also provide cus-

90. Article II, § 1(m); Article III, § 36, NASD Rules of Fair Practice, NASD Manual (March 1985), ¶ 201-2196.

91. Under section 23A, a bank affiliate could invest up to 10 percent of its capital in securities underwritten by an affiliate. In addition, section 23A does not apply in the case of assets having a readily identifiable and publicly available market quotation. Finally, section 23A does not apply to purchases by the parent holding company or other nonbank affiliates of securities underwritten by the underwriting subsidiary.

92. See *Bankers Trust I*, 468 U.S. at 146-147; *ICI I*, 401 U.S. at 633.

93. Protestants have also raised the possibility that Applicants might not provide impartial advice to customers about the best method of obtaining funds or might not provide sound investment advice to correspondent banks. Under the terms of the Board's approval, the underwriting subsidiaries here would be insulated from the lending and other departments of affiliated banks and, to a large extent, the issuers of the ineligible securities that will be sold by the underwriting subsidiaries are financially sophisticated and are able to make their own assessment about various financing methods. Likewise, correspondent banks have significant expertise in investing in municipal and mortgage-related securities and have traditionally purchased commercial paper for their own account.

tomers with a specific disclosure statement describing the difference between affiliated banks and the underwriting subsidiary. The Board believes these disclosure and fiduciary requirements, if followed by the bank holding company and its bank, thrift, investment adviser and trust company subsidiaries, are sufficient to address concerns regarding conflicts of interest involving bank affiliates acting in a fiduciary capacity.

Securities Issued by Affiliates. An additional concern has been raised regarding the potential conflicts that might arise if an underwriting subsidiary underwrites or deals in securities of affiliated entities, particularly those that may be experiencing financial difficulties.

In the Board's view, the incentives for a conflict of interest to arise in underwriting and dealing in an affiliate's securities could be substantial, depending on factors such as the extent, regularity, or purpose of such underwriting and dealing. The Board notes that Congressional concern over bank securities affiliates' underwriting and making markets in the securities issued by their bank affiliates was cited as one of the principal reasons for the Glass-Steagall Act. *ICI II*, 450 U.S. at 61-62. Specifically, where the underwriting subsidiary offers securities representing interests in pools of assets created by its affiliates, the temptation exists that the affiliates' least creditworthy assets would be securitized.

Applicants maintain that investment banking firms that are part of an integrated holding company organization are subject to the same conflict in selling their affiliates' securities and that this conflict has been addressed by the disclosure requirements under the securities laws and by NASD rules. The Board is unable to conclude on the basis of the record of these applications, however, that these requirements alone would be adequate. First, the fact that investment banking firms that are not affiliated with banks face this kind of conflict in underwriting affiliates' obligations is not probative here. These firms are not subject to the public benefits test in section 4(c)(8), which imposes an affirmative duty on the Board to consider potential conflicts of interest associated with bank holding companies' nonbanking activities.

Second, the Board's concern in this case is not limited to the protection of investors. The reputation of affiliated banks could be damaged if the underwriting subsidiary sells securities issued by its affiliates to the public and those securities subsequently deteriorate in quality. Nor is it clear that disclosure requirements alone would be adequate, since the underwriting subsidiary may have an incentive to be less objective in evaluating creditworthiness and in describing all material facts when the subsidiary seeks to market obligations of entities under common control

with it. The requirement of an unaffiliated underwriter will tend to ensure that an independent and impartial credit judgment will be made in connection with securities issued by a banking organization.

On the basis of the foregoing, the Board requires, as a condition to its Order in order to avoid this potential conflict, that an underwriting subsidiary may not underwrite or deal in any ineligible securities issued by its affiliates or representing interests in, or secured by, obligations originated or sponsored by its affiliates (except for grantor trusts or special purpose corporations created to facilitate underwriting of securities backed by residential mortgages originated by a non-affiliated lender).

Securities to Repay Loans. The final category of potential conflicts of interest cited by protestants involves possible harm to the interests of those who purchase securities sold by the underwriting subsidiaries. Protestants contend that Applicants might encourage issuers to issue securities, the proceeds of which will be used to repay loans made by affiliated banks.

The Board believes that incentives to convert a risky loan held by an affiliate to a security sold to the public by the underwriting subsidiary are minimized by the condition in this Order that precludes underwriting or dealing in ineligible securities issued by affiliates, and by the economic disincentive for a bank holding company to jeopardize the reputation of its underwriting subsidiary as well as of its bank and other lending subsidiaries by engaging in underwriting for this purpose. The Board further believes that this abuse is made unlikely by the requirements, explained earlier in this Order, that the underwriting subsidiary should disclose to purchasers any material lending relationship between the issuer and a bank or lending affiliate of the underwriting subsidiary as required under the securities laws and in every case whether the proceeds of the issue will be used to repay outstanding indebtedness to affiliates.

Finally, the Board also notes that the ineligible securities underwritten and dealt in by the underwriting subsidiaries will be rated by independent rating services. The necessity for objective credit ratings makes it extremely difficult for issuers experiencing financial difficulties to issue securities that will be accepted by the market. Accordingly, subject to the foregoing limitations, the Board believes that the proposal does not pose conflicts of interest sufficient to outweigh the public benefits of the proposal.

Unfair Competition. The Board has also considered protestants' contention that the proposed underwriting affiliates would have unfair competitive advantages over other underwriters and dealers that are not affiliated with banks. Protestants allege that Applicants would enjoy unfair advantages in, for example, the

rates they would pay for funding; access to the credit files of banking affiliates to obtain information useful in marketing their services to issuers; and tax advantages available only to banks that hold municipal securities. The Board finds that this limited proposal would not result in unfair competition for the following reasons.

Access to Low-Cost Funds. With respect to protestants' funding claim, there is no evidence that Applicants' underwriting subsidiaries would, by reason of their affiliation with federally insured banks, enjoy access to lower cost funds than their competitors that are not affiliated with banks.⁹⁴ Funding for the underwriting subsidiaries would be provided by their parent holding companies, which are not banks. A corporation's funding costs are a function of a variety of economic factors, including size, capital and earnings. While the regulatory framework under which a corporation operates is a factor that may affect cost of funds, the same bank regulatory structure that provides deposit insurance imposes restraints and important costs on the operation of banks and their affiliates that are not imposed on other corporations. In addition, rates paid by Applicants and other bank holding companies on their commercial paper have generally been the same as those paid by corporations of similar size and credit ratings.

As noted above, the underwriting subsidiaries would be corporations legally separate and apart from Applicants' banking affiliates. Accordingly, the underwriting subsidiaries would not obtain funding directly through federally insured deposits or the Federal Reserve's discount window, which is available to depository institutions. Moreover, the Board does not believe that there would be a strong likelihood that insured deposits or the proceeds of discount window loans could be transferred from affiliated banks to the underwriting subsidiaries, in view of the lending limitations and collateral requirements of section 23A of the Federal Reserve Act, and the fact that any other inter-affiliate transactions not subject to section 23A must be conducted on an arm's length basis.

In any event, as the Board noted in *BankAmerica/Schwab*, the legislative history of section 4(c)(8) of the Act indicates that the term "unfair competition" was intended to refer to unfair or unethical business conduct under the law, and not to disparities established by existing federal regulation of providers of financial services.⁹⁵ Accordingly, for the reasons set out in *BankAmerica/Schwab*, even if the underwriting sub-

sidaries might obtain some funding advantage by reason of their affiliation with Applicants, the Board finds that such advantage is not unfair competition within the meaning of section 4(c)(8) of the Act.

Access to Confidential Information. The Board has also considered the allegation that unfair competition would result from sharing of confidential information between the underwriting subsidiaries and their affiliates, such as granting the underwriting subsidiaries access to the credit files of their affiliates to determine the financial needs of issuers and potential issuers to enable the subsidiaries to offer their services to issuers in advance of competitors.

To address the possibility of potential unfair competition or conflicts arising as a result of information sharing, Applicants state that they will voluntarily establish appropriate "Chinese walls" to prevent information acquired by the organization in one capacity from being improperly used in another area.

However, the Board does not believe that these commitments are sufficiently strong to assure that this conflict will not occur. Accordingly, as a condition of the Board's approval of these applications, no lending affiliate of the underwriting subsidiaries may disclose to the underwriting subsidiaries any nonpublic customer information consisting of an evaluation of the creditworthiness of an issuer or other customer of the underwriting subsidiary, other than as required by securities laws.

With respect to the potential for adverse effects from the disclosure of confidential information held by an underwriting subsidiary to its affiliates, the Board notes that trading on inside information about issuers would violate the federal securities laws. Moreover, the incentive to gain access to confidential information possessed by the underwriting subsidiary is reduced by the prohibition discussed above on the purchase by any affiliate as principal or trustee from the underwriting subsidiary of securities distributed by the subsidiary. Nevertheless, the Board believes it appropriate to require that the officers or employees of an underwriting subsidiary may not disclose nonpublic customer information consisting of an evaluation of the creditworthiness of an issuer or other customer of the underwriting subsidiary to its affiliates.⁹⁶

Tax Treatment. Finally, the Board has considered protestants' argument that Applicants' subsidiary banks receive different tax treatment than general corporations with regard to interest expense for carrying municipal securities. However, the Board finds that banks' differing tax treatment does not constitute

94. The Board notes that banks do not dominate the markets for bank-eligible securities, suggesting that the alleged funding advantages for banks are not a significant competitive factor.

95. 69 FEDERAL RESERVE BULLETIN 105, 111 (1983), affirmed by the Supreme Court in *Schwab*.

96. The Board notes that explicit tying of services offered by Applicants' subsidiary banks and by the underwriting subsidiaries is prohibited by section 106 of the Bank Holding Company Act Amendments of 1970. 12 U.S.C. §§ 1972-78.

an unfair competitive practice. First, the Tax Reform Act of 1986 has significantly reduced the tax advantages available to banks with respect to interest expense for municipal securities.⁹⁷ The underwriting subsidiaries are not banks and would not have the benefit of tax provisions applicable to banks. In addition, under this Order the underwriting subsidiaries may not sell ineligible municipal securities to affiliates during the underwriting period and there is no evidence that Applicants intend to engage in transactions to place the underwriting subsidiaries' eligible municipal securities temporarily with affiliated banks to obtain any tax advantage.⁹⁸

In any event, banks' tax treatment, like their coverage by deposit insurance, is a result of federal regulation, rather than of unethical or unfair business practice. As the Board specifically noted in *BankAmerica/Schwab*, any competitive advantage accruing from the favorable tax treatment accorded bank municipal securities dealers does not represent the type of adverse effect about which the Act was concerned.⁹⁹

Undue Concentration of Resources or Decreased Competition. The Board has carefully considered the possibility that these proposals would result in an undue concentration of resources, in view of the size of Applicants and the concern expressed in the BHC Act regarding the concentration of control over credit resources.¹⁰⁰ The Board has also considered the contentions of protestant Salomon Brothers and others that the existence of severe limitations on banking institutions' securities activities prevents a concentration of resources and promotes competitive innovation between banking institutions and investment banking firms. The Board finds that these proposals are not likely to lead to undue concentration of resources or decreased competition under the facts and circumstances of and subject to the limitations imposed on the activities herein.

Applicants seek an expansion of authority to underwrite and deal in limited kinds of securities on a *de novo* basis and these proposals do not involve any combination of existing competitors. Thus, the proposals would not eliminate any existing provider of the services involved, but would add the underwriting subsidiaries as new competitors. Addition of new competitors may reasonably be expected to increase competition and promote deconcentration in the un-

derwriting market for the types of ineligible securities proposed. The likelihood that these proposals would result in concentrations of resources is further reduced by the fact that in order to comply with the restrictions of section 20, the volume of ineligible revenue bonds and ineligible mortgage-backed securities underwritten by the underwriting subsidiaries in any one year will not exceed 5 percent of the total amount of each such kind of security underwritten domestically by all firms during the previous calendar year. Similarly, the volume of such ineligible securities held by the underwriting subsidiaries as a result of their secondary market activity may not exceed 5 percent of the total amount of that type of security underwritten domestically by all firms during the previous calendar year. Similar market limits apply to commercial paper activities.

Finally, the Board notes that, as authorized by section 16 of the Glass-Steagall Act, banks underwrite and deal in eligible securities without any market size limitation, and this authority has not led to adverse effects with respect to concentration of resources. In fact, the markets for bank eligible securities are markedly less concentrated than those for ineligible securities.

Financial Factors. In evaluating these applications, the Board has carefully considered the financial resources of each Applicant, including its capital position, and the effect on these resources of the proposed activities. The Board has also considered the comments of the SIA and several other protestants that, after the initial capitalization of the underwriting subsidiaries, Applicants should be precluded from providing any additional capital support to the subsidiaries.

The Board has indicated on previous occasions that a bank holding company should be a source of financial strength to its subsidiaries, in particular to its banking subsidiaries, and that the Board will evaluate an application for expanding nonbanking activity with this consideration in mind. The Board has required holding companies seeking approval for new activities to have the financial resources to capitalize the nonbanking entity in accordance with industry standards generally and the risk factors involved in the activity in particular, with the aims of assuring, to the extent feasible, that the new activity can support itself on a stand-alone basis, while at the same time maintaining the bank holding company's ability to serve as a source of financial strength to its subsidiary banks.¹⁰¹

97. Pub. L. No. 99-514, § 902 (Oct. 22, 1986).

98. The possibility of such tandem operations occurring is also minimized by the fact that there will be no interlocking directors, management or employees among the underwriting subsidiaries and bank or thrift affiliates.

99. 69 FEDERAL RESERVE BULLETIN at 111.

100. See H.R. Conf. Rep. No. 1747, 91st Cong., 2d Sess. 17 (1970) (Statement of the Managers on the Part of the House).

101. See Statement of Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, Before the Subcomm. on Commerce and Monetary Affairs of the Comm. on Government Operations, U.S. House of Representatives (June 11, 1986), reprinted in 72 FEDERAL RESERVE BULLETIN 541, 545 (1986); *State Bond and Mortgage Company*, 71 FEDERAL RESERVE BULLETIN 722 (1985).

In these cases, the Board believes it is appropriate to exclude the capital (and related assets) of the underwriting subsidiaries from the consolidated capital that Applicants are required to maintain under the Board's Capital Adequacy Guidelines. In the Board's view, this exclusion of the capital of the underwriting subsidiaries is consistent with the preservation of the bank holding company's resources for subsidiary banks, and, in the Board's view, a general prohibition against additional funding of the underwriting subsidiary by the parent holding company is unnecessary, provided that in each specific case the provision of funds to the subsidiary is not detrimental to subsidiary banks.

The Board further notes that the underwriting subsidiaries will be subject to a separate regulatory capital requirement—the SEC's net capital rule. Accordingly, the Board finds the proposed capitalization of each of the underwriting subsidiaries in these cases will be adequate under the generally accepted norms for companies engaged in similar activities. The Board will monitor the development and risk profiles of the underwriting subsidiaries in order to determine if their capital is adequate.

C. Pending Legislation.

In its consideration of this case, the Board has noted that on March 27, 1987, the United States Senate passed legislation that, if enacted, would prohibit Board approval between March 6, 1987 and March 1, 1988, of any application, such as the present proposals, that would permit a bank holding company to engage in the underwriting or public sale of securities on the basis that it was not "engaged principally" in such activity within the meaning of section 20 of the Glass-Steagall Act.¹⁰² This prohibition would not apply to applications pending prior to the date of enactment of the legislation if the Board delays the effective date of the decision until the expiration of the moratorium.

This moratorium legislation, however, has not yet been enacted into law. Accordingly, and as the Board stated in the *Chase* decision, the Board is required as provided in existing law to act on these applications within mandated time periods and in accordance with the applications processing schedule prescribed by Regulation Y. Moreover, the applications, as noted, comply with existing law under the framework established by the Board in this Order.

While the Board believes it must proceed to reach a decision on the applications, the Board calls to Appli-

102. Competitive Equality Banking Act of 1987 (S. 790), 100th Cong., 1st Sess. § 201; 133 Cong. Rec. S 4061, S 4067 (March 27, 1987).

cants' attention that they may be required by subsequent Congressional action to cease their ineligible underwriting and dealing activities approved in this Order. The Board retains jurisdiction over the applications to act to carry out the requirements of any legislation adopted by Congress that would affect Applicants' conduct of underwriting and dealing activities under this Order and the Bank Holding Company Act.

Conclusion

In sum, the Board finds that these proposals, as limited by this Order, are consistent with section 20 of the Glass-Steagall Act and may reasonably be expected to result in public benefits that outweigh possible adverse effects. Accordingly, the Board finds that Applicants may conduct the proposed activities to the extent and in the manner described in this Order consistent with section 20 of the Glass-Steagall Act and section 4(c)(8) of the BHC Act. The Board's approval of these applications extends only to the activities conducted within the limitations of this Order as summarized below (and subject to the gross revenue and market share limitations discussed above), and underwriting or dealing in ineligible securities in any manner other than as described below and in this Order¹⁰³ is not within the scope of the Board's approval and is not authorized for the underwriting subsidiaries:

A. Types of Securities to be Underwritten

1. The underwriting subsidiaries shall limit their underwriting and dealing in ineligible securities to the following:

- a. *Municipal revenue bonds* that are rated as investment quality (*i.e.*, in one of the top four categories) by a nationally recognized rating agency, except that industrial development bonds in these categories shall be limited to "public ownership" industrial development bonds (*i.e.*, those tax exempt bonds where the issuer, or the governmental unit on behalf of which the bonds are issued, is the sole owner, for federal income tax purposes, of the financed facility (such as airports and mass commuting facilities)).
- b. *Mortgage-related securities* (obligations secured by or representing an interest in 1-4 family residential real estate), rated as investment quality (*i.e.*, in

103. The underwriting subsidiaries may also provide services that are necessary incidents to these approved activities. The incidental services should be taken into account in computing the gross revenue and market share limits on the underwriting subsidiaries' ineligible underwriting and dealing activities, to the extent such limits apply to particular incidental activities.

one of the top 4 categories) by a nationally recognized rating agency.

c. *Commercial Paper* that is exempt from the registration and prospectus requirements of the S.E.C. pursuant to the Securities Act of 1933 and that is short term, of prime quality, and issued in denominations no smaller than \$100,000.

B. Capital Investment

2. Each Applicant's investment in an underwriting subsidiary and the assets of the underwriting subsidiary shall be excluded in determining the holding company's consolidated primary capital under the Board's Capital Adequacy Guidelines.

C. Capital Adequacy

3. The underwriting subsidiary shall maintain at all times capital adequate to support its activity and cover reasonably expected expenses and losses in accordance with industry norms.

4. Applicants shall submit quarterly to the Federal Reserve Bank of New York FOCUS reports filed with the NASD or other self-regulatory organizations, and detailed information breaking down the underwriting subsidiaries' business with respect to eligible and ineligible securities, in order to permit monitoring of the underwriting subsidiaries' compliance with the provisions of this Order.

D. Credit Extensions by Lending Affiliates to Customers of the Underwriting Subsidiary

5. No Applicant or subsidiary shall extend credit, issue or enter into a stand-by letter of credit, asset purchase agreement, indemnity, insurance or other facility that might be viewed as enhancing the creditworthiness or marketability of an ineligible securities issue underwritten by an affiliated underwriting subsidiary.

6. No lending affiliate of an underwriting subsidiary shall knowingly extend credit to a customer secured by, or for the purpose of purchasing, any ineligible security that an affiliated underwriting subsidiary underwrites during the period of the underwriting, or to purchase from the underwriting subsidiary any ineligible security in which the underwriting subsidiary makes a market. This limitation extends to all customers of lending affiliates, including brokers-dealers, and unaffiliated banks, but does not include lending to a broker-dealer for the purchase of securities where an affiliated bank is the clearing bank for such broker-dealer.

7. No Applicant or any of its subsidiaries may make loans to issuers of ineligible securities underwritten by

an affiliated underwriting subsidiary for the purpose of the payment of principal and interest on such securities. To assure compliance with the foregoing, any credit lines extended to an issuer by any lending subsidiary of the bank holding company shall provide for substantially different timing, terms, conditions and maturities from the ineligible securities being underwritten. It would be clear, for example, that a credit has substantially different terms and timing if it is for a documented special purpose (other than the payment of principal and interest) or there is substantial participation by other lenders.

8. Each Applicant shall adopt appropriate procedures, including maintenance of necessary documentary records, to assure that any extensions of credit to issuers of ineligible securities underwritten or dealt in by an underwriting subsidiary are on an arm's length basis for purposes other than payment of principal and interest on the issuer's ineligible securities being underwritten or dealt in by the subsidiary. An extension of credit is considered to be on an arm's length basis if the terms and conditions are substantially the same as those prevailing at the time for comparable transactions with issuers whose securities are not underwritten or dealt in by the underwriting subsidiaries.

9. The requirements relating to credit extensions to issuers noted in paragraphs 5-8 above shall also apply to extensions of credit to parties that are major users of projects that are financed by industrial revenue bonds.

E. Limitations to Maintain Separateness of an Underwriting Affiliate's Activity

10. There will be no officer, director, or employee interlocks between an underwriting subsidiary and any of the holding company's bank or thrift subsidiaries. The underwriting subsidiary will have separate offices from any affiliated bank.

F. Disclosure by the Underwriting Subsidiary

11. An underwriting subsidiary will provide each of its customers with a special disclosure statement describing the difference between the underwriting subsidiary and its banking affiliates and pointing out an affiliated bank could be a lender to an issuer and referring the customer to the disclosure documents for details. The statement shall also indicate that the obligations of the underwriting subsidiary are not those of any affiliated bank and that the bank is not responsible for securities sold by the underwriting subsidiary. The underwriting subsidiary should disclose any material lending relationship between the issuer and a bank or lending affiliate of the underwriting subsidiary as required

under the securities laws and in every case whether the proceeds of the issue will be used to repay outstanding indebtedness to affiliates.

12. No underwriting subsidiary nor any affiliated bank or thrift institution will engage in advertising or enter into an agreement stating or suggesting that an affiliated bank is responsible in any way for the underwriting subsidiary's obligations.

13. No bank or thrift affiliate of the underwriting subsidiary will act as agent for, or engage in marketing activities on behalf of, the underwriting subsidiaries. In this regard, prospectuses and sales literature of an underwriting subsidiary may not be distributed by a bank or thrift affiliate; nor should any such literature be made available to the public at any offices of any such affiliate, unless specifically requested by a customer.

G. Investment Advice by Bank/Thrift Affiliates

14. An affiliated bank or thrift institution may not express an opinion with respect to the advisability of the purchase of ineligible securities underwritten or dealt in by an underwriting subsidiary unless the bank or thrift affiliate notifies the customer that its affiliated underwriting subsidiary is underwriting or making a market in the security.

H. Conflicts of Interest

15. No Applicant nor any of its subsidiaries, other than the underwriting subsidiary, shall purchase, as principal, ineligible securities that are underwritten by the underwriting subsidiary during the period of the underwriting and for 60 days after the close of the underwriting period, or shall purchase from the underwriting subsidiary any ineligible security in which the underwriting subsidiary makes a market.

16. No Applicant nor any of its bank, thrift, or trust or investment advisory company subsidiaries shall purchase, as a trustee or in any other fiduciary capacity, for accounts over which they have investment discretion ineligible securities

(i) underwritten by the underwriting subsidiary as lead underwriter or syndicate member during the period of any underwriting or selling syndicate, and for a period of 60 days after the termination thereof, and

(ii) from the underwriting subsidiary if it makes a market in that security, unless, in either case, such purchase is specifically authorized under the instrument creating the fiduciary relationship, by court order, or by the law of the jurisdiction under which the trust is administered.

17. An underwriting subsidiary may not underwrite or deal in any ineligible securities issued by its affiliates or representing interests in, or secured by, obligations originated or sponsored by its affiliate (except for grantor trusts or special purpose corporations created to facilitate underwriting of securities backed by residential mortgages originated by a non-affiliated lender).

18. All purchases and sales of assets between bank (or thrift) affiliates and an underwriting subsidiary (or third parties in which the underwriting subsidiary is a participant or has a financial interest or acts as agent or broker or receives a fee for its services) will be at arm's length and on terms no less stringent than those applicable to unrelated third parties, and will not involve low-quality securities, as defined in section 23A of the Federal Reserve Act.

I. Limitations to Address Possible Unfair Competition

19. No lending affiliate of an underwriting subsidiary may disclose to the underwriting subsidiary any non-public customer information consisting of an evaluation of the creditworthiness of an issuer or other customer of the underwriting subsidiary (other than as required by securities laws and with the issuer's consent) and no officers or employees of the underwriting subsidiary may disclose such information to its affiliates.

J. Formation of Subsidiaries of an Underwriting Subsidiary to Engage in Underwriting and Dealing

20. Pursuant to Regulation Y, no corporate reorganization of an underwriting subsidiary, such as the establishment of subsidiaries of the underwriting subsidiary to conduct the activities, may be consummated without prior Board approval.

Because these proposals represent the first major entry of banking organizations into the field of underwriting and dealing in ineligible securities, the Board believes it appropriate to proceed cautiously and has established an extensive framework of prudential limitations to address conflicts of interest, unsound banking practices, and other adverse effects. After the underwriting subsidiaries have established a record of experience in the proposed activities, the Board may review the continued appropriateness of particular limitations. Similarly, the Board may from time to time, based upon experience with the activities, establish additional limitations on the conduct of the activities to ensure that the subsidiary's activities are consistent with safety and soundness, conflict of interest,

and other considerations relevant under the BHC Act.

Based on the foregoing and other considerations reflected in the record, and as set forth in the Appendix, the Board finds that these proposals, as limited in this Order are consistent with section 4(c)(8) of the Bank Holding Company Act and section 20 of the Glass-Steagall Act, and may reasonably be expected to result in public benefits that outweigh possible adverse effects.¹⁰⁴ Accordingly, the Board finds that Citicorp, J.P. Morgan and Bankers Trust may conduct the proposed activities to the extent and in the manner described in this Order and Appendix consistent with section 4(c)(8) of the BHC Act.

The Board's determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of the holding companies or any of their subsidiaries as the Board finds necessary to ensure that the underwriting subsidiaries' activities are consistent with safety and soundness and conflict of interest considerations and to assure compliance with the provisions of the BHC Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

These transactions shall not be consummated later than three months after the effective date of this Order, unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of New York, pursuant to delegated authority.

By order of the Board of Governors, effective April 30, 1987.

Voting for these actions: Governors Johnson, Seger, and Heller. Voting against these actions: Chairman Volcker and Governor Angell.

WILLIAM W. WILES
Secretary of the Board

[SEAL]

104. The SIA has requested the Board to release data submitted by Applicants in connection with these proposals concerning the volume of sales and income derived from underwriting and dealing in eligible securities since 1982, and their projected volume and income to be derived from underwriting and dealing in ineligible securities. The Board has accorded this information confidential treatment since public disclosure of this data could significantly impair Applicants' competitive position. The SIA states that disclosure of the data is necessary to ascertain the extent to which Applicants' capital will be at risk as a result of the proposals. The Board notes, however, that the underwriting and dealing activities of the underwriting subsidiaries in ineligible securities may not exceed 5 percent of the total market in such securities. Since these market limitations determine the maximum scope of the proposed activities and since market data are publicly available, release of the confidential data submitted by Applicants does not appear necessary. The additional information requested by the SIA is publicly available and involves the kinds of transactions with affiliates that are not permitted under this Order.

In addition, the Board does not believe this information is necessary for resolution of the other issues raised by the SIA. With respect to

Dissenting Statement of Chairman Volcker and Governor Angell

We regret we are unable to join the majority in approving the pending applications.

The regret reflects the fact that, as a matter of policy, we support the idea that affiliates of bank holding companies underwrite and deal in commercial paper, municipal revenue bonds, and 1-4 family mortgage-related securities, the activities involved in the Board's decision.¹ Moreover, we agree generally with the nature of the limitations placed upon the activities in the Board decision, assuming the threshold question of their legality in the *particular form proposed* can be answered affirmatively.

Our point of difference involves precisely that question of law. Section 20 of the Glass-Steagall Act provides that no member bank may be affiliated with any corporation engaged principally in the underwriting of stocks, bonds, debentures, notes or other securities. We believe the plain words of the statute, read together with earlier Supreme Court and circuit court opinions, as we understand them, indicate that government securities are indeed "securities" within the meaning of section 20. Consequently, it appears to us that the applications approved today, as a matter of law, involve affiliations of member banks with corporations that are in fact not only "principally engaged" in dealing and underwriting in securities, but in fact would be wholly engaged in such activities, thereby exceeding the authority of law.²

Our point is not merely one of legal formalisms. The interpretation adopted by the majority would appear to make feasible, as a matter of law if not Board policy, the affiliations of banks with some of the principal underwriting firms or investment houses of the country. Such a legal result, we feel, is inconsistent with the intent of Congress in passing the Glass-Steagall Act.

risk to Applicants' capital, the Board has required that Applicants may invest in the underwriting subsidiaries only to the extent that such funds would be in excess of the Board's capital requirements for bank holding companies and, as discussed above, the Board does not believe the potential for loss to Applicants or their other affiliates from the underwriting subsidiaries is substantial.

1. We have joined earlier decisions of the Board authorizing some of these activities in non-securities affiliates.

2. Without elaborating on the legal debate reviewed in the Board's order, we wish to reiterate that we fully support earlier Board decisions allowing the underwriting and dealing of government securities to take place in an affiliate. Our point of disagreement is whether that authority can, in effect, be used to bootstrap securities activities that Congress clearly wished to restrain or prohibit.

As the Board as a whole has repeatedly urged, the plain and desirable remedy to this legal and substantive morass is a fresh Congressional mandate. We urge the Congress to provide straightforwardly the authority for bank holding companies to conduct, with appropriate safeguards, the kinds of activities permitted by the Board in its decision, the practical import of which is confined to a relative handful of large bank holding companies with substantial government securities operations.

Appendix A

Table of Contents

	<i>Page</i>
<i>Part I. Introduction & Summary of Findings</i>	7
<i>Part II. Glass-Steagall Act</i>	17
A. Applicants' Contentions	17
B. Protestants' Comments	20
C. Analysis of Glass-Steagall Act Issues	21
1. Securities That a Member Bank May Underwrite Are Not Covered by the Prohibition of Section 20.	21
2. Dealing Constitutes the Underwriting or Public Sale of Securities Under Section 20.	32
3. The Term "Engaged Principally" in Section 20 Denotes any Substantial Activity.	33
—Appropriate Measure of "Engaged Principally"	40
—Quantitative Level of Activity Permitted Under Section 20	45
4. Proposed Interlocks Between Applicants and Their Underwriting Subsidiaries Are Not Prohibited by Section 32.	49
<i>Part III. Bank Holding Company Act Analysis</i>	51
A. Closely Related to Banking Analysis	54
B. Proper Incident to Banking Analysis	63
1. Public Benefits	63
—Increased Competition	63
—Greater Convenience and Increased Efficiency	66
2. Adverse Effects	67
—Comments of Interested Persons	68
—General Considerations	71
—Unsound Banking Practices	75
•Risk of Loss	75
•Damage to Public Confidence	83

—Conflicts of Interest	86
•Credit to Purchasers of Securities	89
•Credit to Issuers of Securities	89
•Credit and Advances to Underwriting Subsidiaries	93
•Biased Investment Advice	96
•Securities Issued by Affiliates	99
•Securities to Repay Loans	101
—Unfair Competition	102
•Access to Low-Cost Funds	102
•Access to Confidential Information	104
•Tax Treatment	106
—Undue Concentration of Resources or Decreased Competition	107
—Financial Factors	109
C. Pending Legislation	111
Conclusion	112

Appendix B

The Board issues the following statement setting forth in more detail its findings and analysis underlying certain of the Board's conclusions in its Order of April 30, 1987, regarding the applications of Citicorp, J.P. Morgan & Co. Incorporated and Bankers Trust New York Corporation, to engage in limited underwriting and dealing in certain securities proposed in the applications through wholly owned subsidiaries. The Appendix will address the Board's conclusion that the term "public sale" contained in section 20 of the Glass-Steagall Act covers dealing in securities. Section 20 provides that no member of the Federal Reserve System shall be affiliated with any corporation engaged principally in the "issue, flotation, underwriting, public sale, or distribution" of securities. 12 U.S.C. § 377.

The Board concludes that the term "public sale," as used in section 20 of the Glass-Steagall Act, covers the proposed dealing activities. The Board believes this result is consistent with the terms of section 20, the legislative history, the rationale of the Supreme Court's decision in *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 468 U.S. 207 (1984) ("Schwab"), the Board's long-held view that dealing is covered by the term "public sale" in section 32 of the Glass-Steagall Act—a companion provision to section 20, and Congressional purposes underlying section 20.

In reaching this conclusion the Board has carefully considered the arguments of the Applicants, who contend that "dealing" is not covered by the terms "issue, flotation, underwriting, public sale, or distribution" as used in section 20. In support of this

contention, the arguments are advanced that the term "public sale" should be read to refer to underwriting or initial distribution activity because other terms used in section 20 refer to underwriting or initial distributions of securities, that the word "public" used in public sale carries the connotation of a distribution, and that the legislative history would support a distinction between dealing and distributing.

Literally, the term "public sale" in section 20 is broad enough to encompass dealing in securities. In common industry usage, a "dealer" in securities "holds himself out as one engaged in buying and selling securities at a regular place of business"¹ and "sells securities to his customer which he has purchased or intends to purchase elsewhere or buys securities from his customer with a view to disposing of them elsewhere."² Thus, a dealer, acting for his own account, maintains an inventory of particular issues of securities in the secondary market—frequently acting as a market maker in these securities.

The term "sale", used in a commercial context, has been interpreted as referring to transactions in which a seller acting as principal transfers title to a buyer.³ In the Board's view, since a dealer holds himself out to the public as being willing to buy and sell securities for his own account, the dealer can reasonably be viewed as engaging in the "public sale" of particular securities.

The legislative history indicates that Congress intended dealing in securities to be covered by section 20, the provision designed to require member banks to divorce their securities affiliates. In its 1933 report following hearings on the Glass bill, the Senate Banking Committee stated that it proposed to separate member banks from affiliates that devoted themselves not only to underwriting but also to "stock speculation" and "maintaining a market for the banks' own stock."⁴ Senator Glass was particularly critical of bank affiliates that "dealt in the stocks of the parent bank." 75 Cong. Rec. 9887 (1932)(emphasis added). In describing the activity of a bank securities affiliate to

be divorced under the Act, Senator Walcott specifically noted that its business was to underwrite, purchase or sell various securities as they come along in the market.⁵

In *Schwab*, the Supreme Court interpreted the term "public sale" in section 20 as not applying to a discount broker that buys and sells securities solely upon the unsolicited order of customers and not for its own account (as contrasted with a securities dealer, which takes a position in securities). Among other things, the Court stated that "public sale" should be interpreted by reference to the activities described by the terms surrounding it in section 20—the "issue," "flotation," "underwriting," and "distribution" of securities.⁶

Reference to the other activities listed along with "public sale" in section 20, such as "underwriting," supports the Board's view that dealing activities are covered by that statute. As the Court in *Schwab* recognized, in the typical underwriting transaction the underwriter purchases securities from an issuer and resells them to the public and thus, like a dealer, normally acts as a principal in the transaction.⁷ Like an underwriter, a dealer in securities "buys and sells securities on its own account thereby assuming all risk of loss."⁸ Indeed, the Court in *Schwab* stated that section 20 would prohibit a bank affiliate from "dealing in" securities for its own account.⁹

The Board's view that dealing in securities is covered by the language in section 20 is further supported by the Board's longstanding and consistent interpretation that dealing is covered by the related language of section 32 of the Glass-Steagall Act (12 U.S.C. § 78). Section 32 prohibits interlocking officer, director or employee relationships between a member bank and any entity "primarily engaged" in the issue, flotation, underwriting, public sale or distribution of securities.

1. 2 L. Loss, *Securities Regulation* 1297 (2d ed. 1961).

2. SEC, *Report on the Feasibility and Advisability of the Complete Segregation of the Functions of Dealer and Broker* xiv-xvi (1936); reprinted in 2 L. Loss, *id.* at 1215-17.

3. See *Webster's Third New International Dictionary* (1961); *Black's Law Dictionary* 1200 (5th ed. 1979); U.C.C. § 2-106 (1978); see also *Gross v. Vogel*, 81 A.D.2d 576, 437 N.Y.S. 2d 431 (1981), and *E. F. Hutton v. Zaferson*, 509 S.W. 2d 950, 952 (Texas 1974).

4. S. Rep. No. 77, 73d Cong., 1st Sess. 10 (1933). Members of Congress criticized the association of banks with the "speculative business of dealing in securities" (75 Cong. Rec. 9904 (1932) (statement of Sen. Walcott)) and banks' establishment of departments that not only began "to engage in the origination, underwriting, and distribution" of investment securities, but also "to trade in them" (75 Cong. Rec. 9911 (1932) (statement of Sen. Bulkley)).

5. 75 Cong. Rec. 9905 (1932). See also 75 Cong. Rec. 9912 (1932) (statement of Sen. Bulkley) ("Obviously, the banker who has nothing to sell his depositors is much better qualified to advise disinterestedly" than is the banker who is to receive "an underwriting profit . . . or a trading profit")(emphasis added).

6. 468 U.S. at 218.

7. *Id.* at 217-18 & n.17.

8. *Id.* at 218 n.18.

9. *Id.* at 219 n.20. The Board notes that the heading given section 20 in its codification in Title 12 of the United States Code indicates that the statute applies to affiliation with "an organization dealing in securities." 12 U.S.C. § 377 (1934). The heading for section 20 in a compilation of national banking laws published under the direction of the Comptroller of the Currency shortly after section 20 was enacted was "Relationships between Member Banks and Securities Dealers." *The National Bank Act as Amended and Other Laws Relating to National Banks* (U.S. Government Printing Office, July 1, 1933).

For example, in 1934, the year that the Glass-Steagall Act became effective, the Board ruled that "it is the purpose of section 32 to restrict relationships between member banks and organizations which are directly interested in issues of securities through underwriting, distributing, or *dealing* in such issues."¹⁰ Similarly, in 1965, the Board stated that ". . . acting as a dealer, or generally speaking, selling or distributing securities as a principal, is covered by [the language of section 32]."¹¹ In its *Schwab* decision, the Supreme Court expressly stated that, because sections 32 and 20 are complementary provisions of the Glass-Steagall Act, contain identical language and were enacted for similar purposes, long-accepted Board interpretations of section 32 "should apply as well to § 20."¹²

Finally, interpreting "public sale" to include securities dealing activities is consistent with the basic purposes of the Glass-Steagall Act. Since a dealer operates for its own account in particular securities, *i.e.*, with its own funds, the dealer is subject to the "inherent risks of the securities business" and to the "more subtle hazards" that arise when a banking organization has a pecuniary interest in the purchase and sale of particular securities.¹³ In *Schwab*, the Supreme Court stated that "[a]ll these 'subtle hazards' are attributable to the promotional pressures that arise from affiliation with entities that purchase and sell particular investments on their own account." 468 U.S. at 220 n.23.

The hazards and abuses presented by the business of trading in securities for one's own account are not limited to the distribution of securities but may also

arise in the context of secondary market trading where the activities are conducted on a principal basis.¹⁴ For example, a bank might be tempted to promote to its customers the sale of securities held in an affiliate's dealer inventory, particularly when the affiliate is a market maker in particular securities. There may also be the temptation for the bank to make loans to customers in order to facilitate the purchase of securities dealt in by an affiliate or to extend credit or other aid to the affiliate when it is faring badly due to losses from dealing operations.

Moreover, the fact that section 16 of the Glass-Steagall Act (12 U.S.C. § 24 Seventh) expressly prohibits banks from engaging in general securities dealing activities suggests that this function is the kind of activity Congress viewed as giving rise to unwarranted risks and hazards when conducted by a banking organization.

United Community Financial Corporation Wayland, Michigan

Order Denying Acquisition of an Insurance Agency

United Community Financial Corporation, Wayland, Michigan, a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1841 *et seq.*), has applied under section 4(c)(8) of the BHC Act (12 U.S.C. § 843(c)(8)) to acquire McIntyre & Associates Insurance ("Insurance Agency"), a general insurance agency with offices in the village of Clarksville, Ionia County, and in Georgetown Township, Ottawa County, Michigan.

Notice of the application, affording interested persons an opportunity to submit comments on the proposal, has been duly published (52 *Federal Register* 4190 (1987)). The time for filing comments has expired, and the Board has considered the application and all comments received, including those of various insurance trade associations,¹ in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

Applicant proposes to engage in general insurance activities in a place of fewer than 5,000 residents, pursuant to exemption C of section 4(c)(8) of the BHC

10. 20 FEDERAL RESERVE BULLETIN 393 (1934) (emphasis added). *Accord*, 20 FEDERAL RESERVE BULLETIN 750 (1934), where the Board interpreted section 32 to apply to the manager of a branch of a dealer in securities. As originally enacted, section 32 prohibited an interlock with a firm engaged "primarily in the business of purchasing, selling or negotiating securities." 48 Stat. 194. While an amendment to the statute in 1935 changed this provision to conform to the other provisions of the Act (49 Stat. 709), the amendment was not intended to change the scope of coverage of section 32. *See* H.R. Rep. No. 742, 74th Cong., 1st Sess. 17 (1935).

11. 51 FEDERAL RESERVE BULLETIN 810 (1965); 12 C.F.R. § 218.110. The fact that these Board interpretations were issued prior to the Supreme Court's *Schwab* decision is not persuasive. As noted above, the Supreme Court in *Schwab* stated, consistent with the Board's interpretation, that section 20 prohibits a bank affiliate from dealing in securities. 468 U.S. at 219 n.20.

12. 468 U.S. at 219.

13. *Securities Industry Ass'n v. Board of Governors of the Federal Reserve System*, 468 U.S. 137, 145 (1984); *Schwab*, 468 U.S. at 220.

14. *See Investment Company Institute v. Camp*, 401 U.S. 617, 629-34 (1971).

1. The Board has received comments protesting the application from, *inter alios*, the National Association of Life Underwriters, National Association of Professional Insurance Agents, Independent Insurance Agents of America, Inc., National Association of Casualty and Surety Agents, and National Association of Surety Bond Producers.

Act and section 225.25(b)(8)(iii) of the Board's Regulation Y (12 C.F.R. 225.25(b)(8)(iii)), in Clarksville, Ionia County, Michigan, and in Georgetown Township, Ottawa County, Michigan. The Board's Regulation Y, as amended in November 1986,² states that a bank holding company may engage in general insurance agency activities in a place of 5,000 residents if it has a lending office in that place.³

Protesting insurance agents and insurance trade associations have argued that the Board must deny this application for a variety of reasons. Protestants suggest that although applicant is headquartered in, and has its principal and largest banking office in Wayland, Michigan, a place with a population of approximately 2,000 residents, Applicant maintains lending facilities in places with populations of more than 5,000 residents. Protestants also argue that the Georgetown Township office of Insurance Agency serves a "place" of more than 5,000 residents, in violation of the BHC Act.

The Board has previously decided in adopting the insurance amendments to Regulation Y that exemption C does not require a bank holding company to have its principal place of banking business in a town with a population of fewer than 5,000 residents. For reasons stated in detail in adopting its insurance regulation, the Board finds no merit to the argument advanced by Protestants that a bank holding company engaged in general insurance agency activities in a town of fewer than 5,000 residents must have not only its principal place of banking business in such a small town (as Applicant does), but also must have *all* lending offices in such small towns. Historically, the Board has never imposed such a requirement, and the suggestion by Protestants that even a bank holding company headquartered in a small town must cease its insurance agency activities if it establishes a branch bank or lending office in a town of greater than 5,000 inhabitants has no basis in the statutory language of exemption C, the legislative history of that provision, or in prior Board practice.

Protestants also assert that the Georgetown Township office operates in a place of greater than 5,000 residents. Applicant has stated that Insurance Agency's Georgetown Township office is located in a

"place" of fewer than 5,000 residents that consists of a split portion of census tract 216 with a 1980 census population of approximately 1,800. Applicant argues that since the Board's insurance regulation does not define a "place of 5,000" and since it appears to permit any "place" for which census data are available, a census tract is clearly the type of "place" contemplated by the BHC Act and the Board's regulation. The Board has stated, in amending its insurance regulation in November, 1986, that the Board would not define the term "place,"⁴ preferring to permit bank holding companies to demonstrate on a case-by-case basis that a particular location qualifies. The Board stated, however, that the reference to the decennial census in exemption C implies that the "place" must be a cognizable political subdivision such as a village, town, municipality, or township for which population figures are available.

The facts in the record, however, do not indicate that a split portion of a census tract in Georgetown Township is a place of fewer than 5,000 residents, as contemplated in section 4 of the BHC Act and the Board's Regulation Y.

On-site inspection by Federal Reserve staff of the area has revealed that the partial census tract cannot be distinguished as a separate community. It is not separated from the more populous, adjacent, unincorporated community of Jennison or the surrounding Georgetown Township by significant distance, physical barriers or even political subdivisions. Residents do not identify the census tract as a separate community or even have a name to identify the area. The census line is artificial, and there is no practical basis for the Board to find that Applicant's proposed office is in a separate community or "place" from the shopping area across the street simply because they are in separate portions of census tract 216.

Even under the Census Bureau's standards it does not appear that Applicant's delineated insurance service area would be a "place." Rather, the Census Bureau would view Applicant's proposed "place" only as the remaining portion of a census tract after a Census-designated place, consisting of an unincorporated community of 10,000 or more (Jennison, Michigan), has been excluded.

2. 51 *Federal Register* 36,201 (October 9, 1986).

3. The acquisition of the office in the village of Clarksville raises no significant issues since it is a place of fewer than 5,000 residents, according to the 1980 census, and since Applicant has an office of a lending subsidiary in Clarksville.

4. Also, the term "place" is not defined in the BHC Act.

In addition, the record indicates that the census tract in question and Georgetown Township are fully integrated with, and a part of, the Grand Rapids, Michigan (population approximately 182,000), metropolitan area. There is uninterrupted economic development present from Grand Rapids to Insurance Agency's Georgetown Township office, and commuting and shopping patterns suggest that the Georgetown Township population is not locally limited. Acceptance of Applicant's proposal would extend the so-called "small town" exemption in the BHC Act to metropolitan areas. For example, there are approximately 975 census tracts in the Chicago Metropolitan Statistical Area with a population under 5,000. The Board, however, has interpreted the "town of 5,000" exemption, which is based on a similar provision in the National Bank Act for national banks, 12 U.S.C. § 92, as a means of providing insurance in small towns.

Moreover, the area in which Applicant proposes to sell insurance appears unrealistically limited or artificial because the proposed service area, consisting primarily of a sparsely populated flood plain, extends more than three miles from the office, but excludes the shopping area directly across the street from the insurance office as well as that portion of the census tract with a population of more than 10,000 residents. Even if Applicant does not actively solicit insurance sales from this part of the census tract, the office is likely to derive the major portion of its business from outside the proposed service area.

In view of all the facts of record, the Board concludes that the split portion of census tract 216 in Georgetown Township does not constitute a cognizable city, town, village, other political subdivision, or community and thus is not a place of fewer than 5,000 residents for purposes of exemption C of the BHC Act and section 225.25(b)(8)(iii) of the Board's Regulation Y.⁵

Because the proposal does not, as described above, fulfill the requirements of section 225.25(b)(8)(iii) of the Board's Regulation Y or section 4(c)(8) of the BHC Act, the proposed acquisition of Insurance Agency would not be permissible under the BHC Act and, accordingly, there is no need for the Board to analyze the public benefits of this proposed acquisition. On the basis of all the facts of record, the Board has deter-

5. Applicant has not indicated that it would be possible to sever the transaction to acquire only the Clarksville office. Therefore, the application has been processed as an integrated proposal to acquire both offices of Insurance Agency and, thus, a denial of the acquisition of the Georgetown Township office also precludes the acquisition of the Clarksville office.

mined that the application should be, and hereby is, denied for the reasons summarized above.⁶

By order of the Board of Governors, effective April 16, 1987.

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

WILLIAM W. WILES
Secretary of the Board

[SEAL]

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

RepublicBank Corporation
Dallas, Texas

Order Approving Acquisition of a Bank Holding Company

RepublicBank Corporation, Dallas, Texas ("Applicant"), a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 *et seq.*) (the "Act"), has applied for the Board's approval under section 3 of the Act (12 U.S.C. § 1842) to acquire the successor by merger of InterFirst Corporation, Dallas, Texas ("IFC"), and thereby indirectly acquire its banking subsidiaries listed in Appendix A to this Order.¹ Applicant also has applied under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) to acquire the nonbanking subsidiaries of IFC listed in Appendix B to this Order. Applicant also has provided notice to the Board under section 4(c)(14) of the Act of its intention to acquire InterFirst World Trade Corporation, an export trading company. Upon consummation of this proposal, Applicant will operate under the name of First RepublicBank Corporation, Dallas, Texas ("FRB").

6. In light of the Board's conclusion that the application should be denied, it is unnecessary to deal with the protestants' request for a hearing.

1. Applicant will acquire IFC through a merger of IFC with RB-IF Merger Company, a wholly owned subsidiary of Applicant. RB-IF Merger Company will change its name to IFRB Corporation and become the surviving corporation. In connection with this application, RB-IF Merger Company has applied to become a bank holding company and to acquire the nonbanking subsidiaries listed in Appendix B to this Order and InterFirst World Trade Corporation.

Notice of the applications, affording opportunity for interested persons to submit comments, has been published (52 *Federal Register* 5,834 (1987)). 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 sections 3(c) and 4(c)(8) of the Act.

Applicant, with approximately \$14.4 billion in domestic deposits representing approximately 9.5 percent of the total deposits in commercial banks in Texas, is the second largest commercial banking organization in Texas.² IFC is the third largest commercial banking organization in Texas with domestic deposits of approximately \$13.6 billion, representing approximately 8.9 percent of the total deposits in commercial banks in Texas. Upon consummation of this proposal, Applicant would become the largest commercial banking organization in Texas, controlling 18.4 percent of the total deposits in commercial banks in the state.

The Board has considered carefully the effects of the combination of the second and third largest commercial banking organizations in Texas on the concentration of banking resources in the state. Upon consummation of the proposal, Texas would remain unconcentrated, with the market share of the four largest commercial banking organizations in Texas increasing from 37.6 percent to 44.9 percent. In addition, numerous banking alternatives would remain in Texas upon consummation of the proposal. On the basis of these considerations, the Board concludes that consummation of the proposed transaction will have no substantial adverse effects on the concentration of banking resources in Texas.

In evaluating these applications, the Board has considered the financial resources of Applicant and the effect on those resources of the proposed acquisition. The Board has stated and continues to believe that capital adequacy is an especially important factor in the analysis of bank holding company proposals, particularly in transactions such as this in which the acquisition of a large organization experiencing financial problems is proposed. The Board expects that banking organizations experiencing substantial growth by acquisition should maintain a strong capital position substantially above the minimum levels specified in the Board's Capital Adequacy Guidelines.

In this case, FRB's *pro forma* tangible primary capital ratio will be above Applicant's year-end 1986 tangible primary capital ratio, which is well above the minimum primary capital ratio under the Board's Guidelines. In addition, Applicant's *pro forma* total capital will be in excess of 10 percent. This acquisition has been structured as an exchange of shares, and Applicant will not incur any debt in connection with this proposal. The Board has given special attention to Applicant's commitment to issue significant additional primary capital to augment its capital base prior to consummation of this proposal. This increase in primary capital is considered to be a significant factor weighing in favor of the proposal.

After a review of Applicant's proposal in light of IFC's financial condition and the current difficulties in the Texas economy, the Board concludes that the *pro forma* financial and managerial resources of Applicant and its subsidiary banks are consistent with approval. In reaching this decision, the Board has noted as a matter of particular importance the circumstances under which this merger has been arranged. Due in part to a weak regional economy, Applicant recently has experienced a decline in operating performance, and IFC has suffered significant financial losses in recent years. The merger of the two companies and resulting cost savings are anticipated to position FRB to better withstand the current difficult economic situation in the energy and real estate sectors of the economy. Further, Applicant's *pro forma* capital base will provide a substantial cushion to absorb losses.

The Board also has considered the recommendations for approval of the transaction by the other federal bank regulatory agencies and in particular, the fact that this proposal, under the circumstances, represents the best available alternative to address IFC's financial difficulties. Based on all of the preceding financial factors and other facts of record, the Board concludes that on balance the financial resources of FRB and its subsidiary banks are consistent with approval of these applications.

Applicant and IFC compete directly in the Dallas, Houston, San Antonio, Fort Worth, Austin, Waco, Tyler, and Brown County markets.

Applicant is the largest commercial banking organization in the Dallas banking market,³ controlling \$8.2

2. Deposit data are as of June 30, 1986, and structure data are as of December 31, 1986.

3. The Dallas banking market is approximated by Dallas County, the southeast quadrant of Denton County (including Denton and Lewisville); the southwest quadrant of Collin County (including McKinney and Plano); the northern half of Rockwall County; the communities of Forney and Terrell in Kaufman County, Midlothian, Waxahachie and Ferris in Ellis County; and Grapevine and Arlington in Tarrant County.

billion in deposits, representing 25.0 percent of total deposits in commercial banks in the market. IFC is the third largest banking organization in the market, controlling \$4.2 billion in deposits, representing 12.6 percent of the market's bank deposits. The market is moderately concentrated with a Herfindahl-Hirschman Index ("HHI")⁴ of 1216. Upon consummation of the proposal, Applicant would control approximately 37.6 percent of the market's bank deposits, and the HHI would increase by 630 points to 1846.

Applicant is the largest commercial banking organization in the Waco banking market,⁵ controlling \$408.5 million in deposits, representing 27.6 percent of total deposits in commercial banks in the market. IFC is the fourth largest banking organization in the market, controlling \$120 million in deposits, representing 8.1 percent of the deposits in commercial banks in the market. Upon consummation of the proposal, Applicant would control approximately 35.7 percent of the market's bank deposits, and the HHI would increase by 346 points to 1883.

Applicant is the fifth largest commercial banking organization in the Austin banking market,⁶ controlling \$395.4 million in deposits, representing 6.3 percent of total deposits in commercial banks in the market. IFC is the largest banking organization in the market, controlling \$1.5 billion in deposits, representing 23.7 percent of total deposits in the market. Upon consummation of the proposal, Applicant would become the largest commercial banking organization in the market, with a market share of approximately 30.0 percent, and the HHI would increase by 300 points to 1516.

Applicant is the third largest commercial banking organization in the Tyler banking market,⁷ controlling \$280.0 million in deposits, representing 17.0 percent of total deposits in commercial banks in the market. IFC is the largest banking organization in the market, controlling \$348.0 million in deposits, representing 21.2 percent of the market's bank deposits. Upon

consummation of the proposal, Applicant would control approximately 38.2 percent of the market's bank deposits, and the HHI would increase by 719 points to 2126.

Although consummation of this proposal would eliminate some existing competition between Applicant and IFC in these banking markets, certain facts of record mitigate the adverse competitive effects of the proposal in these markets. Numerous other commercial banking organizations would continue to operate in each market after consummation of the proposal. Moreover, the Board has considered as an extenuating factor in its evaluation of the competitive effects of this proposal, the fact, as discussed above, that IFC has experienced financial difficulties over the last several years and that this proposal is designed to ensure the continued overall competitiveness of the resulting banking organization.

In addition, the Board has considered the presence of thrift institutions in the Dallas, Waco, Austin, and Tyler banking markets in its analysis of this proposal. The Board previously has indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks.⁸ Thrift institutions already exert a considerable competitive influence in the market as providers of checking, money market deposit accounts, NOW accounts, Super NOW accounts, and consumer loans, and many are engaged in the business of making commercial loans. Based upon the number, size, market shares, and commercial lending activities of thrift institutions in these markets, the Board has concluded that thrift institutions exert a significant competitive influence that mitigates the anticompetitive effects of this proposal in the Dallas, Waco, Austin, and Tyler markets. In accordance with the Board's practice, the Board has included in the calculation of market concentration 50 percent of the deposits controlled by thrift institutions.

Taking into account all of these factors, the Board notes that Applicant and IFC would control 20.4 percent and 10.3 percent of the total market deposits, respectively, in the Dallas market. The HHI would increase by 422 points to 1245 upon consummation of the proposal. In the Waco market, Applicant and IFC would control 21.0 percent and 6.2 percent of the total market deposits, respectively. The HHI would increase by 260 points to 1234 upon consummation of

4. Under the revised Department of Justice Merger Guidelines (49 *Federal Register* 26,823) a market in which the post-merger HHI is between 1000 and 1800 is considered moderately concentrated. In such markets, the Department is likely to challenge a merger that increases the HHI by more than 100 points. The Department has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognizes the competitive effect of limited purpose lenders and other non-depository financial entities.

5. The Waco banking market is approximated by McLennan County.

6. The Austin banking market is approximated by the Austin RMA.

7. The Tyler banking market is approximated by Smith County.

8. *National City Corporation*, 70 FEDERAL RESERVE BULLETIN 743 (1984); *The Chase Manhattan Corporation*, 70 FEDERAL RESERVE BULLETIN 529 (1984); *NCNB Bancorporation*, 70 FEDERAL RESERVE BULLETIN 225 (1984); *General Bancshares Corporation*, 69 FEDERAL RESERVE BULLETIN 802 (1983); *First Tennessee Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

the proposal. In the Austin market, Applicant and IFC would control 4 percent and 20.1 percent of the total market deposits, respectively. The HHI would increase by 160 points to 1187 upon consummation of the proposal. In the Tyler market, Applicant and IFC would control 14.4 percent and 17.9 percent of the total market deposits, respectively. The HHI would increase by 513 points to 1570 upon consummation of the proposal. These market shares and concentration ratios are consistent with prior decisions by the Board involving acquisitions of direct competitors.

Even without the deposits controlled by thrift institutions in the Houston, San Antonio, and Fort Worth banking markets,⁹ Applicant's resulting market share in each of these markets would be less than 25 percent and the markets would remain moderately concentrated after consummation of the proposal. Moreover, numerous competitors would remain in each of these markets. Accordingly, consummation of the proposal would not have a substantial adverse competitive effect in these markets.

Applicant is the largest commercial banking organization in the Brown County market,¹⁰ controlling \$102.8 million in deposits, representing 40.1 percent of total deposits in commercial banks in the market. IFC is the third largest commercial banking organization in the market, controlling \$58.5 million in deposits, representing 22.8 percent of total deposits in the market. Applicant has committed to divest IFC's bank in order to eliminate the adverse competitive effects that would otherwise result from consummation of this proposal. On the basis of this divestiture commitment, the Board concludes that consummation of the proposal would not tend substantially to lessen competition in the Brown County market.

Where, as in this case, a divestiture is proposed to avoid the otherwise substantial anticompetitive effects resulting from a proposed acquisition, the Board's policy requires that the divestiture take place on or before the date of consummation of the acquisition.¹¹ Although the Board anticipates that every effort will be made to complete the divestiture before consummation of the acquisition of IFC, divestiture may not be possible before the expected consummation date be-

cause of the inability of the purchaser to obtain regulatory approval due to time constraints.¹²

The Board also has considered the effects of Applicant's proposal on probable future competition in the markets in which Applicant and IFC do not both compete. In light of the number of probable future entrants into those markets, the Board concludes that consummation of this proposal would not have a significant adverse effect on probable future competition in any relevant banking market.¹³

In considering the convenience and needs of the communities to be served, the Board has taken into account the records of Applicant and IFC under the Community Reinvestment Act ("CRA"), 12 U.S.C. § 2901 *et seq.*¹⁴ The Board has received comments from the Texas Association of Community Organizations for Reform Now, Dallas, Texas ("ACORN"), and the District 6 Land Use Committee, Dallas, Texas ("LUC"), regarding the CRA records of Applicant and IFC. ACORN has commented favorably on the application. However, LUC has alleged that Applicant and IFC have failed to serve the credit and deposit taking needs of the South Dallas community. In an attempt to resolve the concerns raised by the protest, Applicant has met and is continuing to meet with LUC; however, the parties have been unable to reach final agreements regarding LUC's concerns. Applicant has committed to pursue further discussions with LUC in an effort to reach an accommodation that will benefit the community and further the purposes of CRA along the lines of the agreements it has reached with other community groups, as discussed below.

In response to LUC's allegations, the Board has reviewed the records of Applicant and IFC in serving the credit and deposit needs of the South Dallas community. The Board's analysis indicates that Applicant and InterFirst do not treat minority neighbor-

12. If the purchaser is unable to acquire the bank prior to Applicant's acquisition of IFC because of delay in securing regulatory approval, an independent trustee must be appointed for the bank prior to consummation with instructions to divest the bank promptly. This is consistent with the need to consummate Applicant's acquisition of IFC expeditiously in order to assure the expected improvements in IFC's performance and avoid managerial or other problems that could result from delay. *See, Wells Fargo & Company, 72 FEDERAL RESERVE BULLETIN 424 (1986).*

13. Both Applicant and IFC own limited service commercial banks in Delaware. These banks were established primarily to offer consumer credit card services. The market for such credit card services is nationwide and unconcentrated, and the market shares controlled by Applicant and IFC are *de minimis*. Accordingly, consummation of the proposed transaction will not have a significant adverse effect on existing or probable future competition in any relevant market.

14. The CRA requires the Board, in its evaluation of a bank holding company application, to assess the record of an applicant in meeting the credit needs of the entire community, including the low- and moderate-income neighborhoods, consistent with safe and sound operation.

9. The Houston banking market is approximated by the Houston RMA. The San Antonio banking market is approximated by the San Antonio RMA. The Fort Worth banking market is approximated by Tarrant County (excluding Grapevine and Arlington), Cleburne in Johnson County, the eastern half of Parker County (including Weatherford and Springtown), the communities of Boyd and Rhome in Wise County, and the community of Roanoke in Denton County.

10. The Brown County banking market is approximated by Brown County.

11. *Barnett Banks of Florida, Inc.*, 68 FEDERAL RESERVE BULLETIN 190 (1982); *InterFirst Corporation*, 68 FEDERAL RESERVE BULLETIN 243 (1982).

hoods in Dallas in a disparate manner with regard to home mortgage and home improvement lending.

In this regard, the Board notes that Applicant has recently entered into agreements with other community based organizations in Dallas and San Antonio that provide for Applicant to enhance its efforts to help meet local credit needs in those communities. Applicant's agreement with ACORN, for example, concerned four areas: housing-related activities, small business and personal loans, basic banking services, and community awareness. Specifically, Applicant agreed to make a good faith effort to reach a home mortgage and home improvement lending goal of a specific dollar amount to qualified borrowers in low- and moderate-income census tracts in Dallas; to meet with small businesses and small business groups and to improve its efforts to create flexible financing policies; to expand its money order business; to provide a life-line checking plan; and to expand its community awareness program through advertising, attendance at community group meetings, and development of a marketing plan.

On March 16, 1987, the San Antonio Reinvestment Alliance, San Antonio, Texas, and several other community groups also signed an agreement with Applicant. Specifically, Applicant agreed to make a good faith effort to achieve mortgage loan and home improvement loan goals of specific dollar amounts in target markets; to make a good faith effort to meet construction and commercial loan goals of specific dollar amounts in target markets; to expand its senior citizen checking service; and to develop a marketing plan in certain target markets.

The Board also notes that the primary supervisors of Applicant's banks have determined that all of Applicant's banks have satisfactory CRA records. Applicant has committed to implement its practices and procedures with regard to CRA at IFC banks in order to ensure those banks' compliance with CRA. Finally, Applicant will file a detailed report of its review of its CRA procedures in order that the Federal Reserve System may evaluate Applicant's progress in meeting its CRA objectives and may ensure that Applicant improves the CRA performance of IFC's banks. Accordingly, based on all the facts of record, the Board concludes that convenience and needs considerations are consistent with approval of the applications.¹⁵

Applicant also has applied, pursuant to section

15. LUC has also requested that the Board order a public hearing to enable LUC to present evidence substantiating its allegations. Although section 3(b) of the Act does not require a formal hearing in this instance, the Board may, in any case, order an informal or formal hearing. In light of the commitments made by Applicant and other facts of record, the Board has determined that a hearing would serve no useful purpose. Accordingly, LUC's request for a public hearing is denied.

4(c)(8), to acquire IFC's nonbanking subsidiaries. Applicant operates mortgage lending and discount brokerage subsidiaries that compete with Company's nonbanking subsidiaries in these activities. Because of the large number of companies that engage in these activities, however, Applicant's acquisition of these subsidiaries will not have a significantly adverse effect on competition. Further, although both Applicant and Company have subsidiaries that provide credit life and accident and health insurance, the subsidiaries do not compete directly in the provision of this service because this type of insurance is not provided except in connection with extensions of credit made by each organization's credit-granting subsidiaries. Accordingly, the Board concludes that this proposal will not have any significant adverse effect upon competition in any relevant market.

The National Association of Life Underwriters, the National Association of Professional Insurance Agents, the Independent Insurance Agents of America, Inc., the National Association of Casualty and Surety Agents, and the National Association of Surety Bond Producers submitted comments questioning the permissibility of the insurance activities conducted by Company's subsidiary, InterFirst Finance Company. InterFirst Finance Company acts as a managing general agent in connection with the sale of property and casualty insurance on the real and personal property used in the operations of Company and its subsidiaries and the sale of group insurance that protects the employees of Company and its subsidiaries. These activities are permissible under section 4(c)(8)(E) of the Act and section 225.25(b)(8)(v) of the Board's Regulation Y. These activities are also permissible servicing activities under sections 4(a)(2)(A) and 4(c)(1)(C) of the Act, and section 225.22(a)(2)(ix) of the Board's Regulation Y. The Board previously has determined that the prohibition on insurance activities now contained in section 4(c)(8) of the Act as a result of the 1982 Garn-St Germain Depository Institutions Act has no bearing on the internal operations of a bank holding company. 49 *Federal Register* 808 (1984). Accordingly, the Board concludes that the insurance activities of Interfirst Finance Company are consistent with the Act.

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 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 favorable and consistent with approval of the applications to acquire Company's nonbanking subsidiaries and activities.

The Board also has considered the notice of Applicant's proposed investment in InterFirst World Trade Corporation under section 4(c)(14) of the Act. Based on the facts of record, the Board has determined that disapproval of the proposed investment is not warranted.

Based on the foregoing and other facts of record, the Board has determined that the applications should be, and hereby are, approved. The acquisition of IFC 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, acting pursuant to delegated authority. The determinations as to Applicant's nonbanking activities are subject to all of the conditions contained in Regulation Y, including those in sections 225.4(d) and 225.23(b)(3) (12 C.F.R. §§ 225.4(d) and 225.23(b)(3)), 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 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 29, 1987.

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

JAMES MCAFEE

[SEAL] Associate Secretary of the Board

Appendix A

Banking Subsidiaries to be Acquired

InterFirst Bank Delaware, New Castle, Delaware; InterFirst Bank Abilene, N.A., Abilene, Texas; InterFirst Bank South Abilene, Abilene, Texas; InterFirst Bank Addison, Addison, Texas; InterFirst Bank Alamo Heights, N.A. Alamo Heights, Texas; InterFirst Bank SW Arlington, N.A., Arlington, Texas; InterFirst Bank Arlington, N.A., Arlington, Texas; InterFirst Bank Northwest, N.A., Austin, Texas; InterFirst Bank Westlake, N.A., Austin, Texas; InterFirst Bank Austin, N.A., Austin, Texas; InterFirst Bank North Austin, N.A., Austin, Texas; InterFirst Bank Baytown, Baytown, Texas; InterFirst Bank Beaumont, Beaumont, Texas; InterFirst Bank SW-Houston, N.A., Bellaire, Texas; InterFirst Bank Brownwood, Brownwood, Texas; InterFirst Bank Carrollton, Carrollton, Texas; InterFirst Bank Cleburne, N.A., Cleburne, Texas; InterFirst Bank Clif-

ton, Clifton, Texas; InterFirst Bank Conroe, N.A., Conroe, Texas; InterFirst Bank Corsicana, N.A., Corsicana, Texas; InterFirst Bank Oak Cliff, Dallas, Texas; InterFirst Bank Dallas, N.A., Dallas, Texas; InterFirst Bank Pleasant Grove, Dallas, Texas; InterFirst Bank Galleria, N.A., Dallas, Texas; InterFirst Bank Park Cities, Dallas, Texas; InterFirst Bank Denison, N.A., Denison, Texas; InterFirst Bank El Paso, N.A., El Paso, Texas; InterFirst Bank Chelmont, N.A., El Paso, Texas; InterFirst Bank Ennis, N.A., Ennis, Texas; InterFirst Bank Forney, Forney, Texas; InterFirst Bank Fort Worth, N.A. Fort Worth, Texas; InterFirst Bank Gateway, N.A., Fort Worth, Texas; InterFirst Bank River Oaks, Fort Worth, Texas; InterFirst Bank South Fort Worth, Fort Worth, Texas; InterFirst Bank University Drive, Fort Worth, Texas; InterFirst Bank Galveston, N.A., Galveston, Texas; InterFirst Bank Greenville, N.A., Greenville, Texas; InterFirst Bank Harlingen, N.A., Harlingen, Texas; InterFirst Bank Hillsboro, Hillsboro, Texas; InterFirst Bank Fannin, Houston, Texas; InterFirst Bank Post Oak, Houston, Texas; InterFirst Bank East Houston, Houston, Texas; InterFirst Bank Greenspoint, Houston, Texas; InterFirst Bank Houston, N.A., Houston, Texas; InterFirst Bank San Felipe, N.A., Houston, Texas; InterFirst Bank Hutchins, Hutchins, Texas; InterFirst Bank DFW Freeport, N.A., DFW Freeport, Texas; InterFirst Bank Las Colinas, Irving, Texas; InterFirst Bank Irving, Irving, Texas; InterFirst Bank Malakoff, Malakoff, Texas; InterFirst Bank Mount Pleasant, N.A., Mount Pleasant, Texas; InterFirst Bank Nassau Bay, N.A., Houston, Texas; InterFirst Bank Nederland, Nederland, Texas; InterFirst Bank Richland, N.A., Richland Hills, Texas; InterFirst Bank Oak Hill, N.A., Oak Hill, Texas; InterFirst Bank Odessa, N.A., Odessa, Texas; InterFirst Bank Paris, Paris, Texas; InterFirst Bank Pasadena, Pasadena, Texas; InterFirst Bank San Antonio, N.A., San Antonio, Texas; InterFirst Bank Stephenville, N.A., Stephenville, Texas; InterFirst Bank SW Temple, N.A., Temple, Texas; InterFirst Bank Temple, N.A., Temple, Texas; InterFirst Bank Tomball, Tomball, Texas; InterFirst Bank Tyler, N.A., Tyler, Texas; InterFirst Bank Victoria, Victoria, Texas; InterFirst Bank Waco, N.A., Waco, Texas; InterFirst Bank Wichita Falls, N.A., Wichita Falls, Texas; and InterFirst Bank NW San Antonio, N.A., San Antonio, Texas.

Appendix B

Nonbanking Subsidiaries to be Acquired

InterFirst Funding Corporation, InterFirst Mortgage Company, InterFirst Financial Corporation, and InterFirst Lending Corporation, all of Dallas, Texas, and

thereby engage in commercial, consumer, and mortgage lending activities pursuant to section 225.25(b)(1) of the Board's Regulation Y; InterFirst Investment Management, Inc., Dallas, Texas, and thereby engage in investment advisory services pursuant to section 225.25(b)(4) of the Board's Regulation Y; InterFirst Services Corporation, and InterFirst Services Corporation in Houston, both of Dallas, Texas, and thereby engage in data processing pursuant to section 225.25(b)(7) of the Board's Regulation Y; InterFirst

Insurance Company, InterFirst Life Insurance Company, InterFirst Finance Company, all of Dallas, Texas, and thereby engage in insurance agency and underwriting activities related to extensions of credit made by the banks and the bank holding company pursuant to section 225.25(b)(8) of the Board's Regulation Y; and InterFirst Securities Company, Dallas, Texas, and thereby engage in discount brokerage activities pursuant to section 225.25(b)(15) of the Board's Regulation Y.

ORDERS APPROVED UNDER BANK HOLDING COMPANY ACT

By the Board of Governors

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

Section 3

Applicant	Bank(s)	Effective date
International Bancorporation, Inc., Brownsville, Texas	International Bank, N.A., Brownsville, Texas	April 29, 1987

By Federal Reserve Banks

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

Section 3

Applicant	Banks(s)	Reserve Bank	Effective date
Alpha Financial Corporation, Chicago, Illinois	The District National Bank of Chicago, Chicago, Illinois The Archer National Bank of Chicago, Chicago, Illinois	Chicago	March 27, 1987
Amoskeag Bank Shares, Inc., Manchester, New Hampshire	NTC Corp., Nashua, New Hampshire	Boston	April 17, 1987
Arcadia Financial Corporation, Kalamazoo, Michigan	Arcadia Bank, Kalamazoo, Michigan	Chicago	April 16, 1987
B Bank, Inc., Downs, Kansas	The State Bank of Downs, Downs, Kansas	Kansas City	March 25, 1987
Bank of Granite Corporation, Granite Falls, North Carolina	Bank of Granite, Granite Falls, North Carolina	Richmond	March 30, 1987

Section 3—Continued

Applicant	Banks(s)	Reserve Bank	Effective date
Bank of New Hampshire Corporation, Manchester, New Hampshire	Bank of New Hampshire- Portsmouth, Portsmouth, New Hampshire	Boston	April 3, 1987
Bonner Springs Bancshares, Inc., Bonner Springs, Kansas	First State Bank of Lansing, Lansing, Kansas	Kansas City	March 19, 1987
Cherokee Bancorp, Inc., Cherokee, Oklahoma	Alfalfa County Bancshares, Inc., Cherokee, Oklahoma	Kansas City	March 19, 1987
CITIZENS BANKING CORPORATION, Flint, Michigan	Commercial National Bank of Berwyn, Berwyn, Illinois	Chicago	April 1, 1987
CNB Bancshares, Inc., Evansville, Indiana	The Farmers National Bank of Princeton, Princeton, Indiana	St. Louis	April 7, 1987
The Colonial BancGroup, Inc., Montgomery, Alabama	Jackson County Bancshares, Inc., Scottsboro, Alabama	Atlanta	April 16, 1987
Continental Illinois Bancorp, Inc., Chicago, Illinois	Continental Illinois Bank of Deerfield, N.A., Deerfield, Illinois Continental Bank of Buffalo Grove, Buffalo Grove, Illinois Continental Bank of Oakbrook Terrace, Oakbrook Terrace, Illinois Continental Illinois Bank of Western Springs, N.A., Western Springs, Illinois	Chicago	April 17, 1987
Dominion Bankshares Corporation, Roanoke, Virginia	First National Financial Corporation, Clarksville, Tennessee	Richmond	April 1, 1987
DU PAGE COUNTY BANCORP, INC., Glendale Heights, Illinois	SOUTHWEST BANCORP, INC., Worth, Illinois	Chicago	April 16, 1987
Enots, Ltd., George Town, Grand Cayman	Ocean Bankshares, Inc., Miami, Florida	Atlanta	April 6, 1987
Nebema, Ltd., George Town, Grand Cayman			
Farmers Capital Bank Corporation, Frankfort, Kentucky	Horse Cave State Bank, Horse Cave, Kentucky	St. Louis	April 15, 1987
Fayette County Bancshares, Inc., St. Elmo, Illinois	Fayette County Bank, St. Elmo, Illinois	St. Louis	April 7, 1987
Financial Services Bancorp, Inc., Miami, Florida	Eagle Bank of Broward, N.A., Fort Lauderdale, Florida	Atlanta	March 24, 1987
First of America Bank Corporation, Kalamazoo, Michigan	WB FINANCIAL CORP., Wayne, Michigan	Chicago	April 17, 1987

Section 3—Continued

Applicant	Banks(s)	Reserve Bank	Effective date
First Bancorp, Inc., Oneida, Tennessee	The First National Bank of Oneida, Oneida, Tennessee	Atlanta	March 25, 1987
First State Bank of Miller Profit Sharing Trust No. 1, Miller, South Dakota	M&H Financial Services, Inc., Miller, South Dakota	Minneapolis	March 31, 1987
First Union Corporation, Charlotte, North Carolina	First North Port Bancorp, North Port, Florida	Richmond	April 10, 1987
First Virginia Banks, Inc., Falls Church, Virginia	Tri-City Bancorp, Inc., Blountville, Tennessee	Richmond	April 21, 1987
First Wisconsin Corporation, Milwaukee, Wisconsin	Du Page Bancshares, Inc., Glen Ellyn, Illinois	Chicago	March 25, 1987
First Wisconsin Corporation, Milwaukee, Wisconsin	Naper Financial Corporation, Naperville, Illinois	Chicago	March 25, 1987
FNB Corporation, Holly Hill, South Carolina	The First National Bank of Holly Hill, Holly Hill, South Carolina	Richmond	March 25, 1987
Fort Wayne National Corporation, Fort Wayne, Indiana	Exchange Bank, Warren, Indiana	Chicago	April 20, 1987
Galva Bancshares, Inc., Galva, Kansas	Geneseo Bancshares, Inc., Geneseo, Kansas	Kansas City	April 15, 1987
Gideon Financial Corporation, Silver Lake, Kansas	Silver Lake Bank, Silver Lake, Kansas	Kansas City	April 17, 1987
Heritage Bancorp Co., Cleveland, Oklahoma	The First National Bank of Cleveland, Cleveland, Oklahoma	Kansas City	March 19, 1987
K. Roberts, Inc., Hendrum, Minnesota	Viking Bank, Hendrum, Minnesota	Minneapolis	April 14, 1987
Leachville State Bancshares, Inc., Leachville, Arkansas	Leachville State Bank, Leachville, Arkansas	St. Louis	April 17, 1987
Lyons Bancorp, Inc., Lyons, New York	The Lyons National Bank, Lyons, New York	New York	April 20, 1987
M&H Financial Services, Inc., Miller, South Dakota	First State Bank of Highmore, Highmore, South Dakota	Minneapolis	March 31, 1987
McIntosh County Bank Holding Company, Inc., Ashley, North Dakota	McIntosh County Bank, Ashley, North Dakota	Minneapolis	April 10, 1987
MGeorgia Bankshares, Inc., Hawkinsville, Georgia	The Pulaski Banking Company, Hawkinsville, Georgia	Atlanta	March 27, 1987
Putnam-Greene Financial Corporation, Eatonton, Georgia	The Farmers Bank, Union Point, Georgia The Farmers and Merchants Bank, Eatonton, Georgia	Atlanta	April 8, 1987
Raritan Bancorp Inc., Raritan, New Jersey	Raritan Savings Bank, Raritan, New Jersey	New York	April 9, 1987
Sentry Bancorp, Inc., Minneapolis, Minnesota	Cannon Valley Bank, Dundas, Minnesota	Minneapolis	March 27, 1987

Section 3—Continued

Applicant	Banks(s)	Reserve Bank	Effective date
Smith Associated Banking Corporation, Little Rock, Arkansas	Stephens Security Bank, Stephens, Arkansas	St. Louis	April 15, 1987
Southeastern Bancshares, Inc., Nashville, Tennessee	Quality Financial Services Corporation, Alexandria, Tennessee	Atlanta	April 17, 1987
SOUTHWEST BANCORP, INC., Worth, Illinois	M. G. Bancorporation, Inc., Chicago, Illinois WORTH BANCORP, INC., Chicago, Illinois ILLINI BANCORP, INC., Danville, Illinois	Chicago	April 16, 1987
State Bank of Lake Elmo Employee Stock Ownership Plan and Trust, Lake Elmo, Minnesota	Lake Elmo Bancorp., Inc., Lake Elmo, Minnesota	Minneapolis	March 31, 1987
Sterling Financial Corporation, Lancaster, Pennsylvania	Bank of Lancaster County, N.A., Strasburg, Pennsylvania	Philadelphia	April 21, 1987
Straz Investment Company, Inc., Belleair Shore, Florida	First Gulf Bank, Gulfport, Florida	Atlanta	April 13, 1987
Totalbank Corporation of Florida, Miami, Florida	Trade National Bank, Miami, Florida	Atlanta	April 8, 1987
Union Planters Corporation, Memphis, Tennessee	BoRC Financial Corporation, Harriman, Tennessee	St. Louis	April 7, 1987
Union Planters Corporation, Memphis, Tennessee	First Citizens Bank of Hohenwald, Hohenwald, Tennessee	St. Louis	April 7, 1987
Waconia Bancorporation, Inc., Waconia, Minnesota	Waconia State Bank, Waconia, Minnesota	Minneapolis	April 8, 1987
Washington Bancorp, Inc., Hoboken, New Jersey	Washington Savings Bank, Hoboken, New Jersey	New York	April 9, 1987

Section 4

Applicant	Nonbanking Company/Activity	Reserve Bank	Effective date
AMCORE Financial, Inc., Rockford, Illinois	engage in originating, acquiring, selling and servicing mortgage loans	Chicago	April 17, 1987
Amoskeag Bank Shares, Inc., Manchester, New Hampshire	Entrepo Financial Resources, Inc., Jenkintown, Pennsylvania	Boston	April 15, 1987

Section 4—Continued

Applicant	Nonbanking Company/Activity	Reserve Bank	Effective date
Banc One Corporation, Columbus, Ohio	Worthington Leasing Corporation (WLC), Worthington, Ohio	Cleveland	March 31, 1987
Bank of New England Corporation, Boston, Massachusetts	Plymouth, Inc., Miami Lakes, Florida	Boston	March 27, 1987
The Chase Manhattan Corporation, New York, New York	Financial Enterprises Corp., Canton, Massachusetts acquire certain assets and assume certain liabilities of Freedom Mortgage Company, Tampa, Florida	New York	April 15, 1987
Norwest Corporation, Minneapolis, Minnesota	Gross & Webster, Inc., Omaha, Nebraska	Minneapolis	March 25, 1987
PKbanken, Stockholm, Sweden	The English Association, Incorporated, New York, New York	New York	April 17, 1987
The Summit Bancorporation, Summit, New Jersey	National Machine Tool Finance Corporation, Bridgewater, New Jersey	New York	April 20, 1987
SunTrust Banks, Inc., Atlanta, Georgia	providing financial advisory services to issuers of municipal securities	Atlanta	April 1, 1987
Trustcorp, Inc., Toledo, Ohio	William Fall, Inc., Perrysburg, Ohio	Cleveland	March 24, 1987
United Financial Banking Companies, Inc., Vienna, Virginia	First Government Investors Corporation, Landover, Maryland	Richmond	March 25, 1987

Sections 3 and 4

Applicant	Bank(s)/Nonbanking Company	Reserve Bank	Effective date
The Citizens and Southern Corporation, Atlanta, Georgia	Peoples Equity Shares, Inc., Carrollton, Georgia	Atlanta	March 25, 1987
The Citizens and Southern Georgia Corporation, Atlanta, Georgia			
Pacific Western Bancshares, San Jose, California	Cobanco, Inc., Santa Cruz, California	San Francisco	April 17, 1987

ORDERS APPROVED UNDER BANK MERGER ACT

By the Board of Governors

Applicant	Bank(s)	Effective date
Community Bank-Northwest, Houston, Texas	Community Bank-I 10, West, N.A., Katy, Texas	April 15, 1987

By Federal Reserve Banks

Applicant	Bank(s)	Reserve date	Effective date
Chemical Bank Clare, Clare, Michigan	Mount Pleasant, Michigan, office of Michigan National Bank— Valley, Midland, Michigan	Chicago	April 17, 1987
County Bank and Trust, Santa Cruz, California	Pacific Valley Bank, San Jose, California	San Francisco	April 17, 1987
First American Bank, Rosemead, California	First Arroyo Bank, South Pasadena, California	San Francisco	April 16, 1987
The New Colonial Bank, Opelika, Alabama	Colonial Bank, Montgomery, Alabama	Atlanta	April 9, 1987
Texas Capital Bank-Richmond, Richmond, Texas	Texas Capital Bank-Katy, N.A., Katy, Texas	Dallas	March 25, 1987

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.

Securities Industry Association v. Board of Governors, et al., No. 87-1169 (D.C. Cir., filed April 17, 1987).

Jones v. Volcker, No. 87-0427 (D.D.C., filed Feb. 19, 1987).

Bankers Trust New York Corp. v. Board of Governors, No. 87-1035 (D.C. Cir., filed Jan. 23, 1987).

Securities Industry Association v. Board of Governors, et al., No. 87-1030 (D.C. Cir., filed Jan. 20, 1987).

Grimm v. Board of Governors, No. 87-4006 (2nd Cir., filed Jan. 16, 1987).

Independent Insurance Agents of America, et al. v. Board of Governors, Nos. 86-1572, 1573, 1576 (D.C. Cir., filed Oct. 24, 1986).

Securities Industry Association v. Board of Governors, No. 86-2768 (D.D.C., filed Oct. 7, 1986).

Independent Community Bankers Association of South Dakota v. Board of Governors, No. 86-5373 (8th Cir., filed Oct. 3, 1986).

Jenkins v. Board of Governors, No. 86-1419 (D.C. Cir., filed July 18, 1986).

Securities Industry Association v. Board of Governors, No. 86-1412 (D.C. Cir., filed July 14, 1986).

Adkins v. Board of Governors, No. 86-3853 (4th Cir., filed May 14, 1986).

Optical Coating Laboratory, Inc. v. United States, No. 288-86C (U.S. Claims Ct., filed May 6, 1986).

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

- Myers, et al. v. Federal Reserve Board*, No. 85-1427 (D. Idaho, filed Nov. 18, 1985).
- Souser, et al. v. Volcker, et al.*, No. 85-C-2370, *et al.* (D. Colo., filed Nov. 1, 1985).
- Podolak v. Volcker*, No. C85-0456, *et al.* (D. Wyo., filed Oct. 28, 1985).
- Kolb v. Wilkinson, et al.*, No. C85-4184 (N.D. Iowa, filed Oct. 22, 1985).
- Farmer v. Wilkinson, et al.*, No. 4-85-CIVIL-1448 (D. Minn., filed Oct. 21, 1985).
- Kurkowski v. Wilkinson, et al.*, No. CV-85-0-916 (D. Neb., filed Oct. 16, 1985).
- Alfson v. Wilkinson, et al.*, No. A1-85-267 (D. N.D., filed Oct. 8, 1985).
- Independent Community Bankers Association of South Dakota v. Board of Governors*, No. 84-1496 (D.C. Cir., filed Aug. 7, 1985).
- Urwyler, et al. v. Internal Revenue Service, et al.*, No. 85-2877 (9th Cir., filed July 18, 1985).
- Wight, et al. v. Internal Revenue Service, et al.*, No. 85-2826 (9th Cir., filed July 12, 1985).
- Florida Bankers Association v. Board of Governors*, No. 84-3883 and No. 84-3884 (11th Cir., filed Feb. 15, 1985).
- Florida Department of Banking v. Board of Governors*, No. 84-3831 (11th Cir., filed Feb. 15, 1985), and No. 84-3832 (11th Cir., filed Feb. 15, 1985).
- Lewis v. Volcker, et al.*, No. 86-3210 (6th Cir., filed Jan. 14, 1985).
- Brown v. United States Congress, et al.*, No. 84-2887-6(IG) (S.D. Cal., filed Dec. 7, 1984).
- Melcher v. Federal Open Market Committee*, No. 84-1335 (D.D.C., filed Apr. 30, 1984).
- Florida Bankers Association, et al. v. Board of Governors*, Nos. 84-3269, 84-3270 (11th Cir., filed April 20, 1984).
- Securities Industry Association v. Board of Governors*, No. 86-5089, *et al.* (D.C. Cir., filed Oct. 24, 1980).

Financial and Business Statistics

CONTENTS

Domestic Financial Statistics

MONEY STOCK AND BANK CREDIT

- A3 Reserves, money stock, liquid assets, and debt measures
- A4 Reserves of depository institutions, Reserve Bank credit
- A5 Reserves and borrowings—Depository institutions
- A6 Selected borrowings in immediately available funds—Large member banks

POLICY INSTRUMENTS

- A7 Federal Reserve Bank interest rates
- A8 Reserve requirements of depository institutions
- A9 Federal Reserve open market transactions

FEDERAL RESERVE BANKS

- A10 Condition and Federal Reserve note statements
- A11 Maturity distribution of loan and security holdings

MONETARY AND CREDIT AGGREGATES

- A12 Aggregate reserves of depository institutions and monetary base
- A13 Money stock, liquid assets, and debt measures
- A15 Bank debits and deposit turnover
- A16 Loans and securities—All commercial banks

COMMERCIAL BANKING INSTITUTIONS

- A17 Major nondeposit funds
- A18 Assets and liabilities, last-Wednesday-of-month series

WEEKLY REPORTING COMMERCIAL BANKS

Assets and liabilities

- A19 All reporting banks
- A20 Banks in New York City
- A21 Branches and agencies of foreign banks
- A22 Gross demand deposits—individuals, partnerships, and corporations

FINANCIAL MARKETS

- A23 Commercial paper and bankers dollar acceptances outstanding
- A23 Prime rate charged by banks on short-term business loans
- A24 Interest rates—money and capital markets
- A25 Stock market—Selected statistics
- A26 Selected financial institutions—Selected assets and liabilities

FEDERAL FINANCE

- A28 Federal fiscal and financing operations
- A29 U.S. budget receipts and outlays
- A30 Federal debt subject to statutory limitation
- A30 Gross public debt of U.S. Treasury—Types and ownership
- A31 U.S. government securities dealers—Transactions
- A32 U.S. government securities dealers—Positions and financing
- A33 Federal and federally sponsored credit agencies—Debt outstanding

SECURITIES MARKETS AND CORPORATE FINANCE

- A34 New security issues—State and local governments and corporations
- A35 Open-end investment companies—Net sales and asset position
- A35 Corporate profits and their distribution

- A36 Nonfinancial corporations—Assets and liabilities
- A36 Total nonfarm business expenditures on new plant and equipment
- A37 Domestic finance companies—Assets and liabilities and business credit

REAL ESTATE

- A38 Mortgage markets
- A39 Mortgage debt outstanding

CONSUMER INSTALLMENT CREDIT

- A40 Total outstanding and net change
- A41 Terms

FLOW OF FUNDS

- A42 Funds raised in U.S. credit markets
- A43 Direct and indirect sources of funds to credit markets

Domestic Nonfinancial Statistics

SELECTED MEASURES

- A44 Nonfinancial business activity—Selected measures
- A45 Labor force, employment, and unemployment
- A46 Output, capacity, and capacity utilization
- A47 Industrial production—Indexes and gross value
- A49 Housing and construction
- A50 Consumer and producer prices
- A51 Gross national product and income
- A52 Personal income and saving

International Statistics

SUMMARY STATISTICS

- A53 U.S. international transactions—Summary
- A54 U.S. foreign trade
- A54 U.S. reserve assets

- A54 Foreign official assets held at Federal Reserve Banks
- A55 Foreign branches of U.S. banks—Balance sheet data
- A57 Selected U.S. liabilities to foreign official institutions

REPORTED BY BANKS IN THE UNITED STATES

- A57 Liabilities to and claims on foreigners
- A58 Liabilities to foreigners
- A60 Banks' own claims on foreigners
- A61 Banks' own and domestic customers' claims on foreigners
- A61 Banks' own claims on unaffiliated foreigners
- A62 Claims on foreign countries—Combined domestic offices and foreign branches

REPORTED BY NONBANKING BUSINESS ENTERPRISES IN THE UNITED STATES

- A63 Liabilities to unaffiliated foreigners
- A64 Claims on unaffiliated foreigners

SECURITIES HOLDINGS AND TRANSACTIONS

- A65 Foreign transactions in securities
- A66 Marketable U.S. Treasury bonds and notes—Foreign transactions

INTEREST AND EXCHANGE RATES

- A67 Discount rates of foreign central banks
- A67 Foreign short-term interest rates
- A68 Foreign exchange rates

A69 Guide to Tabular Presentation, Statistical Releases, and Special Tables

SPECIAL TABLES

- A70 Assets and liabilities of commercial banks, March 31, 1986
- A76 Assets and liabilities of commercial banks, June 30, 1986

I.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Item	Monetary and credit aggregates (annual rates of change, seasonally adjusted in percent) ¹								
	1986			1987	1986		1987		
	Q2	Q3	Q4	Q1	Nov.	Dec.	Jan.	Feb. ^r	Mar.
<i>Reserves of depository institutions²</i>									
1 Total	17.8	22.9	21.5	18.6	32.6	40.5	21.6	-3.2	-4.9
2 Required	19.8	23.8	19.9	18.7	27.7 ^r	32.3	28.8	-6.4	1.4
3 Nonborrowed	17.6 ^r	23.2	22.4	20.8	35.2	39.3	27.3	-2.7	-4.3
4 Monetary base ³	8.9	10.0	10.3	11.9	13.4	14.1	15.9	7.1	2.3
<i>Concepts of money, liquid assets, and debt⁴</i>									
5 M1	15.5	16.5	17.0	13.0	18.8	30.5	11.7	-7	3.3
6 M2	9.4	10.6	9.2	6.4	6.4	10.5 ^r	9.5	-3	1.8
7 M3	8.7	9.6	8.0	6.6	6.4	10.3	9.2 ^r	1.4	1.8
8 L	7.1	8.0	8.2 ^r	6.6	7.7 ^r	9.7 ^r	9.8 ^r	2.7	n.a.
9 Debt	10.2	12.3	12.1	12.2	12.2 ^r	15.4	13.5 ^r	8.9	n.a.
<i>Nontransaction components</i>									
10 In M2 ⁵	7.5 ^r	8.6	6.6	4.1	2.2	3.7	8.7 ^r	-1	1.3
11 In M3 only ⁶	6.0 ^r	5.7 ^r	3.4	7.5	6.5 ^r	9.1	8.2 ^r	8.1	2.1
<i>Time and savings deposits</i>									
<i>Commercial banks</i>									
12 Savings ⁷	13.4	25.0	36.9	37.0	36.2	34.4	41.2	34.5	27.7
13 Small-denomination time ⁸	-2.5	-7.5	-10.7	-4.9	-13.3	-3.9	.0	-6.9	-8.6
14 Large-denomination time ^{9,10}	-3.5	-1.5	.4	9.5	7.1	8.3 ^r	15.6 ^r	.8	12.6
<i>Thrift institutions</i>									
15 Savings ⁷	16.0	21.0	23.0	27.9	21.7	19.6	29.5	33.2	29.1
16 Small-denomination time	.3	-3.4	-6.4	-4.8	-8.2	-6.8	-4.7	-3.9	.7
17 Large-denomination time ⁹	11.2	2.8	-7.3	-10.0	-12.2	-5.4	-10.1	-14.0	-9.5
<i>Debt components⁴</i>									
18 Federal	11.6	14.5	12.1 ^r	10.2	14.6 ^r	19.1 ^r	8.6 ^r	4.6	n.a.
19 Nonfederal	9.8	11.7	12.1	12.8	11.4	14.2 ^r	15.0 ^r	10.2	n.a.
20 Total loans and securities at commercial banks ¹¹	4.9	10.6 ^r	8.8	10.1	6.4 ^r	15.0	16.1	.9	3.8

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

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

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

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

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

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

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

commercial banks, money market funds (general purpose and broker/dealer), foreign governments and commercial banks, and the U.S. government. Also subtracted is a consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits.

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

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

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

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

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

7. Excludes MMDAs.

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

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

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

11. Changes calculated from figures shown in table I.23.

A4 Domestic Financial Statistics □ June 1987

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						
	1987			1987						
	Jan.	Feb.	Mar.	Feb. 11	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25
	Jan.	Feb.	Mar.	Feb. 11	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit	230,490	222,882	221,583	221,303	222,021	219,067	220,347	221,937	221,286	221,096
2 U.S. government securities ¹	202,966	195,023	195,925	193,738	194,716	193,374	194,762	196,540	195,737	195,389
3 Bought outright	199,842	194,910	195,619	193,738	194,716	193,374	194,762	195,334	195,388	195,389
4 Held under repurchase agreements	3,124	113	306	0	0	0	0	1,006	349	0
5 Federal agency obligations	8,268	7,750	7,772	7,719	7,719	7,719	7,719	7,856	7,818	7,719
6 Bought outright	7,786	7,719	7,719	7,719	7,719	7,719	7,719	7,719	7,719	7,719
7 Held under repurchase agreements	482	31	53	0	0	0	0	137	99	0
8 Acceptances	0	0	0	0	0	0	0	0	0	0
9 Loans	586	554	535	401	745	614	512	419	502	553
10 Float	1,712	2,085	466	530	865	544	629	435	384	373
11 Other Federal Reserve assets	16,958	17,470	16,885	17,914	17,975	16,817	16,725	16,687	16,845	17,063
12 Gold stock ²	11,060	11,070	11,083	11,059	11,066	11,082	11,085	11,083	11,083	11,082
13 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
14 Treasury currency outstanding	17,593	17,652	17,711	17,639	17,653	17,667	17,681	17,695	17,709	17,723
ABSORBING RESERVE FUNDS										
15 Currency in circulation	207,943	206,450	207,265	206,422	206,994	206,477	206,263	207,255	207,704	207,318
16 Treasury cash holdings ²	456	484	506	476	480	494	511	498	500	507
Deposits, other than reserve balances, with Federal Reserve Banks	9,824	4,834	3,161	3,832	4,271	4,208	3,327	3,391	3,255	2,865
17 Treasury	226	228	238	202	248	219	244	237	208	254
18 Foreign	2,353	2,519	2,026	3,726	2,168	2,101	2,098	2,043	2,145	1,975
19 Service-related balances and adjustments	506	424	442	405	373	399	522	399	468	423
20 Other	6,412	6,602	6,345	6,973	6,243	6,421	6,164	6,180	6,348	6,429
21 Other Federal Reserve liabilities and capital	36,441	35,081	35,412	32,983	34,980	32,514	35,002	35,729	34,468	35,148
22 Reserve balances with Federal Reserve Banks ³										
End-of-month figures			Wednesday figures							
1987			1987							
Jan.	Feb.	Mar.	Feb. 11	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25	
SUPPLYING RESERVE FUNDS										
23 Reserve Bank credit	230,331	220,180	227,578	220,661	222,443	216,786	219,837	225,473	220,131	220,344
24 U.S. government securities ¹	202,486	194,178	196,409	194,122	195,295	190,043	194,457	199,340	194,413	194,544
25 Bought outright	199,318	194,178	196,409	194,122	195,295	190,043	194,457	196,059	194,182	194,544
26 Held under repurchase agreements	3,168	0	0	0	0	0	0	3,281	231	0
27 Federal agency obligations	8,576	7,719	7,719	7,719	7,719	7,719	7,719	8,191	7,826	7,719
28 Bought outright	7,719	7,719	7,719	7,719	7,719	7,719	7,719	7,719	7,719	7,719
29 Held under repurchase agreements	857	0	0	0	0	0	0	472	107	0
30 Acceptances	0	0	0	0	0	0	0	0	0	0
31 Loans	513	514	1,587	452	446	1,239	538	455	420	573
32 Float	716	1,023	5,241	337	2,125	935	260	368	387	249
33 Other Federal Reserve assets	18,040	16,746	16,622	18,031	16,858	16,850	16,863	17,119	17,085	17,259
34 Gold stock ²	11,062	11,085	11,081	11,059	11,074	11,085	11,084	11,082	11,082	11,082
35 Special drawing rights certificate account	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
36 Treasury currency outstanding	17,623	17,679	17,735	17,651	17,665	17,679	17,693	17,707	17,721	17,735
ABSORBING RESERVE FUNDS										
37 Currency in circulation	205,355	205,988	207,818	206,819	207,312	206,223	206,782	207,773	207,692	207,331
38 Treasury cash holdings ²	465	510	518	479	484	507	514	497	505	515
Deposits, other than reserve balances with Federal Reserve Banks	15,746	3,482	3,576	3,541	5,370	4,151	3,939	2,715	2,437	2,953
39 Treasury	226	201	268	177	222	172	249	196	190	226
40 Foreign	1,786	1,799	1,817	1,786	1,800	1,799	1,810	1,810	1,807	1,807
41 Service-related balances and adjustments	453	539	577	402	479	640	417	412	498	610
42 Other	7,201	6,110	6,682	6,124	6,085	6,214	6,099	6,252	6,140	6,267
43 Other Federal Reserve liabilities and capital	32,802	35,334	40,156	35,060	34,448	30,861	33,822	39,625	34,684	34,470
44 Reserve balances with Federal Reserve Banks ³										

1. Includes securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and excludes any securities sold and scheduled to be bought back under matched sale-purchase transactions.
 2. Revised for periods between October 1986 and February 1987. During this interval, outstanding gold certificates were inadvertently in excess of the gold

stock. Revised data not included in this table are available from the Division of Research and Statistics, Banking Section.
 3. 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									
	1984	1985	1986	1986				1987		
	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 Reserve balances with Reserve Banks ¹	21,738	27,620	37,360	30,165	31,922	32,947	34,803	37,360	36,584	33,625
2 Total vault cash ²	22,313 ^r	22,953 ^r	24,071	23,451	23,384	23,753	23,543	24,071	25,049	25,899
3 Vault cash used to satisfy reserve requirements ³	18,958	20,522	22,199	21,112	21,267	21,676	21,595	22,199	23,084	23,435
4 Surplus vault cash ⁴	3,355 ^r	2,431 ^r	1,872	2,339	2,117	2,078	1,947	1,872	1,965	2,454
5 Total reserves ⁵	40,696	48,142	59,560	51,277	53,189	54,623	56,399	59,560	59,668	57,060
6 Required reserves	39,843	47,085	58,191	50,538	52,463	53,877	55,421	58,191	58,600	55,849
7 Excess reserve balances at Reserve Banks ⁶	853	1,058	1,369	740	726	746	978	1,369	1,068	1,211
8 Total borrowings at Reserve Banks	3,186	1,318	827	872	1,008	841	752	827	580	556
9 Seasonal borrowings at Reserve Banks	113	56	38	144	137	99	70	38	34	71
10 Extended credit at Reserve Banks ⁷	2,604	499	303	465	570	497	418	303	225	283
	Biweekly averages of daily figures for weeks ending									
	1986		1987							
	Dec. 17	Dec. 31	Jan. 14	Jan. 28	Feb. 11	Feb. 25	Mar. 11	Mar. 25	Apr. 8 ^e	Apr. 22 ^e
11 Reserve balances with Reserve Banks ¹	36,527	38,659	38,710	35,228	32,991	33,742	35,400	34,809	36,357	38,704
12 Total vault cash ²	23,458	24,729	24,583	25,028	27,327	25,237	23,662	24,077	23,198	23,479
13 Vault cash used to satisfy reserve requirements ³	21,725	22,758	22,815	23,012	24,677	22,857	21,582	22,038	21,345	21,783
14 Surplus vault cash ⁴	1,733	1,971	1,768	2,017	2,650	2,380	2,080	2,039	1,853	1,697
15 Total reserves ⁵	58,251	61,417	61,525	58,239	57,667	56,599	56,982	56,847	57,702	60,487
16 Required reserves	57,511	59,369	60,680	57,033	56,208	55,530	56,021	55,866	57,003	59,559
17 Excess reserve balances at Reserve Banks ⁶	740	2,048	845	1,206	1,459	1,070	961	981	699	928
18 Total borrowings at Reserve Banks	514	1,186	505	689	425	680	466	528	641	956
19 Seasonal borrowings at Reserve Banks	34	37	28	36	56	81	83	96	98	110
20 Extended credit at Reserve Banks ⁷	310	282	215	227	265	299	275	263	248	267

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.

A6 Domestic Financial Statistics □ June 1987

1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Member Banks¹

Averages of daily figures, in millions of dollars

By maturity and source	1987 week ending Monday								
	Jan. 12	Jan. 19 ^r	Jan. 26	Feb. 2	Feb. 9	Feb. 16	Feb. 23	Mar. 2 ^r	Mar. 9 ^r
<i>Federal funds purchased, repurchase agreements, and other selected borrowing in immediately available funds</i>									
From commercial banks in the United States									
1 For one day or under continuing contract	84,218	81,475	78,829 ^r	78,255	80,428	76,927	77,242	75,122	80,561
2 For all other maturities	7,915	8,788	8,331	8,052	8,229	8,764	8,315	9,130	8,677
From other depository institutions, foreign banks and foreign official institutions, and United States government agencies									
3 For one day or under continuing contract	37,498	35,465	32,454 ^r	38,995	39,005	39,000	39,390	40,802	43,033
4 For all other maturities	6,646	7,242	7,220	6,175	5,920	6,603	6,021	6,631	6,504
<i>Repurchase agreements on United States government and federal agency securities in immediately available funds</i>									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	12,948	11,670	13,593	13,194	12,909	13,906	14,289	14,033	12,682
6 For all other maturities	7,731	9,759	9,611	9,043	9,734	10,469	9,155	10,542	9,618
All other customers									
7 For one day or under continuing contract	30,806	29,309	28,293 ^r	28,016	27,793	26,148	27,380	27,176	27,408
8 For all other maturities	10,247	10,097	10,719	10,690	10,431	10,623	9,983	10,204	9,674
MEMO: Federal funds loans and resale agreements in immediately available funds in maturities of one day or under continuing contract									
9 To commercial banks in the United States	33,777	30,790	29,211	34,026	31,178	28,123	28,591	27,305	27,952
10 To all other specified customers ²	10,424	10,219	11,606	12,671	10,978	12,235	11,852	11,786	10,762

1. Banks with assets of \$1 billion or more as of Dec. 31, 1977.

2. Brokers and nonbank dealers in securities; other depository institutions; foreign banks and official institutions; and United States government agencies.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per annum

Federal Reserve Bank	Current and previous levels									Effective date for current rates
	Short-term adjustment credit and seasonal credit ¹			Extended credit ²						
	Rate on 4/24/87	Effective date	Previous rate	First 60 days of borrowing		Next 90 days of borrowing		After 150 days		
			Rate on 4/24/87	Previous rate	Rate on 4/24/87	Previous rate	Rate on 4/24/87	Previous rate		
Boston	5½	8/21/86	6	5½	6	6½	7	7½	8	8/21/86
New York	↑	8/21/86	↑	↑	↑	↑	↑	↑	↑	8/21/86
Philadelphia		8/22/86								8/22/86
Cleveland		8/21/86								8/21/86
Richmond		8/21/86								8/21/86
Atlanta		8/21/86								8/21/86
Chicago		8/21/86								8/21/86
St. Louis		8/22/86								8/22/86
Minneapolis		8/21/86								8/21/86
Kansas City		8/21/86								8/21/86
Dallas		8/21/86								8/21/86
San Francisco	5½	8/21/86	6	5½	6	6½	7	7½	8	8/21/86

Range of rates in recent years³

Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.	Effective date	Range (or level)—All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1973	7½	7½	1978— Aug. 21	7¾	7¾	1982— July 20	11½–12	11½
1974— Apr. 25	7½–8	8	Sept. 22	8	8	Aug. 23	11½	11½
30	8	8	Oct. 16	8–8½	8½	Aug. 2	11–11½	11
Dec. 9	7¾–8	7¾	20	8½	8½	3	11	11
16	7¾	7¾	Nov. 1	8½–9½	9½	16	10½	10½
			3	9½	9½	27	10–10½	10
1975— Jan. 6	7¼–7¾	7¾				30	10	10
10	7¼–7¾	7¼	1979— July 20	10	10	Oct. 12	9½–10	9½
24	7¼	7¼	Aug. 17	10–10½	10½	13	9½	9½
Feb. 5	6¾–7¼	6¾	20	10½	10½	Nov. 22	9–9½	9
7	6¾	6¾	Sept. 19	10½–11	11	26	9	9
Mar. 10	6¼–6¾	6¼	21	11	11	Dec. 14	8½–9	9
14	6¼	6¼	Oct. 8	11–12	12	15	8½–9	8½
May 16	6–6¼	6	10	12	12	17	8½	8½
23	6	6						
1976— Jan. 19	5½–6	5½	1980— Feb. 15	12–13	13	1984— Apr. 9	8½–9	9
23	5½	5½	19	13	13	13	9	9
Nov. 22	5¼–5½	5¼	May 29	12–13	13	Nov. 21	8½–9	8½
26	5¼	5¼	30	12	12	26	8½	8½
			June 13	11–12	11	Dec. 24	8	8
1977— Aug. 30	5¼–5¾	5¼	16	11	11			
31	5¼–5¾	5¾	July 28	10–11	10	1985— May 20	7½–8	7½
Sept. 2	5¾	5¾	29	10	10	24	7½	7½
Oct. 26	6	6	Nov. 17	11	11			
			Dec. 5	12–13	13	1986— Mar. 7	7–7½	7
1978— Jan. 9	6–6½	6½	8	13	13	10	7	7
20	6½	6½				Apr. 21	6½–7	6½
May 11	6½–7	7	1981— May 5	13–14	14	23	6½	6½
12	7	7	8	14	14	July 11	6	6
July 3	7–7¼	7¼	Nov. 2	13–14	13	Aug. 21	5½–6	5½
July 10	7¼	7¼	6	13	13	22	5½	5½
			Dec. 4	12	12			
						In effect April 24, 1987	5½	5½

1. After May 19, 1986, the highest rate within the structure of discount rates may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

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 INSTITUTIONS¹

Percent of deposits

Type of deposit, and deposit interval ²	Depository institution requirements after implementation of the Monetary Control Act	
	Percent of deposits	Effective date
<i>Net transaction accounts</i> ^{3,4}		
\$0 million–\$36.7 million	3	12/30/86
More than \$36.7 million	12	12/30/86
<i>Nonpersonal time deposits</i> ⁵		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
<i>Eurocurrency liabilities</i>		
All types	3	11/13/80

1. Reserve requirements in effect on Dec. 31, 1986. 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. For previous reserve requirements, see earlier editions of the *Annual Report* and of the FEDERAL RESERVE BULLETIN. 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 corporations.

2. The Garn–St. Germain Depository Institutions Act of 1982 (Public Law 97–320) requires 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 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. On Dec. 30, 1986, the exemption was raised from \$2.6 million to \$2.9 million. In determining the reserve requirements of depository institutions, the exemption shall apply in the following order: (1) net NOW accounts (NOW accounts less allowable deductions); (2) net other transaction accounts; and (3) 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.

3. 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 subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks, are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements).

4. 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. 30, 1986, the amount was increased from \$31.7 million to \$36.7 million.

5. 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.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS

Millions of dollars

Type of transaction	1984	1985	1986	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
U.S. GOVERNMENT SECURITIES										
Outright transactions (excluding matched transactions)										
<i>Treasury bills</i>										
1 Gross purchases	20,036	22,214	22,602	2,940	861	928	3,318	5,422	997	191
2 Gross sales	8,557	4,118	2,502	0	0	0	0	0	583	3,581
3 Exchange	0	0	0	0	0	0	0	0	0	0
4 Redemptions	7,700	3,500	1,000	0	0	0	0	0	0	800
<i>Others within 1 year</i>										
5 Gross purchases	1,126	1,349	190	0	0	0	190	0	0	0
6 Gross sales	0	0	0	0	0	0	0	0	0	0
7 Maturity shift	16,354	19,763	18,673	1,715	1,053	974	2,974	1,280	611	1,855
8 Exchange	-20,840	-17,717	-20,179	-4,087	-1,892	-529	-1,810	-1,502	0	-4,954
9 Redemptions	0	0	0	0	0	0	0	0	0	0
<i>1 to 5 years</i>										
10 Gross purchases	1,638	2,185	893	0	0	0	893	0	0	0
11 Gross sales	0	0	0	0	0	0	0	0	0	252
12 Maturity shift	-13,709	-17,459	-17,058	-1,194	-1,053	-969	-2,414	-1,280	-591	-1,650
13 Exchange	16,039	13,853	16,984	2,587	1,892	529	1,510	1,502	0	4,354
<i>5 to 10 years</i>										
14 Gross purchases	536	458	236	0	0	0	236	0	0	0
15 Gross sales	300	100	0	0	0	0	0	0	0	0
16 Maturity shift	-2,371	-1,857	-1,620	-520	0	-5	-560	0	-20	-204
17 Exchange	2,750	2,184	2,050	1,000	0	0	200	0	0	400
<i>Over 10 years</i>										
18 Gross purchases	441	293	158	0	0	0	158	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	-275	-447	0	0	0	0	0	0	0	0
21 Exchange	2,052	1,679	1,150	500	0	0	100	0	0	200
<i>All maturities</i>										
22 Gross purchases	23,776	26,499	24,078	2,940	861	928	4,795	5,422	997	191
23 Gross sales	8,857	4,218	2,502	0	0	0	0	0	583	3,833
24 Redemptions	7,700	3,500	1,000	0	0	0	0	0	0	800
Matched transactions										
25 Gross sales	808,986	866,175	927,997	60,460	73,179	77,262	60,146	91,404	63,865	82,086
26 Gross purchases	810,432	865,968	927,247	60,011	70,817	81,892	60,232	88,730	65,145	81,387
Repurchase agreements										
27 Gross purchases	127,933	134,253	170,431	0	14,717	5,670	16,888	44,303	36,373	0
28 Gross sales	127,690	132,351	160,268	0	8,403	11,984	15,471	32,028	46,897	3,168
29 Net change in U.S. government securities	8,908	20,477	29,989	2,491	4,814	-756	6,298	15,023	-8,830	-8,307
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	256	162	398	90	*	93	125	0	110	0
Repurchase agreements										
33 Gross purchases	11,509	22,183	31,142	0	2,678	952	1,622	5,488	4,714	0
34 Gross sales	11,328	20,877	30,522	0	869	2,761	1,274	3,522	6,171	857
35 Net change in federal agency obligations	-76	1,144	222	-90	1,809	-1,902	223	1,965	-1,567	-857
BANKERS ACCEPTANCES										
36 Repurchase agreements, net	-418	0	0	0	0	0	0	0	0	0
37 Total net change in System Open Market Account	8,414	21,621	30,211	2,401	6,623	-2,658	6,522	16,988	-10,397	-9,165

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.

A10 Domestic Financial Statistics □ June 1987

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements
Millions of dollars

Account	Wednesday					End of month		
	1987					1987		
	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25	Jan.	Feb.	Mar.
Consolidated condition statement								
ASSETS								
1 Gold certificate account.....	11,059	11,059	11,085	11,084	11,083	11,075	11,059	11,081
2 Special drawing rights certificate account.....	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
3 Coin.....	579	577	578	579	572	553	578	569
Loans								
4 To depository institutions.....	1,239	538	455	420	573	513	514	1,587
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.....	7,719	7,719	7,719	7,719	7,719	7,719	7,719	7,719
8 Held under repurchase agreements.....	0	0	472	107	0	857	0	0
U.S. government securities								
Bought outright								
9 Bills.....	96,446	100,860	102,462	100,585	100,947	105,468	100,581	102,812
10 Notes.....	67,673	67,673	67,673	67,673	67,673	68,126	67,673	67,673
11 Bonds.....	25,924	25,924	25,924	25,924	25,924	25,724	25,924	25,924
12 Total bought outright ¹	190,043	194,457	196,059	194,182	194,544	199,318	194,178	196,409
13 Held under repurchase agreements.....	0	0	3,281	231	0	3,168	0	0
14 Total U.S. government securities.....	190,043	194,457	199,340	194,413	194,544	202,486	194,178	196,409
15 Total loans and securities.....	199,001	202,714	207,986	202,659	202,836	211,575	202,411	205,715
16 Items in process of collection.....	6,682	6,920	5,945	6,744	5,542	5,947	6,338	13,284
17 Bank premises.....	666	669	673	674	672	665	669	671
Other assets								
18 Denominated in foreign currencies ²	10,237	9,960	9,966	9,991	10,003	10,276	9,960	9,467
19 All other ³	5,947	6,234	6,480	6,420	6,584	7,099	6,117	6,484
20 Total assets.....	239,189	243,151	247,731	243,169	242,310	252,208	242,150	252,289
LIABILITIES								
21 Federal Reserve notes.....	189,605	190,155	191,144	191,056	190,684	188,763	189,370	191,170
Deposits								
22 To depository institutions.....	32,660	35,632	41,435	36,491	36,277	34,588	37,133	41,973
23 U.S. Treasury—General account.....	4,151	3,939	2,715	2,437	2,953	15,746	3,482	3,576
24 Foreign—Official accounts.....	172	249	196	190	226	226	201	268
25 Other.....	640	417	412	498	610	453	539	577
26 Total deposits.....	37,623	40,237	44,758	39,616	40,066	51,013	41,355	46,394
27 Deferred credit items.....	5,747	6,660	5,577	6,357	5,293	5,231	5,315	8,043
28 Other liabilities and accrued dividends ⁴	2,126	2,239	2,146	2,025	2,153	2,268	2,189	2,219
29 Total liabilities.....	235,101	239,291	243,625	239,054	238,196	247,275	238,229	247,826
CAPITAL ACCOUNTS								
30 Capital paid in.....	1,910	1,914	1,913	1,913	1,914	1,877	1,910	1,916
31 Surplus.....	1,873	1,859	1,873	1,874	1,873	1,873	1,860	1,874
32 Other capital accounts.....	305	87	320	328	327	1,183	151	673
33 Total liabilities and capital accounts.....	239,189	243,151	247,731	243,169	242,310	252,208	242,150	252,289
34 MEMO: Marketable U.S. government securities held in custody for foreign and international account.....	168,348	170,010	167,964	169,898	168,582	163,927	166,449	175,569
Federal Reserve note statement								
35 Federal Reserve notes outstanding.....	233,765	234,707	235,413	235,925	236,427	231,694	234,114	236,868
36 LESS: Held by bank.....	44,160	44,552	44,269	44,869	45,743	42,931	44,744	45,698
37 Federal Reserve notes, net.....	189,605	190,155	191,144	191,056	190,684	188,763	189,370	191,170
Collateral held against notes net:								
38 Gold certificate account.....	11,059	11,059	11,085	11,084	11,084	11,075	11,059	11,081
39 Special drawing rights certificate account.....	5,018	5,018	5,018	5,018	5,018	5,018	5,018	5,018
40 Other eligible assets.....	0	0	0	0	0	0	0	0
41 U.S. government and agency securities.....	173,528	174,078	175,041	174,954	174,582	172,670	173,293	175,071
42 Total collateral.....	189,605	190,155	191,144	191,056	190,684	188,763	189,370	191,170

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		
	1987					1987		
	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25	Jan. 30	Feb. 27	Mar. 31
1 Loans—Total.....	1,239	538	455	420	573	513	514	1,587
2 Within 15 days.....	1,231	524	444	412	566	508	502	1,573
3 16 days to 90 days.....	8	14	11	8	7	5	12	14
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.....	190,043	194,457	199,340	194,413	194,544	202,486	194,178	196,409
10 Within 15 days ¹	8,656	10,498	14,282	9,863	7,367	8,522	4,662	4,688
11 16 days to 90 days.....	43,970	46,477	47,571	49,360	49,533	57,100	52,118	53,011
12 91 days to 1 year.....	59,482	59,612	59,616	57,319	59,773	61,883	59,463	61,450
13 Over 1 year to 5 years.....	39,042	38,978	38,978	38,978	38,978	36,484	39,042	38,367
14 Over 5 years to 10 years.....	15,627	15,626	15,627	15,627	15,627	15,431	15,627	15,627
15 Over 10 years.....	23,266	23,266	23,266	23,266	23,266	23,066	23,266	23,266
16 Federal agency obligations—Total.....	7,719	7,719	8,191	7,826	7,719	8,576	7,719	7,719
17 Within 15 days ¹	301	78	584	474	260	1,041	301	295
18 16 days to 90 days.....	640	848	736	554	549	801	640	532
19 91 days to 1 year.....	1,307	1,361	1,436	1,363	1,370	1,338	1,307	1,352
20 Over 1 year to 5 years.....	3,819	3,780	3,825	3,825	3,918	3,733	3,819	3,918
21 Over 5 years to 10 years.....	1,372	1,372	1,330	1,330	1,342	1,305	1,372	1,342
22 Over 10 years.....	280	280	280	280	280	358	280	280

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	1983 Dec.	1984 Dec. ⁷	1985 Dec. ⁷	1986 Dec.	1986					1987		
					Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Seasonally adjusted												
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS¹												
1 Total reserves²	36.16	39.51	45.61	55.64	51.32	51.81	52.40	53.82	55.64	56.64	56.49	56.26
2 Nonborrowed reserves	35.38	36.32	44.29	54.81	50.45	50.80	51.56	53.07	54.81	56.06	55.93	55.73
3 Nonborrowed reserves plus extended credit ³	35.38	38.93	44.79	55.11	50.91	51.37	52.06	53.49	55.11	56.29	56.22	56.00
4 Required reserves	35.59	38.66	44.55	54.27	50.58	51.08	51.66	52.85	54.27	55.57	55.28	55.34
5 Monetary base ⁴	85.38	199.20	216.80	238.84	230.60	231.69	233.46	236.07	238.84	242.02	243.45	243.91
Not seasonally adjusted												
6 Total reserves²	36.87	40.57	46.84	57.16	50.62	51.55	52.34	54.11	57.17	58.25	55.60⁵	55.56
7 Nonborrowed reserves	36.09	37.38	45.52	56.34	49.75	50.54	51.50	53.36	56.34	57.67	55.04	55.04
8 Nonborrowed reserves plus extended credit ³	36.10	39.98	46.02	56.64	50.21	51.11	52.00	53.77	56.64	57.89	55.32	55.30
9 Required reserves	36.31	39.71	45.78	55.80	49.88	50.82	51.60	53.13	55.80	57.18	54.38	54.65
10 Monetary base ⁴	188.65	202.34	220.36	243.04	230.76 ⁵	231.51	233.04	236.91	243.04	242.81	240.26	241.31
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS ⁵												
11 Total reserves²	38.89	40.70	48.14	59.56	51.28	53.19	54.62	56.40	59.56	59.67	57.06	57.06
12 Nonborrowed reserves	38.12	37.51	46.82	58.73	50.41	52.18	53.78	55.65	58.73	59.09	56.50	56.53
13 Nonborrowed reserves plus extended credit ³	38.12	40.09	47.41	59.04	50.90	52.76	54.15	56.15	59.04	59.32	56.74	56.82
14 Required reserves	38.33	39.84	47.08	58.19	50.54	52.46	53.88	55.42	58.19	58.60	55.85	56.14
15 Monetary base ⁴	192.26	204.18	223.53	247.71	233.32	235.07	237.26	241.27	247.71	246.75	244.22	244.97

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	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.	1986		1987	
					Dec.	Jan.	Feb.	Mar.
Seasonally adjusted								
1 M1	526.9	557.5	627.0	730.5	730.5	737.6	737.2	739.2
2 M2	2,184.6	2,369.1	2,569.5 ^f	2,799.8	2,799.8	2,822.0	2,821.4 ^f	2,825.6
3 M3	2,692.8	2,985.3 ^f	3,205.5 ^f	3,488.9 ^f	3,488.9 ^f	3,515.7 ^f	3,519.9 ^f	3,525.3
4 L	3,154.6	3,528.9 ^f	3,838.9 ^f	4,140.9 ^f	4,140.9 ^f	4,174.6 ^f	4,183.9	n.a.
5 Debt	5,206.3	5,946.0	6,774.9	7,626.0 ^f	7,626.0 ^f	7,711.8 ^f	7,768.8	n.a.
M1 components								
6 Currency ²	148.3	158.5	170.6	183.5	183.5	186.0	187.2	187.8
7 Travelers checks ³	4.9	5.2	5.9	6.4	6.4	6.5	6.7	6.8
8 Demand deposits ⁴	242.3	248.3	272.2	308.3	308.3	305.1	300.7	299.1
9 Other checkable deposits ⁵	131.4	145.5	178.3	232.3	232.3	240.1 ^f	242.7	245.5
Nontransactions components								
10 In M2 ⁶	1,657.7	1,811.5 ^f	1,942.5 ^f	2,069.3	2,069.3	2,084.3 ^f	2,084.2 ^f	2,086.4
11 In M3 only ⁷	508.2	616.2 ^f	636.0 ^f	689.1 ^f	689.1 ^f	693.8	698.5 ^f	699.7
Savings deposits ⁹								
12 Commercial Banks	133.2	122.2	124.6	154.5	154.5	159.8	164.4	168.2
13 Thrift institutions	173.0	166.6	179.0	211.7	211.7	216.9	222.9	228.3
Small denomination time deposits ⁹								
14 Commercial Banks	350.9	386.6	383.9	364.7	364.7	364.7	362.6 ^f	360.0
15 Thrift institutions	432.9	498.6	500.3	488.5	488.5	486.6	485.0 ^f	485.3
Money market mutual funds								
16 General purpose and broker/dealer	138.2	167.5	176.5	207.6	207.6	209.0	210.7 ^f	211.6
17 Institution-only	43.2	62.7	65.1	84.1	84.1	84.0	84.7	84.9
Large denomination time deposits ¹⁰								
18 Commercial Banks ¹¹	230.0	269.6	284.1	292.0 ^f	292.0 ^f	295.8	296.0 ^f	299.1
19 Thrift institutions	96.2	147.3	152.1	155.1	155.1	153.8	152.0	150.8
Debt components								
20 Federal debt	1,172.8	1,367.6	1,587.0	1,804.8 ^f	1,804.8 ^f	1,817.8	1,824.7	n.a.
21 Non-federal debt	4,033.5	4,578.4	5,187.9	5,821.2 ^f	5,821.2 ^f	5,894.0 ^f	5,944.0	n.a.
Not seasonally adjusted								
22 M1	538.3	570.3	641.0	746.6	746.6	744.3	723.1	728.7
23 M2	2,191.6	2,378.3	2,580.5 ^f	2,813.3	2,813.3	2,832.2	2,809.5 ^f	2,819.4
24 M3	2,702.4	2,997.1 ^f	3,218.7 ^f	3,504.1 ^f	3,504.1 ^f	3,526.5	3,510.2 ^f	3,522.5
25 L	3,163.1	3,539.6 ^f	3,850.7 ^f	4,154.3 ^f	4,154.3 ^f	4,185.9 ^f	4,175.7	n.a.
26 Debt	5,200.7	5,940.2	6,768.3	7,618.7 ^f	7,618.7 ^f	7,706.0 ^f	7,752.4	n.a.
M1 components								
27 Currency ²	150.6	160.8	173.1	186.2	186.2	184.6	184.8	186.0
28 Travelers checks ³	4.6	4.9	5.5	6.0	6.0	6.0	6.2	6.4
29 Demand deposits ⁴	251.0	257.2	282.0	319.5	319.5	311.0	291.9	291.4
30 Other checkable deposits ⁵	132.2	147.4	180.4	235.0	235.0	242.8	240.2 ^f	244.9
Nontransactions components								
31 M2 ⁶	1,653.3	1,808.0 ^f	1,939.5 ^f	2,066.7	2,066.7	2,087.8 ^f	2,086.4 ^f	2,090.7
32 M3 only ⁷	510.8	618.9 ^f	638.2 ^f	690.8 ^f	690.8 ^f	694.3 ^f	700.7 ^f	703.1
Money market deposit accounts								
33 Commercial banks	230.4	267.4	332.5	379.0	379.0	381.7	378.5	378.1
34 Thrift institutions	148.5	150.0	180.7	192.3	192.3	192.4	192.2	192.2
Savings deposits ⁸								
35 Commercial Banks	132.2	121.4	123.9	153.8 ^f	153.8 ^f	159.2	162.8	167.1
36 Thrift institutions	172.4	166.2	178.8	211.7	211.7	217.2	221.9 ^f	228.2
Small denomination time deposits ⁹								
37 Commercial Banks	351.1	386.7	383.8	364.4	364.4	364.4	362.1	359.6
38 Thrift institutions	433.5	499.6	501.5	489.6	489.6	489.6 ^f	487.5 ^f	485.6
Money market mutual funds								
39 General purpose and broker/dealer	138.2	167.5	176.5	207.6	207.6	209.0	210.7 ^f	211.6
40 Institution-only	43.2	62.7	65.1	84.1	84.1	84.0	84.7	84.9
Large denomination time deposits ¹⁰								
41 Commercial Banks ¹¹	231.6	271.2	285.6	293.4	293.4	297.0	298.2 ^f	301.5
42 Thrift institutions	96.3	147.3	151.9	154.7	154.7	154.2 ^f	152.8	150.9
Debt components								
43 Federal debt	1,170.2	1,364.7	1,583.7	1,801.2 ^f	1,801.2 ^f	1,816.9	1,826.7	n.a.
44 Non-federal debt	4,030.5	4,575.5	5,184.6	5,817.5 ^f	5,817.5 ^f	5,889.1 ^f	5,925.7	n.a.

For notes see following page.

NOTES TO TABLE 1.21

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

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

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

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

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

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

2. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of commercial banks. Excludes the estimated amount of vault cash held by thrift institutions to service their OCD liabilities.

3. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

4. Demand deposits at commercial banks and foreign-related institutions other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float. Excludes the estimated amount of demand deposits held at commercial banks by thrift institutions to service their OCD liabilities.

5. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions. Other checkable deposits seasonally adjusted equals the difference between the seasonally adjusted sum of demand deposits plus OCD and seasonally adjusted demand deposits. Included are all ceiling free "Super NOWs," authorized by the Depository Institutions Deregulation committee to be offered beginning Jan. 5, 1983.

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

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

8. Savings deposits exclude MMDAs.

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

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

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

NOTE: Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.22 BANK DEBITS AND DEPOSIT TURNOVER

Debits are shown in billions of dollars, turnover as ratio of debits to deposits. Monthly data are at annual rates.

Bank group, or type of customer	1984 ¹	1985 ¹	1986 ¹	1986				1987	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
DEBITS TO									
Seasonally adjusted									
Demand deposits ²									
1 All insured banks	128,440.8	154,556.0	189,534.1	197,997.9	197,222.5	187,594.4	206,689.6	210,574.2	211,169.4
2 Major New York City banks	57,392.7	70,445.1	91,212.9	95,252.0	95,919.7	96,829.5	95,831.3	99,357.1	98,712.3
3 Other banks	71,048.1	84,110.9	98,321.4	102,745.9	101,302.9	90,764.9	110,858.4	111,217.1	112,457.1
4 ATS-NOW accounts ³	1,588.7	1,920.8	2,351.1	2,704.8	2,292.5	2,501.0	2,960.8	2,255.7	2,306.0
5 Savings deposits ⁴	633.1	539.0	410.3	428.4	456.5	424.9	533.7	459.2	477.7
DEPOSIT TURNOVER									
Demand deposits ²									
6 All insured banks	434.4	496.5	561.8	573.9	569.6	538.2	560.7	580.3	594.7
7 Major New York City banks	1,843.0	2,168.9	2,460.6	2,519.8	2,493.4	2,513.2	2,251.6	2,426.4	2,461.0
8 Other banks	268.6	301.8	327.4	334.5	329.2	292.8	340.0	345.5	357.0
9 ATS-NOW accounts ³	15.8	16.7	16.8	18.4	15.2	16.1	18.3	13.4	13.5
10 Savings deposits ⁴	5.0	4.5	3.1	3.1	3.2	2.9	3.5	2.9	2.9
DEBITS TO									
Not seasonally adjusted									
Demand deposits ²									
11 All insured banks	128,059.1	154,108.4	189,443.3	198,433.5	204,618.4	167,465.5	226,263.1	216,638.7	191,572.9
12 Major New York City banks	57,282.4	70,400.9	91,294.4	96,489.1	98,837.9	85,849.7	106,935.2	102,274.2	89,866.7
13 Other banks	70,776.9	83,707.8	98,149.0	101,944.4	105,780.4	81,615.8	119,327.9	114,364.5	101,706.2
14 ATS-NOW accounts ³	1,579.5	1,903.4	2,338.4	2,524.1	2,231.9	2,255.1	2,841.5	2,679.2	2,173.2
15 MMDA ⁵	848.8	1,179.0	1,599.3	1,612.9	1,607.4	1,434.0	2,058.2	1,913.3	1,600.7
16 Savings deposits ⁴	632.9	538.7	404.3	414.2	449.2	382.7	503.6	499.0	434.6
DEPOSIT TURNOVER									
Demand deposits ²									
17 All insured banks	433.5	497.4	564.0	577.6	593.5	476.4	600.3	579.9	550.0
18 Major New York City banks	1,838.6	2,191.1	2,494.3	2,603.6	2,656.9	2,225.4	2,483.2	2,345.5	2,273.2
19 Other banks	267.9	301.6	327.9	332.6	343.9	260.8	357.4	346.6	329.4
20 ATS-NOW accounts ³	15.7	16.6	16.8	17.3	14.9	14.6	17.4	15.7	12.9
21 MMDA ⁵	3.5	3.8	4.5	4.4	4.3 [†]	3.8	5.5	5.1	4.3
22 Savings deposits ⁴	5.0	4.5	3.1	3.0	3.2	2.6	3.3	3.1	2.7

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.

A16 Domestic Financial Statistics □ June 1987

1.23 LOANS AND SECURITIES All Commercial Banks¹
 Billions of dollars; averages of Wednesday figures

Category	1986 ²									1987 ³		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Seasonally adjusted												
1 Total loans and securities ²	1,960.5	1,969.8	1,978.3	1,998.2	2,022.6	2,044.6	2,052.4	2,063.5	2,089.8	2,118.3	2,119.7	2,126.3
2 U.S. government securities	272.0	275.7	275.7	284.7	291.5	294.9	299.6	304.1	309.9	316.3	315.2	314.3
3 Other securities	186.3	185.6	187.0	189.7	196.0	204.2	199.8	197.9	196.9	190.2	193.8	195.5
4 Total loans and leases ²	1,502.2	1,508.5	1,515.6	1,523.7	1,535.1	1,545.4	1,553.0	1,561.5	1,583.0	1,611.8	1,610.7	1,616.5
5 Commercial and industrial	510.0	509.9	513.0	512.6	515.2	517.3	520.0	525.7	541.4	554.1	553.8	551.7
6 Bankers acceptances held ³ ..	5.4	6.1	6.3	6.1	6.5	6.6	6.7	6.4	6.4	6.7	6.8	6.1
7 Other commercial and industrial	504.6	503.8	506.6	506.5	508.7	510.7	513.3	519.2	535.0	547.3	547.0	545.6
8 U.S. addressees ⁴	494.9	493.9	497.3	497.7	499.8	501.7	504.6	510.7	525.7	537.8	537.9	536.9
9 Non-U.S. addressees ⁴	9.7	9.9	9.4	8.9	8.9	9.0	8.8	8.5	9.4	9.5	9.1	8.7
10 Real estate	444.2	449.3	453.6	458.3	464.8	468.9	474.2	479.6	489.0	499.2	504.0	511.0
11 Individual	302.3	303.7	305.1	306.3	308.1	309.9	311.2	312.6	314.2	314.9	315.2	315.7
12 Security	47.8	45.8	42.0	45.0	43.9	43.7	38.8	40.0	37.2	38.6	39.3	40.3
13 Nonbank financial institutions	32.0	33.4	34.7	34.5	34.7	35.2	35.8	35.2	35.3	35.7	34.5	34.7
14 Agricultural	34.6	34.2	33.7	33.3	33.0	32.7	32.4	32.1	31.7	31.5	31.6	31.6
15 State and political subdivisions	60.5	60.3	60.1	59.9	60.1	60.0	59.3	58.7	57.9	57.8	57.2	56.9
16 Foreign banks	9.7	10.0	10.3	10.3	10.1	10.1	10.0	10.0	10.4	10.6	10.3	9.7
17 Foreign official institutions	6.0	6.1	6.0	6.1	6.1	6.0	6.0	5.9	5.8	5.9	6.1	6.7
18 Lease financing receivables	20.2	20.2	20.4	20.5	20.7	21.1	21.8	22.0	22.2	22.1	22.2	22.3
19 All other loans	34.9	35.6	36.7	36.9	38.5	40.5	43.3	39.8	37.9	41.4	36.7	35.7
Not seasonally adjusted												
20 Total loans and securities ²	1,961.5	1,967.8	1,978.2	1,993.7	2,015.1	2,042.3	2,044.0	2,064.2	2,105.2	2,123.7	2,121.6	2,127.9
21 U.S. government securities	274.1	275.5	276.2	285.6	290.5	293.8	296.1	303.2	308.3	314.6	318.9	317.2
22 Other securities	184.7	185.1	185.7	187.5	196.2	205.0	200.1	198.3	198.1	193.7	194.1	194.4
23 Total loans and leases ²	1,502.7	1,507.2	1,516.3	1,520.6	1,528.4	1,543.5	1,547.8	1,562.6	1,598.7	1,615.4	1,608.6	1,616.3
24 Commercial and industrial	512.3	511.8	514.2	512.1	512.8	516.1	517.8	525.2	544.3	552.4	551.7	554.5
25 Bankers acceptances held ³ ..	5.3	6.0	6.4	6.2	6.3	6.7	6.6	6.6	6.7	6.6	6.6	6.2
26 Other commercial and industrial	507.0	505.8	507.8	506.0	506.5	509.4	511.2	518.5	537.6	545.9	545.1	548.4
27 U.S. addressees ⁴	497.3	495.8	498.4	496.8	497.3	500.2	502.1	509.5	528.8	537.1	536.3	539.9
28 Non-U.S. addressees ⁴	9.7	9.9	9.4	9.2	9.1	9.2	9.1	9.1	8.8	8.8	8.8	8.4
29 Real estate	443.2	448.5	453.3	458.4	464.9	469.9	475.1	480.7	489.9	499.3	503.1	509.8
30 Individual	300.0	301.8	303.8	305.2	307.9	310.8	312.3	313.7	317.8	317.9	314.7	313.3
31 Security	48.1	45.0	42.3	43.2	41.1	41.7	38.3	41.1	41.8	40.4	38.6	39.7
32 Nonbank financial institutions	31.9	33.2	34.7	34.5	34.8	35.6	35.6	35.4	36.4	35.7	33.8	33.8
33 Agricultural	33.8	34.0	34.1	34.0	33.9	33.7	33.2	32.2	31.4	30.8	30.6	30.6
34 State and political subdivisions	60.5	60.3	60.1	59.9	60.1	60.0	59.3	58.7	57.9	57.8	57.2	56.9
35 Foreign banks	9.4	9.7	10.1	10.3	9.9	10.3	10.0	10.1	10.9	10.8	10.5	9.7
36 Foreign official institutions	6.0	6.1	6.0	6.1	6.1	6.0	6.0	5.9	5.8	5.9	6.1	6.7
37 Lease financing receivables	20.3	20.3	20.5	20.5	20.6	21.0	21.5	21.8	22.2	22.4	22.4	22.5
38 All other loans	37.3	36.5	37.3	36.4	36.3	38.6	38.6	37.9	40.4	41.9	39.7	38.7

1. Data have been revised because of benchmarking to new Call Reports beginning July 1985 and to new seasonal factors. Back data are available from the Banking Section, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. These data also appear in the Board's G.7 (407) release.

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.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS¹

Monthly averages, billions of dollars

Source	1986									1987		
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Total nondeposit funds												
1 Seasonally adjusted ²	134.5 ^r	137.4	134.3	136.1	137.9	142.6	140.5	144.2	144.9	154.2	158.2	163.5
2 Not seasonally adjusted	134.8 ^r	138.5	132.1	132.9	137.8	141.9	139.5 ^r	145.7 ^r	145.0 ^r	153.7	160.9 ^r	165.8
Federal funds, RPs, and other borrowings from nonbanks ³												
3 Seasonally adjusted	160.0 ^r	158.8	158.0	165.5	167.4	166.9	167.8	166.0	164.0	169.2	170.1	169.1
4 Not seasonally adjusted	160.3 ^r	159.9	155.7	162.4	167.3	166.2	166.9	167.5	164.1	168.7	172.8	171.4
5 Net balances due to foreign-related institutions, not seasonally adjusted	-25.5	-21.3	-23.7	-29.5	-29.5	-24.3	-27.3	-21.8	-19.1 ^r	-15.0	-11.9	-5.6
MEMO												
6 Domestically chartered banks' net positions with own foreign branches, not seasonally adjusted ⁴	-30.2	-29.3	-30.5	-33.8	-31.2	-29.2	-31.9	-28.7	-30.7	-25.5 ^r	-23.8	-20.3
7 Gross due from balances	75.2	72.9	72.2	73.9	75.2	74.0	73.5	70.8	73.4	70.7 ^r	68.4	65.3
8 Gross due to balances	45.1	43.6	41.7	40.1	44.0	44.8	41.6	42.1	42.7 ^r	45.2	44.7	44.9
9 Foreign-related institutions' net positions with directly related institutions, not seasonally adjusted ⁵	4.7	8.0	6.8	4.3	1.7	4.9	4.6 ^r	6.9	11.6 ^r	10.5	11.9	14.7
10 Gross due from balances	62.5	60.0	62.8	64.2	66.3	67.9	68.3	68.7	70.8	74.6	72.9	71.1
11 Gross due to balances	67.2	67.9	69.6	68.6	67.9	72.7	72.9	75.6 ^r	82.5	85.1	84.7	85.8
Security RP borrowings												
12 Seasonally adjusted ⁶	90.1	89.9	90.2	95.2	95.9	95.9	97.0	96.9	96.9	99.4	96.3	93.9
13 Not seasonally adjusted	90.4	91.0	87.9	92.0	95.8	95.2	96.1	98.5	97.1	98.9	99.0 ^r	96.2
U.S. Treasury demand balances ⁷												
14 Seasonally adjusted	17.0	19.1	17.7	15.4	14.5	16.5	17.1	23.2	21.2	21.3	23.2	17.8
15 Not seasonally adjusted	17.8	21.8	16.1	16.8	11.1	18.2	15.3	15.3	19.2	27.5	28.6	17.2
Time deposits, \$100,000 or more ⁸												
16 Seasonally adjusted	346.3	341.9	341.8	341.1	344.3	344.2	342.7	343.3	345.7	350.2	351.1 ^r	354.1
17 Not seasonally adjusted	343.6	340.5	339.2	338.3	344.0	345.5	343.8	344.1	347.1	351.4	353.3	356.4

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.

A18 Domestic Financial Statistics □ June 1987

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series¹
Billions of dollars

Account	1986 ²								1987 ²		
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
ALL COMMERCIAL BANKING INSTITUTIONS²											
1 Loans and securities	2,112.6	2,117.8	2,144.5	2,164.8	2,179.7	2,183.2	2,227.3	2,314.3	2,284.8	2,279.4	2,279.2
2 Investment securities	433.9	435.9	449.0	460.0	469.4	471.9	475.4	479.6	482.2	484.7	486.2
3 U.S. government securities	257.6	259.5	269.1	272.9	276.6	282.8	287.3	292.6	296.1	298.8	299.5
4 Other	176.4	176.4	179.9	187.1	192.8	189.1	188.0	187.0	186.1	185.9	186.7
5 Trading account assets	26.9	27.3	28.6	29.3	27.9	26.0	28.1	27.8	26.4	29.0	25.2
6 Total loans	1,651.8	1,654.7	1,666.9	1,675.6	1,682.4	1,685.3	1,723.8	1,807.0	1,776.3	1,765.6	1,767.8
7 Interbank loans	145.4	138.9	148.7	145.5	139.8	141.2	154.7	168.9	160.1	156.7	154.3
8 Loans excluding interbank	1,506.4	1,515.8	1,518.2	1,530.1	1,542.5	1,544.1	1,569.1	1,638.1	1,616.2	1,608.9	1,613.5
9 Commercial and industrial	509.5	516.2	510.6	513.8	515.9	517.2	524.9	568.2	551.1	551.5	555.3
10 Real estate	449.6	454.3	459.8	466.5	470.5	476.2	481.8	499.5	499.9	503.5	510.7
11 Individual	302.1	304.6	305.8	308.8	311.2	312.8	314.1	320.4	317.0	314.7	313.1
12 All other	242.2	240.8	242.1	241.0	244.9	237.8	248.2	252.0	248.3	239.2	234.4
13 Total cash assets	223.0	198.7	209.0	208.3	199.3	203.5	227.0	273.7	214.4	206.3	203.8
14 Reserves with Federal Reserve Banks	30.5	28.3	28.6	28.3	28.2	31.6	32.2	41.2	33.4	28.4	31.1
15 Cash in vault	23.9	23.0	23.3	23.7	22.9	23.5	22.2	25.7	23.7	23.5	22.9
16 Cash items in process of collection	84.7	67.3	72.2	73.5	66.2	66.2	86.5	111.3	74.5	71.4	68.1
17 Demand balances at U.S. depository institutions	37.2	32.5	34.3	34.0	32.8	33.1	38.3	43.3	34.0	33.0	32.7
18 Other cash assets	46.8	47.5	50.7	48.7	49.2	49.0	47.9	52.3	48.8	50.1	49.0
19 Other assets	192.8	195.2	195.3	194.8	201.4	198.6	202.2	224.8	201.3	201.1	202.1
20 Total assets/total liabilities and capital	2,528.4	2,511.7	2,548.9	2,567.8	2,580.4	2,585.3	2,656.5	2,812.8	2,700.5	2,686.8	2,685.2
21 Deposits	1,810.6	1,796.1	1,822.4	1,837.6	1,834.5	1,847.1	1,900.2	2,018.0	1,898.3	1,895.5	1,899.6
22 Transaction deposits	543.9	524.8	541.6	545.7	538.9	548.8	596.3	691.1	577.8	569.2	568.8
23 Savings deposits	478.5	484.0	492.5	499.2	505.5	516.0	522.9	535.0	532.3	535.9	539.7
24 Time deposits	788.3	787.3	788.3	792.6	790.1	782.2	781.1	791.9	788.2	790.3	791.2
25 Borrowings	369.1	370.0	381.7	379.8	391.6	383.3	397.4	414.5	432.7	425.6	414.9
26 Other liabilities	172.9	168.8	168.7	173.8	176.3	175.7	180.0	199.6	188.0	184.6	188.7
27 Residual (assets less liabilities)	175.7	176.7	176.0	176.7	178.1	179.2	178.9	180.6	181.5	181.2	181.9
MEMO											
28 U.S. government securities (including trading account)	275.0	276.4	288.4	290.6	293.2	299.5	304.8	308.4	314.5	320.1	316.7
29 Other securities (including trading account)	185.8	186.8	189.2	198.7	204.1	198.4	198.8	198.9	194.1	193.7	194.7
DOMESTICALLY CHARTERED COMMERCIAL BANKS³											
30 Loans and securities	1,991.5	1,996.7	2,020.1	2,034.6	2,044.8	2,052.1	2,094.7	2,154.4	2,136.7	2,130.3	2,121.7
31 Investment securities	418.0	420.9	433.8	443.0	450.5	452.9	457.1	459.3	461.5	463.3	463.6
32 U.S. government securities	249.5	252.7	262.5	265.0	267.9	273.6	279.0	283.0	286.8	289.2	289.4
33 Other	168.5	168.2	171.3	178.0	182.5	179.3	178.2	176.3	174.8	174.1	174.2
34 Trading account assets	26.9	27.3	28.6	29.3	27.9	26.0	28.1	27.8	26.4	29.0	25.2
35 Total loans	1,546.6	1,548.5	1,557.7	1,562.3	1,566.4	1,573.2	1,609.5	1,667.3	1,648.8	1,638.0	1,632.9
36 Interbank loans	122.0	116.6	124.0	119.7	115.6	118.8	133.0	137.9	134.3	130.5	124.1
37 Loans excluding interbank	1,424.6	1,431.9	1,433.7	1,442.7	1,450.8	1,454.3	1,476.4	1,514.5	1,514.5	1,507.5	1,508.8
38 Commercial and industrial	450.9	453.8	448.9	449.4	448.1	449.0	455.7	488.2	475.5	474.1	474.6
39 Real estate	443.6	448.4	448.4	453.8	464.4	463.3	470.0	475.1	490.3	492.2	497.0
40 Individual	301.7	304.3	305.4	308.5	310.9	312.5	313.8	320.1	316.7	314.4	312.7
41 All other	228.3	225.4	225.6	224.4	227.5	222.7	231.8	230.9	229.2	221.9	217.4
42 Total cash assets	207.3	182.3	190.1	191.2	182.5	185.6	210.0	253.5	196.6	188.9	186.5
43 Reserves with Federal Reserve Banks	28.7	26.4	27.2	26.6	26.9	29.7	29.8	39.7	31.2	27.1	29.7
44 Cash in vault	23.8	23.0	23.3	23.7	22.9	23.5	22.2	25.7	23.6	23.5	22.8
45 Cash items in process of collection	84.2	66.7	71.7	73.1	65.8	65.6	86.1	110.9	74.0	71.0	67.7
46 Demand balances at U.S. depository institutions	35.5	30.7	32.5	32.3	30.9	31.3	36.3	40.8	32.2	31.1	31.1
47 Other cash assets	35.1	35.6	35.4	35.5	36.0	35.5	35.6	36.4	35.6	36.4	35.2
48 Other assets	140.7	142.6	140.4	139.3	143.5	141.0	141.6	165.0	141.5	144.0	143.4
49 Total assets/total liabilities and capital	2,339.6	2,321.5	2,350.6	2,365.0	2,370.8	2,378.7	2,446.3	2,572.8	2,474.8	2,463.2	2,451.5
50 Deposits	1,762.8	1,746.3	1,771.6	1,784.2	1,779.3	1,792.8	1,844.8	1,957.0	1,840.8	1,838.2	1,840.7
51 Transaction deposits	536.5	516.9	533.5	537.6	530.6	540.9	588.2	682.2	569.4	561.3	560.5
52 Savings deposits	476.9	482.3	490.8	497.4	503.7	514.1	520.8	533.0	530.3	533.9	537.7
53 Time deposits	749.5	747.1	747.3	749.3	745.0	737.7	735.8	741.8	741.1	743.0	742.5
54 Borrowings	296.0	296.2	302.2	296.8	306.9	301.3	314.1	322.9	341.7	336.1	319.1
55 Other liabilities	108.2	105.5	103.9	110.5	109.6	108.6	111.7	115.5	114.0	110.8	113.0
56 Residual (assets less liabilities)	172.6	173.6	172.9	173.5	174.9	176.0	175.8	177.5	178.3	178.1	178.8

1. Data have been revised because of benchmarking to new Call Reports and new seasonal factors beginning July 1985. Back data are available from the Banking Section, Board of Governors of the Federal Reserve System, Washington, D.C., 20551.

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.

2. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

3. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

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	1987								
	Jan. 28	Feb. 4 ¹	Feb. 11 ¹	Feb. 18 ¹	Feb. 25 ¹	Mar. 4	Mar. 11	Mar. 18	Mar. 25
1 Cash and balances due from depository institutions	105,562	104,237	95,853	117,784	97,014	103,334	105,003	102,540	95,872
2 Total loans, leases and securities, net	1,015,586	1,009,386	1,011,619	1,008,677	1,008,876	1,009,014	1,004,971	1,001,509	996,439
3 U.S. Treasury and government agency	113,804	114,429	113,779	115,717	116,663	117,832	115,499	113,048	112,921
4 Trading account	18,311	18,525	17,237	19,220	21,312	21,586	19,414	18,314	17,256
5 Investment account, by maturity	95,492	95,904	96,542	96,497	95,351	96,245	96,086	94,734	95,664
6 One year or less	17,594	18,117	18,110	17,470	17,265	17,287	17,418	16,630	16,338
7 Over one through five years	40,627	41,295	41,801	42,425	41,730	41,494	40,998	40,614	40,465
8 Over five years	37,272	36,491	36,631	36,602	36,355	37,464	37,670	37,490	38,860
9 Other securities	68,309	68,268	67,658	67,697	67,532	67,371	67,497	67,290	67,324
10 Trading account	3,720	3,772	3,296	3,453	3,321	3,523	3,405	3,335	3,515
11 Investment account	64,589	64,496	64,363	64,244	64,212	63,848	64,092	63,955	63,810
12 States and political subdivisions, by maturity	53,555	53,233	53,050	52,951	52,878	52,343	52,150	51,829	51,626
13 One year or less	7,383	7,262	7,056	6,994	6,963	6,870	6,766	6,702	6,590
14 Over one year	46,172	45,970	45,994	45,957	45,915	45,473	45,384	45,127	45,036
15 Other bonds, corporate stocks, and securities	11,034	11,263	11,313	11,293	11,334	11,505	11,942	12,126	12,184
16 Other trading account assets	4,326	4,809	4,762	4,960	4,471	4,394	4,562	5,046	4,440
17 Federal funds sold ¹	63,949	58,955	64,086	56,939	59,712	57,238	59,833	54,540	53,962
18 To commercial banks	37,141	35,938	39,461	33,192	35,804	34,774	35,944	31,009	31,631
19 To nonbank brokers and dealers in securities	16,857	15,539	15,716	15,250	15,904	14,932	16,565	15,863	15,205
20 To others	9,951	7,478	8,908	8,498	8,005	7,532	7,326	7,668	7,126
21 Other loans and leases, gross ²	787,387	785,352	783,876	785,964	783,118	785,026	780,457	784,473	780,413
22 Other loans, gross ²	769,328	767,327	765,766	767,736	764,854	766,794	762,180	766,180	762,074
23 Commercial and industrial ²	282,255	283,747	282,725	281,736	280,778	281,231	280,279	281,021	280,138
24 Bankers acceptances and commercial paper	2,471	2,691	2,530	2,634	2,354	2,484	2,652	2,428	2,280
25 All other	279,784	281,056	280,195	279,101	278,424	278,747	277,627	278,592	277,858
26 U.S. addressees	276,024	277,325	276,453	275,320	274,634	275,068	274,035	275,197	274,484
27 Non-U.S. addressees	3,760	3,730	3,742	3,782	3,791	3,679	3,592	3,396	3,414
28 Real estate loans ²	214,233	214,911	215,696	216,311	215,661	216,439	217,513	218,752	218,439
29 To individuals for personal expenditures	143,372	142,979	142,270	142,083	142,179	141,397	140,992	140,744	140,548
30 To depository and financial institutions	51,916	50,531	51,382	52,960	50,776	51,497	50,658	51,453	49,406
31 Commercial banks in the United States	20,758	20,092	20,386	20,765	20,785	20,745	20,313	20,908	20,396
32 Banks in foreign countries	5,732	5,254	5,587	6,545	5,812	5,571	4,975	5,063	4,939
33 Nonbank depository and other financial institutions	25,426	25,185	25,408	25,650	24,179	25,181	25,369	25,482	24,071
34 For purchasing and carrying securities	15,434	13,620	12,805	13,154	14,296	15,213	12,915	13,606	13,904
35 To finance agricultural production	5,339	5,348	5,324	5,307	5,324	5,326	5,339	5,368	5,344
36 To states and political subdivisions	34,859	34,641	34,421	34,430	34,387	34,561	34,278	34,266	34,298
37 To foreign governments and official institutions	3,264	3,272	3,221	3,223	3,245	3,272	3,231	3,263	3,189
38 All other	18,655	18,279	17,922	18,533	18,207	17,858	16,975	17,707	16,808
39 Lease financing receivables	18,059	18,025	18,110	18,227	18,264	18,232	18,277	18,293	18,339
40 LESS: Unearned income	4,901	4,828	4,822	4,877	4,869	4,833	4,829	4,830	4,614
41 Loan and lease reserve ²	17,288	17,600	17,720	17,722	17,752	18,014	18,050	18,058	18,008
42 Other loans and leases, net ²	765,198	762,924	761,333	763,364	760,497	762,178	757,578	761,584	757,791
43 All other assets	123,844	127,716	127,904	125,993	127,509	130,599	126,381	126,967	125,320
44 Total assets	1,244,992	1,241,338	1,235,376	1,252,455	1,233,399	1,242,947	1,236,355	1,231,016	1,217,631
45 Demand deposits	228,412	230,546	215,288	240,653	220,672	230,710	223,636	225,521	215,369
46 Individuals, partnerships, and corporations	174,114	175,410	166,253	182,375	170,240	176,384	173,264	172,538	167,748
47 States and political subdivisions	5,311	6,268	4,948	5,386	5,315	5,259	4,610	5,191	5,066
48 U.S. government	2,373	5,152	2,743	2,006	2,118	4,894	2,765	4,160	2,013
49 Depository institutions in United States	25,535	25,820	23,743	30,394	25,767	25,982	23,328	24,521	23,949
50 Banks in foreign countries	7,158	6,314	6,784	7,145	6,662	6,365	6,217	6,663	5,919
51 Foreign governments and official institutions	789	725	697	715	788	700	849	590	758
52 Certified and officers' checks	13,132	10,855	10,119	12,631	9,783	11,125	12,605	11,858	9,916
53 Transaction balances other than demand deposits	57,282	59,398	58,351	58,567	57,732	60,727	59,672	59,457	59,135
54 Nontransaction balances	515,414	515,963	516,514	516,947	518,181	519,119	518,950	519,643	518,495
55 Individuals, partnerships and corporations	476,759	477,906	478,071	478,735	478,998	480,590	480,390	480,972	479,951
56 States and political subdivisions	26,156	26,088	26,544	26,354	27,127	26,589	26,714	26,811	26,900
57 U.S. government	680	697	697	678	711	733	746	731	709
58 Depository institutions in the United States	10,749	10,203	10,163	10,109	10,281	10,196	10,092	10,098	9,984
59 Foreign governments, official institutions and banks	1,070	1,068	1,038	1,071	1,064	1,011	1,007	1,031	952
60 Liabilities for borrowed money	268,150	262,045	271,965	266,163	263,922	259,176	258,035	251,450	248,716
61 Borrowings from Federal Reserve Banks	3,447	0	25	0	720	100	0	0	70
62 Treasury tax-and-loan notes	19,646	17,667	19,558	19,994	19,454	10,506	6,111	14,004	9,923
63 All other liabilities for borrowed money ³	245,056	244,378	252,382	246,169	243,748	248,570	251,924	237,446	238,722
64 Other liabilities and subordinated note and debentures	88,674	86,546	86,179	83,182	86,245	86,036	88,750	87,794	87,920
65 Total liabilities	1,157,932	1,154,497	1,148,298	1,165,512	1,146,753	1,155,768	1,149,042	1,143,865	1,129,634
66 Residual (total assets minus total liabilities) ⁴	87,060	86,841	87,078	86,942	86,646	87,179	87,312	87,151	87,996
MEMO									
67 Total loans and leases (gross) and investments adjusted ⁵	979,875	975,783	974,314	977,320	974,908	976,342	971,593	972,481	967,034
68 Total loans and leases (gross) adjusted ^{2,5}	793,436	788,276	788,114	788,946	786,242	786,744	784,034	787,096	782,349
69 Time deposits in amounts of \$100,000 or more	156,570	155,552	156,742	156,608	158,542	158,330	158,202	158,470	158,230
70 Loans sold outright to affiliates—total ⁶	1,821	1,829	1,796	1,717	2,093	2,037	1,942	1,954	1,967
71 Commercial and industrial	1,260	1,269	1,254	1,192	1,592	1,551	1,470	1,482	1,486
72 Other	561	560	542	525	501	485	472	472	481
73 Nontransaction savings deposits (including MMDAs)	229,668	231,438	230,984	232,084	231,510	232,676	232,966	233,517	232,792

1. Includes securities purchased under agreements to resell.
 2. Levels of major loan items were affected by the Sept. 26, 1984, transaction between Continental Illinois National Bank and the Federal Deposit Insurance Corporation. For details see the H.4.2 statistical release dated Oct. 5, 1984.
 3. Includes federal funds purchased and securities sold under agreements to repurchase; for information on these liabilities at banks with assets of \$1 billion or more on Dec. 31, 1977, see table 1.13.
 4. This is not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
 5. Exclusive of loans and federal funds transactions with domestic commercial banks.
 6. Loans sold are those sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

1.28 LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY Assets and Liabilities

Millions of dollars, Wednesday figures except as noted

Account	1987								
	Jan. 28	Feb. 4	Feb. 11	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25
1 Cash and balances due from depository institutions.....	32,952	26,884	24,688	33,441	25,306	24,497	30,317	26,221	25,419
2 Total loans, leases and securities, net ¹	224,049	217,429	222,500	220,775	221,734	218,318	219,405	217,071	216,671
<i>Securities</i>									
3 U.S. Treasury and government agency ²	0	0	0	0	0	0	0	0	0
4 Trading account ²	0	0	0	0	0	0	0	0	0
5 Investment account, by maturity.....	13,335	13,397	13,416	13,927	13,924	14,214	13,844	13,663	13,604
6 One year or less.....	1,357	1,307	1,290	1,377	1,688	1,655	1,732	1,609	1,508
7 Over one through five years.....	4,440	4,642	4,746	5,180	4,608	4,623	4,116	4,124	4,146
8 Over five years.....	7,538	7,447	7,380	7,370	7,628	7,936	7,995	7,930	7,951
9 Other securities ²	0	0	0	0	0	0	0	0	0
10 Trading account ²	0	0	0	0	0	0	0	0	0
11 Investment account.....	16,154	16,214	16,284	16,275	16,342	16,418	16,440	16,513	16,549
12 States and political subdivisions, by maturity.....	13,940	13,918	13,901	13,909	13,916	13,996	13,923	13,981	13,974
13 One year or less.....	1,587	1,586	1,467	1,471	1,470	1,436	1,393	1,407	1,392
14 Over one year.....	12,353	12,332	12,433	12,439	12,446	12,560	12,530	12,573	12,582
15 Other bonds, corporate stocks and securities.....	2,214	2,295	2,384	2,365	2,426	2,423	2,517	2,532	2,575
16 Other trading account assets ²	0	0	0	0	0	0	0	0	0
<i>Loans and leases</i>									
17 Federal funds sold ³	26,680	22,532	28,188	23,929	24,280	20,539	25,273	21,124	21,742
18 To commercial banks.....	10,076	9,355	13,909	10,232	11,484	8,617	11,732	8,247	10,123
19 To nonbank brokers and dealers in securities.....	8,583	7,262	6,738	6,808	7,034	5,803	7,832	7,377	6,662
20 To others.....	8,022	5,916	7,540	6,889	5,762	6,119	5,709	5,500	4,956
21 Other loans and leases, gross.....	174,402	171,903	171,376	173,437	174,008	173,987	170,769	172,667	171,639
22 Other loans, gross.....	170,081	167,567	167,000	169,048	169,601	169,610	166,366	168,254	167,199
23 Commercial and industrial.....	65,909	66,310	66,003	65,889	66,212	65,631	65,127	64,737	64,615
24 Bankers acceptances and commercial paper.....	768	810	744	826	625	762	859	691	610
25 All other.....	65,141	65,500	65,259	65,064	65,587	64,869	64,268	64,046	64,005
26 U.S. addressees.....	64,686	65,032	64,730	64,518	65,001	64,300	63,772	63,671	63,593
27 Non-U.S. addressees.....	455	468	529	546	586	569	496	375	412
28 Real estate loans.....	38,541	38,513	38,619	38,979	39,146	39,568	39,868	40,407	40,463
29 To individuals for personal expenditures.....	20,695	20,667	20,627	20,610	20,603	20,576	20,385	20,402	20,411
30 To depository and financial institutions.....	21,460	20,885	20,938	21,796	20,760	20,844	20,052	21,012	20,095
31 Commercial banks in the United States.....	12,204	11,439	11,502	11,689	11,546	11,550	11,223	11,532	11,109
32 Banks in foreign countries.....	2,979	2,511	2,985	3,839	3,279	2,993	2,445	2,625	2,652
33 Nonbank depository and other financial institutions.....	6,277	6,334	6,452	6,268	5,935	6,301	6,384	6,855	6,334
34 For purchasing and carrying securities.....	6,980	5,874	5,265	6,001	6,932	7,396	5,799	6,631	6,781
35 To finance agricultural production.....	240	265	266	264	257	244	249	261	252
36 To states and political subdivisions.....	8,749	8,682	8,532	8,604	8,620	8,537	8,331	8,304	8,348
37 To foreign governments and official institutions.....	1,062	1,073	1,017	976	1,027	1,036	993	1,038	977
38 All other.....	6,446	5,897	5,732	5,929	6,044	5,776	5,560	5,461	5,258
39 Lease financing receivables.....	4,321	4,336	4,376	4,389	4,406	4,377	4,403	4,413	4,440
40 LESS: Unearned income.....	1,583	1,555	1,557	1,600	1,595	1,591	1,594	1,596	1,598
41 Loan and lease reserve.....	4,940	5,062	5,207	5,194	5,225	5,250	5,326	5,300	5,264
42 Other loans and leases, net.....	167,879	165,286	164,611	166,643	167,187	167,146	163,849	165,771	164,776
43 All other assets ⁴	61,762	63,870	62,530	63,814	66,176	66,908	61,421	62,150	59,148
44 Total assets.....	318,762	308,184	309,718	318,030	313,216	309,723	311,143	305,442	301,238
<i>Deposits</i>									
45 Demand deposits.....	65,564	60,018	54,456	66,579	60,240	59,784	59,288	61,214	57,256
46 Individuals, partnerships, and corporations.....	43,905	41,623	36,570	43,938	41,459	40,732	39,546	41,292	39,860
47 States and political subdivisions.....	686	907	605	624	610	547	574	636	729
48 U.S. government.....	439	1,122	452	292	372	992	518	782	355
49 Depository institutions in the United States.....	7,285	5,942	5,797	7,866	7,368	6,502	5,477	6,058	5,952
50 Banks in foreign countries.....	5,848	5,100	5,549	5,819	5,434	5,199	5,080	5,452	4,822
51 Foreign governments and official institutions.....	617	560	549	538	646	556	679	438	605
52 Certified and officers' checks.....	6,783	4,763	4,933	7,501	4,350	5,254	7,413	6,557	4,932
53 Transaction balances other than demand deposits.....	7,449	7,672	7,558	7,551	7,440	7,753	7,675	7,764	7,774
54 ATN, NOW, Super NOW, telephone transfers).....	98,517	99,271	98,981	99,873	99,775	99,740	99,024	99,657	98,670
55 Nontransaction balances.....	89,336	90,290	89,887	90,829	90,551	90,650	90,035	90,800	90,045
56 States and political subdivisions.....	6,165	6,180	6,302	6,174	6,374	6,259	6,262	6,203	6,168
57 U.S. government.....	38	38	32	33	34	35	37	36	26
58 Depository institutions in the United States.....	2,448	2,178	2,184	2,205	2,192	2,189	2,085	2,004	1,897
59 Foreign governments, official institutions and banks.....	530	585	576	631	624	608	605	613	534
60 Liabilities for borrowed money.....	81,178	77,602	85,547	82,840	83,370	80,216	79,832	71,597	72,171
61 Borrowings from Federal Reserve Banks.....	2,900	0	0	0	450	0	0	0	0
62 Treasury tax-and-loan notes.....	4,824	4,130	4,609	4,824	4,497	2,362	1,403	3,690	2,536
63 All other liabilities for borrowed money ⁵	73,364	73,472	80,938	78,017	78,423	77,855	78,429	67,907	69,636
64 Other liabilities and subordinated note and debentures.....	38,053	35,378	34,797	33,099	34,462	33,888	36,904	36,765	36,044
65 Total liabilities.....	290,760	279,941	281,340	289,942	285,287	281,382	282,724	276,997	271,916
66 Residual (total assets minus total liabilities) ⁶	28,002	28,242	28,377	28,088	27,929	28,341	28,419	28,445	29,322
MEMO									
67 Total loans and leases (gross) and investments adjusted ^{1,7}	208,292	203,252	203,854	205,647	205,525	204,992	203,370	204,188	202,302
68 Total loans and leases (gross) adjusted ⁷	178,802	173,641	174,153	175,445	175,258	174,359	173,086	174,012	172,149
69 Time deposits in amounts of \$100,000 or more.....	35,885	36,616	36,508	36,774	36,440	36,428	36,263	36,172	35,633

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 BANKS¹ Assets and Liabilities
Millions of dollars, Wednesday figures

Account	1987								
	Jan. 28	Feb. 4	Feb. 11	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25
1 Cash and due from depository institutions	10,191	10,386	9,967	9,799	9,698	8,886	9,343	9,423	9,834
2 Total loans and securities	86,073 ^r	82,630 ^r	83,102 ^r	84,772 ^r	85,960 ^r	84,929	85,732	87,041	90,502
3 U.S. Treasury and govt. agency securities	6,428	6,634	6,704	7,002	6,555	6,414	6,964	6,986	6,856
4 Other securities	6,454	6,628	6,771	6,727	6,852	7,161	7,183	7,103	7,189
5 Federal funds sold ²	6,645	5,190	6,190	5,808	6,069	4,270	5,102	4,920	6,499
6 To commercial banks in the United States	4,880	3,958	5,488	4,826	4,660	3,227	4,189	3,667	5,755
7 To others	1,765	1,232	702	982	1,408	1,044	913	1,253	744
8 Other loans, gross	66,545 ^r	64,178 ^r	63,437 ^r	65,235 ^r	66,484 ^r	67,084	66,483	68,033	69,957
9 Commercial and industrial	40,759 ^r	40,070 ^r	40,452 ^r	41,264 ^r	41,895 ^r	42,067	41,921	42,748	43,484
10 Bankers acceptances and commercial paper	2,998	2,969	3,161	3,067	2,841	2,798	2,808	2,707	2,616
11 All other	37,762 ^r	37,101 ^r	37,290 ^r	38,197 ^r	39,054 ^r	39,269	39,113	40,041	40,868
12 U.S. addressees	35,399	35,042	35,158	35,823	36,851	36,960	36,887	37,776	38,621
13 Non-U.S. addressees	2,363 ^r	2,059 ^r	2,132 ^r	2,374 ^r	2,203 ^r	2,310	2,226	2,265	2,246
14 To financial institutions	15,798	14,684	14,576	15,266	15,639	15,935	15,970	16,226	17,089
15 Commercial banks in the United States	12,044	11,119	11,007	11,723	12,250	12,318	12,445	12,777	13,592
16 Banks in foreign countries	1,048	996	927	987	949	1,134	942	884	884
17 Nonbank financial institutions	2,706	2,569	2,643	2,556	2,440	2,483	2,582	2,565	2,613
18 To foreign govt. and official institutions	576	556	573	543	776	844	895	978	1,035
19 For purchasing and carrying securities	3,610	3,119	2,196	2,502	2,769	2,799	2,402	2,654	2,899
20 All other	5,802	5,748	5,639	5,659 ^r	5,405 ^r	5,438	5,294	5,427	5,450
21 Other assets (claims on nonrelated parties)	22,878	22,408	22,417	21,653	22,121	22,433	22,978	23,390	23,308
22 Net due from related institutions	13,744 ^r	16,268 ^r	14,667 ^r	15,876 ^r	14,046 ^r	15,527	14,794	15,696	14,387
23 Total assets	132,886	131,692	130,154	132,101	131,826	131,776	132,848	135,550	138,030
24 Deposits or credit balances due to other than directly related institutions	39,025 ^r	38,462	38,476	39,316	39,354	39,778	40,129	40,407	40,667
25 Transaction accounts and credit balances ³	3,288 ^r	3,361	3,148	3,446	3,016	3,133	3,181	3,243	3,136
26 Individuals, partnerships, and corporations	1,859	1,958	1,707	1,827	1,824	1,979	1,852	1,767	1,706
27 Other	1,429 ^r	1,403	1,441	1,620	1,192	1,154	1,328	1,476	1,430
28 Nontransaction accounts ⁴	35,737	35,101	35,329	35,870	36,338	36,645	36,948	37,164	37,531
29 Individuals, partnerships, and corporations	28,868	28,012	27,901	28,500	29,048	29,281	29,467	29,627	30,408
30 Other	6,869	7,089	7,428	7,370	7,290	7,364	7,480	7,538	7,124
31 Borrowings from other than directly related institutions	51,434 ^r	55,158	51,822	54,015	50,437	53,698	52,504	55,278	54,013
32 Federal funds purchased ⁵	26,191	30,034	26,400	27,256	22,344	25,808	23,789	25,212	22,928
33 From commercial banks in the United States	16,001	19,244	16,436	16,869	12,343	15,352	13,525	15,014	13,419
34 From others	10,190	10,790	9,964	10,387	10,001	10,457	10,264	10,197	9,510
35 Other liabilities for borrowed money	25,242 ^r	25,124	25,422	26,759	28,092	27,890	28,715	30,066	31,084
36 To commercial banks in the United States	21,864	21,609	21,952	23,052	23,797	24,316	24,986	26,265	26,606
37 To others	3,378 ^r	3,515	3,470	3,707	4,296	3,574	3,729	3,801	4,478
38 Other liabilities to nonrelated parties	24,967	24,590	24,289	23,594	23,991	24,576	24,767	25,272	25,538
39 Net due to related institutions	17,460	13,482	15,566	15,176	18,044	13,724	15,447	14,593	17,813
40 Total liabilities	132,886	131,692	130,154	132,101	131,826	131,776	132,848	135,550	138,030
MEMO									
41 Total loans (gross) and securities adjusted ⁶	69,149 ^r	67,553 ^r	66,607 ^r	68,222 ^r	69,049 ^r	69,384	69,098	70,597	71,155
42 Total loans (gross) adjusted ⁶	56,267 ^r	54,291 ^r	53,132 ^r	54,494 ^r	55,642 ^r	55,810	54,950	56,509	57,109

1. Effective Jan. 1, 1986, the reporting panel includes 65 U.S. branches and agencies of foreign banks that include those branches and agencies with assets of \$750 million or more on June 30, 1980, plus those branches and agencies that had reached the \$750 million asset level on Dec. 31, 1984.

2. Includes securities purchased under agreements to resell.

3. Includes credit balances, demand deposits, and other checkable deposits.

4. Includes savings deposits, money market deposit accounts, and time deposits.

5. Includes securities sold under agreements to repurchase.

6. Exclusive of loans to and federal funds sold to commercial banks in the United States.

1.31 GROSS DEMAND DEPOSITS Individuals, Partnerships, and Corporations¹

Billions of dollars, estimated daily-average balances, not seasonally adjusted

Type of holder	Commercial banks									
	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec.	1985		1986			
					Sept. ^{3,4}	Dec.	Mar.	June	Sept.	Dec. ⁵
1 All holders—Individuals, partnerships, and corporations.....	288.9	291.8	293.5	302.7	299.3	321.0	307.4	322.4	333.6	363.5
2 Financial business	28.0	35.4	32.8	31.7	28.1	32.3	31.8	32.3	35.9	41.4
3 Nonfinancial business	154.8	150.5	161.1	166.3	167.2	178.5	166.6	180.0	185.9	202.0
4 Consumer	86.6	85.9	78.5	81.5	82.0	85.5	84.0	86.4	86.3	91.0
5 Foreign	2.9	3.0	3.3	3.6	3.5	3.5	3.4	3.0	3.3	3.3
6 Other	16.7	17.0	17.8	19.7	18.5	21.2	21.6	20.7	22.2	25.8
	Weekly reporting banks									
	1981 Dec.	1982 Dec.	1983 Dec.	1984 Dec. ²	1985		1986			
					Sept. ^{3,4}	Dec.	Mar.	June	Sept.	Dec.
7 All holders—Individuals, partnerships, and corporations.....	137.5	144.2	146.2	157.1	153.6	168.6	159.7	168.5	174.7	195.1
8 Financial business	21.0	26.7	24.2	25.3	22.7	25.9	25.5	25.7	28.9	32.5
9 Nonfinancial business	75.2	74.3	79.8	87.1	85.5	94.5	86.8	93.1	94.8	106.4
10 Consumer	30.4	31.9	29.7	30.5	31.6	33.2	32.6	34.9	35.0	37.5
11 Foreign	2.8	2.9	3.1	3.4	3.3	3.1	3.3	2.9	3.2	3.3
12 Other	8.0	8.4	9.3	10.9	10.5	12.0	11.5	11.9	12.8	15.4

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. Figures may not add to totals because of rounding.

2. Beginning in March 1984, these data reflect a change in the panel of weekly reporting banks, and are not comparable to earlier data. Estimates in billions of dollars for December 1983 based on the new weekly reporting panel are: financial business, 24.4; nonfinancial business, 80.9; consumer, 30.1; foreign, 3.1; other, 9.5.

3. Beginning March 1985, financial business deposits and, by implication, total gross demand deposits have been redefined to exclude demand deposits due to

thrift institutions. Historical data have not been revised. The estimated volume of such deposits for December 1984 is \$5.0 billion at all insured commercial banks and \$3.0 billion at weekly reporting banks.

4. Historical data back to March 1985 have been revised to account for corrections of bank reporting errors. Historical data before March 1985 have not been revised, and may contain reporting errors. Data for all commercial banks for March 1985 were revised as follows (in billions of dollars): all holders, -.3; financial business, -.8; nonfinancial business, -.4; consumer, .9; foreign, .1; other, -.1. Data for weekly reporting banks for March 1985 were revised as follows (in billions of dollars): all holders, -.1; financial business, -.7; nonfinancial business, -.5; consumer, 1.1; foreign, .1; other, -.2.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1982 Dec.	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.	1986				1987	
						Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Commercial paper (seasonally adjusted unless noted otherwise)											
1 All issuers	166,436	187,658	237,586	300,899	330,828	325,406	328,275	322,292	330,828	336,996	336,550
Financial companies ³											
Dealer-placed paper ⁴											
2 Total	34,605	44,455	56,485	78,443	99,980	97,799	99,186	95,015	99,980	101,731	102,784
3 Bank-related (not seasonally adjusted)	2,516	2,441	2,035	1,602	2,265	1,980	2,172	2,031	2,265	2,284	2,174
Directly placed paper ⁵											
4 Total	84,393	97,042	110,543	135,504	152,385	146,293	147,056	146,856	152,385	157,252	158,954
5 Bank-related (not seasonally adjusted)	32,034	35,566	42,105	44,778	40,860	37,455	38,957	39,205	40,860	45,085	45,722
6 Nonfinancial companies ⁶	47,437	46,161	70,558	86,952	78,463	81,314	82,033	80,421	78,463	78,013	74,812
Bankers dollar acceptances (not seasonally adjusted) ⁷											
7 Total	79,543	78,309	78,364	68,413	64,974	67,009	65,920	64,952	64,974	65,049	65,144
Holder											
8 Accepting banks	10,910	9,355	9,811	11,197	13,423	13,101	12,569	12,787	13,423	13,224	11,828
9 Own bills	9,471	8,125	8,621	9,471	11,707	11,001	10,178	10,951	11,707	10,662	10,006
10 Bills bought	1,439	1,230	1,191	1,726	1,716	2,101	2,391	1,835	1,716	2,561	1,821
Federal Reserve Banks											
11 Own account	1,480	418	0	0	0	0	0	0	0	0	0
12 Foreign correspondents	949	729	671	937	1,317	924	1,131	1,052	1,317	983	1,230
13 Others	66,204	67,807	67,881	56,279	50,234	52,984	52,220	51,113	50,234	50,843	52,087
Basis											
14 Imports into United States	17,683	15,649	17,845	15,147	14,670	16,612	15,980	15,354	14,670	14,459	14,615
15 Exports from United States	16,328	16,880	16,305	13,204	12,940	12,693	12,612	12,699	12,960	12,783	12,897
16 All other	45,531	45,781	44,214	40,062	37,364	37,704	37,327	36,899	37,344	37,807	37,632

1. Effective Dec. 1, 1982, there was a break in the commercial paper series. The key changes in the content of the data involved additions to the reporting panel, the exclusion of broker or dealer placed borrowings under any master note agreements from the reported data, and the reclassification of a large portion of bank-related paper from dealer-placed to directly placed.

2. Correction of a previous misclassification of paper by a reporter has created a break in the series beginning December 1983. The correction adds some paper to nonfinancial and to dealer-placed financial paper.

3. Institutions engaged primarily in activities such as, but not limited to, commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.

4. Includes all financial company paper sold by dealers in the open market.

5. As reported by financial companies that place their paper directly with investors.

6. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.

7. Beginning October 1984, the number of respondents in the bankers acceptance survey were reduced from 340 to 160 institutions—those with \$50 million or more in total acceptances. The new reporting group accounts for over 95 percent of total acceptances activity.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per annum

Effective date	Rate	Effective Date	Rate	Month	Average rate	Month	Average rate
1984—Mar. 19	11.50	1985—Jan. 15	10.50	1984—Jan.	11.00	1985—Sept.	9.50
Apr. 5	12.00	May 20	10.00	Feb.	11.00	Oct.	9.50
May 8	12.50	June 18	9.50	Mar.	11.21	Nov.	9.50
June 25	13.00			Apr.	11.93	Dec.	9.50
Sept. 27	12.75	1986—Mar. 7	9.00	May.	12.39		
Oct. 17	12.50	Apr. 21	8.50	June.	12.60	1986—Jan.	9.50
29	12.00	July 11	8.00	July.	13.00	Feb.	9.50
Nov. 9	11.75	Aug. 26	7.50	Aug.	13.00	Mar.	9.10
28	11.25			Sept.	12.97	Apr.	8.83
Dec. 20	10.75			Oct.	12.58	May.	8.50
				Nov.	11.77	June.	8.50
				Dec.	11.06	July.	8.16
						Aug.	7.90
				1985—Jan.	10.61	Sept.	7.50
				Feb.	10.50	Oct.	7.50
				Mar.	10.50	Nov.	7.50
				Apr.	10.50	Dec.	7.50
				May.	10.31		
				June.	9.78	1987—Jan.	7.50
				July.	9.50	Feb.	7.50
				Aug.	9.50		

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	1984	1985	1986	1986	1987			1987, week ending				
				Dec.	Jan.	Feb.	Mar.	Feb. 27	Mar. 6	Mar. 13	Mar. 20	Mar. 27
MONEY MARKET RATES												
1 Federal funds ^{1,2}	10.22	8.10	6.80	6.91	6.43	6.10	6.13	5.95	6.06	6.12	6.08	6.14
2 Discount window borrowing ^{1,2,3}	8.80	7.69	6.33	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Commercial paper ^{4,5}												
3 1-month	10.05	7.94	6.62	6.63	5.95	6.12	6.22	6.08	6.12	6.20	6.21	6.29
4 3-month	10.10	7.95	6.49	6.10	5.84	6.05	6.16	6.04	6.07	6.15	6.16	6.22
5 6-month	10.16	8.01	6.39	5.88	5.76	5.99	6.10	6.00	6.01	6.08	6.09	6.15
Finance paper, directly placed ^{4,5}												
6 1-month	9.97	7.91	6.58	6.32	5.86	6.02	6.11	5.95	6.02	6.09	6.08	6.17
7 3-month	9.73	7.77	6.38	5.81	5.59	5.88	5.95	5.89	5.89	5.94	5.94	5.99
8 6-month	9.65	7.75	6.31	5.74	5.60	5.79	5.88	5.85	5.82	5.84	5.86	5.93
Bankers acceptances ^{5,6}												
9 3-month	10.14	7.92	6.39	5.96	5.74	5.99	6.09	6.01	5.96	6.06	6.08	6.17
10 6-month	10.19	7.96	6.29	5.78	5.65	5.93	6.02	5.94	5.91	6.00	6.01	6.09
Certificates of deposit, secondary market ⁷												
11 1-month	10.17	7.97	6.61	6.66	5.94	6.10	6.18	6.11	6.10	6.16	6.17	6.24
12 3-month	10.37	8.05	6.52	6.04	5.87	6.10	6.17	6.11	6.10	6.15	6.16	6.22
13 6-month	10.68	8.25	6.51	5.95	5.85	6.10	6.18	6.12	6.11	6.16	6.17	6.22
14 Eurodollar deposits, 3-month ⁸	10.73	8.28	6.71	6.23	6.10	6.32	6.37	6.36	6.33	6.34	6.38	6.36
U.S. Treasury bills ³												
Secondary market ⁹												
15 3-month	9.52	7.48	5.98	5.53	5.43	5.59	5.59	5.45	5.54	5.66	5.55	5.60
16 6-month	9.76	7.65	6.03	5.55	5.44	5.59	5.60	5.43	5.55	5.64	5.55	5.61
17 1-year	9.92	7.81	6.08	5.55	5.46	5.63	5.68	5.57	5.61	5.72	5.64	5.71
Auction average ¹⁰												
18 3-month	9.57	7.49	5.97	5.49	5.45	5.59	5.56	5.40	5.47	5.63	5.58	5.55
19 6-month	9.80	7.66	6.02	5.53	5.47	5.60	5.56	5.41	5.51	5.59	5.58	5.55
20 1-year	9.91	n.a.	n.a.	5.60	5.44	5.74	5.68	n.a.	n.a.	n.a.	5.68	n.a.
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds ¹¹												
Constant maturities ¹²												
21 1-year	10.89	8.43	6.46	5.87	5.78	5.96	6.03	5.90	5.94	6.06	5.99	6.07
22 2-year	11.65	9.27	6.87	6.27	6.23	6.40	6.42	6.35	6.36	6.43	6.40	6.45
23 3-year	11.89	9.64	7.06	6.43	6.41	6.56	6.58	6.52	6.52	6.56	6.53	6.63
24 5-year	12.24	10.13	7.31	6.67	6.64	6.79	6.79	6.74	6.71	6.77	6.76	6.83
25 7-year	12.40	10.51	7.55	6.97	6.92	7.06	7.06	7.01	6.99	7.04	7.03	7.08
26 10-year	12.44	10.62	7.68	7.11	7.08	7.25	7.25	7.20	7.18	7.22	7.21	7.27
27 20-year	12.48	10.97	7.85	7.28	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
28 30-year	12.39	10.79	7.80	7.37	7.39	7.54	7.55	7.50	7.47	7.52	7.52	7.59
Composite ¹³												
29 Over 10 years (long-term)	11.99	10.75	8.14	7.67	7.60	7.69	7.62	7.61	7.56	7.60	7.59	7.65
State and local notes and bonds												
Moody's series ¹⁴												
30 Aaa	9.61	8.60	6.95	6.29	6.12	6.05	6.25	6.05	6.00	6.20	6.35	6.45
31 Baa	10.38	9.58	7.76	7.25	6.93	6.98	7.25	6.90	7.00	7.20	7.35	7.45
32 Bond Buyer series ¹⁵	10.10	9.11	7.32	6.86	6.61	6.61	6.66	6.59	6.54	6.61	6.68	6.79
Corporate bonds												
Seasoned issues ¹⁶												
33 All industries	13.49	12.05	9.71	9.23	9.04	9.03	8.99	9.01	8.98	8.99	8.98	8.98
34 Aaa	12.71	11.37	9.02	8.49	8.36	8.38	8.36	8.36	8.34	8.36	8.36	8.36
35 Aa	13.31	11.82	9.47	9.02	8.86	8.88	8.84	8.86	8.83	8.84	8.83	8.83
36 A	13.74	12.28	9.95	9.41	9.23	9.20	9.13	9.17	9.14	9.15	9.13	9.11
37 Baa	14.19	12.72	10.39	9.97	9.72	9.65	9.61	9.64	9.60	9.61	9.58	9.62
38 A-rated, recently-offered utility bonds ¹⁷	13.81	12.06	9.61	9.08	8.92	8.82	8.84	8.79	8.80	8.83	8.86	8.91
MEMO: Dividend/price ratio ¹⁸												
39 Preferred stocks	11.59	10.49	8.76	8.18	7.91	7.93	7.52	7.98	7.57	7.50	7.50	7.51
40 Common stocks	4.64	4.25	3.48	3.38	3.17	3.02	2.90	3.00	2.94	2.94	2.85	2.97

1. Weekly and monthly figures are averages of all calendar days, where the rate for a weekend or holiday is taken to be the rate prevailing on the preceding business day. The daily rate is the average of the rates on a given day weighted by the volume of transactions at these rates.

2. Weekly figures are averages for statement week ending Wednesday.

3. Rate for the Federal Reserve Bank of New York.

4. Unweighted average of offering rates quoted by at least five dealers (in the case of commercial paper), or finance companies (in the case of finance paper). Before November 1979, maturities for data shown are 30-59 days, 90-119 days, and 120-179 days for commercial paper; and 30-59 days, 90-119 days, and 150-179 days for finance paper.

5. Yields are quoted on a bank-discount basis, rather than an investment yield basis (which would give a higher figure).

6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).

7. Unweighted average of offered rates quoted by at least five dealers early in the day.

8. Calendar week average. For indication purposes only.

9. Unweighted average of closing bid rates quoted by at least five dealers.

10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal

places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.

11. Yields are based on closing bid prices quoted by at least five dealers.

12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.

13. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including one very low yielding "flower" bond.

14. General obligations based on Thursday figures; Moody's Investors Service.

15. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.

16. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.

17. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.

18. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE: These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1984	1985	1986	1986						1987		
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Prices and trading (averages of daily figures)												
<i>Common stock prices</i>												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	92.46	108.09	136.00	138.32	140.91	137.06	136.74	140.84	142.12	151.17	160.23	166.43
2 Industrial	108.01	123.79	155.85	158.06	160.10	156.52	156.56	162.10	163.85	175.60	189.17	198.95
3 Transportation	85.63	104.11	119.85	112.03	111.24	114.06	120.04	122.27	121.26	126.61	135.49	138.55
4 Utility	46.44	56.75	71.35	74.20	77.84	74.56	73.38	75.77	76.07	78.54	78.19	77.15
5 Finance	89.28	114.21	147.18	150.23	152.90	145.56	143.89	142.97	144.29	153.32	158.41	162.41
6 Standard & Poor's Corporation (1941-43 = 10) ¹	160.50	186.84	236.34	240.18	245.00	238.27	237.36	245.09	248.61	264.51	280.93 ²	292.47
7 American Stock Exchange ² (Aug. 31, 1973 = 50)	207.96	229.10	264.38	269.93	268.55	264.30	257.82	265.14	264.65	289.02	315.60	332.55
<i>Volume of trading (thousands of shares)</i>												
8 New York Stock Exchange	91,084	109,191	141,306	137,709	128,661	150,831	131,155	154,770	148,228	192,419	183,478	180,251
9 American Stock Exchange	6,107	8,355	11,846	10,320	9,885	10,853	8,930	10,513	12,272	14,755	14,962	15,678
Customer financing (end-of-period balances, in millions of dollars)												
10 Margin credit at broker-dealers ³	22,470	28,390	36,840	33,170	34,550	34,580	36,310	37,090	36,840	34,960	35,740	38,080
<i>Free credit balances at brokers⁴</i>												
11 Margin-account ⁵	1,755	2,715	4,880	2,570	3,035	3,395	3,805	3,765	4,880	5,060	4,470	4,730
12 Cash-account	10,215	12,840	19,000	14,600	14,210	14,060	14,445	15,045	19,000	17,395	17,325	17,370
Margin-account debt at brokers (percentage distribution, end of period) ⁶												
13 Total	100.0	100.0	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
<i>By equity class (in percent)⁷</i>												
14 Under 40	18.0	34.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
15 40-49	18.0	20.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
16 50-59	16.0	19.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
17 60-69	9.0	11.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
18 70-79	5.0	8.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
19 80 or more	6.0	8.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
Special miscellaneous-account balances at brokers (end of period) ⁶												
20 Total balances (millions of dollars) ⁸	75,840	99,310	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
<i>Distribution by equity status (percent)</i>												
21 Net credit status	59.0	58.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Debt status, equity of</i>												
22 60 percent or more	29.0	31.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
23 Less than 60 percent	11.0	11.0	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
Margin requirements (percent of market value and effective date) ⁹												
	Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974						
24 Margin stocks	70	80	65	55	65	50						
25 Convertible bonds	50	60	50	50	50	50						
26 Short sales	70	80	65	55	65	50						

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.

3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984, and margin credit at broker-dealers became the total that is distributed by equity class and shown on lines 17-22.

4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

5. New series beginning June 1984.

6. In July 1986, the New York Stock Exchange stopped reporting certain data items that were previously obtained in a monthly survey of a sample of brokers

and dealers. Data items that are no longer reported include distributions of margin debt by equity status of the account and special miscellaneous-account balances.

7. Each customer's equity in his collateral (market value of collateral less net debit balance) is expressed as a percentage of current collateral values.

8. 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.

9. 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.

A26 Domestic Financial Statistics □ June 1987

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1984	1985	1986										1987
			Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^r		Jan.
Savings and loan associations													
1 Assets.....	903,488	948,781	947,302	954,869	963,274	954,226	957,945 ^r	965,027 ^r	957,231 ^r	961,902 ^r	964,114 ^r	963,380	↑ n.a. ↓
2 Mortgages.....	555,277	585,462	574,732	575,177	574,992	565,037	565,353	566,438	557,137	557,303	556,780	553,552	
3 Mortgage-backed securities.....	124,801	126,712	131,464	132,351	134,881	130,877	132,787 ^r	138,860 ^r	138,559 ^r	138,240 ^r	141,536 ^r	142,758	
4 Cash and investment securities ¹	223,396	238,833	241,104	247,339	253,400	258,310	259,798 ^r	259,723 ^r	261,518 ^r	266,507 ^r	265,892 ^r	267,538	
5 Other.....													
6 Liabilities and net worth.....	903,488	948,781	947,302	954,869	963,274	954,226	957,945 ^r	965,027 ^r	957,231 ^r	961,902 ^r	964,114 ^r	963,380	
7 Savings capital.....	725,045	750,071	752,056	750,299	751,138	744,026	747,020	749,020	743,518 ^r	742,747 ^r	740,066 ^r	740,963	
8 Borrowed money.....	125,666	138,798	133,407	140,427	145,032	148,054	146,578	148,536 ^r	155,748 ^r	152,567 ^r	156,920 ^r	159,647	
9 FHLBB.....	64,207	73,888	70,464	73,815	73,520	73,553	75,058	75,594	80,364	75,295	75,626	80,194	
10 Other.....	61,459	64,910	62,943	66,612	71,512	74,501	71,520	72,942 ^r	75,384 ^r	77,272 ^r	81,294 ^r	79,453	
11 Other.....	17,944	19,045	20,078	21,978	24,722	20,792	22,785 ^r	24,706 ^r	15,461 ^r	23,262 ^r	24,089 ^r	20,170	
12 Net worth ²	34,833	41,064	41,760	42,163	42,382	41,353	41,560 ^r	42,765 ^r	42,505 ^r	43,326 ^r	43,039 ^r	42,600	
MEMO													
13 Mortgage loan commitments outstanding ³	61,305	56,051	64,737 ^r	57,151 ^r	59,831 ^r	59,858 ^r	59,059 ^r	56,747 ^r	56,038 ^r	53,530 ^r	52,748 ^r	46,703	
FSLIC-insured federal savings banks													
14 Assets.....	98,559	131,868	152,823	155,686	164,129	180,124	183,317	186,810	196,228 ^r	202,106 ^r	204,918 ^r	211,605	↑ n.a. ↓
15 Mortgages.....	57,429	72,355	85,028	86,598	89,108	99,758	101,758	103,019	108,216 ^r	110,826 ^r	112,117 ^r	113,638	
16 Mortgage-backed securities.....	9,949	15,676	17,851	18,661	19,829	21,578	23,247	24,097	26,439 ^r	27,516	28,324	29,766	
17 Other.....	10,971	11,723	13,923	14,590	15,083	16,794	17,027	17,056	18,500 ^r	18,697	19,266 ^r	20,138	
18 Liabilities and net worth.....	98,559	131,868	152,823	155,686	164,129	180,124	183,317	186,810	196,228 ^r	202,106 ^r	204,918 ^r	211,605	
19 Savings capital.....	79,572	103,462	119,434	121,133	126,123	138,168	140,610	142,858	149,074	152,834	154,447	157,859	
20 Borrowed money.....	12,798	19,323	22,747	23,196	25,686	28,502	28,722	29,390	32,319	33,430	33,937	37,329	
21 FHLBB.....	7,515	10,510	12,064	12,476	12,830	15,301	15,866	16,123	16,853	17,382	17,863	19,897	
22 Other.....	5,283	8,813	10,683	10,720	12,856	13,201	12,856	13,267	15,466	16,048	16,074	17,432	
23 Other.....	1,903	2,732	3,291	3,758	4,338	4,279	4,564	4,914	4,666	5,330	5,652	5,277	
24 Net worth.....	4,286	6,351	7,349	7,599	7,982	9,175	9,422	9,647	10,168 ^r	10,511 ^r	10,883 ^r	11,140	
MEMO													
25 Mortgage loan commitments outstanding ³	3,234	5,355	8,330	8,287	8,762	9,410	10,139 ^r	9,770	10,221	9,356	9,952 ^r	8,686	
Savings banks													
26 Assets.....	203,898	216,776	221,256	222,542	226,495	223,367	224,569	227,011	228,854	230,919	232,577	236,866	235,603
Loans													
27 Mortgage.....	102,895	110,448	110,271	111,813	112,417	110,958	111,971	113,265	114,188	116,648	117,612	118,323	119,199
28 Other.....	24,954	30,876	34,873	34,591	35,500	36,692	36,421	37,350	37,298	36,130	36,149	35,167	36,122
Securities													
29 U.S. government.....	14,643	13,111	12,313	12,013	13,210	12,115	12,297	12,043	12,357	12,585	13,037	14,209	13,332
30 Mortgage-backed securities.....	19,215	19,481	21,593	21,885	22,546	22,413	22,954	21,161	23,216	23,437	24,051	25,836	26,220
31 State and local government.....	2,077	2,323	2,306	2,372	2,343	2,281	2,309	2,400	2,407	2,347	2,290	2,185	2,180
32 Corporate and other.....	23,747	21,199	20,403	20,439	20,260	20,036	20,862	20,602	20,902	21,156	20,749	20,459	19,795
33 Cash.....	4,954	6,225	5,845	5,570	6,225	5,301	4,651	5,018	4,811	5,195	5,052	6,894	5,239
34 Other assets.....	11,413	13,113	13,652	13,859	13,994	13,244	13,104	13,172	13,675	13,421	13,637	13,793	13,516
35 Liabilities.....	203,898	216,776	221,256	222,542	226,495	223,367	224,569	227,011	228,854	230,919	232,577	236,866	235,603
Deposits													
36 Regular ⁴	180,616	185,972	188,960	189,025	190,310	189,109	188,615	189,937	190,210	190,334	190,858	192,194	191,441
37 Ordinary savings.....	177,418	181,921	184,704	184,580	185,716	183,970	183,433	184,764	185,002	185,254	185,958	186,345	186,385
38 Time.....	33,739	33,018	33,021	33,057	33,577	34,008	34,166	34,530	35,227	36,165	36,739	37,717	38,467
39 Other.....	104,732	103,311	105,562	105,550	105,146	103,083	102,374	102,668	102,191	101,125	101,240	100,809	100,604
40 Other.....	3,198	4,051	4,256	4,445	4,594	5,139	5,182	5,173	5,208	5,080	4,900	5,849	5,056
41 Other liabilities.....	12,504	17,414	18,412	19,074	21,384	19,226	20,641	21,360	21,947	23,319	24,254	25,274	24,710
42 General reserve accounts.....	10,510	12,823	13,548	14,114	14,519	14,731	15,084	15,427	16,319	16,896	17,146	18,105	18,236

I.37—Continued

Account	1984	1985	1986										1987	
			Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^r		Jan.
Credit unions ⁵														
43 Total assets/liabilities and capital	93,036	118,010	126,653	128,229	132,415	134,703	137,901	139,233	140,496	143,662	145,653	147,726		
44 Federal	63,205	77,861	82,275	83,543	86,289	87,579	89,539	90,367	91,981	93,257	94,638	95,483	↑ n.a. ↓	
45 State	29,831	40,149	44,378	44,686	46,126	47,124	48,362	48,866	48,515	50,405	51,015	52,243		
46 Loans outstanding	62,561	73,513	75,300	76,385	76,774	77,847	79,647	80,656	81,820	83,388	84,635	86,137		
47 Federal	42,337	47,933	48,633	49,756	49,950	50,613	51,331	52,007	53,042	53,434	53,877	55,304		
48 State	20,224	25,580	26,667	26,629	26,824	27,234	28,316	28,649	28,778	29,954	30,758	30,833		
49 Savings	84,348	105,963	114,579	116,703	120,331	122,952	125,331	126,268	128,125	130,483	131,778	134,327		
50 Federal	57,539	70,926	75,698	77,112	79,479	80,975	82,596	83,132	84,607	86,158	87,009	87,954		
51 State	26,809	35,037	38,881	39,591	40,852	41,977	42,735	43,136	43,518	44,325	44,769	46,373		
Life insurance companies														
52 Assets	722,979	825,901	848,535	855,605	863,610	872,359	877,919	887,255	892,304	860,682	910,691	920,771		
Securities														
53 Government	63,899	75,230	77,965	78,494	79,051	78,284	78,722	79,188	81,636	82,047	84,858	85,849	↑ n.a. ↓	
54 United States ⁶	42,204	51,700	54,289	54,705	55,120	54,197	54,321	54,487	56,698	57,511	59,802	61,494		
55 State and local	8,713	9,708	9,674	9,869	9,930	10,114	10,350	10,472	10,606	10,212	10,712	10,267		
56 Foreign ⁷	12,982	13,822	14,002	13,920	14,001	13,973	14,051	14,229	14,332	14,324	14,344	14,088		
57 Business	359,333	423,712	440,963	445,573	450,279	455,119	455,013	463,135	462,540	467,433	473,860	474,485		
58 Bonds	295,998	346,216	357,196	361,306	364,122	367,966	369,704	374,670	378,267	381,381	386,293	386,994		
59 Stocks	63,335	77,496	83,767	84,267	86,157	87,153	85,309	88,465	84,273	86,052	87,567	87,491		
60 Mortgages	156,699	171,797	174,823	175,951	177,554	180,041	182,542	183,943	185,268	186,976	189,460	192,975		
61 Real estate	25,767	28,822	29,804	30,059	30,025	30,350	31,151	31,844	31,725	31,918	32,184	32,079		
62 Policy loans	54,505	54,369	54,273	54,272	54,351	57,342	54,249	54,247	54,273	54,199	54,152	54,016		
63 Other assets	63,776	71,971	70,707 ^r	71,256 ^r	72,352 ^r	74,223 ^r	76,214 ^r	74,898 ^r	76,862 ^r	77,798 ^r	76,177 ^r	81,367		

1. Holdings of stock of the Federal Home Loan Banks are in "other assets."

2. Includes net undistributed income accrued by most associations.

3. As of July 1985, data include loans in process.

4. Excludes checking, club, and school accounts.

5. Data include all federally insured credit unions, both federal and state chartered, serving natural persons.

6. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.

7. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.

NOTE. *Savings and loan associations*: Estimates by the FHLBB for all associations in the United States based on annual benchmarks for non-FSLIC-insured associations and the experience of FSLIC-insured associations.

FSLIC-insured federal savings banks: Estimates by the FHLBB for federal savings banks insured by the FSLIC and based on monthly reports of federally insured institutions.

Savings banks: Estimates by the National Council of Savings Institutions for all savings banks in the United States and for FDIC-insured savings banks that have converted to federal savings banks.

Credit unions: Estimates by the National Credit Union Administration for federally chartered and federally insured state-chartered credit unions serving natural persons.

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."

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1984	Fiscal year 1985	Fiscal year 1986	Calendar year					
				1986			1987		
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<i>U.S. budget¹</i>									
1 Receipts, total	666,457	734,057	769,091	59,012	52,967	78,035	81,771	55,463	56,515
2 On-budget	500,382	547,886	568,862	43,865	38,158	60,694	62,981	37,919	38,469
3 Off-budget	166,075	186,171	200,228	15,147	14,809	17,341	18,790	17,544	18,046
4 Outlays, total	851,781	946,316	989,815	84,267	79,973	89,158 ^r	83,942	83,828	84,527
5 On-budget	685,968	769,509	806,318	68,780	63,639	74,669 ^r	68,176	67,138	67,872
6 Off-budget	165,813	176,807	183,498	15,486	16,334	14,489	15,766	16,690	16,655
7 Surplus, or deficit (-), total	-185,324	-212,260	-220,725	-25,255	-27,006	-11,123 ^r	-2,170	-28,366	-28,012
8 On-budget	-185,586	-221,623	-237,455	-24,915	-25,481	-13,976 ^r	-5,195	-29,219	-29,403
9 Off-budget	262	9,363	16,371	-340	-1,524	2,853	3,024	854	1,391
Source of financing (total)									
10 Borrowing from the public	170,817	197,269	236,284	5,936	40,352	22,824	4,353	15,248	7,884
11 Cash and monetary assets (decrease, or increase (-)) ²	6,631	13,367	-14,324	18,131	-2,721	-14,751	-9,564	16,574	15,621
12 Other ³	7,875	1,630	-1,235	1,188	-10,625	4,004	7,381	-3,456	4,506
MEMO									
13 Treasury operating balance (level, end of period)	30,426	17,060	31,384	13,617 ^r	17,007	30,946 ^r	41,307	24,816	8,969
14 Federal Reserve Banks	8,514	4,174	7,514	2,491	2,529	7,588	15,746	3,482	3,576
15 Tax and loan accounts	21,913	12,886	23,870	11,126	14,478	23,357	25,561	21,334	5,394

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. The Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act has also moved two social security trust funds (Federal old-age survivors insurance and Federal disability insurance trust funds) off-budget.

2. Includes U.S. Treasury operating cash accounts; SDRs; reserve position on the U.S. quota in the IMF; loans to International Monetary Fund; and other cash and monetary assets.

3. Includes accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCES. "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government" and the *Budget of the U.S. Government*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS

Millions of dollars

Source or type	Fiscal year 1985	Fiscal year 1986	Calendar year						
			1985		1986		1987		
			H1	H2	H1	H2	Jan.	Feb.	Mar.
RECEIPTS									
1 All sources	734,057	769,091	380,618	364,790	394,345	387,524	81,771	55,463	56,515
2 Individual income taxes, net.....	334,531	348,959	166,783	169,987	169,444	183,156	46,466	22,805	14,240
3 Withheld.....	298,941	314,838	149,288	155,725	153,919	164,071	26,375	25,486	27,608
4 Presidential Election Campaign Fund.....	35	36	29	6	31	4	0	2	10
5 Nonwithheld.....	101,328	105,994	76,155	22,295	78,981	27,733	20,254	1,320	4,106
6 Refunds.....	65,743	71,873	58,684	8,038	63,488	8,652	163	4,003	17,482
Corporation income taxes									
7 Gross receipts.....	77,413	80,442	42,193	36,528	41,946	42,108	4,332	2,369	15,948
8 Refunds.....	16,082	17,298	8,370	7,751	9,557	8,230	872	1,433	2,834
9 Social insurance taxes and contributions, net.....	265,163	283,901	144,598	128,017	156,714	134,006	25,664	25,590	23,689
10 Employment taxes and contributions ¹	234,646	255,062	126,038	116,276	139,706	122,246	24,266	22,594	23,128
11 Self-employment taxes and contributions ²	10,468	11,840	9,482	985	10,581	1,338	795	809	669
12 Unemployment insurance.....	25,758	24,098	16,213	9,281	14,674	9,328	1,024	2,633	186
13 Other net receipts ³	4,759	4,742	2,350	2,458	2,333	2,429	375	364	375
14 Excise taxes.....	35,992	32,919	17,259	18,470	15,944	15,947	2,840	2,291	2,511
15 Customs deposits.....	12,079	13,323	5,807	6,354	6,369	7,282	1,135	1,052	1,220
16 Estate and gift taxes.....	6,422	6,958	3,204	3,323	3,487	3,649	652	553	570
17 Miscellaneous receipts ⁴	18,539	19,887	9,144	9,861	10,002	9,605	1,554	2,235	1,171
OUTLAYS									
18 All types	946,223	989,789	463,842	487,188	486,037	504,785	83,942	83,828	84,527
19 National defense.....	252,748	273,369	124,186	134,675	135,367	138,544	22,057	23,475	24,742
20 International affairs.....	16,176	14,471	6,675	8,367	5,384	8,876	358	1,319	681
21 General science, space, and technology.....	8,627	9,017	4,230	4,727	12,519	4,594	562	791	703
22 Energy.....	5,685	4,792	680	3,305	2,484	2,735	390	189	441
23 Natural resources and environment.....	13,357	13,508	5,892	7,553	6,245	7,141	1,003	871	1,092
24 Agriculture.....	25,565	31,169	11,705	15,412	14,482	16,160	4,063	2,293	2,453
25 Commerce and housing credit.....	4,229	4,258	-260	644	860	3,647	717	-334	1,677
26 Transportation.....	25,838	28,058	11,440	15,360	12,658	14,745	1,870	1,697	1,982
27 Community and regional development.....	7,680	7,510	3,408	3,901	3,169	3,494	477	380	490
28 Education, training, employment, social services.....	29,342	29,662	14,149	14,481	14,712	15,268	2,358	2,669	2,440
29 Health.....	33,542	35,936	16,945	17,237	17,872	19,814	3,148	3,166	3,263
30 Social security and medicare.....	254,446	190,850	128,351	129,037	135,214	138,296	22,640	23,081	23,407
31 Income security.....	128,200	120,686	65,246	59,457	60,786	59,628	11,301	10,551	10,910
32 Veterans benefits and services.....	26,352	26,614	11,956	14,527	12,193	14,497	2,227	2,053	1,137
33 Administration of justice.....	6,277	6,555	3,016	3,212	3,352	3,360	482	619	570
34 General government.....	5,228	6,796	2,857	3,634	3,566	2,786	166	631	439
35 General-purpose fiscal assistance.....	6,353	6,430	2,659	3,391	2,179	2,767	-21	120	61
36 Net interest ⁵	129,436	135,284	65,143	67,448	68,054	65,816	12,583	12,967	10,971
37 Undistributed offsetting receipts ⁶	-32,759	-33,244	-14,436	-17,953	-17,193	-17,426	-2,440	-2,708	-2,932

1. Old-age, disability, and hospital insurance, and railroad retirement accounts.

2. Old-age, disability, and hospital insurance.

3. Federal employee retirement contributions and civil service retirement and disability fund.

4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.

5. Net interest function includes interest received by trust funds.

6. Consists of rents and royalties on the outer continental shelf and U.S. government contributions for employee retirement.

SOURCE: "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," and the *Budget of the U.S. Government, Fiscal Year 1988*.

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1984	1985				1986			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
1 Federal debt outstanding	1,667.4	1,715.1	1,779.0	1,827.5	1,950.3	1,991.1	2,063.6	2,129.5	2,218.9
2 Public debt securities	1,663.0	1,710.7	1,774.6	1,823.1	1,945.9	1,986.8	2,059.3	2,125.3	2,214.8
3 Held by public	1,373.4	1,415.2	1,460.5	1,506.6	1,597.1	1,634.3	1,684.9	1,742.4	1,811.7
4 Held by agencies	289.6	295.5	314.2	316.5	348.9	352.6	374.4	382.9	403.1
5 Agency securities	4.5	4.4	4.4	4.4	4.4	4.3	4.3	4.2	4.0
6 Held by public	3.4	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.0
7 Held by agencies	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
8 Debt subject to statutory limit	1,663.7	1,711.4	1,775.3	1,823.8	1,932.4	1,973.3	2,060.0	2,111.0	2,200.5
9 Public debt securities	1,662.4	1,710.1	1,774.0	1,822.5	1,931.1	1,972.0	2,058.7	2,109.7	2,199.3
10 Other debt ¹	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
11 MEMO: Statutory debt limit	1,823.8	1,823.8	1,823.8	1,823.8	2,078.7	2,078.7	2,078.7	2,111.0	2,300.0

1. Includes guaranteed debt of government agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCES: Treasury Bulletin and Monthly Statement of the Public Debt of the United States.

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1983	1984	1985	1986	1986			
					Q1	Q2	Q3	Q4
1 Total gross public debt	1,410.7	1,663.0	1,945.9	2,214.8	1,986.8	2,059.3	2,125.3	2,214.8
<i>By type</i>								
2 Interest-bearing debt	1,400.9	1,660.6	1,943.4	2,212.0	1,984.2	2,056.7	2,122.7	2,212.0
3 Marketable	1,050.9	1,247.4	1,437.7	1,619.0	1,472.8	1,498.2	1,564.3	1,619.0
4 Bills	343.8	374.4	399.9	426.7	393.2	396.9	410.7	426.7
5 Notes	573.4	705.1	812.5	927.5	842.5	869.3	896.9	927.5
6 Bonds	133.7	167.9	211.1	249.8	223.0	232.3	241.7	249.8
7 Nonmarketable ¹	350.0	413.2	505.7	593.1	511.4	558.5	558.4	593.1
8 State and local government series	36.0	44.4	87.5	110.5	88.5	98.2	102.4	110.5
9 Foreign issues ²	10.4	9.1	7.5	4.7	6.7	5.3	4.1	4.7
10 Government	10.4	9.1	7.5	4.7	6.7	5.3	4.1	4.7
11 Public .....	.0	.0	.0	.0	.0	.0	.0	.0
12 Savings bonds and notes	70.7	73.1	78.1	90.6	79.8	82.3	85.6	90.6
13 Government account series ³	231.9	286.2	332.2	386.9	336.0	372.3	365.9	386.9
14 Non-interest-bearing debt	9.8	2.3	2.5	2.8	2.6	2.6	2.6	2.8
<i>By holder⁴</i>								
15 U.S. government agencies and trust funds	236.3	289.6	348.9	403.1	352.6	374.4	382.9	403.1
16 Federal Reserve Banks	151.9	160.9	181.3	211.3	184.8	183.8	190.8	211.3
17 Private investors	1,022.6	1,212.5	1,417.2	1,602.0	1,473.1	1,502.7	1,553.3	1,602.0
18 Commercial banks	188.8	183.4	192.2	225.0	195.1	197.2	212.5	225.0
19 Money market funds	22.8	25.9	25.1	28.6	29.9	22.8	24.9	28.6
20 Insurance companies	56.7	76.4	93.2	n.a.	95.8	n.a.	n.a.	n.a.
21 Other companies	39.7	50.1	59.0	68.8	59.6	59.8	67.0	68.8
22 State and local governments	155.1	179.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Individuals								
23 Savings bonds	71.5	74.5	79.8	92.3	81.4	83.8	87.1	92.3
24 Other securities	61.9	69.3	75.0	68.0	76.2	73.9	69.0	68.0
25 Foreign and international ⁵	166.3	192.9	214.6	257.0	225.4	239.8	256.3	257.0
26 Other miscellaneous investors ⁶	259.8	360.6	n.a.	n.a.	n.a.	n.a.	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 Transactions¹

Par value; averages of daily figures, in millions of dollars

Item	1984	1985	1986	1987			1987						
				Jan.	Feb.	Mar.	Feb. 18	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25	
Immediate delivery ²													
1 U.S. government securities.....	52,778	75,331	95,422	112,317	124,519	102,209	124,336	135,383	101,860	97,424	89,063	101,618	
<i>By maturity</i>													
2 Bills.....	26,035	32,900	34,249	45,127	48,972	37,027	55,324	53,627	33,402	36,480	38,810	34,142	
3 Other within 1 year.....	1,305	1,811	2,116	3,013	2,815	2,647	2,635	2,639	2,741	2,918	2,487	2,218	
4 1-5 years.....	11,733	18,361	24,664	24,698	30,231	24,322	30,459	33,226	22,295	21,992	17,972	30,147	
5 5-10 years.....	7,606	12,703	20,435	23,967	24,326	22,444	18,301	25,662	25,950	21,282	17,600	20,567	
6 Over 10 years.....	6,099	9,556	13,959	15,512	18,174	15,769	17,618	20,228	17,473	14,751	12,195	14,544	
<i>By type of customer</i>													
7 U.S. government securities dealers.....	2,919	3,336	3,646	3,437	4,082	3,506	4,495	3,703	3,884	2,942	3,087	3,337	
8 U.S. government securities brokers.....	25,580	36,222	49,355	59,844	67,913	52,671	69,404	72,620	53,440	50,338	45,831	51,619	
9 All others ³	24,278	35,773	42,205	48,338	51,853	45,446	50,437	59,059	44,535	44,143	40,143	46,661	
10 Federal agency securities.....	7,846	11,640	16,726	21,416	22,764	20,984	24,297	29,892	19,251	17,362	25,735	23,023	
11 Certificates of deposit.....	4,947	4,016	4,352	6,105	4,750	3,570	5,160	4,830	3,577	3,858	3,944	3,227	
12 Bankers acceptances.....	3,243	3,242	3,273	3,390	3,272	2,917	3,413	3,721	3,306	3,114	2,855	2,509	
13 Commercial paper.....	10,018	12,717	16,645	19,339	16,513	15,489	17,114	16,691	17,924	16,326	16,279	15,058	
Futures transactions ⁴													
14 Treasury bills.....	6,947	5,561	3,311	2,879	4,898	3,577	3,830	8,005	5,319	4,840	2,437	3,231	
15 Treasury coupons.....	4,503	6,069	7,170	7,029	8,092	6,891	7,175	8,266	8,245	7,368	5,361	4,853	
16 Federal agency securities.....	262	240	12	0	0	9	*	0	*	39	0	0	
Forward transactions ⁵													
17 U.S. government securities.....	1,364	1,283	1,873	2,055	4,074	1,952	2,254	3,405	1,439	1,665	1,274	3,059	
18 Federal agency securities.....	2,843	3,857	7,823	10,696	11,440	10,656	14,374	11,582	8,249	10,330	13,690	11,268	

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers.

Averages for transactions are based on the number of trading days in the period. The figures exclude allotments of, and exchanges for, new U.S. government securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

2. Data for immediate transactions do not include forward transactions.

3. Includes, among others, all other dealers and brokers in commodities and

securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System.

4. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.

5. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for government securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues.

NOTE: Data for the period May 1 to Sept. 30, 1986, are partially estimated.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing¹

Averages of daily figures, in millions of dollars

Item	1984	1985	1986	1987			1987				
				Jan.	Feb.	Mar.	Feb. 25	Mar. 4	Mar. 11	Mar. 18	Mar. 25
Positions											
Net immediate ²											
1 U.S. government securities	5,429	7,391	13,049	13,179 ^r	6,057 ^r	7,883 ^r	8,355 ^r	16,717	9,158	10,060	3,603
2 Bills	5,500	10,075	12,726	13,382 ^r	7,365 ^r	7,087 ^r	8,264 ^r	9,459	8,471	9,711	6,967
3 Other within 1 year	63	1,050	3,698	3,462	3,709	3,511 ^r	3,233 ^r	3,683	4,103	3,377	3,372
4 1-5 years	2,159	5,154	9,297	9,209	7,399	7,476 ^r	6,030 ^r	10,997	7,138	7,545	5,135
5 5-10 years	-1,119	-6,202	-9,504	-7,179 ^r	-5,890	-5,206	-3,532	-2,171	-5,633	-5,567	-6,673
6 Over 10 years	-1,174	-2,686	-3,169	-5,695	-6,526	-4,985	-5,639	-5,252	-4,921	-5,006	-5,199
7 Federal agency securities	15,294	22,860	33,075	31,239 ^r	32,048 ^r	33,323 ^r	32,163 ^r	32,255	32,768	34,729	33,835
8 Certificates of deposit	7,369	9,192	10,533	9,439	9,671 ^r	8,617	9,516	8,610	8,444	8,995	8,848
9 Bankers acceptances	3,874	4,586	5,533	4,756	4,934	5,015	4,862	4,633	5,474	5,610	4,858
10 Commercial paper	3,788	5,570	8,087	9,973	9,215	8,956	8,639	9,626	9,147	9,327	9,052
Futures positions											
11 Treasury bills	-4,525	-7,322	-18,063	-15,245 ^r	-13,476 ^r	-10,806 ^r	-13,855 ^r	-13,814	-10,926	-11,059	-10,744
12 Treasury coupons	1,794	4,465	3,493	5,229	6,669	4,325	6,376	4,280	4,100	4,382	4,436
13 Federal agency securities	233	-722	-153	-92	-94	-98	-95	-95	-97	-99	-97
Forward positions											
14 U.S. government securities	-1,643	-911	-2,303	179 ^r	357	-2,151	-356	-2,959	-2,603	-1,931	-1,781
15 Federal agency securities	-9,205	-9,420	-11,920	-16,646 ^r	-16,383 ^r	-16,696 ^r	-13,612 ^r	-12,991	-15,579	-19,492	-17,980
Financing ³											
Reverse repurchase agreements ⁴											
16 Overnight and continuing	44,078	68,035	98,954	131,592	128,668	127,183	125,240	132,801	130,357	121,665	119,814
17 Term agreements	68,357	80,509	108,693	126,179	132,531	130,489	126,149	126,745	130,403	135,051	130,769
Repurchase agreements ⁵											
18 Overnight and continuing	75,717	101,410	141,735	175,858	174,370	177,021	174,867	183,061	178,807	174,001	172,241
19 Term agreements	57,047	70,076	102,640	115,452	115,522	112,078	109,751	110,638	112,738	114,607	114,914

1. Data for dealer positions and sources of financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers.

Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period. Positions are net amounts and are shown on a commitment basis. Data for financing are in terms of actual amounts borrowed or lent and are based on Wednesday figures.

2. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, including any such securities that have been sold under agreements to repurchase (RPs). The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Immediate positions include

reverses to maturity, which are securities that were sold after having been obtained under reverse repurchase agreements that mature on the same day as the securities. Data for immediate positions do not include forward positions.

3. Figures cover financing involving U.S. government and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper.

4. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements.

5. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

NOTE: Data on positions for the period May 1 to Sept. 30, 1986, are partially estimated.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1983	1984	1985	1986				1987	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 Federal and federally sponsored agencies	240,068	271,220	293,905	302,411	305,199	305,097	307,361	n.a.	↑
2 Federal agencies	33,940	35,145	36,390	36,473	36,716	36,952	36,958	37,041	↑
3 Defense Department ¹	243	142	71	37	36	35	33	32	↑
4 Export-Import Bank ^{2,3}	14,853	15,882	15,678	14,274	14,274	14,274	14,211	14,211	↑
5 Federal Housing Administration ⁴	194	133	115	117	123	124	138	136	n.a.
6 Government National Mortgage Association participation certificates ⁵	2,165	2,165	2,165	2,165	2,165	2,165	2,165	2,165	↓
7 Postal Service ⁶	1,404	1,337	1,940	3,104	3,104	3,104	3,104	3,104	↓
8 Tennessee Valley Authority	14,970	15,435	16,347	16,702	16,940	17,176	17,222	17,308	↓
9 United States Railway Association ⁶	111	51	74	74	74	74	85	85	↓
10 Federally sponsored agencies ⁷	206,128	236,075	257,515	265,938	268,483	268,145	270,403	n.a.	n.a.
11 Federal Home Loan Banks	48,930	65,085	74,447	87,133	87,146	86,891	88,752	90,225	91,313
12 Federal Home Loan Mortgage Corporation	6,793	10,270	11,926	13,548	14,007	13,606	13,589	n.a.	n.a.
13 Federal National Mortgage Association	74,594	83,720	93,896	91,629	93,272	93,477	93,563	92,588	91,522
14 Farm Credit Banks	72,816	71,193	68,851	63,073	63,079	62,693	62,328	59,984	59,367
15 Student Loan Marketing Association ⁸	3,402	5,745	8,395	10,555	10,979	11,478	12,171	11,784	12,481
MEMO									
16 Federal Financing Bank debt⁹	135,791	145,217	153,373	156,873	157,371	157,452	157,510	157,650	↑
<i>Lending to federal and federally sponsored agencies</i>									
17 Export-Import Bank ³	14,789	15,852	15,670	14,268	14,268	14,268	14,205	14,250	↑
18 Postal Service ⁶	1,154	1,087	1,690	2,854	2,854	2,854	2,854	2,854	↑
19 Student Loan Marketing Association	5,000	5,000	5,000	4,970	4,970	4,970	4,970	4,970	n.a.
20 Tennessee Valley Authority	13,245	13,710	14,622	15,077	15,515	15,751	15,797	15,928	↑
21 United States Railway Association ⁶	111	51	74	74	74	74	85	85	↑
<i>Other Lending¹⁰</i>									
22 Farmers Home Administration	55,266	58,971	64,234	65,374	65,374	65,374	65,374	65,374	↓
23 Rural Electrification Administration	19,766	20,693	20,654	21,460	21,506	21,531	21,680	21,719	↓
24 Other	26,460	29,853	31,429	32,796	32,810	32,630	32,545	32,515	↓

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.

2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.

3. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.

4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.

5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.

6. Off-budget.

7. Includes outstanding noncontingent liabilities: Notes, bonds, and debentures. Some data are estimated.

8. Before late 1981, the Association obtained financing through the Federal Financing Bank.

9. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.

10. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency generally being small. The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans.

A34 Domestic Financial Statistics □ June 1987

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1984	1985	1986	1986					1987		
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^r	Mar.
1 All issues, new and refunding¹	106,641	214,189	134,606	25,965	4,532	8,825	10,085	14,082	6,829	8,738	13,984
<i>Type of issue</i>											
2 General obligation	26,485	52,622	44,801	5,931	1,267	2,104	1,427	4,254	960	3,543	3,689
3 Revenue	80,156	161,567	89,806	20,034	3,265	6,721	8,658	9,828	5,869	5,195	10,295
<i>Type of issuer</i>											
4 State	9,129	13,004	14,935	2,121	9	697	111	961	153	1,441	1,217
5 Special district and statutory authority ²	63,550	134,363	79,291	15,714	3,275	5,757	7,761	9,414	5,044	5,634	9,640
6 Municipalities, counties, townships	33,962	66,822	40,374	8,125	1,248	2,371	2,213	3,707	1,632	1,663	3,127
7 Issues for new capital, total	94,050	156,050	79,195	17,810	2,558	3,789	4,085	8,831	2,556	2,699	4,557
<i>Use of proceeds</i>											
8 Education	7,553	16,658	16,948	2,926	558	928	1,486	1,588	823	1,291	1,666
9 Transportation	7,552	12,070	11,666	1,460	827	1,195	976	588	146	604	292
10 Utilities and conservation	17,844	26,852	35,383	6,292	1,365	2,396	3,239	2,330	2,574	2,861	4,568
11 Social welfare	29,928	63,181	17,332	2,554	812	2,098	2,635	3,944	1,670	1,080	2,329
12 Industrial aid	15,415	12,892	5,594	489	138	499	331	2,159	101	165	600
13 Other purposes	15,758	24,398	47,433	12,245	832	1,708	1,418	3,473	1,515	2,738	4,529

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts beginning April 1986.

SOURCES: Securities Data Company beginning April 1986. Public Securities Association for earlier data. This new data source began with the November BULLETIN.

1.46 NEW SECURITY ISSUES Corporations

Millions of dollars

Type of issue or issuer, or use	1984	1985	1986	1986						1987	
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 All issues¹	132,531	155,074^r	294,326^r	21,093	24,245	16,093	28,582	28,835^r	25,181^r	23,041^r	23,687
2 Bonds²	109,903	155,074^r	294,326^r	16,766	18,481	12,830	23,476	22,236^r	18,933^r	20,126^r	20,075
<i>Type of offering</i>											
3 Public	73,579	119,559	232,496 ^r	16,766	18,481	12,830	23,476	22,236 ^r	18,933 ^r	20,126 ^r	20,075
4 Private placement	36,324	46,195	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Industry group</i>											
5 Manufacturing	24,607	52,128 ^r	53,358 ^r	2,535	4,536	2,345	2,055	3,378	3,276	4,165 ^r	3,656
6 Commercial and miscellaneous	13,726	15,140	19,188 ^r	3,409	1,030 ^r	1,387 ^r	1,067	1,213	2,067	1,074	1,714
7 Transportation	4,694	5,743	4,262	497	550	375	170	0	70	0	100
8 Public utility	10,679	12,957	25,585	1,470	2,098	1,915	2,537	2,587	2,498	1,491 ^r	2,715
9 Communication	2,997	10,456	13,430	465	1,615	417	1,255	1,158	776	65	250
10 Real estate and financial	53,199	69,332 ^r	116,675 ^r	8,390	8,652 ^r	6,390 ^r	16,392	13,901 ^r	9,736 ^r	13,331 ^r	11,640
11 Stocks³	22,628	35,515	61,830	4,327	5,764	3,263	5,106	6,599	6,248	2,915	3,612
<i>Type</i>											
12 Preferred	4,118	6,505	11,514	726	1,290	402	817	1,390	1,293	429	904
13 Common	18,510	29,010	50,316	3,601	4,474	2,861	4,289	5,209	4,955	2,486	2,708
<i>Industry group</i>											
14 Manufacturing	4,054	5,700	14,234	746	982	250	570	2,565	1,781	365	796
15 Commercial and miscellaneous	6,277	9,149	9,252	917	803	1,009	1,271	535	709	148	341
16 Transportation	589	1,544	2,392	179	57	28	511	15	183	0	187
17 Public utility	1,624	1,966	3,791	305	208	174	410	218	873	237	508
18 Communication	419	978	1,504	107	379	0	59	104	101	16	9
19 Real estate and financial	9,665	16,178	30,657	2,073	3,335	1,802	2,285	3,162	2,601	2,149	1,771

1. Figures, which represent gross proceeds of issues maturing in more than one year, sold for cash in the United States, are principal amount or number of units multiplied by offering price. Excludes offerings of less than \$100,000, secondary offerings, undefined or exempted issues as defined in the Securities Act of 1933, employee stock plans, investment companies other than closed-end, intracorporate transactions, and sales to foreigners.

2. Monthly data include only public offerings.
 3. Beginning in August 1981, gross stock offerings include new equity volume from swaps of debt for equity.
- SOURCES: IDD Information Services, Inc., 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	1985	1986	1986						1987	
			July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.¹	Feb.
INVESTMENT COMPANIES¹										
1 Sales of own shares²	222,670	411,739 ^²	35,684	32,636	34,690	37,150	33,672	44,796	50,116	36,308
2 Redemptions of own shares³	132,440	239,396	21,508	20,102	21,338	20,782	20,724	34,835	26,565	20,399
3 Net sales	90,230	172,343 ^²	14,176	12,534	13,352	16,368	12,948	9,961	23,551	15,929
4 Assets⁴	251,695	424,156	360,050	387,547	381,872	402,644	416,939	424,156	464,415	490,347
5 Cash position⁵	20,607	30,716	28,080	28,682	29,540	30,826	29,579	30,716	34,098	35,313
6 Other	231,088	393,440	331,970	358,865	352,332	371,818	387,360	393,440	430,317	455,034

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	1984	1985	1986 ^²	1985				1986			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 ^²
1 Corporate profits with inventory valuation and capital consumption adjustment	264.7	280.6	300.7	266.4	274.3	296.3	285.6	296.4	293.1	302.0	311.2
2 Profits before tax	235.7	223.1	237.5	213.8	213.8	229.2	235.8	222.5	227.7	240.4	259.6
3 Profits tax liability	95.4	91.8	103.5	87.8	87.1	95.8	96.4	95.7	99.0	104.4	115.1
4 Profits after tax	140.3	131.4	134.0	126.0	126.7	133.4	139.4	126.9	128.8	135.9	144.5
5 Dividends	78.3	81.6	87.8	80.9	81.4	81.6	82.5	85.2	87.5	88.8	89.7
6 Undistributed profits	62.0	49.8	46.2	45.1	45.3	51.8	57.0	41.7	41.2	47.2	54.8
7 Inventory valuation	-5.5	-6	6.5	-5	1.6	6.1	-9.4	16.5	10.6	6.1	-7.2
8 Capital consumption adjustment	34.5	58.1	56.6	53.2	58.9	61.0	59.2	57.3	54.8	55.5	58.8

SOURCE: Survey of Current Business (Department of Commerce).

1.49 NONFINANCIAL CORPORATIONS Assets and Liabilities

Billions of dollars, except for ratio

Account	1980	1981	1982	1983	1984	1985				1986
						Q1	Q2	Q3	Q4	Q1
1 Current assets	1,328.3	1,419.6	1,437.1	1,575.9	1,703.0	1,722.7	1,734.6	1,763.0	1,784.6	1,795.7
2 Cash.....	127.0	135.6	147.8	171.8	173.6	167.5	167.1	176.3	189.2	195.3
3 U.S. government securities.....	18.7	17.7	23.0	31.0	36.2	35.7	35.4	32.6	33.0	31.0
4 Notes and accounts receivable.....	507.5	532.5	517.4	583.0	633.1	650.3	654.1	661.0	671.5	663.4
5 Inventories.....	543.0	584.0	579.0	603.4	656.9	665.7	666.7	675.0	666.0	679.6
6 Other.....	132.1	149.7	169.8	186.7	203.2	203.5	211.2	218.0	224.9	226.3
7 Current liabilities	890.6	971.3	986.0	1,059.6	1,163.6	1,174.1	1,182.9	1,211.9	1,233.6	1,222.3
8 Notes and accounts payable.....	514.4	547.1	550.7	595.7	647.8	636.9	651.7	670.4	682.7	668.4
9 Other.....	376.2	424.1	435.3	463.9	515.8	537.1	531.2	541.5	550.9	553.9
10 Net working capital	437.8	448.3	451.1	516.3	539.5	548.6	551.7	551.1	551.0	573.4
11 MEMO: Current ratio ¹	1.492	1.462	1.458	1.487	1.464	1.467	1.466	1.455	1.447	1.469

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	1985	1986	1987 ¹	1985		1986				1987	
				Q3	Q4	Q1	Q2	Q3	Q4	Q1 ¹	Q2 ¹
1 Total nonfarm business	387.13	397.27	390.80	389.23	397.88	377.94	375.92	374.55	388.69	384.02	396.22
<i>Manufacturing</i>											
2 Durable goods industries.....	73.27	69.08	70.60	72.99	75.47	68.01	68.33	69.31	70.68	69.06	73.02
3 Nondurable goods industries.....	80.21	73.65	74.27	81.48	82.79	76.02	73.35	69.89	75.33	73.89	74.37
<i>Nonmanufacturing</i>											
4 Mining.....	15.88	11.25	10.10	15.89	15.25	12.99	11.22	10.15	10.63	10.22	10.54
5 Transportation											
6 Railroad.....	7.08	6.63	6.15	7.79	6.74	6.22	6.77	7.31	6.25	5.92	6.46
7 Air.....	4.79	6.26	6.48	5.17	6.07	6.58	5.77	5.69	6.99	6.93	6.05
7 Other.....	6.15	5.86	6.44	5.85	6.34	5.42	5.74	6.03	6.24	6.18	6.59
8 Public utilities											
8 Electric.....	36.11	33.93	32.58	35.58	36.38	34.21	33.81	33.91	33.78	32.33	32.82
9 Gas and other.....	12.71	12.51	13.62	12.86	13.41	12.82	12.74	11.99	12.49	13.13	13.55
10 Commercial and other ²	150.93	160.10	170.55	151.62	155.42	155.67	158.18	160.25	166.31	166.36	172.80

▲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	1982	1983	1984	1985			1986			
				Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASSETS										
Accounts receivable, gross										
1 Consumer	75.3	83.3	89.9	97.9	108.6	113.4	117.2	125.1	137.1	136.6
2 Business	100.4	113.4	137.8	147.3	143.7	158.3	165.9	167.7	161.0	174.2
3 Real estate	18.7	20.5	23.8	25.9	26.3	28.9	29.9	30.8	32.1	33.6
4 Total	194.3	217.3	251.5	271.1	278.6	300.6	312.9	323.6	330.2	344.4
Less:										
5 Reserves for unearned income	29.9	30.3	33.8	35.7	38.0	39.2	40.0	40.7	42.4	41.5
6 Reserves for losses	3.3	3.7	4.2	4.5	4.6	4.9	5.0	5.1	5.4	5.8
7 Accounts receivable, net	161.1	183.2	213.5	230.9	236.0	256.5	268.0	277.8	282.5	297.1
8 All other	30.4	34.4	35.7	39.8	46.3	45.3	48.8	49.5	60.0	58.6
9 Total assets	191.5	217.6	249.2	270.7	282.3	301.9	316.8	327.2	342.5	355.7
LIABILITIES										
10 Bank loans	16.5	18.3	20.0	18.7	18.9	21.1	20.0	22.2	24.7	30.3
11 Commercial paper	51.4	60.5	73.1	82.2	93.2	99.2	104.3	108.4	112.8	117.7
Debt										
12 Other short-term	11.9	11.1	12.9	12.7	12.4	12.5	13.4	15.3	16.0	17.2
13 Long-term	63.7	67.7	77.2	85.0	85.5	92.5	99.9	102.0	105.3	106.3
14 All other liabilities	21.6	31.2	34.5	38.7	38.2	41.0	42.4	41.1	44.2	44.7
15 Capital, surplus, and undivided profits	26.4	28.9	31.5	33.4	34.1	35.7	36.7	38.1	39.4	39.5
16 Total liabilities and capital	191.5	217.6	249.2	270.7	282.3	301.9	316.8	327.2	342.5	355.7

NOTE. Components may not add to totals because of rounding.

1.52 DOMESTIC FINANCE COMPANIES Business Credit

Millions of dollars, seasonally adjusted except as noted

Type	Accounts receivable outstanding Feb. 28, 1987 ¹	Changes in accounts receivable			Extensions			Repayments			
		1986		1987		1986		1987 ¹		1986	
		Dec.	Jan. ¹	Feb.	Dec.	Jan.	Feb.	Dec.	Jan. ¹	Feb.	
		1 Total	175,356	1,558	157	534	30,501	26,089	25,161	28,943	25,932	24,626
Retail financing of installment sales											
2 Automotive (commercial vehicles)	26,828	-570	185	602	861	801	1,036	1,431	616	434	
3 Business, industrial, and farm equipment	22,466	-100	-417	-429	1,407	1,112	1,067	1,506	1,529	1,496	
Wholesale financing											
4 Automotive	23,228	-1,717	-301	-235	9,347	8,527	8,541	11,064	8,828	8,776	
5 Equipment	5,328	170	-46	31	811	597	658	641	643	626	
6 All other	8,424	37	918	-41	2,989	3,219	2,919	2,952	2,301	2,960	
Leasing											
7 Automotive	19,856	1,553	-373	161	1,896	1,263	1,259	343	1,636	1,099	
8 Equipment	39,113	1,634	827	121	1,817	1,009	885	183	182	764	
9 Loans on commercial accounts receivable and factored commercial accounts receivable	16,377	-203	-22	238	8,945	7,841	7,619	9,148	7,862	7,381	
10 All other business credit	13,736	753	-615	86	2,428	1,719	1,177	1,675	2,334	1,092	

These data also appear in the Board's G.20 (422) release. For address, see inside front cover.

1. Not seasonally adjusted.

1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1984	1985	1986	1986				1987		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Terms and yields in primary and secondary markets										
PRIMARY MARKETS										
Conventional mortgages on new homes										
<i>Terms¹</i>										
1 Purchase price (thousands of dollars)	96.8	104.1	118.1	124.0	127.5	124.2	124.8	132.6	135.6 ²	127.1
2 Amount of loan (thousands of dollars)	73.7	77.4	86.2	90.4	93.9	92.5	93.2	97.3	99.1 ²	94.1
3 Loan/price ratio (percent)	78.7	77.1	75.2	75.2	75.6	76.2	76.4	75.5	75.3 ²	74.8
4 Maturity (years)	27.8	26.9	26.6	27.1	27.9	27.3	27.4	27.7	27.6 ²	27.1
5 Fees and charges (percent of loan amount) ²	2.64	2.53	2.48	2.49	2.66	2.64	2.46	2.23	2.21 ²	2.22
6 Contract rate (percent per annum)	11.87	11.12	9.82	9.74	9.57	9.45	9.28	9.14	8.87 ²	8.77
<i>Yield (percent per annum)</i>										
7 FHLBB series ³	12.37	11.58	10.25	10.17	10.02	9.91	9.69	9.51	9.23 ²	9.15
8 HUD series ⁴	13.80	12.28	10.07	9.96	9.89	9.47	9.33	9.09	9.04	9.19
SECONDARY MARKETS										
<i>Yield (percent per annum)</i>										
9 FHA mortgages (HUD series) ⁵	13.81	12.24	9.91	9.90	9.80	9.26	9.21	8.79	8.81	8.94
10 GNMA securities ⁶	13.13	11.61	9.30	9.17	9.06	8.83	8.62	8.46	8.28	8.18
Activity in secondary markets										
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
<i>Mortgage holdings (end of period)</i>										
11 Total	83,339	94,574	98,048	97,717	98,402	98,210	97,895	96,382	95,514	95,140
12 FHA/VA-insured	35,148	34,244	29,683	26,658	25,435	24,300	23,121	22,155	22,042	21,824
13 Conventional	48,191	60,331	68,365	71,059	72,967	73,910	74,774	74,227	73,472	73,316
<i>Mortgage transactions (during period)</i>										
14 Purchases	16,721	21,510	30,826	4,649	3,784	2,549	2,336	1,346	979	1,435
<i>Mortgage commitments⁷</i>										
15 Contracted (during period)	21,007	20,155	32,987	4,248	2,375	1,811	1,272	948	912	2,668
16 Outstanding (end of period)	6,384	3,402	3,386	7,252	5,740	4,625	3,386	2,258	2,175	3,402
FEDERAL HOME LOAN MORTGAGE CORPORATION										
<i>Mortgage holdings (end of period)⁸</i>										
17 Total	9,283	12,399	13,517	13,359	12,905	12,315	11,564	↑	↑	↑
18 FHA/VA	910	841	746	729	722	707	694	↑	↑	↑
19 Conventional	8,373	11,558	12,837	12,630	12,183	11,607	10,870	↑	↑	↑
<i>Mortgage transactions (during period)</i>										
20 Purchases	21,886	44,012	103,474	12,486	11,566	9,862	11,305	n.a.	n.a.	n.a.
21 Sales	18,506	38,905	100,236	13,072	11,417	10,510	11,169	↓	↓	↓
<i>Mortgage commitments⁹</i>										
22 Contracted (during period)	32,603	48,989	110,855	10,658	9,356	11,233	8,742	↓	↓	↓

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.

2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.

3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.

4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.

5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements in average yields may reflect market adjustments to changes in maximum 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 OUTSTANDING¹

Millions of dollars, end of period

Type of holder, and type of property	1984	1985	1986	1985		1986			
				Q4	Q1	Q2	Q3	Q4 ²	
1 All holders	2,033,654^r	2,266,923^r	2,564,825	2,266,923^r	2,315,962^r	2,383,791^r	2,469,680^r	2,564,825	
2 1- to 4-family	1,317,940 ^r	1,466,773 ^r	1,668,022	1,466,773 ^r	1,494,603 ^r	1,543,685 ^r	1,607,860 ^r	1,668,022	
3 Multifamily	185,414	213,816	246,143	213,816	221,587	229,186	237,037 ^r	246,143	
4 Commercial	418,300	480,719	552,999	480,719	495,879	509,337	524,606 ^r	552,999	
5 Farm	112,000	105,615	97,661	105,615	103,893	101,583	100,177 ^r	97,661	
6 Selected financial institutions	1,269,702 ^r	1,390,394 ^r	1,506,196	1,390,394 ^r	1,408,665 ^r	1,435,239 ^r	1,464,097 ^r	1,506,196	
7 Commercial banks ²	379,498	429,196	502,308	429,196	441,096	455,965	474,542	502,308	
8 1- to 4-family	196,163	213,434	238,171	213,434	216,290	221,644	229,340	238,171	
9 Multifamily	20,264	23,373	30,456	23,373	25,389	26,840	28,250	30,456	
10 Commercial	152,894	181,032	220,944	181,032	187,620	195,247	204,480	220,944	
11 Farm	10,177	11,357	12,737	11,357	11,797	12,234	12,472	12,737	
12 Savings banks	154,441	177,263	224,232 ^r	177,263	188,154	203,398	215,036	224,232	
13 1- to 4-family	107,302	121,879	154,801 ^r	121,879	131,381	142,174	149,786	154,801	
14 Multifamily	19,817	23,329	30,161 ^r	23,329	23,980	26,543	28,400	30,161	
15 Commercial	27,291	31,973	39,166 ^r	31,973	32,707	34,577	36,762	39,166	
16 Farm	31	82	104	82	86	104	88	104	
17 Savings and loan associations	555,277	583,236	553,080	583,236	574,732	565,037	557,139	553,080	
18 1- to 4-family	421,489	432,422	403,611	432,422	420,073	415,865	408,152	403,611	
19 Multifamily	55,750	66,410	66,898	66,410	67,140	66,020	65,827	66,898	
20 Commercial	77,605	83,798	82,070	83,798	86,860	84,618	82,644	82,070	
21 Farm	433	606	501	606	659	534	516	501	
22 Life insurance companies	156,699	171,797	192,975	171,797	174,823	180,041	185,269	192,975	
23 1- to 4-family	14,120	12,381	12,763	12,381	12,605	12,608	12,927	12,763	
24 Multifamily	18,938	19,894	20,847	19,894	20,009	20,181	20,847	20,847	
25 Commercial	111,175	127,670	148,367	127,670	130,569	135,924	140,213	148,367	
26 Farm	12,466	11,852	10,998	11,852	11,640	11,328	11,420	10,998	
27 Finance companies ³	23,787 ^r	28,902 ^r	33,601	28,902 ^r	29,860 ^r	30,798 ^r	32,111 ^r	33,601	
28 Federal and related agencies	158,993	166,928	203,800	166,928	165,041	161,398	159,505	203,800	
29 Government National Mortgage Association	2,301	1,473	889	1,473	1,533	876	889	889	
30 1- to 4-family	585	539	47	539	527	49	48	47	
31 Multifamily	1,716	934	842	934	1,006	827	839	842	
32 Farmers Home Administration ⁴	1,276	733	48,421	733	704	570	457	48,421	
33 1- to 4-family	213	183	21,625	183	217	146	132	21,625	
34 Multifamily	119	113	7,608	113	33	66	57	7,608	
35 Commercial	497	159	8,446	159	217	111	115	8,446	
36 Farm	447	278	10,742	278	237	247	153	10,742	
37 Federal Housing and Veterans Administration	4,816	4,920	5,047	4,920	4,964	5,094	4,966	5,047	
38 1- to 4-family	2,048	2,254	2,386	2,254	2,309	2,449	2,331	2,386	
39 Multifamily	2,768	2,666	2,661	2,666	2,655	2,645	2,635	2,661	
40 Federal National Mortgage Association	87,940	98,282	97,895	98,282	98,795	97,295	97,717	97,895	
41 1- to 4-family	82,175	91,966	90,718	91,966	92,315	90,460	90,508	90,718	
42 Multifamily	5,765	6,316	7,177	6,316	6,480	6,835	7,209	7,177	
43 Federal Land Banks	52,261	47,498	39,984	47,498	45,422	43,369	42,119	39,984	
44 1- to 4-family	3,074	2,798	2,353	2,798	2,673	2,552	2,478	2,353	
45 Farm	49,187	44,700	37,631	44,700	42,749	40,817	39,641	37,631	
46 Federal Home Loan Mortgage Corporation	10,399	14,022	11,564	14,022	13,623	14,194	13,359	11,564	
47 1- to 4-family	9,654	11,881	10,010	11,881	12,231	11,890	11,127	10,010	
48 Multifamily	745	2,141	1,554	2,141	1,392	2,304	2,232	1,554	
49 Mortgage pools or trusts ⁵	332,057	415,042	529,763	415,042	440,701	475,615	522,721	529,763	
50 Government National Mortgage Association	179,981	212,145	260,869	212,145	220,348	229,204	241,230	260,869	
51 1- to 4-family	175,589	207,198	255,132	207,198	215,148	223,838	235,664	255,132	
52 Multifamily	4,392	4,947	5,737	4,947	5,200	5,366	5,566	5,737	
53 Federal Home Loan Mortgage Corporation	70,822	100,387	171,372	100,387	110,337	125,903	146,871	171,372	
54 1- to 4-family	70,253	99,515	166,667	99,515	108,020	123,676	143,734	166,667	
55 Multifamily	569	872	4,705	872	2,317	2,227	3,137	4,705	
56 Federal National Mortgage Association	36,215	54,987	97,174	54,987	62,310	72,377	86,359	97,174	
57 1- to 4-family	35,965	54,036	95,791	54,036	61,117	71,153	85,171	95,791	
58 Multifamily	250	951	1,383	951	1,193	1,224	1,188	1,383	
59 Farmers Home Administration ⁴	45,039	47,523	348	47,523	47,706	48,131	48,261	348	
60 1- to 4-family	21,813	22,186	142	22,186	22,082	21,987	21,782	142	
61 Multifamily	5,841	6,675	n.a.	6,675	6,943	7,170	7,353	0	
62 Commercial	7,359	8,190	132	8,190	8,150	8,347	8,409	132	
63 Farm	9,826	10,472	74	10,472	10,531	10,627	10,717	74	
64 Individuals and others ⁶	272,902	294,559	325,066	294,559	301,555	311,539	323,357 ^r	325,066	
65 1- to 4-family	153,710	165,199	180,204	165,199	167,755	174,396	182,569 ^r	180,204	
66 Multifamily	48,480	55,195	66,114	55,195	57,850	60,938	63,635 ^r	66,114	
67 Commercial	41,279	47,897	53,874	47,897	49,756	50,513	51,983 ^r	53,874	
68 Farm	29,433	26,268	24,874	26,268	26,194	25,692	25,170 ^r	24,874	

1. Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.

2. Includes loans held by nondeposit trust companies but not bank trust departments.

3. Assumed to be entirely 1- to 4-family loans.

4. FmHA-guaranteed securities sold to the Federal Financing Bank were

reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986: 4, because of accounting changes by the Farmers Home Administration.

5. Outstanding principal balances of mortgage pools backing securities insured or guaranteed by the agency indicated.

6. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and other U.S. agencies.

A40 Domestic Financial Statistics □ June 1987

1.55 CONSUMER INSTALLMENT CREDIT^{1,4} Total Outstanding, and Net Change, seasonally adjusted

Millions of dollars

Holder, and type of credit	1985	1986	1986						1987		
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. ⁷	Feb.
Amounts outstanding (end of period)											
1 Total	522,805	577,784	551,770	558,059	563,660	571,280	576,874	577,656	577,784	578,578	580,351
<i>By major holder</i>											
2 Commercial banks	242,084	261,604	253,378	255,744	257,482	258,990	260,940	262,949	261,604	261,694	262,600
3 Finance companies ²	113,070	136,494	125,146	127,380	129,265	135,516	138,038	136,314	136,494	135,802	136,009
4 Credit unions	72,119	77,857	74,243	74,865	75,637	76,299	76,995	77,508	77,857	78,284	78,728
5 Retailers ³	38,864	40,586	39,983	40,158	40,379	40,455	40,565	40,496	40,586	40,617	40,644
6 Savings institutions	52,433	58,037	55,569	56,500	57,524	56,687	57,046	57,168	58,037	58,906	59,060
7 Gasoline companies	4,235	3,205	3,452	3,411	3,372	3,333	3,289	3,221	3,205	3,276	3,311
<i>By major type of credit</i>											
8 Automobile	208,057	245,055	224,407	227,822	231,200	239,014	243,400	243,005	245,055	245,472	246,188
9 Commercial banks	93,003	100,709	95,265	95,972	96,871	98,057	99,385	100,221	100,709	101,389	101,688
10 Credit unions	35,635	39,029	37,217	37,529	37,916	38,248	38,597	38,854	39,029	39,243	39,465
11 Finance companies	70,091	93,274	80,945	83,066	84,868	91,241	93,786	92,188	93,274	92,617	92,780
12 Savings institutions	9,328	12,043	10,980	11,255	11,545	11,632	11,742	11,742	12,043	12,223	12,255
13 Revolving	122,021	134,938	130,737	132,181	133,180	133,123	133,816	134,391	134,938	134,916	135,957
14 Commercial banks	75,866	85,652	82,911	83,987	84,545	84,430	84,868	85,426	85,652	85,395	86,338
15 Retailers	34,695	36,240	35,678	35,827	36,028	36,086	36,190	36,137	36,240	36,277	36,308
16 Gasoline companies	4,235	3,205	3,452	3,411	3,372	3,333	3,289	3,221	3,205	3,276	3,311
17 Savings institutions	5,705	7,713	6,899	7,105	7,325	7,308	7,445	7,529	7,713	7,829	7,849
18 Credit unions	1,520	2,128	1,797	1,851	1,910	1,966	2,024	2,078	2,128	2,139	2,152
19 Mobile home	25,488	25,710	25,806	25,891	25,939	25,732	25,784	25,731	25,710	25,852	25,793
20 Commercial banks	9,538	8,812	9,188	9,126	9,055	9,016	9,025	8,951	8,812	8,877	8,739
21 Finance companies	9,391	9,028	9,450	9,414	9,337	9,216	9,149	9,091	9,028	9,077	9,045
22 Savings institutions	6,559	7,870	7,168	7,351	7,547	7,500	7,610	7,689	7,870	7,988	8,008
23 Other	167,239	172,081	170,820	172,165	173,341	173,411	173,874	174,529	172,081	172,338	172,412
24 Commercial banks	63,677	66,431	66,014	66,659	67,011	67,487	67,662	68,351	66,431	66,122	65,835
25 Finance companies	33,588	34,192	34,751	34,900	35,061	35,059	35,104	35,035	34,192	34,108	34,183
26 Credit unions	34,964	36,700	35,229	35,485	35,811	36,085	36,374	36,576	36,700	36,901	37,111
27 Retailers	4,169	4,346	4,305	4,331	4,351	4,369	4,375	4,359	4,346	4,340	4,336
28 Savings institutions	30,841	30,412	30,521	30,790	31,107	30,411	30,359	30,208	30,412	30,867	30,947
Net change (during period)											
29 Total	76,622	54,979	5,008	6,289	5,601	7,620	5,594	782	128	794	1,773
<i>By major holder</i>											
30 Commercial banks	32,926	19,520	995	2,366	1,738	1,508	1,950	2,009	-1,345	90	906
31 Finance companies ²	23,566	23,424	2,674	2,234	1,885	6,251	2,522	-1,724	180	-692	207
32 Credit unions	6,493	5,738	510	622	772	662	696	513	349	427	444
33 Retailers ³	1,660	1,722	83	175	221	76	110	-69	90	31	27
34 Savings institutions	12,103	5,604	873	931	1,024	-837	359	122	869	869	154
35 Gasoline companies	-126	-1,030	-127	-41	-39	-39	-44	-68	-16	71	35
<i>By major type of credit</i>											
36 Automobile	35,705	36,998	3,395	3,415	3,378	7,814	4,386	-395	2,050	417	716
37 Commercial banks	9,103	7,706	316	707	899	1,186	1,328	836	488	680	299
38 Credit unions	5,330	3,394	255	312	387	332	349	257	175	214	222
39 Finance companies	17,840	23,183	2,373	2,121	1,802	6,373	2,545	-1,598	1,086	-657	163
40 Savings institutions	3,432	2,715	451	275	290	-77	164	110	301	180	32
41 Revolving	22,401	12,917	1,114	1,444	999	-57	693	575	547	-22	1,041
42 Commercial banks	17,721	9,786	882	1,076	558	-115	438	558	226	-257	943
43 Retailers	1,488	1,545	72	149	201	58	104	-53	103	37	31
44 Gasoline companies	-126	-1,030	-127	-41	-39	-39	-44	-68	-16	71	35
45 Savings institutions	2,771	2,008	236	206	220	-17	137	84	184	116	20
46 Credit unions	547	608	51	54	59	56	58	54	50	11	13
47 Mobile home	778	222	133	85	48	-207	52	-53	-21	142	-59
48 Commercial banks	-85	-726	-43	-62	-71	-39	9	-74	-139	-25	-48
49 Finance companies	-405	-363	25	-36	-77	-121	-67	-58	-63	49	-32
50 Savings institutions	1,268	1,311	151	183	196	-47	110	79	181	118	20
51 Other	17,738	4,842	366	1,345	1,176	70	463	655	-2,448	257	74
52 Commercial banks	6,187	2,754	-160	645	352	476	175	689	-1,920	-309	-287
53 Finance companies	6,131	604	149	149	161	-2	45	-69	-843	-84	75
54 Credit unions	616	1,736	204	256	326	274	289	202	124	201	210
55 Retailers	172	177	11	26	20	18	6	-16	-13	-6	-4
56 Savings institutions	4,632	-429	35	269	317	-696	-52	-151	204	455	80

1. The Board's series cover most short- and intermediate-term credit extended to individuals that is scheduled to be repaid (or has the option of repayment) in two or more installments.

2. More detail for finance companies is available in the G.20 statistical release.
 3. Excludes 30-day charge credit held by travel and entertainment companies.
 4. All data have been revised.

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT

Percent unless noted otherwise

Item	1984	1985	1986	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
INTEREST RATES										
Commercial banks ¹										
1 48-month new car ²	13.71	12.91	11.33	11.00	n.a.	n.a.	10.58	n.a.	n.a.	10.35
2 24-month personal	16.47	15.94	14.82	14.70	n.a.	n.a.	14.19	n.a.	n.a.	14.10
3 120-month mobile home ²	15.58	14.96	13.99	13.95	n.a.	n.a.	13.49	n.a.	n.a.	13.42
4 Credit card	18.77	18.69	18.26	18.15	n.a.	n.a.	18.09	n.a.	n.a.	18.10
Auto finance companies										
5 New car	14.62	11.98	9.44	9.29	5.40	6.12	11.83	11.71	11.65	10.78
6 Used car	17.85	17.59	15.95	15.56	15.23	15.17	15.20	15.12	14.62	14.56
OTHER TERMS³										
Maturity (months)										
7 New car	48.3	51.5	50.0	50.4	44.5	45.3	53.4	53.3	53.8	53.6
8 Used car	39.7	41.4	42.6	42.9	42.5	42.2	42.6	42.7	44.8	44.7
Loan-to-value ratio										
9 New car	88	91	91	90	92	92	93	93	94	94
10 Used car	92	94	97	97	98	97	97	98	98	99
Amount financed (dollars)										
11 New car	9,333	9,915	10,665	10,756	11,162	11,340	11,160	10,835	10,902	10,602
12 Used car	5,691	6,089	6,555	6,569	6,763	6,746	6,946	7,168	7,067	7,075

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	1981	1982	1983	1984	1985	1986	1984		1985		1986	
							H1	H2	H1	H2	H1	H2
Nonfinancial sectors												
1 Total net borrowing by domestic nonfinancial sectors	375.8	387.4	548.8	756.3	869.3	827.7	727.8	784.8	732.6	1,006.1	705.2	950.7
<i>By sector and instrument</i>												
2 U.S. government	87.4	161.3	186.6	198.8	223.6	214.3	181.3	216.3	201.8	245.5	211.3	217.5
3 Treasury securities	87.8	162.1	186.7	199.0	223.7	214.7	181.5	216.4	201.9	245.5	211.4	218.0
4 Agency issues and mortgages	-5	-9	-1	-2	-1	-3	-2	-1	-1	-1	-1	-5
5 Private domestic nonfinancial sectors	288.5	226.2	362.2	557.5	645.7	613.3	546.5	568.5	530.8	760.6	494.0	733.2
6 Debt capital instruments	155.5	148.3	252.8	314.0	461.7	447.0	298.4	329.6	355.4	568.0	384.3	509.7
7 Tax-exempt obligations	23.4	44.2	53.7	50.4	152.4	48.5	42.8	58.0	67.5	237.3	15.9	81.1
8 Corporate bonds	22.8	18.7	16.0	46.1	73.9	109.2	31.2	61.1	72.7	75.1	129.2	89.1
9 Mortgages	109.3	85.4	183.0	217.5	235.4	289.4	224.5	210.5	215.2	255.7	239.2	339.5
10 Home mortgages	72.2	50.5	117.1	129.9	150.3	200.6	135.2	124.7	133.1	167.5	156.4	244.7
11 Multifamily residential	4.8	5.4	14.1	25.1	29.2	30.4	27.5	22.7	24.6	33.7	30.9	29.9
12 Commercial	22.2	25.2	49.0	63.3	62.4	64.4	62.9	63.7	60.3	64.4	59.3	69.5
13 Farm	10.0	4.2	2.8	-8	-6.4	-6.0	-1.1	-5	-2.8	-10.0	-7.4	-4.6
14 Other debt instruments	133.0	77.9	109.5	243.5	184.0	166.3	248.1	238.9	175.4	192.6	109.6	223.5
15 Consumer credit	22.6	17.7	56.8	95.0	96.6	67.9	98.7	91.3	97.3	95.9	75.3	61.2
16 Bank loans n.e.c.	57.0	52.9	25.8	80.1	41.3	80.2	91.9	68.4	24.9	57.7	22.0	138.4
17 Open market paper	14.7	-6.1	-8	21.7	14.6	-9.3	24.8	18.7	12.3	16.9	-15.7	-2.9
18 Other	38.7	13.4	27.7	46.6	31.4	27.4	32.7	60.5	40.9	22.0	28.1	26.8
19 By borrowing sector	288.5	226.2	362.2	557.5	645.7	613.3	546.5	568.5	530.8	760.6	494.0	733.2
20 State and local governments	6.8	21.5	34.0	27.4	107.8	60.0	25.2	29.6	56.8	158.7	35.7	84.2
21 Households	121.4	88.4	188.0	239.5	295.0	291.2	232.8	246.2	253.6	336.4	231.8	351.1
22 Farm	16.6	6.8	4.3	.1	-13.6	-11.7	-4	5	-5.9	-21.3	-15.2	-8.3
23 Nonfarm noncorporate	38.5	40.2	76.6	97.1	92.8	100.7	101.4	92.7	85.6	99.9	95.7	105.7
24 Corporate	105.2	69.2	59.3	193.4	163.7	173.2	187.4	199.5	140.7	186.8	145.9	200.5
25 Foreign net borrowing in United States	23.5	16.0	17.4	6.1	1.7	14.4	35.5	-23.3	-4.1	7.5	24.3	4.4
26 Bonds	5.4	6.7	3.1	1.3	4.0	5.2	1.1	1.5	5.5	2.6	7.1	3.3
27 Bank loans n.e.c.	3.0	-5.5	3.6	-6.6	-2.8	-2.1	-2.2	-11.1	-6.1	4	1.4	-5.6
28 Open market paper	3.9	1.9	6.5	6.2	11.5	6.2	18.0	-5.6	4.2	8.2	20.6	2.4
29 U.S. government loans	11.1	13.0	4.1	5.3	-5.7	-2	18.7	-8.1	-7.8	-3.6	-4.8	4.4
30 Total domestic plus foreign	399.3	403.4	566.2	762.4	871.0	842.0	763.3	761.5	728.4	1,013.5	729.5	955.1
Financial sectors												
31 Total net borrowing by financial sectors	101.9	90.1	94.0	139.0	186.9	242.0	134.2	143.8	154.8	218.9	189.0	295.0
<i>By instrument</i>												
32 U.S. government related	47.4	64.9	67.8	74.9	101.5	171.1	69.8	80.0	92.9	110.2	129.5	212.7
33 Sponsored credit agency securities	30.5	14.9	1.4	30.4	20.6	12.4	29.1	31.8	25.3	15.9	4.4	20.5
34 Mortgage pool securities	15.0	49.5	66.4	44.4	79.9	159.0	40.7	48.2	67.6	92.1	124.3	193.7
35 Loans from U.S. government	1.9	.4	. . . . .	. . . . .	1.1	-4	. . . . .	. . . . .	. . . . .	2.2	.8	-1.5
36 Private financial sectors	54.5	25.2	26.2	64.1	85.3	71.0	64.4	63.8	61.9	108.8	59.6	82.4
37 Corporate bonds	4.4	12.5	12.1	23.3	36.5	22.3	17.3	29.3	35.3	37.7	28.7	15.9
38 Mortgages . . . . .	* . . . .	.1	* . . . .	.4	.1	.1	.4	.4	* . . . .	.1	.6	-5
39 Bank loans n.e.c.	1.2	1.9	-1	.7	2.6	3.6	-1	1.4	.9	4.2	2.4	4.7
40 Open market paper	32.7	9.9	21.3	24.1	32.0	25.2	31.1	17.0	13.9	50.1	14.4	36.1
41 Loans from Federal Home Loan Banks	16.2	.8	-7.0	15.7	14.2	19.8	15.7	15.7	11.7	16.7	13.5	26.2
<i>By sector</i>												
42 Sponsored credit agencies	32.4	15.3	1.4	30.4	21.7	12.1	29.1	31.8	25.3	18.1	5.2	18.9
43 Mortgage pools	15.0	49.5	66.4	44.4	79.9	159.0	40.7	48.2	67.6	92.1	124.3	193.7
44 Private financial sectors	54.5	25.2	26.2	64.1	85.3	71.0	64.4	63.8	61.9	108.8	59.6	82.4
45 Commercial banks	11.6	11.7	5.0	7.3	-4.9	-2.2	15.4	-9	-9.2	-6	-6.7	2.3
46 Bank affiliates	9.2	6.8	12.1	15.6	14.5	4.5	23.7	7.5	13.7	15.3	1.7	7.2
47 Savings and loan associations	15.5	2.5	-2.1	22.7	22.3	31.3	20.2	25.1	12.1	32.6	23.1	39.5
48 Finance companies	18.5	4.3	11.4	17.8	52.8	36.9	4.3	31.3	44.8	60.9	40.6	33.2
49 REITs	-2	*	-2	.8	.5	.5	.8	.8	.5	.5	.9	.1
All sectors												
50 Total net borrowing	501.3	493.5	660.2	901.4	1057.8	1084.1	897.5	905.3	833.3	1,232.4	918.6	1250.1
51 U.S. government securities	133.0	225.9	254.4	273.8	324.2	385.8	251.2	296.4	294.8	353.5	340.0	431.7
52 State and local obligations	23.4	44.2	53.7	50.4	152.4	48.5	42.8	58.0	67.5	237.3	15.9	81.1
53 Corporate and foreign bonds	32.6	37.8	31.2	70.7	114.4	136.6	49.6	91.9	113.5	115.3	165.0	108.3
54 Mortgages	109.2	85.4	183.0	217.8	235.4	289.4	224.8	210.8	215.2	255.7	239.7	339.0
55 Consumer credit	22.6	17.7	56.8	95.0	96.6	67.9	98.7	91.3	97.3	95.9	75.3	61.2
56 Bank loans n.e.c.	61.2	49.3	29.3	74.2	41.0	81.7	89.6	58.8	19.8	62.3	25.9	137.5
57 Open market paper	51.3	5.7	26.9	52.0	52.8	27.4	73.8	30.1	30.4	75.2	19.3	35.5
58 Other loans	68.0	27.6	24.8	67.6	41.0	46.7	67.1	68.1	44.8	37.3	37.5	55.8
External corporate equity funds raised in United States												
59 Total new share issues	-3.3	33.6	67.0	-31.1	37.5	115.3	-40.1	-22.2	33.3	41.6	149.6	81.1
60 Mutual funds	6.0	16.8	32.1	38.0	103.4	187.6	39.3	36.6	93.6	113.1	201.5	173.6
61 All other	-9.3	16.8	34.9	-69.1	-65.9	-72.3	-79.4	-58.8	-60.4	-71.5	-52.0	-92.6
62 Nonfinancial corporations	-11.5	11.4	28.3	-77.0	-81.6	-80.8	-84.5	-69.4	-75.7	-87.5	-68.7	-92.7
63 Financial corporations	1.9	4.0	2.7	6.7	11.7	6.7	5.9	7.6	11.0	12.4	8.3	5.1
64 Foreign shares purchased in United States . . . . .	.3	1.5	3.9	1.2	4.0	1.8	-7	3.0	4.3	3.6	8.5	-4.9

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	1981	1982	1983	1984	1985	1986	1984		1985		1986	
							H1	H2	H1	H2	H1	H2
1 Total funds advanced in credit markets to domestic nonfinancial sectors	375.8	387.4	548.8	756.3	869.3	827.7	727.8	784.8	732.6	1,006.1	705.2	950.7
<i>By public agencies and foreign</i>												
2 Total net advances	104.4	115.4	115.3	154.6	203.3	313.0	132.5	176.6	201.8	204.9	261.3	364.6
3 U.S. government securities	17.1	22.7	27.6	36.0	47.2	85.5	26.8	45.2	53.1	41.3	77.4	93.5
4 Residential mortgages	23.5	61.0	76.1	56.5	94.6	156.5	52.7	60.2	85.6	103.7	121.0	191.9
5 FHLB advances to savings and loans	16.2	.8	-7.0	15.7	14.2	19.8	15.7	15.7	11.7	16.7	13.5	26.2
6 Other loans and securities	47.7	30.8	18.6	46.5	47.3	51.2	37.5	55.5	51.4	43.2	49.4	53.0
Total advanced, by sector												
7 U.S. government	24.0	15.9	9.7	17.4	17.8	14.2	9.0	25.7	28.8	6.7	14.6	13.8
8 Sponsored credit agencies	48.2	65.5	69.8	73.3	101.5	170.6	74.0	72.5	98.2	104.9	127.3	214.0
9 Monetary authorities	9.2	9.8	10.9	8.4	21.6	30.2	8.8	8.0	23.7	19.5	9.8	50.6
10 Foreign	23.0	24.1	24.9	55.5	62.4	98.0	40.7	70.4	51.0	73.8	109.7	86.2
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	47.4	64.9	67.8	74.9	101.5	171.1	69.8	80.0	92.9	110.2	129.5	212.7
12 Foreign	23.5	16.0	17.4	6.1	1.7	14.4	35.5	-23.3	-4.1	7.5	24.3	4.4
<i>Private domestic funds advanced</i>												
13 Total net advances	342.3	352.9	518.7	682.7	769.2	700.1	700.5	664.9	619.6	918.8	597.7	803.2
14 U.S. government securities	115.9	203.1	226.9	237.8	277.0	300.3	224.4	251.2	241.7	312.2	262.5	338.2
15 State and local obligations	23.4	44.2	53.7	50.4	152.4	48.5	42.8	58.0	67.5	237.3	15.9	81.1
16 Corporate and foreign bonds	19.8	14.8	14.6	32.6	41.2	75.3	25.6	39.6	49.7	32.7	96.4	54.3
17 Residential mortgages	53.5	-5.3	55.0	98.5	84.8	74.5	109.9	87.0	72.0	97.5	66.2	82.7
18 Other mortgages and loans	145.9	96.9	161.5	279.1	228.1	221.3	313.6	244.7	200.4	255.9	170.1	273.0
19 LESS: Federal Home Loan Bank advances	16.2	.8	-7.0	15.7	14.2	19.8	15.7	15.7	11.7	16.7	13.5	26.2
<i>Private financial intermediation</i>												
20 Credit market funds advanced by private financial institutions												
21 Commercial banking	320.2	261.9	391.9	550.5	554.4	659.2	581.8	519.1	471.3	637.4	572.5	746.6
22 Savings institutions	106.5	110.2	144.3	168.9	186.3	203.2	184.2	153.5	133.8	238.8	106.9	299.8
23 Insurance and pension funds	26.2	21.8	135.6	149.2	83.4	109.6	173.5	124.9	63.0	103.9	101.4	117.8
24 Other finance	93.5	86.2	97.8	124.0	141.0	137.3	144.5	103.5	121.8	160.1	124.6	150.1
25 Sources of funds	94.0	43.7	14.1	108.3	143.6	209.1	79.5	137.2	152.7	134.5	239.6	178.8
26 Private domestic deposits and RPs	320.2	261.9	391.9	550.5	554.4	659.2	581.8	519.1	471.3	637.4	572.5	746.6
27 Credit market borrowing	214.5	195.2	212.2	317.6	204.8	253.3	300.2	334.9	203.0	206.6	224.5	282.3
28 Other sources	54.5	25.2	26.2	64.1	85.3	71.0	64.4	63.8	61.9	108.8	59.6	82.4
29 Foreign funds	51.2	41.5	153.4	168.8	264.2	334.9	217.2	120.4	206.5	322.0	288.4	381.9
30 Treasury balances	-23.7	-31.4	16.3	5.4	17.7	14.7	3.0	7.8	11.2	24.3	.9	28.6
31 Insurance and pension reserves	-1.1	6.1	-5.3	4.0	10.3	1.9	-1	8.2	14.4	6.1	-5.5	9.4
32 Other, net	89.6	92.5	110.6	112.5	107.0	120.2	146.5	78.5	97.4	116.6	104.5	135.9
32 Other, net	-13.6	-25.7	31.8	46.8	129.2	198.1	67.8	25.9	83.5	175.0	188.5	208.1
<i>Private domestic nonfinancial investors</i>												
33 Direct lending in credit markets												
34 U.S. government securities	76.6	116.3	153.0	196.4	300.2	111.9	183.1	209.6	210.2	390.2	84.8	139.0
35 State and local obligations	37.1	69.9	95.5	132.9	150.9	65.7	142.2	123.6	130.8	171.0	53.4	78.2
36 Corporate and foreign bonds	11.1	25.0	39.0	29.6	59.2	6.4	25.0	34.3	20.5	98.0	-24.5	37.3
37 Open market paper	-4.0	2.0	-12.7	-3.4	13.2	11.5	-26.8	19.9	25.4	1.0	44.6	-21.6
38 Other	1.4	-1.3	15.1	8.9	51.8	7.0	15.7	2.2	7.3	96.3	-13.0	27.1
38 Other	31.0	20.6	16.2	28.3	25.1	21.3	26.9	29.7	26.3	24.0	24.3	18.0
39 Deposits and currency												
40 Currency	222.4	204.5	229.7	321.1	215.1	274.9	311.3	330.9	215.9	214.3	241.6	308.3
41 Checkable deposits	9.5	9.7	14.3	8.6	12.4	14.4	13.1	4.1	15.8	9.0	10.9	18.0
42 Small time and savings accounts	18.5	18.6	28.8	27.8	42.0	99.2	29.4	26.3	18.2	65.8	83.9	114.6
43 Money market fund shares	47.3	135.7	215.3	150.7	137.5	117.9	136.4	164.9	167.1	108.0	117.5	118.3
44 Large time deposits	107.5	24.7	-44.1	47.2	-2.2	20.8	30.2	64.2	4.2	-8.6	29.0	12.7
45 Security RPs	36.0	5.2	-6.3	84.9	14.0	1.6	93.4	76.5	-8	28.9	2.0	1.3
46 Deposits in foreign countries	5.2	11.1	18.5	7.0	13.4	13.7	10.8	3.1	14.3	12.5	-7.9	35.3
46 Deposits in foreign countries	-1.7	-4	3.1	-5.1	-2.1	7.1	-2.0	-8.2	-2.9	-1.3	6.2	8.1
47 Total of credit market instruments, deposits and currency	299.0	320.7	382.7	517.4	515.3	386.7	494.4	540.5	426.0	604.5	326.4	447.3
48 Public holdings as percent of total	26.2	28.6	20.4	20.3	23.3	37.2	17.4	23.2	27.7	20.2	35.8	38.2
49 Private financial intermediation (in percent)	93.6	74.2	75.5	80.6	72.1	94.2	83.1	78.1	76.1	69.4	95.8	93.0
50 Total foreign funds	-7	-7.3	41.3	60.9	80.1	112.7	43.7	78.2	62.2	98.1	110.5	114.8
MEMO: Corporate equities not included above												
51 Total net issues	-3.3	33.6	67.0	-31.1	37.5	115.3	-40.1	-22.2	33.3	41.6	149.6	81.1
52 Mutual fund shares	6.0	16.8	32.1	38.0	103.4	187.6	39.3	36.6	93.6	113.1	201.5	173.6
53 Other equities	-9.3	16.8	34.9	-69.1	-65.9	-72.3	-79.4	-58.8	-60.4	-71.5	-52.0	-92.6
54 Acquisitions by financial institutions	19.9	27.6	46.8	8.2	33.3	27.8	-4.1	20.6	54.0	12.6	35.4	20.3
55 Other net purchases	-23.2	6.0	20.2	-39.4	4.1	87.5	-36.0	-42.7	-20.7	29.0	114.2	60.7

NOTES BY LINE NUMBER.

- Line 1 of table 1.57.
- Sum of lines 3-6 or 7-10.
- Includes farm and commercial mortgages.
- Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
- 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.
- Includes farm and commercial mortgages.
- Line 39 less lines 40 and 46.
- Excludes equity issues and investment company shares. Includes line 19.
- Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
- Demand deposits and note balances at commercial banks.

31. Excludes net investment of these reserves in corporate equities.

32. Mainly retained earnings and net miscellaneous liabilities.

33. Line 13 less line 20 plus line 27.

34-38. Lines 14-18 less amounts acquired by private finance plus amounts borrowed by private finance. Line 38 includes mortgages.

40. Mainly an offset to line 9.

47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.

48. Line 2/line 1.

49. Line 20/line 13.

50. Sum of lines 10 and 29.

51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures¹

1977 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1984	1985	1986	1986						1987		
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. ^r	Feb. ^r	Mar.
1 Industrial production	121.4	123.8	125.0	124.9	125.1	124.9	125.3	126.0	126.7^r	126.5	127.1	126.7
<i>Market groupings</i>												
2 Products, total	126.7	130.8	133.2	133.2	133.8	133.3	134.0	134.5	135.0	134.4	135.7	135.2
3 Final, total	127.3	131.1	132.3	132.0	132.6	132.2	132.7	133.1	133.7	133.1	134.5	134.0
4 Consumer goods	118.0	120.2	124.4	125.2	125.1	124.2	124.7	125.6	127.2	126.2	127.2	126.5
5 Equipment	139.6	145.4	142.7	141.0	142.5	142.8	143.3	143.1	142.2	142.3	144.2	144.0
6 Intermediate	124.7	130.0	136.4	137.3	137.8	137.0	138.7	139.2	139.7 ^r	138.6	139.7	139.3
7 Materials	114.2	114.2	113.9	113.6	113.2	113.5	113.3	114.3	115.2 ^r	115.7	115.5	115.1
<i>Industry groupings</i>												
8 Manufacturing	123.4	126.4	129.1	129.2	129.5	129.5	129.9	130.3	131.1 ^r	130.8	131.7	131.4
Capacity utilization (percent) ²												
9 Manufacturing	80.5	80.1	79.8	79.7	79.7	79.6	79.6	79.8	80.0	79.9	80.1	79.8
10 Industrial materials industries	82.0	80.2	78.5	78.3	77.9	78.1	77.8	78.4	78.9	78.9	78.9	78.6
11 Construction contracts (1982 = 100) ³	135.0	148.0	155.0	157.0	155.0	155.0	151.0	156.0	155.0	150.0	145.0	160.0
12 Nonagricultural employment, total ⁴	114.6 ^r	118.4	121.5	121.4	121.6	121.9	122.3	122.6	122.9	123.2	123.5	123.7
13 Goods-producing, total	101.6	102.4	102.4 ^r	102.2	102.2	102.1	102.1	102.3	102.4	102.7	102.9	102.6
14 Manufacturing, total	98.4 ^r	98.1	97.5	97.1	97.1	97.0	97.1	97.3	97.5	97.4	97.6	97.5
15 Manufacturing, production-worker	94.1	92.9	92.1	91.7	91.7	91.7	91.8	92.1	92.3	92.2	92.5	92.4
16 Service-producing	120.0	125.0	129.4	129.4	129.7	130.2	130.7	131.1	131.4	131.8	132.3	132.6
17 Personal income, total	193.5	206.2	216.8 ^r	217.2	217.6	218.2	218.8	219.2	220.4	221.1	223.9	224.2
18 Wages and salary disbursements	184.8	197.8	208.6	208.5	209.6	210.1	211.5	212.5	212.8	214.2	215.8	216.6
19 Manufacturing	164.6	172.5	176.7	175.5	176.6	176.5	179.0	177.8	178.1	178.7	179.6	179.2
20 Disposable personal income ⁵	193.6	205.0	215.5	215.8	215.9	216.4	216.7	216.8	217.5	219.2	223.0	223.8
21 Retail sales ⁶	179.0	190.6	199.9	198.9	201.7	213.0	201.9	200.9	211.8 ^r	196.8	206.5	206.9
<i>Prices⁷</i>												
22 Consumer (1967=100)	311.1	322.2	328.4	328.0	328.6	330.2	330.5	330.8	331.1	333.1	334.4	335.9
23 Producer finished goods (1967=100)	291.1	293.7	289.6	287.6	288.1	287.3	290.5	290.7	289.9	291.7	292.3	292.3

1. A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71 (July 1985), pp. 487-501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

2. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, Department of Commerce, and other sources.

3. Index of dollar value of total construction contracts, including residential, nonresidential and heavy engineering, from McGraw-Hill Information Systems Company, F. W. Dodge Division.

4. Based on data in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.

5. Based on data in *Survey of Current Business* (U.S. Department of Commerce).

6. Based on Bureau of Census data published in *Survey of Current Business*.

7. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5, and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the last two months are preliminary and estimated, respectively.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted.

Category	1984 ^a	1985	1986	1986					1987		
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^b	Mar.
HOUSEHOLD SURVEY DATA											
1 Noninstitutional population ¹	178,602	180,440	182,822	183,074	183,261	183,450	183,628	183,815	184,092	184,259	184,436
2 Labor force (including Armed Forces) ¹	115,763	117,695	120,078	120,370	120,536	120,678	120,940	120,854	121,299	121,610	121,479
3 Civilian labor force.....	113,544	115,461	117,834	118,124	118,272	118,414	118,675	118,586	119,034	119,349	119,222
<i>Employment</i>											
4 Nonagricultural industries ²	101,685	103,971	106,434	107,010	106,845	107,030	107,217	107,476	107,866	108,146	108,084
5 Agriculture.....	3,321	3,179	3,163	3,057	3,142	3,162	3,215	3,161	3,145	3,236	3,284
<i>Unemployment</i>											
6 Number	8,539	8,312	8,237	8,057	8,285	8,222	8,243	7,949	8,023	7,967	7,854
7 Rate (percent of civilian labor force)	7.5	7.2	7.0	6.8	7.0	6.9	6.9	6.7	6.7	6.7	6.6
8 Not in labor force.....	62,839	62,745	62,744	62,704	62,725	62,772	62,688	62,961	62,793	62,649	62,957
ESTABLISHMENT SURVEY DATA											
9 Nonagricultural payroll employment ³	94,496	97,614	100,167 ^c	100,283	100,560	100,826	101,068	101,322	101,626 ^c	101,862	102,026
10 Manufacturing.....	19,378	19,314	19,186 ^c	19,123	19,105	19,118	19,156	19,186	19,168 ^c	19,214	19,190
11 Mining.....	966	930	792	753	743	746	742	738	731 ^c	732	735
12 Contract construction	4,383	4,687	4,960 ^c	5,012	5,010	5,001	4,993	4,996	5,109	5,094	5,047
13 Transportation and public utilities.....	5,159	5,242	5,286 ^c	5,255	5,316	5,316	5,351	5,359	5,382 ^c	5,389	5,411
14 Trade.....	22,100	23,100	23,831 ^c	23,893	23,924	24,007	24,056	24,065	24,153 ^c	24,252	24,291
15 Finance.....	5,689	5,953	6,305 ^c	6,364	6,388	6,409	6,429	6,472	6,495 ^c	6,518	6,554
16 Service	20,797	21,974	23,072 ^c	23,255	23,300	23,359	23,451	23,578	23,670 ^c	23,759	23,832
17 Government.....	16,023	16,415	16,735 ^c	16,628	16,774	16,870	16,890	16,928	16,918 ^c	16,904	16,966

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2. Includes self-employed, unpaid family, and domestic service workers.

3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1984 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION

Seasonally adjusted

Series	1986			1987	1986			1987	1986			1987		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1		
	Output (1977 = 100)				Capacity (percent of 1977 output)				Utilization rate (percent)					
1 Total industry	124.4	125.0	125.9	126.8	157.1	157.9	158.7	159.6	79.2	79.1	79.3	79.4		
2 Mining	99.9	96.6	96.7	96.3	132.1	131.9	131.7	131.3	75.6	73.2	73.4	73.3		
3 Utilities	108.9	108.8	110.2	113.1	136.9	137.5	138.1	138.7	79.5	79.1	79.8	81.5		
4 Manufacturing	128.4	129.4	130.4	131.3	161.4	162.4	163.4	164.4	79.5	79.7	79.8	79.9		
5 Primary processing	111.1	112.1	114.0	115.0	134.0	134.6	135.1	135.6	82.9	83.3	84.4	84.8		
6 Advanced processing	138.9	139.7	140.4	141.0	177.9	179.1	180.4	181.7	78.0	78.0	77.8	77.6		
7 Materials	113.3	113.4	114.3	115.4	144.7	145.3	145.8	146.3	78.3	78.1	78.4	78.9		
8 Durable goods	118.8	118.8	120.1	120.8	160.7	161.5	162.2	163.0	73.9	73.6	74.0	74.1		
9 Metal materials	75.1	73.1	75.7	106.8	114.5	114.0	113.4	112.7	65.6	64.2	66.7 ^r	67.1		
10 Nondurable goods	116.9	119.7	121.1	123.2	139.5	139.9	140.4	141.0	83.8	85.6	86.4 ^r	87.4		
11 Textile, paper, and chemical	117.0	120.4	122.1	124.7	138.8	139.2	139.6	140.4	84.3	86.5	87.6 ^r	88.9		
12 Paper	130.1	135.1	135.0	...	138.1	138.9	139.7	...	94.2	97.3	96.3 ^r	...		
13 Chemical	115.4	117.7	120.1	...	144.3	144.7	145.0	...	80.0	81.4	82.8	...		
14 Energy materials	100.6	98.6	98.1	99.2	121.3	121.4	121.6	121.6	82.9	81.2	80.7	81.6		
	Previous cycle ¹		Latest cycle ²		1986	1986						1987		
	High	Low	High	Low	Mar.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. ^r	Feb. ^r	Mar.
	Capacity utilization rate (percent)													
15 Total industry	88.6	72.1	86.9	69.5	79.0	79.2	79.2	79.0	79.0	79.4	79.6	79.4	79.7	79.2
16 Mining	92.8	87.8	95.2	76.9	77.9	73.5	73.1	72.9	72.5	73.9	73.8	74.4	73.0	72.6
17 Utilities	95.6	82.9	88.5	78.0	80.1	79.9	78.8	78.7	79.3	80.5	79.5	81.6	81.5	81.5
18 Manufacturing	87.7	69.9	86.5	68.0	79.1	79.7	79.7	79.6	79.6	79.8	80.0	79.8	80.1	79.8
19 Primary processing	91.9	68.3	89.1	65.1	82.4	82.9	83.2	83.7	83.8	84.4	85.0	84.9	84.9	84.7
20 Advanced processing	86.0	71.1	85.1	69.5	77.4	78.4	78.0	77.6	77.8	77.7	77.9	77.5	77.9	77.4
21 Materials	92.0	70.5	89.1	68.4	78.5	78.3	77.9	78.1	77.8	78.4	78.9	79.2	78.9	78.6
22 Durable goods	91.8	64.4	89.8	60.9	74.5	73.7	73.5	73.5	73.6	74.2	74.3	74.0	74.4	74.1
23 Metal materials	99.2	67.1	93.6	45.7	66.0	63.8	63.8	64.8	65.2	68.4	66.5 ^r	66.0	67.4	67.9
24 Nondurable goods	91.1	66.7	88.1	70.6	82.5	85.0	85.5	86.1	85.8	85.7	87.7 ^r	87.8	87.4	86.9
25 Textile, paper, and chemical	92.8	64.8	89.4	68.6	83.4	85.6	86.5	87.4	87.0	86.7	89.2 ^r	89.4	88.8	88.4
26 Paper	98.4	70.6	97.3	79.9	93.0	97.8	97.9	96.1	95.7	96.0	100.2 ^r	98.3	97.8	...
27 Chemical	92.5	64.4	87.9	63.3	79.4	80.2	81.2	82.6	82.5	81.7	84.3	85.7	84.4	...
28 Energy materials	94.6	86.9	94.0	82.2	83.7	82.3	80.6	80.7	79.7	81.2	81.2 ^r	82.9	81.2	80.7

1. Monthly high 1973; monthly low 1975.

2. Monthly highs 1978 through 1980; monthly lows 1982.

NOTE: These data also appear in the Board's G.3 (402) release. For address, see inside front cover.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value ▲

Monthly data are seasonally adjusted

Grouping	1977 pro- por- tion	1986 avg.	1986										1987		
			Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^r	Jan.	Feb. ^p	Mar. ^e
Index (1977 = 100)															
MAJOR MARKET															
1 Total index	100.00	125.0	123.6	124.7	124.2	124.2	124.9	125.1	124.9	125.3	126.0	126.7	126.5	127.1	126.7
2 Products	57.72	133.2	131.2	132.7	132.4	132.4	133.2	133.8	133.3	134.0	134.5	135.0	134.4	135.7	135.2
3 Final products	44.77	132.3	130.6	132.1	131.6	131.1	132.0	132.6	132.2	132.7	133.1	133.7	133.1	134.5	134.0
4 Consumer goods	25.52	124.4	121.8	124.5	124.3	124.4	125.2	125.1	124.2	124.7	125.6	127.2	126.2	127.2	126.5
5 Equipment	19.25	142.7	142.3	142.3	141.2	140.0	141.0	142.5	142.8	143.3	143.1	142.2	142.3	144.2	141.0
6 Intermediate products.....	12.94	136.4	133.3	134.5	135.1	137.0	137.3	137.8	137.0	138.7	139.2	139.7	138.6	139.7	139.3
7 Materials.....	42.28	113.9	113.3	113.8	113.0	113.1	113.6	113.2	113.5	113.3	114.3	115.2	115.7	115.5	115.1
<i>Consumer goods</i>															
8 Durable consumer goods	6.89	116.2	112.4	115.9	113.8	114.3	116.3	115.7	117.4	116.3	118.4	121.5	119.9	122.0	120.6
9 Automotive products	2.98	115.1	110.4	116.4	113.2	113.7	116.4	114.5	117.0	112.7	114.6	117.7	117.6	122.5	120.3
10 Autos and trucks	1.79	112.9	106.3	115.1	110.3	112.2	114.5	110.4	116.8	107.7	107.6	115.6	117.9	125.2	121.4
11 Autos, consumer	1.16	97.3	93.7	100.8	94.8	99.3	95.3	87.8	96.2	91.9	92.3	99.5	94.3	105.3	100.9
12 Trucks, consumer .....	.63	141.8	129.6	141.5	139.1	136.1	150.3	152.4	155.1	137.1	136.0	145.6	161.9	.....	.....
13 Auto parts and allied goods.....	1.19	118.4	116.6	118.4	117.4	116.1	119.1	120.7	117.3	120.1	125.2	120.8	117.0	118.4	118.1
14 Home goods	3.91	117.1	113.9	115.5	114.3	114.8	116.3	116.7	117.7	119.0	121.2	124.4	121.7	121.6	120.9
15 Appliances, A/C and TV	1.24	139.5	133.7	138.8	133.9	137.5	138.9	139.4	141.2	142.6	148.1	153.2	146.6	145.1	144.1
16 Appliances and TV	1.19	141.6	136.0	140.6	135.8	139.1	141.6	142.5	143.5	144.3	150.0	155.1	148.5	146.6	.....
17 Carpeting and furniture .....	.96	125.8	121.2	121.8	123.3	122.5	126.6	125.8	126.2	128.8	131.1	132.0	129.4	129.4	.....
18 Miscellaneous home goods	1.71	96.0	95.5	95.0	95.0	94.1	94.1	95.1	96.0	96.5	96.3	99.4	99.3	100.2	.....
19 Nondurable consumer goods.....	18.63	127.5	125.3	127.7	128.1	128.1	128.4	128.6	126.7	127.8	128.3	129.4	120.6	129.2	128.7
20 Consumer staples	15.29	97.0	131.6	134.3	135.0	135.1	135.3	135.5	133.6	134.4	135.0	136.0	135.1	135.8	135.6
21 Consumer foods and tobacco	7.80	134.1	130.3	131.9	132.4	133.3	132.2	133.2	131.0	131.6	132.6	133.9	132.3	133.5	.....
22 Nonfood staples.....	7.49	131.9	133.0	136.7	137.7	137.0	138.5	137.9	136.3	137.2	137.4	138.2	138.1	138.3	137.8
23 Consumer chemical products	2.75	136.5	156.4	163.1	162.4	163.6	166.4	163.4	161.1	161.7	161.0	163.1	163.3	164.0	.....
24 Consumer paper products	1.88	161.2	143.1	145.1	148.6	147.1	146.4	147.7	145.7	150.3	151.5	150.1	149.3	149.9	.....
25 Consumer energy	2.86	147.4	104.0	106.0	106.8	104.8	106.6	107.1	106.3	105.2	105.5	106.4	106.6	106.1	.....
26 Consumer fuel	1.44	105.7	92.2	93.7	96.4	91.8	91.2	94.9	92.0	90.8	91.7	92.2	95.5	93.3	.....
27 Residential utilities	1.42	92.8	116.1	118.4	117.5	118.1	122.3	119.6	120.9	119.8	119.6	120.8	117.8	.....	.....
<i>Equipment</i>															
28 Business and defense equipment	18.01	147.1	145.5	146.6	146.0	145.1	146.4	147.8	148.0	148.4	148.1	147.0	147.2	149.3	149.0
29 Business equipment	14.34	138.6	137.7	138.6	137.9	136.6	137.9	139.3	139.3	139.1	138.6	137.1	137.4	139.7	139.2
30 Construction, mining, and farm	2.08	59.8	59.5	58.6	60.9	61.9	60.6	58.3	58.1	58.0	56.6	58.2	56.6	57.2	.....
31 Manufacturing	3.27	112.0	112.4	111.9	111.9	111.7	112.6	113.3	113.0	112.7	109.6	108.8	109.0	110.0	109.5
32 Power.....	1.27	81.6	82.0	83.0	82.9	83.5	81.7	81.7	80.3	80.5	79.5	80.2	78.9	79.9	79.6
33 Commercial	5.22	214.6	214.3	213.4	212.9	208.2	214.5	217.5	215.1	215.4	217.3	213.7	215.0	216.3	216.4
34 Transit	2.49	109.2	104.3	112.1	107.3	108.8	103.9	106.9	113.3	111.8	110.7	108.9	109.5	117.6	114.4
35 Defense and space equipment.....	3.67	180.3	176.2	178.0	178.0	178.4	179.5	181.0	182.0	184.6	184.9	185.8	185.7	186.8	187.2
<i>Intermediate products</i>															
36 Construction supplies	5.95	124.7	122.6	123.6	123.5	124.1	124.0	125.4	125.9	126.3	126.8	127.9	127.1	127.5	127.3
37 Business supplies	6.99	146.4	142.5	143.8	145.0	147.9	148.6	148.4	146.4	149.3	149.7	149.8	148.4	150.1	.....
38 General business supplies	5.67	150.6	146.4	148.0	148.3	151.6	153.3	152.5	151.2	154.1	153.7	154.3	153.6	154.8	.....
39 Commercial energy products.....	1.31	128.3	125.6	125.8	130.7	131.9	128.3	130.6	125.8	128.8	132.4	130.3	125.8	129.6	.....
<i>Materials</i>															
40 Durable goods materials.....	20.50	119.7	119.3	120.2	118.4	117.8	118.8	118.8	118.9	119.2	120.4	120.7	120.4	121.2	120.9
41 Durable consumer parts	4.92	98.5	99.9	99.3	96.4	96.3	96.7	95.2	95.3	97.0	98.0	98.8	98.1	99.7	99.2
42 Equipment parts	5.94	153.9	153.7	154.8	152.3	151.8	154.3	155.6	154.8	153.5	154.5	154.2	153.8	154.6	154.0
43 Durable materials n.e.c.	9.64	109.4	108.0	109.4	108.8	107.9	108.2	108.1	108.8	109.4	110.7	111.2	111.2	111.5	111.7
44 Basic metal materials	4.64	80.0	79.6	82.9	78.9	76.7	77.4	76.9	78.4	78.8	82.1	80.3	79.4	80.4	.....
45 Nondurable goods materials	10.09	118.3	114.8	116.5	116.5	117.7	118.9	119.7	120.6	120.3	120.2	123.2	123.6	123.2	122.8
46 Textile, paper, and chemical	7.53	118.9	115.5	115.9	116.9	118.2	119.0	120.5	121.8	121.3	121.0	124.7	125.2	124.6	124.3
47 Textile materials	1.52	110.6	105.7	106.7	108.4	109.5	111.2	113.4	116.0	114.3	115.6	116.1	114.5	116.3	.....
48 Pulp and paper materials	1.55	132.1	128.0	129.0	128.6	132.7	135.6	136.0	133.7	133.5	134.2	140.2	137.9	137.7	.....
49 Chemical materials	4.46	117.1	114.5	114.5	115.7	116.1	115.9	117.5	119.7	119.5	118.5	122.3	124.5	122.9	.....
50 Miscellaneous nondurable materials	2.57	116.5	112.8	118.2	115.3	116.4	118.3	117.2	117.1	117.5	117.6	118.5	118.6	.....	.....
51 Energy materials	11.69	99.9	101.4	100.4	100.5	100.8	99.9	97.9	98.0	96.9	98.7	98.8	100.9	98.7	98.0
52 Primary energy	7.57	105.5	107.4	106.2	106.7	106.5	104.8	103.7	103.8	102.7	104.8	105.1	105.8	102.6	.....
53 Converted fuel materials	4.12	89.6	90.5	89.7	89.2	90.4	90.9	87.3	87.4	86.2	87.6	87.3	91.8	91.6	.....

A48 Domestic Nonfinancial Statistics □ June 1987

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value—Continued

Grouping	SIC code	1977 proportion	1986 avg.	1986												1987		
				Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. ^r	Jan.	Feb. ^p	Mar. ^e		
Index (1977 = 100)																		
MAJOR INDUSTRY																		
1 Mining and utilities.....		15.79	103.4	105.4	104.2	103.1	102.6	101.8	100.9	100.8	100.7	102.6	101.9	103.6	102.4	101.9		
2 Mining.....		9.83	99.6	103.0	101.0	99.8	98.9	97.1	96.4	96.2	95.6	97.4	96.7	97.9	95.9	95.1		
3 Utilities.....		5.96	109.6	109.3	109.4	108.5	108.6	109.7	108.3	108.3	109.3	111.2	110.6	113.0	113.0	113.2		
4 Manufacturing.....		84.21	129.1	127.2	128.7	128.2	128.3	129.2	129.5	129.5	129.9	130.3	131.1	130.8	131.7	131.4		
5 Nondurable.....		35.11	130.9	127.7	129.6	129.9	131.2	131.7	132.2	131.4	132.3	132.7	133.7	134.2	134.3	133.8		
6 Durable.....		49.10	127.9	126.8	128.1	127.0	126.2	127.4	127.5	128.1	128.1	128.6	129.2	128.5	129.8	129.7		
<i>Mining</i>																		
7 Metal.....	10	.50	.....	75.9	76.0	72.0	65.9	69.2	70.9	70.7	68.5	68.3	73.5	.....	.....	.....
8 Coal.....	11.12	1.60	124.2	124.7	124.4	124.0	127.3	120.2	122.2	120.8	117.6	130.1	124.3	133.5	127.6	.....	
9 Oil and gas extraction.....	13	7.07	94.7	99.2	96.2	95.1	93.3	92.4	90.7	91.0	90.5	90.4	90.9	90.8	89.0	89.0		
10 Stone and earth minerals.....	14	.66	113.9	111.6	115.0	112.4	114.5	111.8	114.8	111.7	116.4	115.2	109.6	107.0	110.0	.....	
<i>Nondurable manufactures</i>																		
11 Foods.....	20	7.96	133.6	132.2	133.1	133.7	134.6	134.3	135.1	134.3	133.7	134.4	135.3	135.2	135.7	.....	
12 Tobacco products.....	21	.62	96.6	93.6	100.3	101.6	97.6	97.9	97.1	89.8	100.1	96.8	92.9	89.2	.....	.....
13 Textile mill products.....	22	2.29	113.2	108.0	111.4	111.3	112.6	113.4	114.7	116.0	116.1	117.8	118.4	116.9	117.8	.....	
14 Apparel products.....	23	2.79	103.6	102.8	103.1	102.6	101.7	102.5	102.5	102.7	104.2	105.1	.....	.....	.....	.....
15 Paper and products.....	26	3.15	136.4	132.4	134.1	133.2	137.2	138.1	138.6	136.9	137.8	139.5	141.6	139.8	140.6	.....	
16 Printing and publishing.....	27	4.54	163.4	157.8	161.6	161.9	164.0	165.4	164.6	163.0	167.8	168.5	167.7	167.4	166.6	166.1		
17 Chemicals and products.....	28	8.05	133.0	130.2	132.8	131.5	134.2	134.1	134.4	133.9	133.9	132.3	134.6	138.1	137.5	.....	
18 Petroleum products.....	29	2.40	92.1	88.6	91.3	95.7	91.8	90.6	94.0	93.3	91.1	92.0	92.5	94.5	92.0	90.1		
19 Rubber and plastic products.....	30	2.80	153.3	147.8	146.8	150.1	152.2	155.5	155.5	154.9	157.6	159.0	160.7	159.3	160.2	.....	
20 Leather and products.....	31	.53	61.3	62.7	61.5	59.5	57.9	61.9	62.0	59.4	60.2	61.3	59.4	58.0	58.7	.....	
<i>Durable manufactures</i>																		
21 Lumber and products.....	24	2.30	123.4	120.7	121.3	121.6	120.9	120.8	122.5	125.0	125.9	129.5	133.1	128.8	.....	.....
22 Furniture and fixtures.....	25	1.27	146.7	142.9	145.9	146.2	147.1	149.5	148.3	147.7	149.2	148.6	150.5	147.3	150.4	.....	
23 Clay, glass, stone products.....	32	2.72	120.2	120.0	121.6	120.2	120.8	119.6	119.7	121.6	118.1	120.6	121.7	122.6	122.4	.....	
24 Primary metals.....	33	5.33	75.8	76.3	78.1	74.8	71.4	73.6	73.4	74.1	74.2	76.8	73.5	73.7	76.3	77.7		
25 Iron and steel.....	331.2	3.49	63.4	64.3	65.6	60.2	58.3	61.7	60.8	61.1	62.2	64.8	60.5	60.2	62.9	.....	
26 Fabricated metal products.....	34	6.46	107.4	107.6	108.2	106.5	106.6	105.7	105.9	107.3	108.3	107.1	108.3	107.1	107.5	107.6		
27 Nonelectrical machinery.....	35	9.54	141.9	141.7	140.8	141.3	140.4	142.6	142.6	140.9	142.2	141.2	139.9	139.7	140.8	141.1		
28 Electrical machinery.....	36	7.15	166.5	165.2	166.8	166.0	163.2	166.8	167.2	166.9	167.7	168.3	170.2	168.7	168.3	167.7		
29 Transportation equipment.....	37	9.13	125.8	122.6	126.2	124.1	125.1	125.6	125.1	127.7	125.2	125.6	127.0	127.7	131.7	130.3		
30 Motor vehicles and parts.....	371	5.25	110.9	108.1	112.6	108.7	110.6	111.2	108.2	112.2	107.1	107.9	111.2	112.2	117.8	115.3		
31 Aerospace and miscellaneous transportation equipment.....	372-6.9	3.87	146.1	142.4	144.8	145.0	144.7	145.2	148.0	148.7	149.7	149.6	148.4	148.7	150.5	150.5		
32 Instruments.....	38	2.66	141.3	142.0	142.4	140.3	139.9	141.7	142.0	141.7	140.3	141.1	142.4	141.4	141.7	141.2		
33 Miscellaneous manufactures.....	39	1.46	99.3	99.0	99.2	101.0	98.3	97.5	98.3	97.7	99.0	98.9	103.1	101.1	101.7	.....	
<i>Utilities</i>																		
34 Electric.....		4.17	122.2	119.8	121.6	121.7	123.1	125.4	122.4	122.8	123.8	125.1	123.5	126.6	126.9	.....	
Gross value (billions of 1982 dollars, annual rates)																		
MAJOR MARKET																		
35 Products, total.....		517.5	1,702.2	1,660.8	1,686.3	1,687.6	1,676.7	1,669.9	1,681.3	1,677.8	1,683.9	1,690.8	1,701.9	1,702.1	1,781.2	1,707.9		
36 Final.....		405.7	1,314.5	1,282.5	1,307.0	1,301.1	1,289.5	1,282.7	1,292.6	1,292.3	1,292.5	1,297.6	1,306.7	1,311.8	1,328.8	1,317.2		
37 Consumer goods.....		272.7	853.8	832.0	852.3	852.4	843.8	842.4	846.9	839.8	839.3	847.2	860.5	863.8	868.9	859.7		
38 Equipment.....		133.0	458.2	450.4	454.7	448.7	445.7	440.4	445.7	452.5	453.2	450.4	446.2	448.0	459.8	457.5		
39 Intermediate.....		111.9	387.6	378.3	379.3	386.4	387.2	387.1	388.7	385.5	391.4	393.2	395.3	390.3	389.4	390.7		

▲ A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the FEDERAL RESERVE BULLETIN, vol. 71

(July 1985), pp. 487-501. The revised indexes for January through June 1985 were shown in the September BULLETIN.

NOTE. These data also appear in the Board's G.12.3 (414) release. For address, see inside front cover.

2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1984	1985	1986	1986								1987	
				May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Private residential real estate activity (thousands of units)													
NEW UNITS													
1 Permits authorized	1,682	1,733	1,750	1,788	1,792	1,759	1,673	1,603	1,565	1,613	1,910	1,690	1,763
2 1-family	922	957	1,071	1,092	1,121	1,093	1,039	1,047	1,006	991	1,168	1,091	1,227
3 2-or-more-family	759	777	679	696	671	666	634	556	559	622	742	599	536
4 Started	1,749	1,742	1,805	1,848	1,842	1,786	1,800	1,689	1,657	1,637	1,813	1,816	1,833
5 1-family	1,084	1,072	1,179	1,219	1,212	1,147	1,180	1,123	1,114	1,129	1,233	1,253	1,299
6 2-or-more-family	665	669	626	629	630	639	620	566	543	508	580	563	534
7 Under construction, end of period ¹	1,051	1,063	1,074 ^r	1,128	1,147	1,154	1,163	1,154	1,142	1,125	1,104 ^r	1,088	1,101
8 1-family	556	539	583 ^r	595	609	620	628	627	625	619	610 ^r	608	623
9 2-or-more-family	494	524	490 ^r	532	537	534	534	527	518	506	494 ^r	479	477
10 Completed	1,652	1,703	1,756	1,801	1,644	1,750	1,757	1,740	1,745	1,774	1,894 ^r	1,955	1,670
11 1-family	1,025	1,072	1,120 ^r	1,130	1,068	1,074	1,124	1,113	1,165	1,158	1,184 ^r	1,216	1,085
12 2-or-more-family	627	631	637	671	576	676	633	627	580	616	710	739	585
13 Mobile homes shipped	296	284	244	239	232	238	231	243	241	237	251	242	231
Merchant builder activity in 1-family units													
14 Number sold	639	688	748	777	723	691	623	744	675	691	765	699	680
15 Number for sale, end of period ¹	358	350	364 ^r	338	340	350	352	355	357	353	360	361	363
Price (thousands of dollars) ²													
Median													
16 Units sold	80.0	84.3	92.2	92.1	91.2	94.1	91.5	95.0	96.4	94.0	94.5	99.9	96.3
Average													
17 Units sold	97.5	101.0	112.1 ^r	114.6	110.9	116.8	113.2	114.0	114.9	113.6 ^r	118.5 ^r	123.7	124.5
EXISTING UNITS (1-family)													
18 Number sold	2,868	3,217	3,566	3,450	3,390	3,470	3,610	3,770	3,810	3,910	4,060	3,480	3,690
Price of units sold (thousands of dollars) ²													
Median													
19 Median	72.3	75.4	80.2	83.2	82.6	79.9	82.0	79.4	79.4	80.4	80.8	82.1	85.0
Average													
20 Average	85.9	90.6	98.2	101.7	102.1	99.2	100.3	96.8	97.3	99.1	100.6	100.1	104.3
Value of new construction ³ (millions of dollars)													
CONSTRUCTION													
21 Total put in place	327,209	355,570	377,903 ^r	374,483	375,397	380,722	382,603	382,581	388,471 ^r	383,142 ^r	378,527 ^r	374,807	378,361
22 Private	271,973	292,792	306,697 ^r	302,573	304,567	309,003	310,155	308,617	315,267 ^r	311,668 ^r	305,489 ^r	299,695	300,361
23 Residential	155,148	158,818	175,597 ^r	172,491	174,478	178,821	178,761	178,480	186,962 ^r	185,716 ^r	181,514 ^r	181,480	179,368
24 Nonresidential, total	116,825	133,974	131,100 ^r	130,082	130,089	130,182	131,394	130,137	128,305 ^r	125,952 ^r	123,975 ^r	118,215	120,993
Buildings													
25 Industrial	13,746	15,769	13,653	13,658	13,027	12,866	12,543	13,180	12,948	13,532 ^r	12,582 ^r	10,565	10,682
26 Commercial	48,100	59,626	52,084	57,368	57,443	58,132	60,054	58,001	56,220 ^r	54,884 ^r	54,419 ^r	50,353	52,557
27 Other	12,547	12,619	13,433	13,131	13,263	13,277	13,315	14,001	14,324 ^r	13,937 ^r	13,880 ^r	13,494	14,148
28 Public utilities and other	42,432	45,960	51,930 ^r	45,925	46,356	45,907	45,482	44,955	44,813 ^r	43,599 ^r	43,094 ^r	43,803	43,606
Public													
29 Public	55,232	62,777	71,204 ^r	71,910	70,830	71,719	72,448	73,964	73,204 ^r	71,474 ^r	73,039 ^r	75,113	78,000
30 Military	2,839	3,283	3,893 ^r	3,637	3,761	3,553	4,132	5,050	3,540 ^r	3,980 ^r	4,295 ^r	3,998	3,655
31 Highway	16,343	19,998	21,260	23,240	22,001	21,603	21,607	20,552	20,480 ^r	18,425 ^r	18,989 ^r	22,706	23,311
32 Conservation and development	4,654	4,952	4,728 ^r	4,729	4,657	4,415	4,294	4,841	4,754 ^r	4,516 ^r	5,038 ^r	5,144	5,107
33 Other	31,396	34,544	41,323 ^r	40,304	40,411	42,148	42,415	43,521	44,430 ^r	44,553 ^r	44,717 ^r	43,265	45,927

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.

A50 Domestic Nonfinancial Statistics □ June 1987

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. 1987 (1967 = 100) ¹
	1986 Mar.	1987 Mar.	1986			1987	1986		1987			
			June	Sept.	Dec.	Mar.	Nov.	Dec.	Jan.	Feb.	Mar.	
CONSUMER PRICES²												
1 All items	2.3	3.0	1.6	2.0	2.5	6.2	.2	.2	.7	.4	.4	335.9
2 Food	1.8	4.6	3.9	8.4	4.1	2.5	.4	.2	.4	.3	-.1	330.0
3 Energy items	-8.5	-5.6	-12.6	-21.0	-9.9	26.1	-.5	-.2	3.0	1.9	1.0	360.0
4 All items less food and energy	4.1	4.0	3.3	3.7	3.7	5.2	.3	.2	.5	.3	.5	336.4
5 Commodities	1.0	2.4	.3	2.6	1.4	5.1	.1	.1	.6	.0	.7	268.4
6 Services	6.0	4.8	4.9	4.3	5.1	5.3	.4	.3	.5	.4	.4	410.4
PRODUCER PRICES												
7 Finished goods	-1.4	1.5	.7	-.4	1.1	4.6	.0	-.1	.6	.1	.4	292.3
8 Consumer foods	-.8	3.2	8.2	11.2	1.1	-6.9	-.2	-.4	-1.8	-.5	.5	280.4
9 Consumer energy	-20.1	-10.9	-20.7	-42.7	-18.4	69.1	-.2 ^r	-1.1 ^r	9.8	4.0	-.2	493.8
10 Other consumer goods	2.2	2.6	.9	2.3	4.1	3.7	.2	.1	.5	-.3	.8	262.7
11 Capital equipment	1.7	2.0	2.4	2.0	3.3	.3	.4	.1	.2	-.3	.1	310.3
12 Intermediate materials ³	-2.8	.0	-5.1	-1.5	-1.2	8.0	.0	.0	1.0	.5	.4	315.4
13 Excluding energy	-.2	1.2	-1.2	1.5	1.1	3.4	.1	.0	.4	.2	.3	308.1
Crude materials												
14 Foods	-7.6	2.1	5.9	18.1	-3.8	-10.2	-1.5 ^r	-1.6 ^r	-3.0	.0	.4	229.1
15 Energy	-17.7	-5.4	-29.1	-19.6	-10.4	56.7	.5 ^r	-3.3 ^r	10.0	2.6	-.9	581.2
16 Other	-2.9	2.7	6.6	-24.1	26.0	.2	.7	4.1 ^r	.9 ^r	.0 ^r	-.9	254.6

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	1984	1985	1986	1986				1987
				Q1	Q2	Q3	Q4	Q1
GROSS NATIONAL PRODUCT								
1 Total	3,765.0	3,998.1	4,206.1	4,149.2	4,175.6	4,240.7	4,258.7	4,339.2
<i>By source</i>								
2 Personal consumption expenditures	2,428.2	2,600.5	2,762.5	2,697.9	2,732.0	2,799.8	2,820.4	2,854.3
3 Durable goods	331.2	359.3	388.1	360.8	373.9	414.5	403.1	385.4
4 Nondurable goods	870.1	905.1	932.7	929.7	928.4	932.8	940.1	962.8
5 Services	1,227.0	1,336.1	1,441.7	1,407.4	1,429.8	1,452.4	1,477.2	1,506.1
6 Gross private domestic investment	662.1	661.1	683.6	708.3	687.3	675.8	663.2	704.8
7 Fixed investment	598.0	650.0	677.0	664.4	672.8	680.3	690.3	672.0
8 Nonresidential	416.5	458.2	460.0	459.2	457.5	459.0	464.3	447.0
9 Structures	139.3	154.8	143.3	154.6	141.5	139.5	137.5	130.2
10 Producers' durable equipment	277.3	303.4	316.7	304.6	316.0	319.5	326.8	316.8
11 Residential structures	181.4	191.8	217.0	205.3	215.3	221.3	226.0	225.0
12 Change in business inventories	64.1	11.1	6.7	43.8	14.5	-4.5	-27.1	32.7
13 Nonfarm	56.6	12.2	7.7	41.2	10.5	-10.3	-10.8	30.1
14 Net exports of goods and services	-58.7	-78.9	-104.3	-93.7	-104.5	-108.9	-110.2	-112.0
15 Exports	382.7	369.8	373.0	374.8	363.0	370.8	383.5	384.8
16 Imports	441.4	448.6	477.3	468.5	467.5	479.7	493.7	496.8
17 Government purchases of goods and services	733.4	815.4	864.2	836.7	860.8	874.0	885.3	892.1
18 Federal	311.3	354.1	366.2	355.7	367.6	369.3	372.1	369.2
19 State and local	422.2	461.3	498.0	480.9	493.3	504.7	513.2	522.9
<i>By major type of product</i>								
20 Final sales, total	3,700.9	3,987.0	4,199.4	4,105.4	4,161.2	4,245.2	4,285.8	4,306.4
21 Goods	1,576.7	1,630.2	1,670.5	1,669.0	1,661.6	1,680.2	1,671.3	n.a.
22 Durable	675.0	700.2	716.8	710.6	703.1	730.1	723.5	743.0
23 Nondurable	901.7	930.0	953.7	958.4	958.5	950.1	947.8	973.9
24 Services	1,813.1	1,959.8	2,105.6	2,057.7	2,087.4	2,125.2	2,152.1	2,193.0
25 Structures	375.1	408.1	430.0	422.6	426.7	435.3	435.3	429.3
26 Change in business inventories	64.1	11.1	6.7	43.8	14.5	-4.5	-27.1	32.7
27 Durable goods	39.2	6.6	-1.0	28.6	-1	-15.6	-16.9	24.9
28 Nondurable goods	24.9	4.5	7.7	15.3	14.6	11.1	-10.2	7.9
29 MEMO: Total GNP in 1982 dollars	3,489.9	3,585.2	3,674.9	3,655.9	3,661.4	3,686.4	3,696.1	3,735.2
NATIONAL INCOME								
30 Total	3,032.0	3,222.3	3,386.4 ¹	3,340.7	3,376.4	3,396.1	3,432.3 ¹	n.a.
31 Compensation of employees	2,214.7	2,368.2	2,498.0	2,461.5	2,480.2	2,507.4	2,542.8	2,577.5
32 Wages and salaries	1,837.0	1,965.8	2,073.5	2,044.1	2,058.8	2,081.1	2,109.8	2,142.2
33 Government and government enterprises	346.2	372.2	395.7	387.2	392.5	398.4	404.4	413.0
34 Other	1,490.6	1,593.9	1,677.8	1,656.8	1,666.3	1,682.7	1,705.4	1,729.2
35 Supplement to wages and salaries	377.7	402.4	424.5	417.4	421.3	426.3	433.0	435.2
36 Employer contributions for social insurance	193.1	205.5	215.7	212.9	214.1	215.9	220.1	219.9
37 Other labor income	184.5	196.9	208.8	204.5	207.3	210.4	213.0	215.4
38 Proprietors' income ¹	236.9	254.4	278.8	265.3	289.1	277.5	283.2	297.9
39 Business and professional ¹	205.3	225.2	252.7	240.9	249.6	258.0	262.2	269.5
40 Farm ¹	31.5	29.2	26.1	24.4	39.5	19.6	21.0	28.4
41 Rental income of persons ²	8.3	7.6	15.0	12.8	16.3	16.2	14.8	15.1
42 Corporate profits ¹	264.7	280.7	299.7	296.4	293.1	302.0	311.2 ¹	n.a.
43 Profits before tax ³	235.7	223.2	237.5 ¹	222.5	227.7	240.4	259.6 ¹	n.a.
44 Inventory valuation adjustment	-5.5	-6	6.5	16.5	10.6	6.1	-7.2	-7.3
45 Capital consumption adjustment	34.5	58.1	56.6	57.3	54.8	55.5	58.8	74.8
46 Net interest	307.4	311.4	294.0	304.9	297.7	292.9	280.4	281.8

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	1984	1985	1986	1986				1987
				Q1	Q2	Q3	Q4	Q1
PERSONAL INCOME AND SAVING								
1 Total personal income.....	3,110.2	3,314.5	3,485.7	3,432.6	3,483.3	3,498.8	3,527.9	3,585.3
2 Wage and salary disbursements.....	1,836.8	1,966.1	2,073.5	2,044.1	2,058.8	2,081.1	2,109.8	2,142.2
3 Commodity-producing industries.....	577.8	607.7	623.2	622.0	620.8	621.8	628.3	632.9
4 Manufacturing.....	439.1	460.1	471.2	470.5	468.8	470.0	475.4	477.8
5 Distributive industries.....	442.2	469.8	487.9	485.2	484.3	488.3	493.9	500.6
6 Service industries.....	470.6	516.4	566.7	549.6	561.3	572.6	583.2	595.8
7 Government and government enterprises.....	346.2	372.2	395.7	387.2	392.5	398.4	404.4	413.0
8 Other labor income.....	184.5	196.9	208.8	204.5	207.3	210.4	213.0	215.4
9 Proprietors' income ¹	236.9	254.4	278.8	265.3	289.1	277.5	283.2	297.9
10 Business and professional ¹	205.3	225.2	252.7	240.9	249.6	258.0	262.2	269.5
11 Farm ¹	31.5	29.2	26.1	24.4	39.5	19.6	21.0	28.4
12 Rental income of persons ²	8.3	7.6	15.0	12.8	16.3	16.2	14.8	15.1
13 Dividends.....	74.7	76.4	81.2	79.1	81.1	82.0	82.7	84.1
14 Personal interest income.....	446.9	476.2	475.0	480.8	480.1	473.8	465.2	467.5
15 Transfer payments.....	455.6	487.1	513.8	504.7	510.1	518.5	521.8	530.7
16 Old-age survivors, disability, and health insurance benefits.....	235.7	253.4	266.8	263.2	264.1	269.6	270.2	274.3
17 LESS: Personal contributions for social insurance.....	133.5	150.2	160.3	158.6	159.5	160.8	162.4	167.6
18 EQUALS: Personal income.....	3,110.2	3,314.5	3,485.7	3,432.6	3,483.3	3,498.8	3,527.9	3,585.3
19 LESS: Personal tax and nontax payments.....	439.6	486.5	514.1	497.5	504.8	519.0	534.9	523.2
20 EQUALS: Disposable personal income.....	2,670.6	2,828.0	2,971.6	2,935.1	2,978.5	2,979.9	2,993.0	3,062.0
21 LESS: Personal outlays.....	2,501.9	2,684.7	2,857.4	2,789.4	2,825.5	2,895.8	2,918.8	2,952.9
22 EQUALS: Personal saving.....	168.7	143.3	114.1	145.6	153.1	84.1	74.2	109.2
MEMO								
Per capita (1982 dollars)								
23 Gross national product.....	14,721.1	14,982.0	15,216.9	15,188.0	15,178.9	15,245.6	15,247.9	15,380.6
24 Personal consumption expenditures.....	9,475.4	9,713.7	10,015.3	9,857.1	9,984.4	10,124.0	10,089.9	10,060.0
25 Disposable personal income.....	10,421.0	10,563.0	10,773.0	10,723.0	10,886.0	10,776.0	10,708.0	10,792.0
26 Saving rate (percent).....	6.3	5.1	3.8	5.0	5.1	2.8	2.5	3.6
GROSS SAVING								
27 Gross saving.....	573.3	551.5	538.7 ^a	583.2	539.7	517.2	514.9 ^a	n.a.
28 Gross private saving.....	674.8	687.8	679.0 ^a	708.3	713.0	650.5	644.3 ^a	n.a.
29 Personal saving.....	168.7	143.3	114.1	145.6	153.1	84.1	74.2	109.2
30 Undistributed corporate profits ¹	91.0	107.3	109.4 ^a	115.5	106.6	108.8	106.4 ^a	n.a.
31 Corporate inventory valuation adjustment.....	-5.5	-6	6.5	16.5	10.6	6.1	-7.2	-7.3
<i>Capital consumption allowances</i>								
32 Corporate.....	253.9	268.2	280.3	275.3	278.9	281.6	285.5	287.6
33 Noncorporate.....	161.2	169.0	175.1	171.8	174.4	176.0	178.2	180.7
34 Wage accruals less disbursements.....	.0	.0	.0	.0	.0	.0	.0	.0
35 Government surplus, or deficit (-), national income and product accounts.....	-101.5	-136.3	-140.3 ^a	-125.1	-173.3	-133.3	-129.4 ^a	n.a.
36 Federal.....	-170.0	-198.0	-203.3 ^a	-195.0	-232.2	-197.4	-188.8 ^a	n.a.
37 State and local.....	68.5	61.7	63.1 ^a	69.9	58.9	64.0	59.4	n.a.
38 Capital grants received by the United States, net.....	.0	.0	.0	.0	.0	.0	.0	.0
39 Gross investment.....	571.4	545.9	541.7	579.6	544.3	527.5	515.5	556.8
40 Gross private domestic.....	662.1	661.1	683.6	708.3	687.3	675.8	663.2	704.8
41 Net foreign.....	-90.7	-115.2	-141.9	-128.6	-143.0	-148.3	-147.7	-148.0
42 Statistical discrepancy.....	-1.9	-5.5	3.0 ^a	-3.6	4.6	10.3	.6 ^a	.6

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	1984	1985	1986	1986				
				Q4	Q1	Q2	Q3	Q4 ^P
1 Balance on current account	-106,466	-117,677	-140,569	-33,695	-34,040	-34,397	-35,299	-36,837
2 Not seasonally adjusted.....				-31,510	-31,020	-35,458	-39,245	-34,847
3 Merchandise trade balance ²	-112,522	-124,439	-147,708	-37,352	-36,489	-35,700	-37,149	-38,370
4 Merchandise exports	219,900	214,424	221,753	52,727	53,588	55,075	55,764	57,326
5 Merchandise imports	-332,422	-338,863	-369,461	-90,079	-90,077	-90,775	-92,913	-95,696
6 Military transactions, net	-1,827	-2,917	-2,402	-1,322	-1,066	-695	-570	-71
7 Investment income, net ³	18,751	25,188	22,865	9,255	6,500	5,328	6,146	4,890
8 Other service transactions, net.....	1,288	-525	1,821	-32	6	717	437	659
9 Remittances, pensions, and other transfers	-3,621	-3,787	-3,320	-937	-922	-802	-744	-853
10 U.S. government grants (excluding military).....	-8,536	-11,196	-11,825	-3,307	-2,069	-3,245	-3,419	-3,092
11 Change in U.S. government assets, other than official reserve assets, net (increase, -)	-5,523	-2,824	-1,978	-540	-250	-209	-1,429	-91
12 Change in U.S. official reserve assets (increase, -)	-3,130	-3,858	312	-3,148	-115	16	280	132
13 Gold.....	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	-979	-897	-246	-189	-274	-104	163	-31
15 Reserve position in International Monetary Fund	-995	908	1,501	168	344	366	508	283
16 Foreign currencies	-1,156	-3,869	-942	-3,126	-185	-246	-391	-120
17 Change in U.S. private assets abroad (increase, -) ³	-14,987	-25,754	-98,149	-19,579	-12,644	-25,468	-27,052	-32,985
18 Bank-reported claims	-11,127	-691	-57,312	-8,485	6,333	-14,387	-19,326	-29,932
19 Nonbank-reported claims	5,081	1,665	-4,150	418	-2,842	-1,220	-88	.....
20 U.S. purchase of foreign securities, net	-5,082	-7,977	-4,765	-1,411	-6,133	-1,664	349	2,683
21 U.S. direct investments abroad, net ³	-3,859	-18,752	-31,922	-10,101	-10,002	-8,197	-7,987	-5,736
22 Change in foreign official assets in the United States (increase, +)	3,037	-1,324	33,394	-1,322	2,469	14,704	15,448	774
23 U.S. Treasury securities	4,690	-546	34,495	-1,976	3,256	14,538	12,193	4,508
24 Other U.S. government obligations	13	-295	-1,214	-171	-177	-644	-276	-117
25 Other U.S. government liabilities ⁴	436	483	1,067	263	288	679	900	-799
26 Other U.S. liabilities reported by U.S. banks	555	522	-126	722	-1,261	662	2,933	-2,460
27 Other foreign official assets ⁵	-2,657	-1,488	-828	-160	363	-531	-302	-358
28 Change in foreign private assets in the United States (increase, +) ³	99,730	128,430	179,900	53,158	34,151	32,822	54,075	58,851
29 U.S. bank-reported liabilities	33,849	40,387	77,435	20,427	8,434	3,553	30,128	35,320
30 U.S. nonbank-reported liabilities	4,704	-1,172	-3,112	2,232	-2,057	-1,644	589	.....
31 Foreign private purchases of U.S. Treasury securities, net	23,059	20,500	9,334	5,676	7,666	3,807	541	-2,680
32 Foreign purchases of other U.S. securities, net	12,759	50,859	70,658	22,441	18,686	23,018	17,185	11,769
33 Foreign direct investments in the United States, net ³	25,359	17,856	25,585	2,382	1,422	4,088	5,632	14,442
34 Allocation of SDRs.....	0	0	0	0	0	0	0	0
35 Discrepancy	27,338	23,006	27,091	5,125	10,429	12,532	-6,023	10,156
36 Owing to seasonal adjustments				3,771	1,329	-1,410	-3,956	4,040
37 Statistical discrepancy in recorded data before seasonal adjustment	27,338	23,006	27,091	1,354	9,100	13,942	-2,068	6,116
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, -).....	-3,130	-3,858	312	-3,148	-115	16	280	132
39 Foreign official assets in the United States (increase, +)	2,601	-1,807	32,327	-1,585	2,181	14,025	14,548	1,573
40 Change in Organization of Petroleum Exporting Countries official assets in the United States (part of line 22 above)	-4,304	-6,599	-8,649	-1,002	1,421	-1,938	-2,847	-5,285
41 Transfers under military grant programs (excluded from lines 4, 6, and 10 above)	190	64	73	28	22	12	19	19

1. Seasonal factors are not calculated for lines 6, 10, 12-16, 18-20, 22-34, and 38-41.

2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing; military exports are excluded from merchandise data and are included in line 6.

3. Includes reinvested earnings.

4. Primarily associated with military sales contracts and other transactions arranged with or through foreign official agencies.

5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

NOTE: Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

3.11 U.S. FOREIGN TRADE

Millions of dollars; monthly data are not seasonally adjusted.

Item	1983	1984	1985	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments	200,486	217,865	213,146	17,604	17,518	19,330	18,595	18,431	16,421	18,660
2 GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses	258,048	325,726	345,276	29,476	28,695	30,018	36,187	27,795	27,466	32,307
3 Trade balance	-57,562	107,861	-132,129	-11,871	-11,177	-10,688	-17,592	-9,364	-11,045	-13,647

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. As of Jan. 1, 1987 census data are released 45 days after the end of the month.

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	1983	1984	1985	1986				1987		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. ^P
1 Total	33,747	34,934	43,191	48,087	47,089	47,824	48,427	49,348	49,358	48,824
2 Gold stock, including Exchange Stabilization Fund ¹	11,121	11,096	11,090	11,084	11,066	11,070	11,064	11,062	11,085	11,081
3 Special drawing rights ^{2,3}	5,025	5,641	7,293	8,295	8,090	8,310	8,395	8,470	8,615	8,740
4 Reserve position in International Monetary Fund ²	11,312	11,541	11,952	11,922	11,575	11,659	11,730	11,872	11,699	11,711
5 Foreign currencies ⁴	6,289	6,656	12,856	16,786	16,358	16,785	17,328	17,982	17,959	17,292

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	1983	1984	1985	1986				1987		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. ^P
1 Deposits	190	267	480	342	303	224	287	226	255	268
Assets held in custody										
2 U.S. Treasury securities ¹	117,670	118,000	121,004	152,275	156,076	156,919	155,835	159,597	160,942	167,423
3 Earmarked gold ²	14,414	14,242	14,245	14,115	14,110	14,057	14,048	14,041	14,046	14,036

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 Data¹

Millions of dollars, end of period

Asset account	1983	1984	1985	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^P
All foreign countries										
1 Total, all currencies	477,090	453,656	458,012	461,440	474,567	446,581	446,612	456,627	458,305	457,819
2 Claims on United States	115,542	113,393	119,713	117,661	116,392	112,078	108,420	113,177 ^r	115,273	113,673
3 Parent bank	82,026	78,109	87,201	83,779	82,302	79,999	76,262	81,984	83,185	81,953
4 Other banks in United States ²	33,516	13,664	13,057	13,072	13,624	11,659	12,034 ^r	13,685	12,723	13,158
5 Nonbanks ²		21,620	19,435	20,810	20,466	20,420	20,124 ^r	17,508 ^r	19,365	18,562
6 Claims on foreigners	342,689	320,162	315,680	315,583	328,553	305,562	308,316 ^r	314,340 ^r	311,411	312,238
7 Other branches of parent bank	96,004	95,184	91,399	93,435	103,278	90,412	91,570	97,788	93,290	91,568
8 Banks	117,668	100,397	102,960	102,849	107,503	100,707	103,293 ^r	105,237 ^r	105,377	109,892
9 Public borrowers	24,517	23,343	23,478	23,720	23,505	24,215	23,314 ^r	23,584 ^r	23,337	23,192
10 Nonbank foreigners	107,785	101,238	97,843	95,579	94,267	90,228	90,139 ^r	87,731 ^r	89,407	87,586
11 Other assets	18,859	20,101	22,619	28,196	29,622	28,941	29,876 ^r	29,110	31,621	31,908
12 Total payable in U.S. dollars	371,508	350,636	336,288	318,375	330,597	309,087	306,677^r	317,486^r	309,719	311,669
13 Claims on United States	113,436	111,426	116,645	113,636	112,133	107,612	104,281	109,234 ^r	110,596	109,197
14 Parent bank	80,909	77,229	85,971	82,261	80,753	78,335	74,762	80,574	81,423	80,359
15 Other banks in United States ²	32,527	13,500	12,454	12,180	12,802	10,544	10,986	12,830	11,531	12,102
16 Nonbanks ²		20,697	18,220	19,195	18,578	18,733	18,533	15,830 ^r	17,642	16,736
17 Claims on foreigners	247,406	228,600	209,905	194,643	207,701	190,030	190,650 ^r	196,448	187,296	190,019
18 Other branches of parent bank	78,431	78,746	72,689	68,604	78,400	67,835	67,835	73,704	67,479	66,642
19 Banks	93,332	76,940	71,748	64,940	68,596	62,836	64,920 ^r	66,421	63,637	68,464
20 Public borrowers	17,890	17,626	17,252	16,788	16,521	17,455	16,820 ^r	16,586	16,459	16,320
21 Nonbank foreigners	60,977	55,288	48,216	44,311	44,184	41,904	41,075 ^r	39,737	39,721	38,773
22 Other assets	10,666	10,610	9,738	10,096	10,763	11,445	11,746	11,804	11,827	12,453
United Kingdom										
23 Total, all currencies	158,732	144,385	148,599	145,619	151,596	142,398	143,800	140,917	144,093	146,188
24 Claims on United States	34,433	27,675	33,157	29,839	30,879	30,747	28,940	24,599	28,720	28,853
25 Parent bank	29,111	21,862	26,970	23,466	24,291	24,800	22,671	19,085	23,330	23,326
26 Other banks in United States ²	5,322	1,429	1,106	1,448	2,092	1,314	1,534	1,612	1,220	1,258
27 Nonbanks ²		4,384	5,081	4,925	4,496	4,633	4,735	3,902	4,170	4,269
28 Claims on foreigners	119,280	111,828	110,217	109,024	113,368	105,534	108,147	109,508	108,720	110,272
29 Other branches of parent bank	36,565	37,953	31,576	31,828	34,678	31,268	29,960	33,422	30,218	29,575
30 Banks	43,352	37,443	39,250	38,048	40,204	37,836	41,145	39,468	40,677	43,189
31 Public borrowers	5,898	5,334	5,644	5,336	5,086	5,157	5,038	4,990	4,942	4,983
32 Nonbank foreigners	33,465	31,098	33,747	33,812	33,400	31,273	32,004	31,628	32,883	32,525
33 Other assets	5,019	4,882	5,225	6,756	7,349	6,117	6,713	6,810	6,653	7,063
34 Total payable in U.S. dollars	126,012	112,809	108,626	97,771	103,228	97,295	97,119	95,028	95,359	97,568
35 Claims on United States	33,756	26,868	32,092	28,446	29,512	29,312	27,564	23,193	27,070	27,290
36 Parent bank	28,756	21,495	26,568	22,972	23,826	24,323	22,106	18,526	22,673	22,749
37 Other banks in United States ²	5,000	1,363	1,005	1,194	1,848	1,110	1,364	1,475	996	1,061
38 Nonbanks ²		4,010	4,519	4,280	3,838	3,879	4,094	3,192	3,401	3,480
39 Claims on foreigners	88,917	82,945	73,475	66,465	70,325	64,873	66,298	68,138	65,022	66,872
40 Other branches of parent bank	31,838	33,607	26,011	24,657	27,151	24,632	23,223	26,361	22,720	22,578
41 Banks	32,188	26,805	26,139	21,636	22,917	21,011	24,020	23,251	23,656	25,685
42 Public borrowers	4,194	4,030	3,999	3,838	3,778	3,859	3,811	3,677	3,683	3,716
43 Nonbank foreigners	20,697	18,503	17,326	16,334	16,479	15,371	15,244	14,849	14,963	14,893
44 Other assets	3,339	2,996	3,059	2,860	3,391	3,110	3,257	3,697	3,267	3,406
Bahamas and Caymans										
45 Total, all currencies	152,083	146,811	142,055	137,526	143,082	134,060	131,363	142,592	135,627	133,229
46 Claims on United States	75,309	77,296	74,864	73,047	71,918	68,624	66,078	76,663	72,643	68,094
47 Parent bank	48,720	49,449	50,553	47,694	46,635	44,476	42,223	53,068	48,036	44,124
48 Other banks in United States ²	26,589	11,544	11,204	10,813	10,641	9,557	9,628	11,156	10,625	10,924
49 Nonbanks ²		16,303	13,107	14,540	14,652	14,591	14,227	12,439	13,982	13,046
50 Claims on foreigners	72,868	65,598	63,882	60,167	66,610	59,612	59,436	61,390	57,825	59,815
51 Other branches of parent bank	20,626	17,661	19,042	16,539	22,763	16,985	18,139	18,803	16,258	17,393
52 Banks	36,842	30,246	28,192	27,065	27,779	26,205	25,743	27,476	26,366	28,283
53 Public borrowers	6,093	6,089	6,458	6,675	6,434	7,263	6,697	6,929	7,026	6,974
54 Nonbank foreigners	12,592	11,602	10,190	9,888	9,634	9,159	8,857	8,182	8,175	7,165
55 Other assets	3,906	3,917	3,309	4,312	4,544	5,824	5,849	4,539	5,159	5,320
56 Total payable in U.S. dollars	145,641	141,562	136,794	130,723	136,615	127,361	124,801	136,813	129,474	126,605

1. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from \$50 million to \$150 million equivalent in total assets, the threshold now applicable to all reporting branches.

2. Data for assets vis-à-vis other banks in the United States and vis-à-vis nonbanks are combined for dates before June 1984.

3.14 Continued

Liability account	1983	1984	1985	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^P
All foreign countries										
57 Total, all currencies	477,090	453,656	458,012	461,440	474,567	446,581	446,612	456,627	458,305	457,819
58 Negotiable CDs ³	n.a.	37,725	34,607	31,475	33,642	32,444	32,926	31,629	33,395	36,074
59 To United States	188,070	147,583	155,538	145,488	151,281	141,126	137,158	151,606	140,053	140,053
60 Parent bank	81,261	78,739	83,914	79,564	87,927	75,777	75,062	82,535	70,011	73,095
61 Other banks in United States	29,453	18,409	16,894	15,151	14,153	14,791	14,661	15,650	15,068	13,609
62 Nonbanks	77,356	50,435	54,730	50,773	49,201	50,558	47,435	53,421	54,974	53,349
63 To foreigners	269,685	247,907	245,942	262,978	269,322	253,202	256,476	253,775	264,499	261,937
64 Other branches of parent bank	90,615	93,909	89,529	91,307	102,245	87,883	87,853	95,146	90,339	88,612
65 Banks	92,889	78,203	76,814	85,239	81,953	80,709	83,655	77,806	89,199	86,239
66 Official institutions	18,896	20,281	19,523	20,637	20,109	19,436	18,831	17,835	19,532	19,818
67 Nonbank foreigners	68,845	55,514	60,076	65,795	65,015	65,174	66,137	62,988	65,429	67,268
68 Other liabilities	19,335	20,441	21,925	21,499	20,322	19,809	20,052	19,617	20,358	19,755
69 Total payable in U.S. dollars	388,291	367,145	353,470	333,581	349,259	323,699	320,342 ^r	336,406	323,900	325,826
70 Negotiable CDs ³	n.a.	35,227	31,063	28,091	30,560	29,206	29,752	28,466	29,921	32,407
71 To United States	184,305	143,571	150,161	137,805	143,627	133,301	129,353	143,626	131,521	131,617
72 Parent bank	79,035	76,254	80,888	75,391	83,790	71,858	71,017	78,448	65,383	68,540
73 Other banks in United States	28,936	17,935	16,264	14,364	13,173	13,768	13,808	14,613	14,047	12,505
74 Nonbanks	76,334	49,382	53,009	48,050	46,664	47,675	44,528	50,565	52,091	50,572
75 To foreigners	194,139	178,260	163,361	158,931	167,356	153,536	153,837 ^r	156,806	155,218	154,218
76 Other branches of parent bank	73,522	77,770	70,943	66,878	77,464	65,077	64,038 ^r	71,181	64,416	63,360
77 Banks	57,022	45,123	37,323	36,460	35,358	33,802	35,177	33,847	37,159	37,128
78 Official institutions	13,855	15,773	14,354	14,125	13,697	13,320	13,139	12,371	13,688	13,189
79 Nonbank foreigners	51,260	39,594	40,741	41,468	40,837	41,337	41,483	39,407	39,955	40,541
80 Other liabilities	9,847	10,087	8,885	8,754	7,716	7,656	7,400	7,508	7,240	7,584
United Kingdom										
81 Total, all currencies	158,732	144,385	148,599	145,619	151,596	142,398	143,800	140,917	144,093	146,188
82 Negotiable CDs ³	n.a.	34,413	31,260	28,279	30,352	28,847	28,984	27,781	29,432	32,233
83 To United States	55,799	25,250	29,422	22,831	26,540	24,610	22,714	24,657	19,465	22,508
84 Parent bank	14,021	14,651	19,330	14,188	17,399	14,014	13,811	14,469	10,004	12,735
85 Other banks in United States	11,328	3,125	2,974	2,148	2,062	2,382	2,313	2,649	2,154	2,161
86 Nonbanks	30,450	7,474	7,118	6,495	7,079	8,214	6,590	7,539	7,307	7,612
87 To foreigners	95,847	77,424	78,525	84,880	85,554	80,252	83,320	79,498	86,229	82,411
88 Other branches of parent bank	19,038	21,631	23,389	24,962	28,272	24,194	23,733	25,036	23,595	21,230
89 Banks	41,624	30,436	28,581	32,250	31,190	31,001	34,192	30,877	36,479	35,427
90 Official institutions	10,151	10,154	9,676	9,330	8,652	8,068	7,875	6,836	8,484	7,832
91 Nonbank foreigners	25,034	15,203	16,879	18,338	17,440	16,989	17,520	16,749	17,671	17,922
92 Other liabilities	7,086	7,298	9,392	9,629	9,150	8,689	8,782	8,981	8,967	9,036
93 Total payable in U.S. dollars	131,167	117,497	112,697	101,397	108,249	99,820	99,321	99,707	98,741	101,478
94 Negotiable CDs ³	n.a.	33,070	29,337	26,114	28,490	26,927	27,166	26,169	27,701	30,175
95 To United States	54,691	24,105	27,756	20,403	24,039	21,960	20,184	22,075	17,829	19,894
96 Parent bank	13,839	14,339	18,956	13,707	16,984	13,591	13,438	14,021	9,451	12,157
97 Other banks in United States	11,044	2,980	2,826	1,879	1,735	2,108	2,009	2,325	1,887	1,926
98 Nonbanks	29,808	6,786	5,974	4,817	5,320	6,261	4,737	5,729	5,491	5,811
99 To foreigners	73,279	56,923	51,980	50,855	52,645	47,491	48,921	48,138	51,174	48,117
100 Other branches of parent bank	15,403	18,294	18,493	17,790	21,305	17,289	16,689	17,951	16,386	14,323
101 Banks	29,320	18,356	14,344	15,056	14,491	14,123	15,855	15,203	18,626	18,082
102 Official institutions	8,279	8,871	7,661	6,724	6,015	5,685	5,655	4,934	6,096	5,176
103 Nonbank foreigners	20,277	11,402	11,482	11,285	10,834	10,394	10,722	10,050	10,066	10,536
104 Other liabilities	3,197	3,399	3,624	4,025	3,075	3,442	3,050	3,325	3,037	3,292
Bahamas and Caymans										
105 Total, all currencies	152,083	146,811	142,055	137,526	143,082	134,060	131,363	142,592	135,627	133,229
106 Negotiable CDs ³	n.a.	615	610	470	527	683	784	847	995	855
107 To United States	111,299	102,955	103,813	99,585	102,012	95,840	94,493	105,229	98,733	95,221
108 Parent bank	50,980	47,162	44,811	44,417	49,981	43,470	43,572	48,629	40,845	40,409
109 Other banks in United States	16,057	13,938	12,778	11,952	10,986	11,144	11,131	11,719	11,687	10,151
110 Nonbanks	44,262	41,855	46,224	43,216	41,045	41,226	39,790	44,881	46,201	44,661
111 To foreigners	38,445	40,320	35,053	35,216	38,447	35,427	33,841	34,400	33,831	35,053
112 Other branches of parent bank	14,936	16,782	14,075	13,368	15,918	13,574	12,527	12,631	12,323	13,060
113 Banks	11,876	12,405	10,669	10,216	10,158	8,964	8,545	8,614	8,402	8,507
114 Official institutions	1,919	2,054	1,776	2,386	2,834	2,665	2,577	2,719	2,808	3,013
115 Nonbank foreigners	11,274	9,079	8,533	9,246	9,537	10,224	10,192	10,436	10,298	10,473
116 Other liabilities	2,339	2,921	2,579	2,255	2,096	2,110	2,245	2,116	2,068	2,100
117 Total payable in U.S. dollars	148,278	143,582	138,322	133,256	138,733	130,084	127,309	138,774	131,572	129,183

3. Before June 1984, liabilities on negotiable CDs were included in liabilities to the United States or liabilities to foreigners, according to the address of the initial purchaser.

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1984	1985 ^r	1986 ^r					1987	
			Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^p
1 Total ¹	180,552	178,385	204,522	209,743	211,297	211,121	211,356	212,313	214,206
<i>By type</i>									
2 Liabilities reported by banks in the United States ²	26,089	26,734	26,654	29,722	27,392	27,777	27,288	26,534	28,313
3 U.S. Treasury bills and certificates ³	59,976	53,252	74,766	75,095	75,457	75,132	75,650	75,718	75,434
U.S. Treasury bonds and notes									
4 Marketable	69,019	77,154	85,626	87,503	91,092	91,225	91,521	93,023	93,693
5 Nonmarketable ⁴	5,800	3,550	1,300	1,300	1,300	1,300	1,300	1,300	1,300
6 U.S. securities other than U.S. Treasury securities ⁵	19,668	17,695	16,176	16,123	16,056	15,687	15,597	15,738	15,466
<i>By area</i>									
7 Western Europe ¹	69,776	74,418	84,565	87,314	88,658	87,725	87,859	88,509	89,976
8 Canada	1,528	1,314	1,535	1,626	1,699	1,891	2,004	3,382	3,761
9 Latin America and Caribbean	8,561	11,144	10,779	10,328	10,136	9,086	8,358	7,676	7,416
10 Asia	93,954	86,490	102,856	105,704	105,422	105,580	106,119	107,526	108,534
11 Africa	1,264	1,824	1,958	1,864	1,716	1,545	1,503	1,299	1,164
12 Other countries ⁶	5,469	3,195	2,829	2,907	3,666	5,294	5,513	3,921	3,355

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	1983	1984	1985	1986			
				Mar. ^r	June ^r	Sept. ^r	Dec. ^p
1 Banks' own liabilities	5,219	8,586	15,368	21,264	24,130	29,353	29,897
2 Banks' own claims	7,231	11,984	16,294	19,728	21,264	24,567	25,361
3 Deposits	2,731	4,998	8,437	11,311	11,413	13,716	13,359
4 Other claims	4,501	6,986	7,857	8,417	9,851	10,851	12,002
5 Claims of banks' domestic customers ¹	1,059	569	580	1,426	1,385	1,659	2,613

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	1983	1984	1985	1986					1987	
				Aug. ^r	Sept. ^r	Oct. ^r	Nov.	Dec. ^r	Jan.	Feb. ^r
1 All foreigners	369,607	407,306	435,726	487,914	506,104	501,095	512,653^r	537,778	525,220	521,757
2 Banks' own liabilities	279,087	306,898	341,070	355,979	372,533	365,956	378,023 ^r	404,395	391,036	387,804
3 Demand deposits	17,470	19,571	21,107	20,249	21,347	21,730	24,772	23,786	22,504	22,439
4 Time deposits ¹	90,632	110,413	117,278	122,059	125,241	123,752	125,618 ^r	131,281	124,926	126,516
5 Other ²	25,874	26,268	29,305	34,223	37,795	36,332	35,915 ^r	40,545	39,132	40,675
6 Own foreign offices ³	145,111	150,646	173,381	179,450	188,150	184,142	191,718	208,782	204,475	198,174
7 Banks' custody liabilities ⁴	90,520	100,408	94,656	131,935	133,571	135,139	134,630 ^r	133,383	134,184	133,953
8 U.S. Treasury bills and certificates ⁵	68,669	76,368	69,133	89,586	90,467	91,305	90,351	90,257	89,267	90,695
9 Other negotiable and readily transferable instruments ⁶	17,467	18,747	17,964	15,591	15,303	15,649	15,343	16,523	15,358	13,991
10 Other	4,385	5,293	7,558	26,757	27,800	28,184	28,936 ^r	26,603	29,558	29,267
11 Nonmonetary international and regional organizations⁷	5,957	4,454	5,821	5,253	3,038	3,902	4,315	4,826	5,263	4,768
12 Banks' own liabilities	4,632	2,014	2,621	4,090	1,721	2,426	2,944	2,977	3,914	2,442
13 Demand deposits	297	254	85	165	180	175	135	199	183	157
14 Time deposits ¹	3,584	1,267	2,067	3,233	1,243	1,939	2,299	2,166	2,670	1,736
15 Other ²	750	493	469	691	299	312	511	611	1,061	548
16 Banks' custody liabilities ⁴	1,325	2,440	3,200	1,163	1,317	1,476	1,371	1,849	1,349	2,326
17 U.S. Treasury bills and certificates	463	916	1,736	129	218	308	262	259	86	1,213
18 Other negotiable and readily transferable instruments ⁶	862	1,524	1,464	1,033	1,099	1,162	1,104	1,590	1,261	1,112
19 Other	0	0	0	1	0	6	5	0	2	1
20 Official institutions⁸	79,876	86,065	79,985	101,419	104,818	102,849	102,909	102,938	102,250	103,748
21 Banks' own liabilities	19,427	19,039	20,835	23,882	26,969	24,268	25,165	24,796	24,307 ^r	25,611
22 Demand deposits	1,837	1,823	2,077	1,582	1,895	1,840	2,188	2,267	1,487	1,513
23 Time deposits ¹	7,318	9,374	10,949	10,307	10,923	10,593	11,271	10,577	10,672 ^r	10,464
24 Other ²	10,272	7,842	7,809	11,993	14,151	11,835	11,706	11,952	12,147 ^r	13,634
25 Banks' custody liabilities ⁴	60,448	67,026	59,150	77,538	77,849	78,581	77,744	78,142	77,944	78,136
26 U.S. Treasury bills and certificates ⁵	54,341	59,976	53,252	74,766	75,095	75,457	75,132	75,650	75,718	75,434
27 Other negotiable and readily transferable instruments ⁶	6,082	6,966	5,824	2,624	2,554	2,920	2,480	2,347	2,158	2,562
28 Other	25	84	75	148	199	204	132	145	69	140
29 Banks⁹	226,887	248,893	275,589	302,283	319,013	314,433	325,392^r	349,605	339,698	335,753
30 Banks' own liabilities	205,347	225,368	252,723	260,775	276,511	271,790	282,785 ^r	309,792	296,899	293,971
31 Unaffiliated foreign banks	60,236	74,722	79,341	81,325	88,361	87,648	91,067 ^r	101,010	92,424	95,796
32 Demand deposits	8,759	10,556	10,271	9,306	9,254	9,714	11,626	10,301	10,433	10,097
33 Time deposits ¹	37,439	47,095	49,510	52,132	57,412	55,601	57,515 ^r	64,480	58,149	61,637
34 Other ²	14,038	17,071	19,561	19,887	21,694	22,333	21,927 ^r	26,229	23,842	24,063
35 Own foreign offices ³	145,111	150,646	173,381	179,450	188,150	184,142	191,718	208,782	204,475	198,174
36 Banks' custody liabilities ⁴	21,540	23,525	22,866	41,508	42,502	42,643	42,607 ^r	39,812	42,799	41,782
37 U.S. Treasury bills and certificates	10,178	11,448	9,832	10,543	10,635	10,601	10,491	9,962	9,821	10,486
38 Other negotiable and readily transferable instruments ⁶	7,485	7,236	6,040	5,871	5,803	5,600	5,550	5,513	5,542	4,340
39 Other	3,877	4,841	6,994	25,095	26,064	26,442	26,566 ^r	24,338	27,436	26,956
40 Other foreigners	56,887	67,894	74,331	78,959	79,236	79,911	80,037^r	80,411	78,008	77,489
41 Banks' own liabilities	49,680	60,477	64,892	67,233	67,333	67,472	67,129 ^r	66,830	65,916	65,780
42 Demand deposits	6,577	6,938	8,673	9,196	10,018	10,000	10,824	11,019	10,400	10,672
43 Time deposits	42,290	52,678	54,752	56,387	55,664	55,620	54,533	54,059	53,435	52,678
44 Other ²	813	861	1,467	1,651	1,651	1,852	1,772 ^r	1,752	2,081	2,430
45 Banks' custody liabilities ⁴	7,207	7,417	9,439	11,726	11,903	12,439	12,908	13,580	12,092	11,710
46 U.S. Treasury bills and certificates	3,686	4,029	4,314	4,149	4,519	4,939	4,465	4,387	3,643	3,563
47 Other negotiable and readily transferable instruments ⁶	3,038	3,021	4,636	6,064	5,846	5,968	6,209	7,074	6,397	5,976
48 Other	483	367	489	1,514	1,537	1,532	2,234	2,120	2,052	2,170
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	10,346	10,476	9,845	6,569	6,584	6,759	6,609	7,343	7,189	7,668

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	1983	1984	1985	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^p
1 Total	369,607	407,306	435,726	487,914 ^r	506,104 ^r	501,095 ^r	512,653 ^r	537,778 ^r	525,220	521,757
2 Foreign countries	363,649	402,852	429,905	482,662 ^r	503,066 ^r	497,193 ^r	508,338 ^r	532,953 ^r	519,957	516,989
3 Europe	138,072	153,145	164,114	166,949 ^r	173,702 ^r	173,578 ^r	176,077 ^r	180,521 ^r	178,943	180,641
4 Austria	585	615	693	1,035	1,073	972 ^r	1,197	1,186	978	944
5 Belgium-Luxembourg	2,709	4,114	5,243	5,114	6,165	6,070 ^r	6,863	6,788 ^r	6,754	7,526
6 Denmark	466	438	513	643	483	478	576	485	451	520
7 Finland	531	418	496	365	406	606	448	580	565	811
8 France	9,441	12,701	15,541	21,469	21,339	21,243 ^r	21,917 ^r	22,849	21,392	22,670
9 Germany	3,599	3,358	4,835	6,062	5,609 ^r	6,624	5,856	5,688 ^r	6,573	5,587
10 Greece	520	699	666	570	623	646	755	706	749	749
11 Italy	8,462	10,762	9,667	9,269	8,836	8,807	9,304	10,866 ^r	9,379	8,411
12 Netherlands	4,290	4,731	4,212	4,495	4,952	4,858 ^r	4,410	5,558	5,179	5,277
13 Norway	1,673	1,548	948	542	538 ^r	654	512	745	680	554
14 Portugal	373	597	652	791	758	738	685	700	658	709
15 Spain	1,603	2,082	2,114	1,979	2,082	2,297	2,197	2,393	2,243	2,345
16 Sweden	1,799	1,676	1,422	944	1,253 ^r	1,016	1,301	889	908	1,087
17 Switzerland	32,246	31,740	29,020	29,014 ^r	29,177 ^r	29,695 ^r	30,406	31,239	30,020	28,374
18 Turkey	467	584	429	285	448	401	418	454	575	659
19 United Kingdom	60,683	68,671	76,728	79,964 ^r	85,960 ^r	84,308 ^r	84,913 ^r	85,336 ^r	87,748	89,797
20 Yugoslavia	562	602	673	482	562	515	544	631 ^r	554	565
21 Other Western Europe ¹	7,403	7,192	9,635	3,342 ^r	2,809 ^r	3,141 ^r	3,308	2,705 ^r	2,981	3,418
22 U.S.S.R.	65	79	105	32	84	25	16	23	21	23
23 Other Eastern Europe ²	596	537	523	553	545	484	452	702	536	615
24 Canada	16,026	16,059	17,427	23,933	24,150	24,340	25,753	26,256	26,077	25,106
25 Latin America and Caribbean	140,088	153,381	167,856	188,349 ^r	197,526 ^r	191,916 ^r	189,773 ^r	208,057 ^r	195,362	191,002
26 Argentina	4,038	4,394	6,032	6,096	6,069	5,718 ^r	5,202	4,754	4,503	4,668
27 Bahamas	55,818	56,897	57,657	67,044	69,173 ^r	64,106	62,613	72,347 ^r	64,918	60,643
28 Bermuda	2,266	2,370	2,765	2,248	2,209 ^r	1,918	2,549	2,965	2,362	4,300
29 Brazil	3,168	5,275	5,373	5,168	5,359	8,895 ^r	4,684	4,321	3,815	3,850
30 British West Indies	34,545	36,773	42,674	56,372 ^r	62,141 ^r	59,143 ^r	61,855 ^r	70,918 ^r	66,390	65,440
31 Chile	1,842	2,001	2,049	2,139	2,426	2,398	2,325	2,053 ^r	2,209	2,046
32 Colombia	1,689	2,514	3,104	3,315	3,373	3,775	3,873	4,281	4,299	4,267
33 Cuba	8	10	11	8	7	6	6	6	6	7
34 Ecuador	1,047	1,092	1,239	1,233	1,261 ^r	1,217 ^r	1,199	1,235	1,049	1,118
35 Guatemala	788	896	1,071	1,140	1,129	1,126	1,129	1,122	1,124	1,080
36 Jamaica	109	183	122	177	187	151	153	136	149	145
37 Mexico	10,392	12,303	14,060	13,609	13,137	13,209 ^r	13,488	13,631	13,486	13,362
38 Netherlands Antilles	3,879	4,220	4,875	4,383	5,045 ^r	4,645	4,706	4,903 ^r	5,582	5,627
39 Panama	5,924	6,951	7,514	6,392	6,415	6,524 ^r	6,729	6,865 ^r	7,376	6,488
40 Peru	1,166	1,266	1,167	1,149	1,256	1,167	1,146	1,163 ^r	1,110	1,130
41 Uruguay	1,244	1,394	1,552	1,636	1,589	1,608	1,610	1,537	1,619	1,579
42 Venezuela	8,632	10,545	11,922	11,560	11,709	11,392	11,592	10,452 ^r	10,522	10,288
43 Other Latin America and Caribbean	3,535	4,297	4,668	4,681 ^r	5,041 ^r	4,917	4,914	5,368 ^r	4,845	4,962
44 Asia	58,570	71,187	72,280	96,048 ^r	100,097 ^r	99,360 ^r	107,054 ^r	108,973 ^r	112,222	113,515
45 China	249	1,153	1,607	1,185	1,940 ^r	1,585	1,450	1,476	2,045	1,680
46 Taiwan	4,051	4,990	7,786	15,608	16,132 ^r	16,534 ^r	17,540	18,903	19,554	20,856
47 Hong Kong	6,657	6,581	8,067	9,026	9,349	8,663 ^r	9,347	9,517 ^r	9,532	9,538
48 India	464	507	712	685	651	755	701	673	664	686
49 Indonesia	997	1,033	1,466	1,474	1,611	1,530	1,528	1,548	1,411	1,591
50 Israel	1,722	1,268	1,601	1,686	2,109	1,986	2,380	1,890	1,763	1,887
51 Japan	18,079	21,640	23,077	38,248 ^r	39,986 ^r	41,340 ^r	46,184 ^r	47,436 ^r	49,997	50,955
52 Korea	1,648	1,730	1,665	1,251	1,282	1,446	1,128	1,146	1,063	1,022
53 Philippines	1,234	1,383	1,140	1,458	1,400	1,707	1,720	1,865	1,809	1,776
54 Thailand	747	1,257	1,358	1,080	1,100	1,115	1,083	1,120	1,283	1,224
55 Middle-East oil-exporting countries ³	12,976	16,804	14,523	13,227	13,056	12,045	13,010	12,356	12,329	12,158
56 Other Asia	9,748	12,841	9,276	11,121	11,481	10,654	10,984	11,042	10,770	10,142
57 Africa	2,827	3,396	4,883	4,227	4,166 ^r	3,973	4,018	4,018 ^r	3,663	3,500
58 Egypt	671	647	1,363	1,088	843	640	710	706	608	791
59 Morocco	84	118	163	82	91	86	84	92	74	76
60 South Africa	449	328	388	438	325 ^r	347	264	271 ^r	341	200
61 Zaire	87	153	163	60	80	79	96	74	54	42
62 Oil-exporting countries ⁴	620	1,189	1,494	1,371	1,625	1,623	1,593	1,518	1,336	1,156
63 Other Africa	917	961	1,312	1,189	1,203	1,199	1,272	1,358	1,249	1,233
64 Other countries	8,067	5,684	3,347	3,155	3,425	4,026	5,662	5,128 ^r	3,690	3,226
65 Australia	7,857	5,300	2,779	2,459	2,785	2,943	4,286	4,205 ^r	2,692	2,459
66 All other	210	384	568	696	639 ^r	1,083	1,376	922 ^r	997	767
67 Nonmonetary international and regional organizations	5,957	4,454	5,821	5,253	3,038	3,902	4,315	4,826	5,263	4,768
68 International	5,273	3,747	4,806	4,147	1,759	2,748	3,232	3,512 ^r	3,958	3,694
69 Latin American regional	419	587	894	916	972	957	927	1,033 ^r	960	762
70 Other regional ⁵	265	120	121	190	307	197	157	281	346	312

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	1983	1984	1985	1986					1987	
				Aug.	Sept.	Oct.	Nov.	Dec. ^r	Jan.	Feb. ^p
1 Total	391,312	400,162	401,608	403,748 ^r	416,601 ^r	407,832 ^r	418,485 ^r	444,458 ^r	420,621	409,799
2 Foreign countries	391,148	399,363	400,577	403,328 ^r	416,401 ^r	407,460 ^r	418,313 ^r	441,475 ^r	420,559	409,622
3 Europe	91,927	99,014	106,413	100,323	106,755 ^r	104,647 ^r	107,047 ^r	107,549	100,815	102,363
4 Austria	401	433	598	694	654	595 ^r	748	738	654	559
5 Belgium-Luxembourg	5,639	4,794	5,772	6,990	6,574	7,712 ^r	8,149	7,511	7,571	8,882
6 Denmark	1,275	648	706	783	807	796	764	700	667	630
7 Finland	1,044	898	823	964	1,085	1,111	1,176	947	797	1,050
8 France	8,766	9,157	9,124	9,483	10,209	9,600 ^r	9,574 ^r	11,401	9,086	9,992
9 Germany	1,284	1,306	1,267	1,181	1,609 ^r	1,432 ^r	1,769 ^r	1,826	2,277	1,736
10 Greece	476	817	991	660	706	626	792	648	635	628
11 Italy	9,018	9,119	8,848	5,981	6,795 ^r	7,713 ^r	8,391 ^r	9,051	7,916	7,341
12 Netherlands	1,267	1,356	1,258	1,254	2,040 ^r	2,592 ^r	2,427 ^r	3,314	2,087	2,064
13 Norway	690	675	706	698	732	711	712	654	741	766
14 Portugal	1,114	1,243	1,058	757	734	699	682	706	675	679
15 Spain	3,573	2,884	1,908	1,757	1,995	1,922	1,722	1,459	1,479	1,637
16 Sweden	3,358	2,230	2,219	2,396	2,487	2,375	2,343	1,945	2,280	2,446
17 Switzerland	1,863	2,123	3,171	3,306	2,665	2,832 ^r	3,574	3,049	2,622	2,397
18 Turkey	812	1,130	1,200	1,649	1,586	1,612	1,539 ^r	1,541	1,469	1,450
19 United Kingdom	47,364	56,185	62,566	57,856	62,017 ^r	58,248 ^r	59,120 ^r	58,380	55,775	56,288
20 Yugoslavia	1,718	1,886	1,964	1,852	1,871	1,886	1,813 ^r	1,833	1,773	1,766
21 Other Western Europe ¹	477	596	998	508	791	799	600	556	536	491
22 U.S.S.R	192	142	130	528	405	296	225	345	396	557
23 Other Eastern Europe ²	1,598	1,389	1,107	1,026	992 ^r	1,090 ^r	927	944	1,382	1,000
24 Canada	16,341	16,109	16,482	19,401	18,112	19,532	20,338	20,957	20,749	19,170
25 Latin America and Caribbean	205,491	207,862	202,674	197,867 ^r	205,584 ^r	196,861 ^r	196,768 ^r	208,902	195,091	195,234
26 Argentina	11,749	11,050	11,462	12,009	12,119	12,243	12,079	12,079	12,103	13,533
27 Bahamas	59,633	58,009	58,258	55,453 ^r	61,705	53,557	54,196 ^r	59,777	51,959	51,117
28 Bermuda	566	592	499	373	320	452	447	418	415	380
29 Brazil	24,667	26,315	25,283	24,762	24,856	24,740 ^r	25,882 ^r	25,586	25,685	25,857
30 British West Indies	35,527	38,205	38,881	39,836	40,364	39,981 ^r	39,694 ^r	46,305	41,088	40,729
31 Chile	6,072	6,839	6,603	6,449	6,489	6,514	6,526	6,533	6,462	6,508
32 Colombia	3,745	3,499	3,249	2,642	2,633	2,674	2,665	2,819	2,801	2,743
33 Cuba	0	0	0	0	0	0	1	0	2	1
34 Ecuador	2,307	2,420	2,390	2,375	2,387	2,420	2,395	2,430	2,406	2,403
35 Guatemala ³	129	158	194	127	135	122	138	140	133	145
36 Jamaica ³	215	252	224	209	224	209	216	198	199	199
37 Mexico	34,802	34,885	31,799	30,839	31,037	31,061	30,659	30,490	30,157	29,770
38 Netherlands Antilles	1,154	1,350	1,340	1,060	1,133	967 ^r	931 ^r	1,039	960	1,072
39 Panama	7,848	7,707	6,645	5,862	6,377	6,094	5,354	5,423	5,270	5,150
40 Peru	2,536	2,384	1,947	1,677	1,600	1,625	1,618	1,637	1,618	1,610
41 Uruguay	977	1,088	960	936	1,051	930	943	940	937	932
42 Venezuela	11,287	11,017	10,871	11,289	11,177	11,185 ^r	11,019 ^r	11,052	10,992	11,145
43 Other Latin America and Caribbean	2,277	2,091	2,067	1,969	1,977	2,086	2,067 ^r	1,937	1,903	1,940
44 Asia	67,837	66,316	66,212	77,811	78,073	78,631 ^r	86,236 ^r	96,148	95,982	85,299
45 China										
46 Mainland	292	710	639	526	758	758	793	787	983	873
47 Taiwan	1,908	1,849	1,535	1,637	1,903	1,528	1,812	2,675	2,617	2,891
48 Hong Kong	8,489	7,293	6,796	8,632	8,883	8,337	7,575 ^r	8,250	8,443	9,340
49 India	330	425	450	375	355	316	327	321	333	325
50 Indonesia	805	724	698	729	689	694	722	718	699	679
51 Israel	1,832	2,088	1,991	1,541	1,622	1,630	1,615	1,645	1,611	1,555
52 Japan	30,354	29,066	31,249	43,327	42,751	45,240 ^r	53,351 ^r	59,852	58,315	48,918
53 Korea	9,943	9,285	9,226	8,495	7,846	7,023	6,533 ^r	7,155	6,783	6,188
54 Philippines	2,107	2,555	2,224	2,128	2,148	2,071	1,972	2,202	2,141	2,108
55 Thailand	1,219	1,125	845	736	636	611	595	577	521	556
56 Middle East oil-exporting countries ⁴	4,954	5,044	4,298	2,764	3,724	3,396	3,778	4,122	5,483	4,944
55 Other Asia	5,603	6,152	6,260	6,921	6,758	7,027	7,162	7,845	8,053	6,922
57 Africa	6,654	6,615	5,407	4,693	4,651	4,531	4,737	4,621	4,599	4,627
58 Egypt	747	728	721	633	593	577	560	567	577	592
59 Morocco	440	583	575	617	636	621	621	598	590	585
60 South Africa	2,634	2,795	1,942	1,683	1,607	1,549	1,586	1,531	1,516	1,498
61 Zaire	33	18	20	21	33	35	27	28	36	42
62 Oil-exporting countries ⁵	1,073	842	630	445	512 ^r	545	690	688	725	742
63 Other	1,727	1,649	1,520	1,294	1,270 ^r	1,203	1,253	1,208	1,156	1,168
64 Other countries	2,898	3,447	3,390	3,232	3,225	3,259	3,187	3,297	3,323	2,929
65 Australia	2,256	2,769	2,413	2,293	2,221	2,143	1,980 ^r	1,952	2,081	1,958
66 All other	642	678	978	940	1,004	1,115	1,207 ^r	1,345	1,242	971
67 Nonmonetary international and regional organizations ⁶	164	800	1,030	420	200	372	171	2,983	62	178

1. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.

2. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.

3. Included in "Other Latin America and Caribbean" through March 1978.

4. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

5. Comprises Algeria, Gabon, Libya, and Nigeria.

6. Excludes the Bank for International Settlements, which is included in "Other Western Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States
Payable in U.S. Dollars
Millions of dollars, end of period

Type of claim	1983	1984	1985	1986					1987	
				Aug.	Sept. ^r	Oct. ^r	Nov. ^r	Dec. ^r	Jan.	Feb. ^p
1 Total	426,215	433,078	430,489	.....	448,375	.....	.....	478,429	.....	.....
2 Banks' own claims on foreigners.....	391,312	400,162	401,608	403,748 ^r	416,601	407,832	418,485	444,458	420,621	409,799
3 Foreign public borrowers	57,569	62,237	60,507	60,046	60,603	60,745	60,785	63,582	61,365	60,945
4 Own foreign offices ¹	146,393	156,216	174,261	182,158 ^r	193,350	182,548	189,732	212,023	192,355	183,532
5 Unaffiliated foreign banks	123,837	124,932	116,654	115,922	116,837	117,865	120,485	122,819	121,049	120,447
6 Deposits	47,126	49,226	48,372	52,410	52,178	53,546	53,300	57,349	54,228	55,307
7 Other	76,711	75,706	68,282	63,512	64,660	64,319	67,185	65,471	66,821	65,139
8 All other foreigners	63,514	56,777	50,185	45,621	45,811	46,675	47,483	46,034	45,853	44,875
9 Claims of banks' domestic customers ² ..	34,903	32,916	28,881	.....	31,774	.....	.....	33,971	.....	.....
10 Deposits	2,969	3,380	3,335	.....	3,668	.....	.....	4,413	.....	.....
11 Negotiable and readily transferable instruments ³	26,064	23,805	19,332	.....	22,337	.....	.....	24,044	.....	.....
12 Outstanding collections and other claims	5,870	5,732	6,214	.....	5,769	.....	.....	5,514	.....	.....
13 MEMO: Customer liability on acceptances	37,715	37,103	28,487	.....	27,082	.....	.....	25,606	.....	.....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States ⁴	46,337	40,714	37,780	48,653 ^r	43,753	42,771	44,772	43,358	45,935	n.a.

1. U.S. banks: includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies, Agencies, branches, and majority-owned subsidiaries of foreign banks: principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.

2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the account of their domestic customers.

3. Principally negotiable time certificates of deposit and bankers acceptances.

4. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 BULLETIN, p. 550.

NOTE: Beginning April 1978, data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States
Payable in U.S. Dollars
Millions of dollars, end of period

Maturity; by borrower and area	1983	1984	1985	1986			
				Mar. ^r	June ^r	Sept. ^r	Dec.
1 Total	243,715	243,952	227,903	221,294	222,597	224,693	229,922
<i>By borrower</i>							
2 Maturity of 1 year or less ¹	176,158	167,858	160,824	152,782	152,589	155,116	158,437
3 Foreign public borrowers	24,039	23,912	26,302	23,883	23,171	22,527	24,542
4 All other foreigners	152,120	143,947	134,522	128,900	129,418	132,589	133,895
5 Maturity of over 1 year ¹	67,557	76,094	67,078	68,512	70,008	69,577	71,485
6 Foreign public borrowers	32,521	38,695	34,512	36,875	37,365	38,189	39,651
7 All other foreigners	35,036	37,399	32,567	31,637	32,643	31,388	31,835
<i>By area</i>							
8 Maturity of 1 year or less ¹							
9 Europe	56,117	58,498	56,585	53,432	57,948	59,383	61,042
10 Canada	6,211	6,028	6,401	6,013	6,074	6,160	5,747
11 Latin America and Caribbean	73,660	62,791	63,328	59,550	57,397	58,191	55,424
12 Asia	34,403	33,504	27,966	28,013	25,802	26,474	29,343
13 Africa	4,199	4,442	3,753	3,331	3,297	3,071	2,854
14 All other ²	1,569	2,593	2,791	2,443	2,073	1,838	4,027
15 Maturity of over 1 year ¹							
16 Europe	13,576	9,605	7,634	7,812	7,934	7,297	6,791
17 Canada	1,857	1,882	1,805	1,925	2,256	1,930	1,951
18 Latin America and Caribbean	43,888	56,144	50,674	52,167	53,572	54,093	56,334
19 Asia	4,850	5,323	4,502	4,251	4,034	3,976	4,084
20 Africa	2,286	2,033	1,538	1,634	1,497	1,479	1,534
21 All other ²	1,101	1,107	926	722	714	802	790

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^{1,2}

Billions of dollars, end of period

Area or country	1982	1983	1984	1985				1986			
				Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec. ³
1 Total.....	436.1	433.9	405.7	405.5	396.8	394.9	391.9	394.4	391.0	391.3	395.5
2 G-10 countries and Switzerland.....	179.6	167.8	148.1	153.0	146.7	152.0	148.5	156.3	159.9	158.9	159.6
3 Belgium-Luxembourg.....	13.1	12.4	8.7	9.3	8.9	9.5	9.3	8.3	9.0	8.5	8.5
4 France.....	17.1	16.2	14.1	14.5	13.5	14.8	12.3	13.8	15.1	14.6	13.8
5 Germany.....	12.7	11.3	9.0	8.9	9.6	9.8	10.5	11.2	11.5	12.5	11.2
6 Italy.....	10.3	11.4	10.1	10.0	8.6	8.4	9.8	8.5	9.3	8.1	9.2
7 Netherlands.....	3.6	3.5	3.9	3.8	3.7	3.4	3.7	3.5	3.4	3.9	4.6
8 Sweden.....	5.0	5.1	3.2	3.1	2.9	3.1	2.8	2.9	2.9	2.7	2.4
9 Switzerland.....	5.0	4.3	3.9	4.2	4.0	4.1	4.4	5.4	5.6	4.8	5.5
10 United Kingdom.....	72.1	65.3	60.3	65.4	65.7	67.1	64.6	68.5	68.9	70.0	72.0
11 Canada.....	10.4	8.3	7.9	9.1	8.1	7.6	7.0	6.2	6.8	6.1	5.4
12 Japan.....	30.2	29.9	27.1	24.7	21.7	24.3	24.2	28.1	27.4	27.7	26.9
13 Other developed countries.....	33.5	36.0	33.6	32.8	32.3	32.0	30.4	31.6	30.6	29.4	26.2
14 Austria.....	1.9	1.9	1.6	1.6	1.6	1.7	1.6	1.6	1.7	1.7	1.7
15 Denmark.....	2.4	3.4	2.2	2.1	1.9	2.1	2.4	2.5	2.4	2.3	1.7
16 Finland.....	2.2	2.4	1.9	1.8	1.8	1.8	1.6	1.9	1.6	1.7	1.4
17 Greece.....	3.0	2.8	2.9	2.9	2.9	2.8	2.6	2.5	2.6	2.3	2.3
18 Norway.....	3.3	3.3	3.0	2.9	2.9	3.4	2.9	2.7	3.0	2.7	2.4
19 Portugal.....	1.5	1.5	1.4	1.4	1.3	1.4	1.3	1.1	1.0	1.0	.9
20 Spain.....	7.5	7.1	6.5	6.4	5.9	6.1	5.8	6.4	6.4	6.7	5.8
21 Turkey.....	1.4	1.7	1.9	1.9	2.0	2.1	1.9	2.3	2.5	2.1	2.0
22 Other Western Europe.....	2.3	1.8	1.7	1.7	1.8	1.7	2.0	2.4	2.1	1.6	1.5
23 South Africa.....	3.7	4.7	4.5	4.2	3.9	3.3	3.2	3.2	3.1	3.1	3.1
24 Australia.....	4.3	5.4	6.0	6.1	6.2	5.6	5.0	4.9	4.2	4.1	3.5
25 OPEC countries ³	26.9	28.4	24.9	24.5	22.8	22.7	21.6	20.7	20.6	20.0	19.6
26 Ecuador.....	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.2	2.1	2.1	2.2
27 Venezuela.....	10.5	9.9	9.3	9.3	9.3	9.0	8.9	8.7	8.8	8.7	8.6
28 Indonesia.....	2.9	3.4	3.3	3.3	3.1	3.1	3.0	3.3	3.0	2.8	2.6
29 Middle East countries.....	8.5	9.8	7.9	7.4	6.1	6.2	5.5	4.8	5.0	4.6	4.5
30 African countries.....	2.8	3.0	2.3	2.3	2.2	2.3	2.0	1.8	1.7	1.7	1.7
31 Non-OPEC developing countries.....	106.5	110.8	111.8	110.8	110.0	107.8	105.1	103.5	101.5	99.7	100.1
Latin America											
32 Argentina.....	8.9	9.5	8.7	8.6	8.6	8.9	8.9	8.9	9.2	9.3	9.5
33 Brazil.....	22.9	23.1	26.3	26.4	26.6	25.5	25.6	25.6	25.3	25.2	25.3
34 Chile.....	6.3	6.4	7.0	7.0	6.9	6.6	7.0	7.0	7.1	7.1	7.1
35 Colombia.....	3.1	3.2	2.9	2.8	2.7	2.6	2.7	2.3	2.2	2.0	2.1
36 Mexico.....	24.2	25.8	25.7	25.5	25.3	24.4	24.2	24.0	23.8	23.8	23.9
37 Peru.....	2.6	2.4	2.2	2.2	2.1	1.9	1.8	1.7	1.6	1.5	1.4
38 Other Latin America.....	4.0	4.2	3.9	3.8	3.7	3.5	3.4	3.3	3.3	3.3	3.7
Asia											
39 China											
40 Mainland.....	.2	.3	.7	.7	.3	1.1	.5	.6	.6	.6	.4
41 Taiwan.....	5.3	5.2	5.1	5.3	5.5	5.1	4.5	4.3	3.7	4.3	4.9
42 India.....	.5	.9	.9	.9	.9	1.1	1.2	1.2	1.3	1.3	1.2
43 Israel.....	2.3	1.9	1.8	1.7	2.3	1.5	1.6	1.3	1.6	1.4	1.6
44 Korea (South).....	10.7	11.2	10.6	10.4	10.0	10.4	9.4	9.5	8.7	7.3	6.8
45 Malaysia.....	2.1	2.8	2.7	2.7	2.8	2.7	2.4	2.2	2.0	2.1	2.1
46 Philippines.....	6.3	6.1	6.0	6.1	6.0	6.0	5.7	5.6	5.7	5.4	5.4
47 Thailand.....	1.6	2.2	1.8	1.7	1.6	1.7	1.4	1.3	1.1	1.0	.9
48 Other Asia.....	1.1	1.0	1.1	1.1	.9	.9	1.0	.9	.8	.7	.7
Africa											
49 Egypt.....	1.2	1.5	1.2	1.1	1.0	1.0	1.0	.9	.9	.7	.7
50 Morocco.....	.7	.8	.8	.8	.8	.9	.9	.9	.9	.9	.9
51 Zaire.....	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
52 Other Africa ⁴	2.4	2.3	2.1	2.2	2.0	2.0	1.9	1.9	1.7	1.6	1.6
53 Eastern Europe.....	6.2	5.3	4.4	4.3	4.3	4.6	4.2	4.0	4.0	3.4	4.0
54 U.S.S.R.....	.3	.2	.1	.2	.3	.2	.1	.3	.3	.1	.4
55 Yugoslavia.....	2.2	2.4	2.3	2.2	2.2	2.4	2.2	2.0	2.0	1.9	1.7
56 Other.....	3.7	2.8	2.0	1.9	1.8	1.9	1.8	1.7	1.7	1.4	1.9
56 Offshore banking centers.....	66.0	68.9	65.6	63.2	63.9	58.8	65.4	61.6	57.2	62.6	65.6
57 Bahamas.....	19.0	21.7	21.5	20.1	21.1	16.6	21.4	21.5	17.3	20.0	22.6
58 Bermuda.....	.9	.9	.9	.7	.9	.8	.7	.7	.4	.4	.7
59 Cayman Islands and other British West Indies.....	12.8	12.2	11.8	12.3	12.1	12.3	13.4	11.3	12.8	13.2	14.6
60 Netherlands Antilles.....	3.3	4.2	3.4	3.3	3.2	2.3	2.3	2.3	2.3	1.9	1.9
61 Panama ⁵	7.5	5.8	6.7	5.5	5.4	6.1	6.0	5.9	5.5	6.8	5.1
62 Lebanon.....	.1	.1	.1	.1	.1	.0	.1	.1	.1	.1	.1
63 Hong Kong.....	13.3	13.8	11.4	11.4	11.4	11.4	11.5	11.4	9.4	10.4	11.2
64 Singapore.....	9.1	10.3	9.8	9.9	9.7	9.4	9.9	8.4	9.3	9.7	9.4
65 Others ⁶.....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
66 Miscellaneous and unallocated ⁷	17.5	16.8	17.3	16.9	16.9	17.3	16.9	16.7	17.2	17.5	20.3

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. 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. 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).

4. Excludes Liberia.

5. Includes Canal Zone beginning December 1979.

6. Foreign branch claims only.

7. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States¹

Millions of dollars, end of period

Type, and area or country	1982	1983	1984	1985	1986			
				Dec.	Mar. ^r	June ^r	Sept.	Dec. ^p
1 Total	27,512	25,346	29,357	27,741 ^r	26,301	24,698	24,460	25,336
2 Payable in dollars	24,280	22,233	26,389	24,352	22,544	21,040	20,633	21,568
3 Payable in foreign currencies	3,232	3,113	2,968	3,389 ^r	3,757	3,657	3,827	3,768
<i>By type</i>								
4 Financial liabilities	11,066	10,572	14,509	13,516 ^r	12,971	11,578	11,700	12,070
5 Payable in dollars	8,858	8,700	12,553	11,313	10,705	9,515	9,418	9,705
6 Payable in foreign currencies	2,208	1,872	1,955	2,203 ^r	2,267	2,063	2,281	2,365
7 Commercial liabilities	16,446	14,774	14,849	14,225	13,329	13,120	12,760	13,267
8 Trade payables	9,438	7,765	7,005	6,685	5,618	5,472	5,592	6,306
9 Advance receipts and other liabilities	7,008	7,009	7,843	7,540	7,711	7,648	7,168	6,961
10 Payable in dollars	15,423	13,533	13,836	13,039	11,839	11,525	11,214	11,863
11 Payable in foreign currencies	1,023	1,241	1,013	1,186	1,490	1,595	1,546	1,404
<i>By area or country</i>								
<i>Financial liabilities</i>								
12 Europe	6,501	5,742	6,728	7,616	7,460	7,022	7,254	7,851
13 Belgium-Luxembourg	505	302	471	329	338	288	322	245
14 France	783	843	995	857	851	686	501	729
15 Germany	467	502	489	434	388	280	319	372
16 Netherlands	711	621	590	745	630	635	708	701
17 Switzerland	792	486	569	676	692	561	692	714
18 United Kingdom	3,102	2,839	3,297	4,254	4,217	4,274	4,272	4,790
19 Canada	746	764	863	839 ^r	832	367	362	403
20 Latin America and Caribbean	2,751	2,596	5,086	3,184	2,810	2,443	2,269	1,969
21 Bahamas	904	751	1,926	1,123	958	874	863	621
22 Bermuda	14	13	13	4	4	14	4	4
23 Brazil	28	32	35	29	26	27	28	32
24 British West Indies	1,027	1,041	2,103	1,843	1,639	1,386	1,256	1,160
25 Mexico	121	213	367	15	20	30	18	22
26 Venezuela	114	124	137	3	3	3	5	3
27 Asia	1,039	1,424	1,777	1,815	1,824	1,685	1,790	1,767
28 Japan	715	991	1,209	1,198	1,217	1,214	1,354	1,352
29 Middle East oil-exporting countries ²	169	170	155	82	78	43	3	8
30 Africa	17	19	14	12	12	12	4	1
31 Oil-exporting countries ³	0	0	0	0	0	0	2	1
32 All other ⁴	12	27	41	50	32	49	21	79
<i>Commercial liabilities</i>								
33 Europe	3,831	3,245	4,001	4,074	3,925	3,826	4,337	4,422
34 Belgium-Luxembourg	52	62	48	62	66	58	75	99
35 France	598	437	438	453	382	358	369	314
36 Germany	468	427	622	607	546	561	628	693
37 Netherlands	346	268	245	364	545	586	613	493
38 Switzerland	367	241	257	379	261	284	360	384
39 United Kingdom	1,027	732	1,095	976	957	864	1,086	1,279
40 Canada	1,495	1,841	1,975	1,449	1,445	1,357	1,240	1,387
41 Latin America and Caribbean	1,570	1,473	1,871	1,088	1,107	1,242	843	856
42 Bahamas	16	1	7	12	26	10	37	19
43 Bermuda	117	67	114	77	218	294	172	132
44 Brazil	60	44	124	58	64	45	43	59
45 British West Indies	32	6	32	44	7	35	45	46
46 Mexico	436	585	586	430	256	235	196	211
47 Venezuela	642	432	636	212	364	488	207	215
48 Asia	8,144	6,741	5,285	6,046	5,384	5,075	4,781	5,018
49 Japan	1,226	1,247	1,256	1,799	2,039	2,100	2,114	2,046
50 Middle East oil-exporting countries ^{2,5}	5,503	4,178	2,372	2,829	2,171	1,787	1,490	1,668
51 Africa	753	553	588	587	486	567	578	622
52 Oil-exporting countries ³	277	167	233	238	148	215	176	197
53 All other ⁴	651	921	1,128	982	983	1,053	980	962

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 States¹

Millions of dollars, end of period

Type, and area or country	1982	1983	1984	1985	1986			
				Dec.	Mar.	June ^r	Sept.	Dec. ^p
1 Total	28,725	34,911	29,901	28,437	31,383 ^r	33,282	32,599	32,847
2 Payable in dollars	26,085	31,815	27,304	26,135	29,196 ^r	31,100	30,123	30,244
3 Payable in foreign currencies	2,640	3,096	2,597	2,302	2,187	2,182	2,475	2,603
<i>By type</i>								
4 Financial claims	17,684	23,780	19,254	18,451	21,996 ^r	24,139	23,503	23,277
5 Deposits	13,058	18,496	14,621	15,204	18,612 ^r	20,833	18,566	18,573
6 Payable in dollars	12,628	17,993	14,202	14,589	18,155 ^r	20,278	18,078	18,024
7 Payable in foreign currencies	430	503	420	615	457	555	488	549
8 Other financial claims	4,626	5,284	4,633	3,248	3,384 ^r	3,306	4,937	4,704
9 Payable in dollars	2,979	3,328	3,190	2,213	2,291 ^r	2,285	3,717	3,406
10 Payable in foreign currencies	1,647	1,956	1,442	1,035	1,093	1,021	1,220	1,298
11 Commercial claims	11,041	11,131	10,646	9,986	9,387	9,142	9,096	9,570
12 Trade receivables	9,994	9,721	9,177	8,696	8,087 ^r	7,802	7,924	8,424
13 Advance payments and other claims	1,047	1,410	1,470	1,290	1,300 ^r	1,341	1,172	1,146
14 Payable in dollars	10,478	10,494	9,912	9,333	8,750	8,537	8,329	8,814
15 Payable in foreign currencies	563	637	735	652	637	606	767	756
<i>By area or country</i>								
<i>Financial claims</i>								
16 Europe	4,873	6,488	5,762	6,530	7,183 ^r	9,626	9,548	8,466
17 Belgium-Luxembourg	15	37	15	10	10	11	67	41
18 France	134	150	126	184	217	257	418	131
19 Germany	178	163	224	223	174 ^r	148	129	86
20 Netherlands	97	71	66	61	61	17	44	87
21 Switzerland	107	38	66	74	166	177	138	134
22 United Kingdom	4,064	5,817	4,864	5,725	6,310 ^r	8,799	8,525	7,736
23 Canada	4,377	5,989	3,988	3,260	4,020 ^r	4,429	3,817	4,119
24 Latin America and Caribbean	7,546	10,234	8,216	7,841	10,073 ^r	9,253	9,300	9,245
25 Bahamas	3,279	4,771	3,306	2,698	3,516 ^r	3,310	2,912	2,574
26 Bermuda	32	102	6	6	2	17	19	13
27 Brazil	62	53	100	78	77	75	101	67
28 British West Indies	3,255	4,206	4,043	4,571	6,034 ^r	5,402	5,871	6,068
29 Mexico	274	293	215	180	178	176	173	173
30 Venezuela	139	134	125	48	43	42	40	24
31 Asia	698	764	961	696	619 ^r	723	673	1,335
32 Japan	153	297	353	475	350	499	387	1,003
33 Middle East oil-exporting countries ²	15	4	13	4	2	2	2	11
34 Africa	158	147	210	103	87	89	84	85
35 Oil-exporting countries ³	48	55	85	29	27	25	18	26
36 All other ⁴	31	159	117	21	14	20	81	27
<i>Commercial claims</i>								
37 Europe	3,826	3,670	3,801	3,533	3,390 ^r	3,304	3,344	3,530
38 Belgium-Luxembourg	151	135	165	175	148	131	123	129
39 France	474	459	440	426	384	391	412	386
40 Germany	357	349	374	346	399 ^r	418	397	429
41 Netherlands	350	334	335	284	221	230	183	199
42 Switzerland	360	317	271	284	247 ^r	228	232	213
43 United Kingdom	811	809	1,063	898	795 ^r	674	830	822
44 Canada	633	829	1,021	1,023	1,061 ^r	965	929	902
45 Latin America and Caribbean	2,526	2,695	2,052	1,753	1,592 ^r	1,611	1,665	1,827
46 Bahamas	21	8	8	13	27	24	29	29
47 Bermuda	261	190	115	93	82	148	132	157
48 Brazil	258	493	214	206	217 ^r	193	206	228
49 British West Indies	12	7	7	6	7	29	23	54
50 Mexico	775	884	583	510	388	323	299	385
51 Venezuela	351	272	206	157	172	181	190	219
52 Asia	3,050	3,063	3,073	2,982	2,609 ^r	2,574	2,471	2,630
53 Japan	1,047	1,114	1,191	1,016	801	845	788	842
54 Middle East oil-exporting countries ²	751	737	668	638	630	622	597	507
55 Africa	588	588	470	437	491	450	456	463
56 Oil-exporting countries ³	140	139	134	130	167	170	168	135
57 All other ⁴	417	286	229	257	244	237	231	218

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	1985	1986 ^r	1987	1986					1987	
			Jan.-Feb.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^p
U.S. corporate securities										
STOCKS										
1 Foreign purchases	81,995	148,134	38,364	12,045	12,250 ^r	10,979	12,033	14,096 ^r	17,617	20,748
2 Foreign sales	77,054	129,436	33,617	10,617 ^r	10,991 ^r	12,300	12,086	12,320 ^r	15,956	17,661
3 Net purchases, or sales (-)	4,941	18,698	4,747	1,428 ^r	1,259 ^r	-1,322	-52	1,776 ^r	1,661	3,087
4 Foreign countries	4,857	18,905	4,927	1,468 ^r	1,304 ^r	-1,179	-19	1,696 ^r	1,741	3,186
5 Europe	2,057	9,559	2,819	824	573 ^r	-1,124	-485	557 ^r	1,061	1,758
6 France	-438	459	586	105	30	-92	-69	113	140	446
7 Germany	730	341	78	-42	9	-104	-3	24	62	16
8 Netherlands	-123	936	144	50	36	-19	-50	14	53	91
9 Switzerland	-75	1,560	200	44	71 ^r	-405	-236	47	101	99
10 United Kingdom	1,665	4,826	1,616	521	448 ^r	-481	-114	363 ^r	647	969
11 Canada	356	807	-16	95 ^r	106 ^r	-115	41	102	100	-116
12 Latin America and Caribbean	1,718	3,029	639	108	147 ^r	154	367	220 ^r	308	331
13 Middle East ¹	238	975	-39	78	58	-51	-92	267 ^r	136	-175
14 Other Asia	296	3,865	1,247	376	346	16	80	450	88	1,159
15 Africa	24	297	14	-1	-13	39	23	17	-1	15
16 Other countries	168	373	263	-13	86	-97	48	84	49	214
17 Nonmonetary international and regional organizations	84	-208	-180	-40	-45	-143	-34	80	-80	-100
BONDS ²										
18 Foreign purchases	86,587	122,743	17,329	9,426 ^r	10,235 ^r	9,752 ^r	9,277	11,879	9,308	8,022
19 Foreign sales	42,455	71,840	12,630	5,354 ^r	5,597 ^r	5,539 ^r	6,105	7,733	7,178	5,453
20 Net purchases, or sales (-)	44,132	50,903	4,699	4,072	4,638 ^r	4,213 ^r	3,172	4,147	2,130	2,569
21 Foreign countries	44,227	50,056	4,401	4,077	4,934 ^r	4,455 ^r	2,853	4,251	2,218	2,183
22 Europe	40,047	39,307	2,781	2,484	3,445 ^r	3,475	2,100	3,074	1,375	1,406
23 France	210	388	23	20	-29	0	328	32	6	17
24 Germany	2,001	-251	-69	-81	26	82	-108	-19	-213	145
25 Netherlands	222	387	-36	98	51	-55	113	52	-7	-29
26 Switzerland	3,987	4,529	144	564	30	265	204	-117	66	78
27 United Kingdom	32,762	33,899	2,574	1,917	3,468 ^r	3,177	1,416	2,770	1,392	1,182
28 Canada	190	548	261	110	2	88	154	153	-103	364
29 Latin America and Caribbean	498	1,468	200	160	64	101	66	102	103	98
30 Middle East ¹	-2,648	-2,961	-196	-40	-169	-33	-355	-258	-57	-139
31 Other Asia	6,091	11,539	1,386	1,329	1,590 ^r	817 ^r	902	1,174	917	469
32 Africa	11	16	2	5	6	-3	3	3	0	1
33 Other countries	38	139	-32	29	-4	11	-15	3	-16	-16
34 Nonmonetary international and regional organizations	-95	847	298	-4	-296	-243 ^r	319	-104	-88	386
Foreign securities										
35 Stocks, net purchases, or sales (-)	-3,941 ^r	-1,452	-624	-92 ^r	679 ^r	1,311 ^r	391	65 ^r	-161	-463
36 Foreign purchases	20,861	50,292	12,254	4,627 ^r	5,120 ^r	6,426 ^r	4,190	4,709	5,008	7,247
37 Foreign sales	24,803 ^r	51,744	12,879	4,718 ^r	4,440 ^r	5,115 ^r	3,799	4,644 ^r	5,169	7,710
38 Bonds, net purchases, or sales (-)	-3,999	-3,098	136	1,211 ^r	-2,340 ^r	2,125 ^r	-683 ^r	-441 ^r	360	-225
39 Foreign purchases	81,216	166,700	27,227	14,124 ^r	15,239 ^r	16,274 ^r	12,663 ^r	16,316 ^r	11,425	15,802
40 Foreign sales	85,214	169,798	27,092	12,913 ^r	17,578 ^r	14,149 ^r	13,346 ^r	16,756 ^r	11,065	16,026
41 Net purchases, or sales (-), of stocks and bonds	-7,940 ^r	-4,550	-489	1,119 ^r	-1,660 ^r	3,436 ^r	-292 ^r	-376 ^r	199	-688
42 Foreign countries	-9,003 ^r	-5,665	-740	1,064 ^r	-1,598 ^r	3,117 ^r	-294 ^r	-825 ^r	57	-797
43 Europe	-9,887	-17,675	-1,426	-669 ^r	-3,390 ^r	-657 ^r	-1,010 ^r	-1,369 ^r	-147	-1,279
44 Canada	-1,686	-875	-1,019	263	109 ^r	94 ^r	-106	-264	-396	-622
45 Latin America and Caribbean	1,797 ^r	3,469	513	127	351	502	16	203 ^r	389	124
46 Asia	659	11,342	1,103	1,330 ^r	1,764 ^r	3,237 ^r	820	1,511	168	935
47 Africa	75	52	5	1	3	-1	4	3	4	0
48 Other countries	38	-1,977	84	12 ^r	-434 ^r	-59 ^r	-19 ^r	-909 ^r	39	45
49 Nonmonetary international and regional organizations	1,063	1,115	251	55 ^r	-63	320 ^r	2	449	143	109

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 securi-

ties sold abroad by U.S. corporations organized to finance direct investments abroad.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions

Millions of dollars

Country or area	1985	1986 ^r	1987		1986				1987	
			Jan.-Feb.	Aug. ^r	Sept.	Oct.	Nov.	Dec.	Jan.	Feb. ^p
Transactions, net purchases or sales (-) during period ¹										
1 Estimated total ²	29,208	24,173	7,574	744	5,105 ^r	3,032 ^r	-2,259 ^r	991 ^r	-152	-7,726
2 Foreign countries ²	28,768	25,277	2,366	2,207	4,062 ^r	2,717 ^r	-301 ^r	-488 ^r	584	1,781
3 Europe ²	4,303	16,851	3,076	2,431	-722 ^r	3,046 ^r	-727 ^r	1,001 ^r	1,376	1,700
4 Belgium-Luxembourg	476	349	270	186	239	4	-53	75	59	211
5 Germany ²	1,917	7,531	1,698	1,030	1,098 ^r	2,497 ^r	700	-487	581	1,118
6 Netherlands	269	1,283	-324	-64	-313	112	38	-58	-366	41
7 Sweden	976	132	141	-25	85	-6	-70	-236	-229	370
8 Switzerland ²	773	310	408	52	-53	449	-498	-428	-135	543
9 United Kingdom	-1,810	4,648	1,171	1,210	-1,972 ^r	141 ^r	-335 ^r	1,036 ^r	1,227	-56
10 Other Western Europe	1,701	2,598	-292	43	195	-149 ^r	-510	1,099	236	-528
11 Eastern Europe	0	0	3	0	0	0	0	0	3	0
12 Canada	-188	881	443	105	-190 ^r	-230	19	297	846	-403
13 Latin America and Caribbean	4,315	878	-1,295	-62	220	-219	75	97	-1,002	-293
14 Venezuela	248	-95	-14	-320	266	69	-139	29	-33	18
15 Other Latin America and Caribbean	2,336	1,131	-70	255	32	-314	6	96	-441	371
16 Netherlands Antilles	1,731	-159	-1,210	2	-78	26	208	-28	-528	-682
17 Asia	19,919	5,466	284	-106	4,942 ^r	-30 ^r	-152 ^r	-2,067 ^r	-922	1,206
18 Japan	17,909	4,048	1,690	709	4,489 ^r	-450 ^r	188 ^r	-2,086	-76	1,766
19 Africa	112	-54	-28	-1	11	-13	2	-14	6	-34
20 All other	308	1,255	-114	-160	-200	163	482	198	280	-395
21 Nonmonetary international and regional organizations	442	-1,105	5,207	-1,463	1,043 ^r	315 ^r	-1,958 ^r	1,478	-736	5,943
22 International	-436	-1,430	5,143	-1,511	937 ^r	365	-2,010	1,412	-791	5,934
23 Latin American regional	18	157	0	0	39	-5	0	0	0	0
MEMO										
24 Foreign countries ²	28,768	25,277	2,366	2,207	4,062 ^r	2,717 ^r	-301 ^r	-488 ^r	584	1,781
25 Official institutions	8,135	14,366	2,172	36	1,878 ^r	3,589 ^r	133 ^r	295 ^r	1,502	670
26 Other foreign ²	20,631	10,913	194	2,171	2,183 ^r	-872 ^r	-434 ^r	-782 ^r	-918	1,112
Oil-exporting countries										
27 Middle East ³	-1,547	-1473	-1,683	-239	-205	-377	-1,014	-21 ^r	-721	-962
28 Africa ⁴	7	5	2	-1	2	-1	1	0	1	1

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.

3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

4. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per annum

Country	Rate on Mar. 31, 1987		Country	Rate on Mar. 31, 1987		Country	Rate on Mar. 31, 1987	
	Per-cent	Month effective		Per-cent	Month effective		Per-cent	Month effective
Austria.....	3.5	Jan. 1987	France ¹	7.75	Mar. 1987	Norway.....	8.0	June 1983
Belgium.....	8.5	Jan. 1987	Germany, Fed. Rep. of ...	3.5	Mar. 1986	Switzerland.....	3.5	Jan. 1987
Brazil.....	49.0	Mar. 1981	Italy.....	11.5	Mar. 1987	United Kingdom ²	8.0	.....
Canada.....	7.14	Mar. 1987	Japan.....	2.5	Feb. 1987	Venezuela.....	8.0	Oct. 1985
Denmark.....	7.0	Oct. 1983	Netherlands.....	4.5	Mar. 1986			

1. As of the end of February 1981, the rate is that at which the Bank of France discounts Treasury bills for 7 to 10 days.

2. Minimum lending rate suspended as of Aug. 20, 1981.

NOTE. Rates shown are mainly those at which the central bank either discounts

or makes advances against eligible commercial paper and/or government commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood the central bank transacts the largest proportion of its credit operations.

3.27 FOREIGN SHORT-TERM INTEREST RATES

Percent per annum, averages of daily figures

Country, or type	1984	1985	1986	1986				1987		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Eurodollars.....	10.75	8.27	6.70	5.88	5.88	5.96	6.23	6.10	6.32	6.37
2 United Kingdom.....	9.91	12.16	10.87	10.05	11.08	11.12	11.30	10.98	10.79	9.90
3 Canada.....	11.29	9.64	9.18	8.38	8.45	8.39	8.34	7.95	7.44	7.14
4 Germany.....	5.96	5.40	4.58	4.48	4.56	4.67	4.80	4.45	3.94	3.97
5 Switzerland.....	4.35	4.92	4.19	4.13	3.96	3.88	4.08	3.63	3.58	3.93
6 Netherlands.....	6.08	6.29	5.56	5.17	5.32	5.48	6.03	5.58	5.31	5.38
7 France.....	11.66	9.91	7.68	7.07	7.38	7.51	7.92	8.49	8.36	7.85
8 Italy.....	17.08	14.86	12.60	10.84	10.85	11.05	11.40	11.39	11.13	10.65
9 Belgium.....	11.41	9.60	8.04	7.25	7.29	7.38	7.39	7.88	7.75	7.49
10 Japan.....	6.32	6.47	4.96	4.71	4.75	4.39	4.40	4.23	3.98	4.00

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	1984	1985	1986	1986			1987		
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Australia/dollar ¹	87.937	70.026	67.093	63.83	64.45	65.95	66.09	66.77	68.17
2 Austria/schilling	20.005	20.676	15.260	14.111	14.251	13.996	13.087	12.833	12.905
3 Belgium/franc	57.749	59.336	44.662	41.635	42.069	41.381	38.616	37.789	38.029
4 Brazil/cruzeiro	1841.50	6205.10	13.051	13.98	14.10	14.54	15.58	18.08	20.56
5 Canada/dollar	1.2953	1.3658	1.3896	1.3885	1.3863	1.3801	1.3605	1.3340	1.3194
6 China, P.R./yuan	2.3308	2.9434	3.4615	3.7257	3.7314	3.7314	3.7314	3.7314	3.7314
7 Denmark/krone	10.354	10.598	8.0954	7.5607	7.6444	7.5235	7.0591	6.8939	6.9166
8 Finland/markka	6.0007	6.1971	5.0721	4.8684	4.9576	4.8980	4.6419	4.5556	4.5102
9 France/franc	8.7355	8.9799	6.9256	6.5628	6.6206	6.5296	6.2007	6.0760	6.1091
10 Germany/deutsche mark	2.8454	2.9419	2.1704	2.0054	2.0243	1.9880	1.8596	1.8239	1.8355
11 Greece/drachma	112.73	138.40	139.93	135.44	139.12	140.13	134.80	133.88	134.68
12 Hong Kong/dollar	7.8188	7.7911	7.8037	7.7999	7.7974	7.7931	7.7698	7.7952	7.8017
13 India/rupee	11.348	12.332	12.597	12.848	13.076	13.149	13.029	13.062	12.924
14 Ireland/pound ¹	108.64	106.62	134.14	135.89	134.64	136.78	143.90	145.93	145.54
15 Italy/lira	1756.10	1908.90	1491.16	1387.67	1401.08	1379.44	1317.17	1297.74	1305.90
16 Japan/yen	237.45	238.47	168.35	156.47	162.85	162.05	154.83	153.41	151.43
17 Malaysia/ringgit	2.3448	2.4806	2.5830	2.6245	2.6131	2.5966	2.5701	2.5418	2.5230
18 Netherlands/guilder	3.2083	3.3184	2.4484	2.2663	2.2870	2.2470	2.0978	2.0592	2.0731
19 New Zealand/dollar ¹	57.837	49.752	52.456	50.392	51.382	51.339	53.605	54.815	56.333
20 Norway/krone	8.1596	8.5933	7.3984	7.3611	7.5401	7.5294	7.1731	7.0067	6.9335
21 Portugal/escudo	147.70	172.07	149.80	147.24	149.54	148.61	142.90	141.62	141.48
22 Singapore/dollar	2.1325	2.2008	2.1782	2.1777	2.1922	2.1900	2.1510	2.1410	2.1418
23 South Africa/rand ¹	69.534	45.57	43.952	44.42	44.37	44.94	47.70	47.97	48.21
24 South Korea/won	807.91	861.89	884.61	879.22	873.54	868.43	862.86	857.38	856.11
25 Spain/peseta	160.78	169.98	140.04	133.43	136.10	134.49	129.54	128.62	128.86
26 Sri Lanka/rupee	25.428	27.187	27.933	28.407	28.471	28.532	28.578	28.662	28.823
27 Sweden/krona	8.2706	8.6031	7.1272	6.8901	6.9683	6.9081	6.6188	6.5016	6.4202
28 Switzerland/franc	2.3500	2.4551	1.7979	1.6433	1.6858	1.6647	1.5616	1.5403	1.5391
29 Taiwan/dollar	39.633	39.889	37.837	36.647	36.438	36.001	35.304	35.056	34.681
30 Thailand/baht	23.582	27.193	26.314	26.129	26.278	26.239	26.037	25.933	25.881
31 United Kingdom/pound ¹	133.66	129.74	146.77	142.64	142.38	143.93	150.54	152.80	159.23
MEMO									
32 United States/dollar ²	138.19	143.01	112.22	106.58	107.90	106.54	101.13	99.46	98.99

1. Value in U.S. cents.

2. Index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland. March 1973 = 100. Weights are 1972-76 global trade of each of the 10 countries. Series revised as of August 1978. For description and back data, see "Index of the Weighted-Average Exchange Value of the U.S. Dollar: Revision" on p. 700 of the August 1978 BULLETIN.

3. Currency reform.

NOTE: Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) release. For address, see inside front cover.

Guide to Tabular Presentation, Statistical Releases, and Special Tables

GUIDE TO TABULAR PRESENTATION

Symbols and Abbreviations

c	Corrected	0	Calculated to be zero
e	Estimated	n.a.	Not available
p	Preliminary	n.e.c.	Not elsewhere classified
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)	IPCs	Individuals, partnerships, and corporations
*	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)	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 1987	A89

SPECIAL TABLES

Published Irregularly, with Latest Bulletin Reference

Assets and liabilities of commercial banks, September 30, 1983	March 1984	A68
Assets and liabilities of commercial banks, December 31, 1985	January 1987	A70
Assets and liabilities of commercial banks, March 31, 1986	June 1987	A70
Assets and liabilities of commercial banks, June 30, 1986	June 1987	A76
Assets and liabilities of U.S. branches and agencies of foreign banks, March 31, 1986	November 1986	A70
Assets and liabilities of U.S. branches and agencies of foreign banks, June 30, 1986	December 1986	A76
Assets and liabilities of U.S. branches and agencies of foreign banks, September 30, 1986	March 1987	A70
Assets and liabilities of U.S. branches and agencies of foreign banks, December 31, 1986	May 1987	A76
Terms of lending at commercial banks, May 1986	July 1986	A70
Terms of lending at commercial banks, August 1986	December 1986	A70
Terms of lending at commercial banks, November 1986	February 1987	A70
Terms of lending at commercial banks, February 1987	May 1987	A70

Special tables begin on next page.

A70 Special Tables □ June 1987

4.20 DOMESTIC AND FOREIGN OFFICES, Insured Commercial Bank Assets and Liabilities^{1,2}
 Consolidated Report of Condition, March 31, 1986
 Millions of dollars

Item	Total	Banks with foreign offices ^{3,4}			Banks with domestic offices only ⁵	
		Total	Foreign	Domestic	Over 100	Under 100
1 Total assets⁶	2,705,192	1,582,211	429,769	1,209,193	707,619	415,363
2 Cash and balances due from depository institutions	325,851	229,624	114,375	115,249	61,643	34,585
3 Cash items in process of collection, unposted debits, and currency	↑	80,039	1,954	78,084	25,982	↑
4 Cash items in process of collection and unposted debits and coin	n.a.	n.a.	n.a.	68,171	18,821	n.a.
5 Currency and coin	n.a.	n.a.	n.a.	9,914	7,161	n.a.
6 Balances due from depository institutions in the United States	↓	36,471	21,705	14,766	20,930	↓
7 Balances due from banks in foreign countries and foreign central banks		93,714	90,483	3,231	6,670	
8 Balances due from Federal Reserve Banks		19,400	232	19,168	8,061	
MEMO						
9 Noninterest-bearing balances due from commercial banks in the United States (included in balances due from depository institutions in the U.S.)	n.a.	n.a.	n.a.	9,882	13,218	14,217
10 Total securities, loans and lease financing receivables, net	2,165,051	1,186,945	n.a.	n.a.	615,909	362,197
11 Total securities, book value	429,339	158,852	19,449	139,403	154,576	115,911
12 U.S. Treasury securities and U.S. government agency and corporation obligations	244,001	73,876	176	73,699	90,483	79,643
13 U.S. Treasury securities	n.a.	55,517	165	55,352	62,725	n.a.
14 U.S. government agency and corporation obligations	n.a.	18,358	11	18,347	27,758	n.a.
15 All holdings of U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages	21,265	12,005	1	12,004	5,223	4,037
16 All other	n.a.	6,353	10	6,343	22,536	n.a.
17 Securities issued by states and political subdivisions in the United States	148,106	58,695	713	57,982	56,022	33,389
18 Other securities	37,232	26,281	18,560	7,721	8,071	2,879
19 Other domestic securities	n.a.	6,216	312	5,904	7,593	...
20 All holdings of private certificates of participation in pools of residential mortgages	1,173	693	3	690	304	176
21 All other	15,515	5,523	309	5,214	7,289	2,703
22 Foreign securities	n.a.	20,065	18,248	1,817	478	...
23 Federal funds sold and securities purchased under agreements to resell	132,730	59,327	232	59,096	42,142	31,260
24 Total loans and lease financing receivables, gross	1,644,563	991,207	246,105	745,101	431,605	221,751
25 LESS: Unearned income on loans	16,943	7,002	1,946	5,056	6,327	3,615
26 Total loans and leases (net of unearned income)	1,627,620	984,205	244,159	740,046	425,278	218,137
27 LESS: Allowance for loan and lease losses	24,550	15,352	n.a.	n.a.	6,088	3,110
28 LESS: Allocated transfer risk reserves	88	77	n.a.	n.a.	0	1
29 EQUALS: Total loans and leases, net	1,602,982	968,866	n.a.	n.a.	419,190	215,026
<i>Total loans, gross, by category</i>						
30 Loans secured by real estate	488,263	211,708	14,591	197,118	148,973	87,582
31 Construction and land development	n.a.	n.a.	n.a.	61,312	23,636	7,968
32 Farmland	n.a.	n.a.	n.a.	1,455	3,023	7,302
33 1-4 family residential properties	n.a.	n.a.	n.a.	79,060	71,222	48,189
34 Multifamily (5 or more) residential properties	n.a.	n.a.	n.a.	6,578	4,808	1,698
35 Nonfarm nonresidential properties	n.a.	n.a.	n.a.	48,713	46,285	22,425
36 Loans to depository institutions	64,860	58,721	35,872	22,849	5,581	557
37 To commercial banks in the United States	n.a.	14,845	1,233	13,612	4,563	n.a.
38 To other depository institutions in the United States	n.a.	4,592	408	4,183	794	n.a.
39 To banks in foreign countries	n.a.	39,284	34,231	5,053	224	n.a.
40 Loans to finance agricultural production and other loans to farmers	34,315	6,457	530	5,927	7,018	20,839
41 Commercial and industrial loans	578,438	405,651	128,757	276,894	119,387	53,401
42 To U.S. addressees (domicile)	n.a.	291,178	19,273	271,905	118,960	n.a.
43 To non-U.S. addressees (domicile)	n.a.	114,472	109,484	4,989	427	n.a.
44 Acceptances of other banks	4,216	1,200	622	579	1,634	1,382
45 U.S. banks	n.a.	372	100	272	n.a.	n.a.
46 Foreign banks	n.a.	828	522	307	n.a.	n.a.
47 Loans to individuals for household, family and other personal expenditures (includes purchased paper)	300,819	133,442	9,794	123,648	116,414	50,963
48 Credit cards and related plans	74,077	43,211	n.a.	n.a.	29,113	1,753
49 Other (includes single payment and installment)	226,741	90,231	n.a.	n.a.	87,301	49,209
50 Obligations (other than securities) of states and political subdivisions in the U.S.	61,822	39,405	660	38,745	19,380	3,037
51 Nonrated industrial development obligations	46,372	28,889	125	28,764	15,424	2,059
52 Other obligations (excluding securities)	15,450	10,515	535	9,981	3,956	979
53 All other loans	127,087	114,051	50,963	63,088	9,649	3,387
54 Loans to foreign governments and official institutions	n.a.	40,137	36,896	3,241	210	n.a.
55 Other loans	n.a.	73,914	14,067	59,847	9,439	n.a.
56 Loans for purchasing and carrying securities	n.a.	n.a.	n.a.	21,145	2,262	n.a.
57 All other loans	n.a.	n.a.	n.a.	38,702	7,177	n.a.
58 Lease financing receivables	24,743	20,571	4,317	16,254	3,570	603
59 Assets held in trading accounts	44,362	43,411	13,722	29,689	781	170
60 Premises and fixed assets (including capitalized leases)	40,753	20,546	↑	n.a.	12,463	7,744
61 Other real estate owned	7,631	3,045	↑	n.a.	2,355	2,230
62 Investments in unconsolidated subsidiaries and associated companies	2,315	1,831	↑	n.a.	421	63
63 Customers' liability on acceptances outstanding	46,741	46,398	n.a.	n.a.	319	24
64 Net due from own foreign offices, Edge and Agreement subsidiaries and IBFs	n.a.	n.a.	↓	45,395	n.a.	n.a.
65 Intangible assets	2,804	1,637	↓	n.a.	1,019	148
66 Other assets	69,684	48,772	↓	n.a.	12,709	8,203

4.20 Continued

Item	Total	Banks with foreign offices ^{3,4}			Banks with domestic offices only ⁵	
		Total	Foreign	Domestic	Over 100	Under 100
67 Total liabilities, limited-life preferred stock and equity capital	2,705,192	1,582,211	n.a.	n.a.	707,619	415,363
68 Total liabilities ⁷	2,533,926	1,497,450	429,654	1,124,547	657,018	379,459
69 Limited-life preferred stock	14	0	n.a.	n.a.	14	0
70 Total deposits	2,095,522	1,135,616	332,691	802,925	590,218	369,688
71 Individuals, partnerships, and corporations			172,310	707,770	532,316	335,765
72 U.S. government	↑	↑	↑	2,281	1,417	765
73 States and political subdivisions in the United States				34,964	38,810	27,678
74 Commercial banks in the United States	n.a.	n.a.	n.a.	31,918	10,410	1,542
75 Other depository institutions in the United States			↓	4,565	2,390	1,102
76 Banks in foreign countries				7,507	199	n.a.
77 Foreign governments and official institutions		28,976	26,661	2,315	188	n.a.
78 Certified and official checks	19,281	12,259	653	11,606	4,487	2,536
79 All other ⁸	n.a.	n.a.	133,067	...	...	300
80 Total transaction accounts				286,436	167,694	95,100
81 Individuals, partnerships, and corporations	↑	↑	↑	232,004	146,967	85,045
82 U.S. government				1,349	971	528
83 States and political subdivisions in the United States				7,089	7,205	5,947
84 Commercial banks in the United States	n.a.	n.a.	n.a.	22,497	6,339	402
85 Other depository institutions in the United States				3,972	1,644	554
86 Banks in foreign countries			↓	6,765	66	n.a.
87 Foreign governments and official institutions				1,155	15	n.a.
88 Certified and official checks				11,606	4,487	2,536
89 All other	↓	↓	↓	...	...	89
90 Demand deposits (included in total transaction accounts)				239,972	117,435	57,605
91 Individuals, partnerships, and corporations	↑	↑	↑	186,595	99,560	50,927
92 U.S. government				1,308	955	508
93 States and political subdivisions in the United States				6,077	4,380	2,618
94 Commercial banks in the United States				22,497	6,337	398
95 Other depository institutions in the United States				3,972	1,637	546
96 Banks in foreign countries				6,765	66	n.a.
97 Foreign governments and official institutions				1,153	14	n.a.
98 Certified and official checks				11,606	4,487	2,536
99 All other				...	...	73
100 Total nontransaction accounts				516,490	422,524	274,588
101 Individuals, partnerships, and corporations	n.a.	n.a.	n.a.	475,766	385,350	250,720
102 U.S. government				932	446	237
103 States and political subdivisions in the United States				27,875	31,605	21,731
104 Commercial banks in the United States				9,422	4,071	1,140
105 U.S. branches and agencies of foreign banks				509	776	n.a.
106 Other commercial banks in the United States				8,913	3,295	n.a.
107 Other depository institutions in the United States				592	746	547
108 Banks in foreign countries				742	133	n.a.
109 Foreign branches of other U.S. banks				27	0	n.a.
110 Other banks in foreign countries				715	133	n.a.
111 Foreign governments and official institutions				1,160	173	n.a.
112 All other	↓	↓	↓	...	...	211
113 Federal funds purchased and securities sold under agreements to repurchase	227,529	181,041	522	180,519	43,299	3,188
114 Demand notes issued to the U.S. Treasury	n.a.	n.a.	n.a.	6,219	2,202	666
115 Other borrowed money	76,317	66,528	24,637	41,891	9,120	668
116 Banks liability on acceptances executed and outstanding	46,949	46,607	10,348	36,258	319	24
117 Notes and debentures subordinated to deposits	15,363	13,298		n.a.	1,820	245
118 Net due to own foreign offices, Edge and Agreement subsidiaries and IBFs				11,356	n.a.	n.a.
119 All other liabilities	63,159	48,141			10,039	4,979
120 Total equity capital ⁹	171,252	84,761			50,587	35,904
121 Perpetual preferred stock	997	667	n.a.		240	91
122 Common stock	28,909	14,191		n.a.	7,795	6,923
123 Surplus	59,197	27,775			18,610	12,812
124 Undivided profits and capital reserves	82,487	42,466			23,943	16,078
125 Cumulative foreign currency translation adjustments	n.a.	-338			...	...
MEMO						
126 Holdings of commercial paper included in total loans, gross	↑	476	211	265	1,421	n.a.
127 Total individual retirement accounts (IRA) and Keogh plan accounts				26,419	25,297	14,055
128 Total brokered deposits				21,447	2,625	424
129 Total brokered retail deposits				5,328	1,861	274
130 Issued in denominations of \$100,000 or less				1,098	834	212
131 Issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less				4,230	1,027	62
132 Nontransaction savings deposits				208,630	167,887	86,298
133 Total time deposits of less than \$100,000				135,655	168,401	140,690
134 Time certificates of deposit of \$100,000 or more				143,576	81,695	45,564
135 Open-account time deposits of \$100,000 or more	n.a.	n.a.	n.a.	28,628	4,541	2,035
136 Super NOW accounts				40,720	46,069	34,855
137 Money market deposit accounts (MMDAs)				162,297	119,190	57,978
138 Total time and savings deposits				562,952	472,783	312,082
Quarterly averages						
139 Total loans				717,307	419,230	216,368
140 Obligations (other than securities) of states and political subdivisions in the United States				38,923	18,876	n.a.
141 Time certificates of deposit of \$100,000 or more				146,487	81,312	44,789
142 Super NOW accounts, money market deposit accounts, and time deposits (other than certificates of deposits of \$100,000 or more)	↓	↓	↓	354,614	332,213	234,291
143 Number of banks	14,258	263		n.a.	2,232	11,763

Footnotes appear at the end of table 4.22

A72 Special Tables □ June 1987

4.21 DOMESTIC OFFICES, Insured Commercial Banks with Assets of \$100 Million or more or with foreign offices ^{1,2,3}
 Consolidated Report of Condition, March 31, 1986
 Millions of dollars

Item	Total	Members			Non-members
		Total	National	State	
1 Total assets ⁶	1,916,811	1,579,658	1,233,619	346,039	337,154
2 Cash and balances due from depository institutions	176,892	148,854	116,739	32,115	28,038
3 Cash items in process of collection and unposted debits	86,992	79,868	60,558	19,310	7,124
4 Currency and coin	17,074	14,100	11,647	2,453	2,974
5 Balances due from depository institutions in the United States	35,695	23,888	20,211	3,677	11,808
6 Balances due from banks in foreign countries and foreign central banks	9,901	7,391	5,956	1,435	2,510
7 Balances due from Federal Reserve Banks	27,229	23,608	18,367	5,242	3,621
8 Total securities, loans and lease financing receivables, (net of unearned income)	1,560,542	1,267,989	1,005,260	262,730	292,552
9 Total securities, book value	293,979	223,134	175,145	47,990	70,845
10 U.S. Treasury securities	118,077	90,441	72,806	17,635	27,636
11 U.S. government agency and corporation obligations	46,105	32,656	27,270	5,386	13,449
12 All holdings of U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages	17,227	14,201	12,132	2,069	3,026
13 All other	28,878	18,455	15,138	3,317	10,423
14 Securities issued by states and political subdivisions in the United States	114,005	89,188	66,967	22,221	24,816
15 Other domestic securities	13,498	9,009	7,423	1,587	4,489
16 All holdings of private certificates of participation in pools of residential mortgages	994	735	537	199	259
17 All other	12,504	8,274	6,886	1,388	4,230
18 Foreign securities	2,295	1,839	679	1,160	455
19 Federal funds sold and securities purchased under agreements to resell	101,238	85,185	63,581	21,604	16,053
20 Total loans and lease financing receivables, gross	1,176,706	968,361	773,150	195,210	208,346
21 Less: Unearned income on loans	11,383	8,692	6,617	2,075	2,691
22 Total loans and leases (net of unearned income)	1,165,325	959,670	766,534	193,136	205,654
<i>Total loans, gross, by category</i>					
23 Loans secured by real estate	346,091	269,257	228,644	40,613	76,833
24 Construction and land development	84,948	70,061	57,190	12,871	14,888
25 Farmland	4,477	3,110	2,782	328	1,367
26 1-4 family residential properties	150,282	115,632	100,058	15,575	34,649
27 Multifamily (5 or more) residential properties	11,386	8,752	7,550	1,202	2,634
28 Nonfarm nonresidential properties	94,997	71,703	61,065	10,638	23,295
29 Loans to commercial banks in the United States	18,175	14,263	11,127	3,137	3,912
30 Loans to other depository institutions in the United States	4,978	4,776	3,710	1,065	202
31 Loans to banks in foreign countries	5,277	5,057	2,955	2,102	220
32 Loans to finance agricultural production and other loans to farmers	12,945	10,664	9,411	1,253	2,281
33 Commercial and industrial loans	396,280	331,447	256,120	75,327	64,833
34 To U.S. addressees (domicile)	390,865	326,443	251,911	74,532	64,422
35 To non-U.S. addressees (domicile)	5,416	5,004	4,210	794	412
36 Acceptances of other banks ¹⁰	2,213	1,585	1,421	165	628
37 Of U.S. banks	726	562	519	44	164
38 Of foreign banks	366	285	249	36	81
39 Loans to individuals for household, family and other personal expenditures (includes purchased paper)	240,062	196,324	163,640	32,684	43,738
40 Loans to foreign governments and official institutions	3,450	3,253	2,494	759	197
41 Obligations (other than securities) of states and political subdivisions in the United States	58,125	49,148	36,477	12,671	8,976
42 Nonrated industrial development obligations	44,188	36,739	26,714	10,025	7,449
43 Other obligations (excluding securities)	13,936	12,409	9,763	2,646	1,527
44 Other loans	69,286	64,786	42,892	21,894	4,500
45 Loans for purchasing and carrying securities	23,407	22,365	11,753	10,612	1,042
46 All other loans	45,880	42,421	31,139	11,282	3,458
47 Lease financing receivables	19,823	17,799	14,259	3,539	2,025
48 Customers' liability on acceptances outstanding	35,474	34,824	25,482	9,342	650
49 Net due from own foreign offices, Edge and Agreement subsidiaries and IBFs	45,395	41,568	30,197	11,371	3,827
50 Remaining assets	143,904	127,990	86,138	41,852	15,914

4.21 Continued

Item	Total	Members			Non-members
		Total	National	State	
51 Total liabilities and equity capital	1,916,811	1,579,658	1,233,619	346,039	337,154
52 Total liabilities ⁷	1,781,565	1,469,350	1,148,414	320,936	312,215
53 Total deposits	1,393,143	1,109,287	894,043	215,244	283,856
54 Individuals, partnerships, and corporations	1,240,087	983,013	798,944	184,068	257,074
55 U.S. government	3,698	3,059	2,745	314	639
56 States and political subdivisions in the United States	73,774	55,615	46,982	8,633	18,160
57 Commercial banks in the United States	42,328	38,673	28,693	9,980	3,655
58 Other depository institutions in the United States	6,955	5,664	3,960	1,704	1,291
59 Banks in foreign countries	7,706	7,266	3,280	3,986	440
60 Foreign governments and official institutions	2,503	2,302	1,042	1,261	200
61 Certified and official checks	16,093	13,695	8,397	5,298	2,397
62 Total transaction accounts	454,130	375,848	291,792	84,056	78,282
63 Individuals, partnerships, and corporations	378,971	308,492	244,812	63,680	70,479
64 U.S. government	2,320	1,894	1,637	257	426
65 States and political subdivisions in the United States	14,294	11,696	9,610	2,086	2,598
66 Commercial banks in the United States	28,835	27,318	20,555	6,763	1,517
67 Other depository institutions in the United States	5,617	4,948	3,323	1,625	669
68 Banks in foreign countries	6,831	6,674	2,927	3,747	157
69 Foreign governments and official institutions	1,170	1,131	531	600	38
70 Certified and official checks	16,093	13,695	8,397	5,298	2,397
71 Demand deposits (included in total transaction accounts)	357,407	301,796	228,849	72,948	55,611
72 Individuals, partnerships, and corporations	286,155	237,398	184,249	53,149	48,757
73 U.S. government	2,263	1,838	1,583	255	425
74 States and political subdivisions in the United States	10,457	8,799	7,288	1,510	1,659
75 Commercial banks in the United States	28,834	27,318	20,555	6,763	1,516
76 Other depository institutions in the United States	5,609	4,945	3,320	1,625	663
77 Banks in foreign countries	6,831	6,674	2,927	3,747	157
78 Foreign governments and official institutions	1,166	1,130	530	600	37
79 Certified and official checks	16,093	13,695	8,397	5,298	2,397
80 Total nontransaction accounts	939,014	733,439	602,251	131,188	205,575
81 Individuals, partnerships, and corporations	861,116	674,521	554,132	120,389	186,595
82 U.S. government	1,378	1,166	1,108	57	212
83 States and political subdivisions in the United States	59,480	43,919	37,372	6,547	15,561
84 Commercial banks in the United States	13,493	11,355	8,138	3,217	2,138
85 U.S. branches and agencies of foreign banks	1,285	837	757	80	449
86 Other commercial banks in the United States	12,208	10,518	7,381	3,137	1,689
87 Other depository institutions in the United States	1,338	716	637	79	622
88 Banks in foreign countries	875	592	353	239	284
89 Foreign branches of other U.S. banks	27	27	19	8	0
90 Other banks in foreign countries	848	565	334	231	283
91 Foreign governments and official institutions	1,333	1,171	511	660	162
92 Federal funds purchased and securities sold under agreements to repurchase	223,818	208,159	150,545	57,613	15,659
93 Demand notes issued to the U.S. Treasury	8,422	7,478	5,316	2,162	944
94 Other borrowed money	51,011	46,544	28,169	18,374	4,467
95 Banks liability on acceptances executed and outstanding	36,577	35,927	26,600	9,328	650
96 Notes and debentures subordinated to deposits	1,820	1,189	1,060	129	631
97 Net due to own foreign offices, Edge and Agreement subsidiaries and IBFs	11,356	10,627	8,819	1,809	729
98 Remaining liabilities	66,774	60,767	42,681	18,086	6,008
99 Total equity capital ⁹	135,247	110,308	85,205	25,103	24,939
MEMO					
100 Holdings of commercial paper included in total loans, gross	1,686	1,066	898	168	620
101 Total individual retirement accounts (IRA) and Keogh plan accounts	51,716	40,444	33,730	6,714	11,272
102 Total brokered deposits	24,072	21,186	17,687	3,498	2,886
103 Total brokered retail deposits	7,189	6,393	5,647	745	797
104 Issued in denominations of \$100,000 or less	1,932	1,502	1,456	47	430
105 Issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less	5,257	4,890	4,191	699	367
106 Nontransaction savings deposits	376,518	296,584	241,975	54,609	79,934
107 Total time deposits of less than \$100,000	304,056	230,484	196,402	34,082	73,572
108 Time certificates of deposit of \$100,000 or more	225,271	176,673	144,011	32,661	48,599
109 Open-account time deposits of \$100,000 or more	33,169	29,700	19,863	9,837	3,470
110 Super NOW accounts	86,790	66,482	56,369	10,113	20,308
111 Money market deposit accounts (MMDAs)	281,487	222,920	181,438	41,482	58,567
112 Total time and savings deposits	1,035,736	807,490	665,193	142,297	228,246
Quarterly averages					
113 Total loans	1,136,537	934,171	745,566	188,605	202,366
114 Obligations (other than securities) of states and political subdivisions in the United States	57,799	49,234	36,114	13,121	8,565
115 Time certificates of deposit of \$100,000 or more	227,799	178,405	145,189	33,216	49,394
116 Super NOW accounts, money market deposit accounts, and time deposits (other than certificates of deposits of \$100,000 or more)	686,827	532,229	444,083	88,147	154,598
117 Number of banks	2,495	1,456	1,238	218	1,039

Footnotes appear at the end of table 4.22

A74 Special Tables □ June 1987

4.22 DOMESTIC OFFICES, Insured Commercial Bank Assets and Liabilities^{1,2,3}
 Consolidated Report of Condition, March 31, 1986

Millions of dollars

Item	Total	Members			Non-members
		Total	National	State	
1 Total assets⁶	2,332,174	1,755,850	1,379,409	376,441	576,324
2 Cash and balances due from depository institutions	211,477	164,079	129,516	34,563	47,398
3 Currency and coin	21,216	15,902	13,150	2,752	5,314
4 Noninterest-bearing balances due from commercial banks	37,318	21,368	17,720	3,648	15,950
5 Other	152,943	126,810	98,646	28,164	26,134
6 Total securities, loans, and lease financing receivables (net of unearned income)	1,925,849	1,422,466	1,132,833	289,634	503,383
7 Total securities, book value	409,890	269,755	213,288	56,467	140,135
8 U.S. Treasury securities and U.S. government agency and corporation obligations	243,825	154,475	125,604	28,871	89,351
9 Securities issued by states and political subdivisions in the United States	147,393	103,149	78,504	24,644	44,245
10 Other securities	18,672	12,131	9,179	2,952	6,540
11 All holdings of private certificates of participation in pools of residential mortgages	1,170	808	588	220	363
12 All other	17,501	11,324	8,592	2,732	6,177
13 Federal funds sold and securities purchased under agreements to resell	132,498	99,546	75,575	23,971	32,952
14 Total loans and lease financing receivables, gross	1,398,458	1,063,405	851,851	211,554	335,053
15 Less: Unearned income on loans	14,988	10,241	7,883	2,358	4,757
16 Total loans and leases (net of unearned income)	1,383,461	1,053,166	843,970	209,196	330,296
<i>Total loans, gross, by category</i>					
17 Loans secured by real estate	433,673	306,626	259,354	47,272	127,047
18 Construction and land development	92,917	73,839	60,429	13,410	19,078
19 Farmland	11,779	5,608	4,775	833	6,171
20 1-4 family residential properties	198,471	136,441	116,911	19,530	62,030
21 Multifamily (5 or more) residential properties	13,084	9,491	8,157	1,333	3,593
22 Nonfarm nonresidential properties	117,422	81,248	69,083	12,166	36,174
23 Loans to depository institutions	28,987	24,378	18,033	6,346	4,609
24 Loans to finance agricultural production and other loans to farmers	33,785	18,337	15,562	2,774	15,448
25 Commercial and industrial loans	449,681	355,358	276,307	79,051	94,323
26 Acceptances of other banks	3,595	2,196	1,913	282	1,399
27 Loans to individuals for household, family and other personal expenditures (includes purchased paper)	291,025	218,558	182,056	36,502	72,466
28 Obligations (other than securities) of states and political subdivisions in the United States	61,162	50,404	37,567	12,837	10,758
29 Nonrated industrial development obligations	46,247	37,588	27,446	10,143	8,659
30 Other obligations (excluding securities)	14,915	12,816	10,121	2,695	2,099
31 All other loans	76,124	69,462	46,575	22,887	6,662
32 Lease financing receivables	20,426	18,085	14,484	3,601	2,341
33 Customers' liability on acceptances outstanding	35,498	34,835	25,491	9,345	663
34 Net due from own foreign offices, Edge and Agreement subsidiaries and IBFs	45,395	41,568	30,197	11,371	3,827
35 Remaining assets	159,350	134,470	91,570	42,900	24,881
36 Total liabilities and equity capital	2,332,174	1,755,850	1,379,409	376,441	576,324
37 Total liabilities⁷	2,161,023	1,630,374	1,281,731	348,643	530,650
38 Total deposits	1,762,831	1,265,607	1,023,538	242,069	497,224
39 Individuals, partnerships, and corporations	1,575,852	1,125,377	916,838	208,539	450,475
40 U.S. government	4,463	3,384	3,018	366	1,079
41 States and political subdivisions in the United States	101,452	66,456	56,001	10,454	34,996
42 Commercial banks in the United States	43,870	39,617	29,466	10,151	4,254
43 Other depository institutions in the United States	8,057	6,221	4,449	1,773	1,835
44 Certified and official checks	18,629	14,830	9,334	5,496	3,799
45 All other	10,509	9,722	4,432	5,290	787
46 Total transaction accounts	549,230	416,489	325,720	90,769	132,742
47 Individuals, partnerships, and corporations	464,016	344,842	275,203	69,639	119,174
48 U.S. government	2,848	2,122	1,829	293	726
49 States and political subdivisions in the United States	20,241	14,012	11,547	2,466	6,228
50 Commercial banks in the United States	29,237	27,609	20,747	6,862	1,629
51 Other depository institutions in the United States	6,171	5,219	3,563	1,657	952
52 Certified and official checks	18,629	14,830	9,334	5,496	3,799
53 All other	8,089	7,854	3,497	4,357	235
54 Demand deposits (included in total transaction accounts)	415,012	326,887	249,851	77,036	88,126
55 Individuals, partnerships, and corporations	337,081	259,509	202,811	56,698	77,572
56 U.S. government	2,771	2,056	1,766	290	715
57 States and political subdivisions in the United States	13,075	9,827	8,146	1,681	3,248
58 Commercial banks in the United States	29,232	27,608	20,746	6,862	1,624
59 Other depository institutions in the United States	6,155	5,212	3,557	1,656	942
60 Certified and official checks	18,629	14,830	9,334	5,496	3,799
61 All other	8,070	7,845	3,491	4,354	225
62 Total nontransaction accounts	1,213,601	849,118	697,819	151,300	364,483
63 Individuals, partnerships, and corporations	1,111,836	780,535	641,635	138,900	331,301
64 U.S. government	1,615	1,262	1,189	73	353
65 States and political subdivisions in the United States	81,211	52,444	44,455	7,989	28,768
66 Commercial banks in the United States	14,633	12,008	8,719	3,289	2,625
67 Other depository institutions in the United States	1,886	1,002	886	116	884
68 All other	2,420	1,867	934	933	552
69 Federal funds purchased and securities sold under agreements to repurchase	227,006	209,997	151,965	58,031	17,010
70 Demand notes issued to the U.S. Treasury	9,088	7,785	5,568	2,216	1,303
71 Other borrowed money	51,680	46,956	28,538	18,418	4,724
72 Banks liability on acceptances executed and outstanding	36,601	35,938	26,608	9,330	663
73 Notes and debentures subordinated to deposits	2,065	1,295	1,152	142	770
74 Net due to own foreign offices, Edge and Agreement subsidiaries and IBFs	11,356	10,627	8,819	1,809	729
75 Remaining liabilities	71,753	62,797	44,361	18,436	8,957

4.22 Continued

Item	Total	Members			Non-members
		Total	National	State	
76 Total equity capital ⁹	171,151	125,477	97,678	27,799	45,674
MEMO					
77 Assets held in trading accounts ¹⁰	30,640	30,245	15,920	14,325	396
78 U.S. Treasury securities	16,017	15,971	7,485	8,486	46
79 U.S. government agency corporation obligations	4,828	4,828	2,453	2,376	0
80 Securities issued by states and political subdivisions in the United States	4,222	4,198	2,364	1,835	24
81 Other bonds, notes and debentures	263	260	115	145	3
82 Certificates of deposit	911	910	540	371	0
83 Commercial paper	212	212	212	0	0
84 Bankers acceptances	3,007	2,999	2,134	865	8
85 Other	531	474	255	218	57
86 Total individual retirement accounts (IRA) and Keogh plan accounts	65,771	46,085	38,415	7,670	19,686
87 Total brokered deposits	24,496	21,392	17,855	3,537	3,104
88 Total brokered retail deposits	7,463	6,514	5,739	775	949
89 Issued in denominations of \$100,000 or less	2,144	1,593	1,527	66	551
90 Issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less	5,319	4,921	4,212	709	398
91 Nontransaction savings deposits	462,816	334,341	273,025	61,316	128,475
92 Total time deposits of less than \$100,000	444,746	286,451	242,187	44,264	158,296
93 Time certificates of deposit of \$100,000 or more	270,836	197,824	162,064	35,760	73,012
94 Open-account time deposits of \$100,000 or more	35,205	30,504	20,543	9,961	4,701
95 Super NOW accounts	121,644	81,019	68,521	12,497	40,626
96 Money market deposit accounts (MMDAs)	339,465	248,638	202,751	45,887	90,827
97 Total time and savings deposits	1,347,818	938,719	773,686	165,033	409,099
Quarterly averages					
98 Total loans	1,352,904	1,026,849	822,456	204,393	326,056
99 Time certificates of deposit of \$100,000 or more	272,588	199,134	162,889	36,244	73,454
100 Super NOW accounts, money market deposit accounts, and time deposits (other than certificates of deposit of \$100,000 or more)	921,118	628,169	523,558	104,610	292,950
101 Number of banks	14,258	5,970	4,888	1,082	8,288

1. Effective Mar. 31, 1984, the report of condition was substantially revised for commercial banks. Some of the changes are as follows: (1) Previously, banks with international banking facilities (IBFs) that had no other foreign offices were considered domestic reporters. Beginning with the Mar. 31, 1984 call report these banks are considered foreign and domestic reporters and must file the foreign and domestic report of condition; (2) banks with assets greater than \$1 billion have additional items reported; (3) the domestic office detail for banks with foreign offices has been reduced considerably; and (4) banks with assets under \$25 million have been excused from reporting certain detail items.

2. The "n.a." for some of the items is used to indicate the lesser detail available from banks without foreign offices, the inapplicability of certain items to banks that have only domestic offices and/or the absence of detail on a fully consolidated basis for banks with foreign offices.

3. All transactions between domestic and foreign offices of a bank are reported in "net due from" and "net due to." All other lines represent transactions with parties other than the domestic and foreign offices of each bank. Since these intraoffice transactions are nullified by consolidation, total assets and total liabilities for the entire bank may not equal the sum of assets and liabilities respectively, of the domestic and foreign offices.

4. Foreign offices include branches in foreign countries, Puerto Rico, and in U.S. territories and possessions; subsidiaries in foreign countries; all offices of Edge Act and Agreement corporations wherever located and IBFs.

5. The 'over 100' column refers to those respondents whose assets, as of June 30 of the previous calendar year, were equal to or exceeded \$100 million. (These respondents file the FFIEC 032 or FFIEC 033 call report.) The 'under 100' column refers to those respondents whose assets, as of June 30 of the previous calendar year, were less than \$100 million. (These respondents filed the FFIEC 034 call report.)

6. Since the domestic portion of allowances for loan and lease losses and allocated transfer risk reserve are not reported for banks with foreign offices, the components of total assets (domestic) will not add to the actual total (domestic).

7. Since the foreign portion of demand notes issued to the U.S. Treasury is not reported for banks with foreign offices, the components of total liabilities (foreign) will not add to the actual total (foreign).

8. The definition of "all other" varies by report form and therefore by column in this table. See the instructions for more detail.

9. Equity capital is not allocated between the domestic and foreign offices of banks with foreign offices.

10. Components of assets held in trading accounts are only reported for banks with total assets of \$1 billion or more; therefore the components will not add to the totals for this item.

4.20 DOMESTIC AND FOREIGN OFFICES, Insured Commercial Bank Assets and Liabilities^{1,2}
 Consolidated Report of Condition, June 30, 1986
 Millions of dollars

Item	Total	Banks with foreign offices ^{3,4}			Banks with domestic offices only ⁵	
		Total	Foreign	Domestic	Over 100	Under 100
1 Total assets⁶	2,747,052	1,601,393	425,633	1,236,594	721,930	423,728
2 Cash and balances due from depository institutions	332,360	229,991	112,139	117,852	64,923	37,446
3 Cash items in process of collection, unposted debits, and currency	↑	84,054	1,698	82,356	28,052	.....
4 Cash items in process of collection and unposted debits and coin	↑	n.a.	n.a.	72,060	20,687	.....
5 Currency and coin	↑	n.a.	n.a.	10,296	7,364	.....
6 Balances due from depository institutions in the United States	n.a.	34,299	20,305	13,993	22,119	n.a.
7 Balances due from banks in foreign countries and foreign central banks	↓	93,075	89,596	3,478	6,006	.....
8 Balances due from Federal Reserve Banks	↓	18,564	539	18,024	8,746	.....
MEMO						
9 Noninterest-bearing balances due from commercial banks in the United States (included in balances due from depository institutions in the U.S.)	n.a.	n.a.	n.a.	9,608	13,933	15,232
10 Total securities, loans and lease financing receivables, net	2,202,422	1,208,158	n.a.	n.a.	626,643	367,621
11 Total securities, book value	439,263	165,439	21,111	144,328	155,326	118,498
12 U.S. Treasury securities and U.S. government agency and corporation obligations	253,881	79,696	653	79,042	92,409	81,776
13 U.S. Treasury securities	n.a.	56,946	640	56,306	62,381	n.a.
14 U.S. government agency and corporation obligations	n.a.	22,750	13	22,737	30,028	n.a.
15 All holdings of U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages	27,971	15,132	1	15,131	7,137	5,701
16 All other	n.a.	7,618	12	7,606	22,891	n.a.
17 Securities issued by states and political subdivisions in the United States	143,435	57,354	757	56,597	53,484	32,598
18 Other securities	41,946	28,389	19,701	8,688	9,433	4,124
19 Other domestic securities	n.a.	7,247	381	6,865	8,978	.....
20 All holdings of private certificates of participation in pools of residential mortgages	2,303	1,349	8	1,341	587	367
21 All other	18,045	5,898	373	5,525	8,390	3,757
22 Foreign securities	n.a.	21,142	19,320	1,823	456	.....
23 Federal funds sold and securities purchased under agreements to resell	133,624	59,595	267	59,329	43,669	30,360
24 Total loans and lease financing receivables, gross	1,672,103	1,006,586	242,427	764,159	440,082	225,435
25 LESS: Unearned income on loans	16,555	7,001	2,004	4,996	6,085	3,470
26 Total loans and leases (net of unearned income)	1,655,548	999,585	240,423	759,163	433,998	221,965
27 LESS: Allowance for loan and lease losses	25,918	16,367	n.a.	n.a.	6,350	3,201
28 LESS: Allocated transfer risk reserves	95	94	n.a.	n.a.	0	1
29 EQUALS: Total loans and leases, net	1,629,535	983,124	n.a.	n.a.	427,647	218,763
<i>Total loans, gross, by category</i>						
30 Loans secured by real estate	463,535	219,261	15,408	203,853	153,979	90,295
31 Construction and land development	n.a.	n.a.	n.a.	64,102	24,749	8,265
32 Farmland	n.a.	n.a.	n.a.	1,561	3,106	7,555
33 1-4 family residential properties	n.a.	n.a.	n.a.	80,847	72,989	49,389
34 Multifamily (5 or more) residential properties	n.a.	n.a.	n.a.	6,713	4,969	1,813
35 Nonfarm nonresidential properties	n.a.	n.a.	n.a.	50,629	48,166	23,273
36 Loans to depository institutions	65,694	59,447	34,400	25,048	5,632	614
37 To commercial banks in the United States	n.a.	15,635	1,132	14,503	4,505	n.a.
38 To other depository institutions in the United States	n.a.	4,731	378	4,353	916	n.a.
39 To banks in foreign countries	n.a.	39,082	32,890	6,192	212	n.a.
40 Loans to finance agricultural production and other loans to farmers	34,623	6,395	472	5,923	7,035	21,193
41 Commercial and industrial loans	579,425	405,208	126,065	279,143	120,402	53,816
42 To U.S. addressees (domicile)	n.a.	293,512	19,088	274,424	119,929	n.a.
43 To non-U.S. addressees (domicile)	n.a.	111,695	106,977	4,719	473	n.a.
44 Acceptances of other banks	3,666	1,193	528	665	1,324	1,149
45 U.S. banks	n.a.	373	25	348	n.a.	n.a.
46 Foreign banks	n.a.	820	504	317	n.a.	n.a.
47 Loans to individuals for household, family and other personal expenditures (includes purchased paper)	308,918	138,312	10,624	127,687	119,171	51,436
48 Credit cards and related plans	76,777	44,693	n.a.	n.a.	30,185	1,899
49 Other (includes single payment and installment)	232,142	93,619	n.a.	n.a.	88,985	49,537
50 Obligations (other than securities) of states and political subdivisions in the U.S.	60,694	38,782	586	38,195	18,909	3,004
51 Nonrated industrial development obligations	46,326	29,072	104	28,968	15,238	2,016
52 Other obligations (excluding securities)	14,369	9,709	482	9,227	3,671	988
53 All other loans	130,578	117,304	50,104	67,200	9,948	3,325
54 Loans to foreign governments and official institutions	n.a.	39,986	36,315	3,671	236	n.a.
55 Other loans	n.a.	77,319	13,789	63,529	9,712	n.a.
56 Loans for purchasing and carrying securities	n.a.	n.a.	n.a.	22,549	2,211	n.a.
57 All other loans	n.a.	n.a.	n.a.	40,980	7,501	n.a.
58 Lease financing receivables	24,969	20,684	4,239	16,445	3,684	601
59 Assets held in trading accounts	43,165	41,988	13,392	28,596	942	235
60 Premises and fixed assets (including capitalized leases)	41,111	20,771	↑	n.a.	12,565	7,775
61 Other real estate owned	8,095	3,240	↑	n.a.	2,468	2,387
62 Investments in unconsolidated subsidiaries and associated companies	2,151	1,821	↑	n.a.	266	64
63 Customers' liability on acceptances outstanding	44,510	44,163	n.a.	n.a.	329	18
64 Net due from own foreign offices, Edge and Agreement subsidiaries and IBFs	n.a.	n.a.	↓	51,277	n.a.	n.a.
65 Intangible assets	3,391	2,139	↓	n.a.	1,098	153
66 Other assets	69,847	49,123	↓	n.a.	12,696	8,029

4.20 Continued

Item	Total	Banks with foreign offices ^{3,4}			Banks with domestic offices only ⁵	
		Total	Foreign	Domestic	Over 100	Under 100
67 Total liabilities, limited-life preferred stock and equity capital	2,747,052	1,601,393	n.a.	n.a.	721,930	423,728
68 Total liabilities ⁷	2,573,391	1,515,505	423,269	1,153,070	670,553	387,333
69 Limited-life preferred stock	75	61	n.a.	n.a.	12	1
70 Total deposits	2,127,017	1,147,592	321,068	826,524	602,259	377,166
71 Individuals, partnerships, and corporations			167,540	726,638	542,491	342,868
72 U.S. government				2,876	1,603	765
73 States and political subdivisions in the United States				35,725	39,190	27,707
74 Commercial banks in the United States				33,388	10,767	1,628
75 Other depository institutions in the United States				5,119	2,622	1,283
76 Banks in foreign countries				8,276	174	n.a.
77 Foreign governments and official institutions		30,748	28,072	2,676	145	n.a.
78 Certified and official checks	20,555	12,421	596	11,825	5,265	2,868
79 All other ⁸			124,860			47
80 Total transaction accounts				307,297	178,316	99,577
81 Individuals, partnerships, and corporations				245,894	154,135	88,494
82 U.S. government				1,838	1,190	578
83 States and political subdivisions in the United States				9,621	9,230	6,670
84 Commercial banks in the United States				24,206	6,667	358
85 Other depository institutions in the United States				4,612	1,756	598
86 Banks in foreign countries				7,573	63	n.a.
87 Foreign governments and official institutions				1,728	10	n.a.
88 Certified and official checks				11,825	5,265	2,868
89 All other						9
90 Demand deposits (included in total transaction accounts)				258,302	125,882	60,590
91 Individuals, partnerships, and corporations				198,426	105,293	53,330
92 U.S. government				1,781	1,166	560
93 States and political subdivisions in the United States				8,153	5,685	2,883
94 Commercial banks in the United States				24,206	6,664	358
95 Other depository institutions in the United States				4,611	1,736	583
96 Banks in foreign countries				7,573	63	n.a.
97 Foreign governments and official institutions				1,727	9	n.a.
98 Certified and official checks				11,825	5,265	2,868
99 All other						8
100 Total nontransaction accounts				519,227	423,943	277,589
101 Individuals, partnerships, and corporations				480,745	388,357	254,373
102 U.S. government				1,037	413	187
103 States and political subdivisions in the United States				26,104	29,959	21,036
104 Commercial banks in the United States				9,182	4,100	1,270
105 U.S. branches and agencies of foreign banks				292	648	n.a.
106 Other commercial banks in the United States				8,890	3,452	n.a.
107 Other depository institutions in the United States				508	867	684
108 Banks in foreign countries				703	111	n.a.
109 Foreign branches of other U.S. banks				24	0	n.a.
110 Other banks in foreign countries				679	111	n.a.
111 Foreign governments and official institutions				948	136	n.a.
112 All other						38
113 Federal funds purchased and securities sold under agreements to repurchase	224,642	179,512	804	178,708	41,640	3,490
114 Demand notes issued to the U.S. Treasury	n.a.	n.a.	n.a.	17,142	3,786	634
115 Other borrowed money	74,673	63,329	25,094	38,236	10,550	794
116 Banks liability on acceptances executed and outstanding	44,759	44,412	9,970	34,441	329	18
117 Notes and debentures subordinated to deposits	16,049	13,825		n.a.	1,996	228
118 Net due to own foreign offices, Edge and Agreement subsidiaries and IBFs	n.a.	n.a.		9,557	n.a.	n.a.
119 All other liabilities	64,689	49,693			9,994	5,003
120 Total equity capital ⁹	173,586	85,827			51,365	36,395
121 Perpetual preferred stock	1,257	898	n.a.		261	97
122 Common stock	28,455	13,647		n.a.	7,810	6,997
123 Surplus	59,661	27,858			18,816	12,988
124 Undivided profits and capital reserves	84,565	43,775			24,477	16,313
125 Cumulative foreign currency translation adjustments		-352				
MEMO						
126 Holdings of commercial paper included in total loans, gross		601	334	267	1,294	n.a.
127 Total individual retirement accounts (IRA) and Keogh plan accounts				28,460	27,016	15,190
128 Total brokered deposits				20,165	2,918	491
129 Total brokered retail deposits				5,212	1,878	341
130 Issued in denominations of \$100,000 or less				1,188	803	268
131 Issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less				4,024	1,075	73
132 Nontransaction savings deposits				219,104	173,749	90,068
133 Total time deposits of less than \$100,000				135,300	167,397	140,280
134 Time certificates of deposit of \$100,000 or more				136,942	78,315	45,238
135 Open-account time deposits of \$100,000 or more				27,882	4,482	2,002
136 Super NOW accounts				44,025	49,623	37,099
137 Money market deposit accounts (MMDAs)				169,599	122,334	60,091
138 Total time and savings deposits				568,223	476,377	316,575
Quarterly averages						
139 Total loans				725,331	426,013	219,230
140 Obligations (other than securities) of states and political subdivisions in the United States				38,936	18,653	n.a.
141 Time certificates of deposit of \$100,000 or more				138,584	79,966	45,244
142 Super NOW accounts, money market deposit accounts, and time deposits (other than certificates of deposits of \$100,000 or more)				367,095	340,719	238,839
143 Number of banks	14,182	260		n.a.	2,205	11,717

Footnotes appear at the end of table 4.22

4.21 DOMESTIC OFFICES, Insured Commercial Banks with Assets of \$100 Million or more or with foreign offices ^{1,2,3}
 Consolidated Report of Condition, June 30, 1986
 Millions of dollars

Item	Total	Members			Non-members
		Total	National	State	
1 Total assets ⁶	1,958,524	1,611,881	1,259,736	352,145	346,643
2 Cash and balances due from depository institutions	182,775	153,908	120,408	33,500	28,867
3 Cash items in process of collection and unposted debits	92,747	84,889	64,658	20,231	7,858
4 Currency and coin	17,660	14,620	12,041	2,579	3,040
5 Balances due from depository institutions in the United States	36,113	24,312	19,848	4,464	11,801
6 Balances due from banks in foreign countries and foreign central banks	9,485	7,144	5,726	1,418	2,341
7 Balances due from Federal Reserve Banks	26,770	22,943	18,134	4,809	3,827
8 Total securities, loans and lease financing receivables, (net of unearned income)	1,595,812	1,294,370	1,029,086	265,284	301,442
9 Total securities, book value	299,654	228,068	179,264	48,804	71,586
10 U.S. Treasury securities	118,686	90,989	73,095	17,894	27,698
11 U.S. government agency and corporation obligations	52,765	38,380	32,362	6,018	14,385
12 All holdings of U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages	22,269	18,518	16,009	2,508	3,751
13 All other	30,496	19,862	16,352	3,510	10,634
14 Securities issued by states and political subdivisions in the United States	110,081	86,365	64,510	21,855	23,717
15 Other domestic securities	15,843	10,622	8,649	1,973	5,221
16 All holdings of private certificates of participation in pools of residential mortgages	1,928	1,557	1,116	441	371
17 All other	13,915	9,065	7,533	1,532	4,850
18 Foreign securities	2,278	1,713	648	1,065	566
19 Federal funds sold and securities purchased under agreements to resell	102,998	85,257	66,545	18,712	17,741
20 Total loans and lease financing receivables, gross	1,204,241	989,608	789,824	199,785	214,632
21 Less: Unearned income on loans	11,081	8,564	6,546	2,017	2,517
22 Total loans and leases (net of unearned income)	1,193,160	981,045	783,278	197,767	212,115
<i>Total loans, gross, by category</i>					
23 Loans secured by real estate	357,831	278,014	236,485	41,530	79,817
24 Construction and land development	88,851	72,995	59,856	13,139	15,856
25 Farmland	4,667	3,258	2,912	346	1,409
26 1-4 family residential properties	153,836	118,327	102,468	15,859	35,509
27 Multifamily (5 or more) residential properties	11,682	8,959	7,836	1,123	2,723
28 Nonfarm nonresidential properties	98,796	74,476	63,412	11,064	24,320
29 Loans to commercial banks in the United States	19,007	15,108	11,812	3,296	3,899
30 Loans to other depository institutions in the United States	5,269	5,058	3,978	1,080	211
31 Loans to banks in foreign countries	6,403	6,256	3,762	2,494	147
32 Loans to finance agricultural production and other loans to farmers	12,958	10,552	9,321	1,231	2,406
33 Commercial and industrial loans	399,545	332,397	257,378	75,019	67,147
34 To U.S. addressees (domicile)	394,353	327,627	253,407	74,220	66,726
35 To non-U.S. addressees (domicile)	5,192	4,771	3,971	799	421
36 Acceptances of other banks ¹⁰	1,988	1,443	1,311	132	545
37 Of U.S. banks	674	565	531	33	110
38 Of foreign banks	343	250	221	29	93
39 Loans to individuals for household, family and other personal expenditures (includes purchased paper)	246,858	202,381	168,434	33,946	44,477
40 Loans to foreign governments and official institutions	3,907	3,719	2,661	1,059	188
41 Obligations (other than securities) of states and political subdivisions in the United States	57,104	48,105	35,802	12,303	8,999
42 Nonrated industrial development obligations	44,206	36,552	26,700	9,851	7,654
43 Other obligations (excluding securities)	12,898	11,554	9,102	2,452	1,345
44 Other loans	73,241	68,556	44,485	24,072	4,685
45 Loans for purchasing and carrying securities	24,760	23,599	12,029	11,570	1,161
46 All other loans	48,481	44,957	32,455	12,502	3,524
47 Lease financing receivables	20,129	18,018	14,395	3,622	2,111
48 Customers' liability on acceptances outstanding	33,663	32,854	23,481	9,374	809
49 Net due from own foreign offices, Edge and Agreement subsidiaries and IBFs	51,277	47,396	32,363	15,033	3,881
50 Remaining assets	146,274	130,749	86,761	43,988	15,525

4.21 Continued

Item	Total	Members			Non-members
		Total	National	State	
51 Total liabilities and equity capital	1,958,524	1,611,881	1,259,736	352,145	346,643
52 Total liabilities ⁷	1,823,623	1,502,335	1,175,928	326,407	321,288
53 Total deposits	1,428,783	1,138,074	915,569	222,505	290,709
54 Individuals, partnerships, and corporations	1,269,130	1,006,179	817,140	189,039	262,951
55 U.S. government	4,479	3,810	3,326	484	669
56 States and political subdivisions in the United States	74,915	56,677	46,777	9,900	18,238
57 Commercial banks in the United States	44,155	40,300	29,487	10,813	3,855
58 Other depository institutions in the United States	7,742	6,304	4,299	2,005	1,438
59 Banks in foreign countries	8,451	8,022	4,246	3,776	428
60 Foreign governments and official institutions	2,822	2,570	1,535	1,034	252
61 Certified and official checks	17,090	14,211	8,757	5,454	2,879
62 Total transaction accounts	485,612	402,484	312,128	90,355	83,129
63 Individuals, partnerships, and corporations	400,029	325,963	258,907	67,056	74,066
64 U.S. government	3,028	2,542	2,140	402	486
65 States and political subdivisions in the United States	18,851	15,642	12,126	3,517	3,209
66 Commercial banks in the United States	30,873	29,353	21,472	7,881	1,520
67 Other depository institutions in the United States	6,367	5,602	3,699	1,903	765
68 Banks in foreign countries	7,636	7,482	3,941	3,541	155
69 Foreign governments and official institutions	1,738	1,688	1,087	601	50
70 Certified and official checks	17,090	14,211	8,757	5,454	2,879
71 Demand deposits (included in total transaction accounts)	384,184	324,586	246,169	78,417	59,598
72 Individuals, partnerships, and corporations	303,719	251,978	196,122	55,856	51,741
73 U.S. government	2,946	2,463	2,062	401	483
74 States and political subdivisions in the United States	13,838	11,814	9,034	2,780	2,024
75 Commercial banks in the United States	30,870	29,351	21,470	7,881	1,519
76 Other depository institutions in the United States	6,347	5,599	3,697	1,902	748
77 Banks in foreign countries	7,636	7,482	3,941	3,541	155
78 Foreign governments and official institutions	1,736	1,687	1,086	601	50
79 Certified and official checks	17,090	14,211	8,757	5,454	2,879
80 Total nontransaction accounts	943,170	735,590	603,440	132,150	207,580
81 Individuals, partnerships, and corporations	869,101	680,216	558,233	121,983	188,885
82 U.S. government	1,450	1,267	1,186	81	183
83 States and political subdivisions in the United States	56,063	41,035	34,652	6,383	15,029
84 Commercial banks in the United States	13,283	10,947	8,015	2,932	2,335
85 U.S. branches and agencies of foreign banks	940	612	526	86	328
86 Other commercial banks in the United States	12,342	10,335	7,490	2,846	2,007
87 Other depository institutions in the United States	1,375	702	600	102	673
88 Banks in foreign countries	814	541	305	235	274
89 Foreign branches of other U.S. banks	24	23	19	5	0
90 Other banks in foreign countries	791	517	287	231	273
91 Foreign governments and official institutions	1,084	882	448	434	202
92 Federal funds purchased and securities sold under agreements to repurchase	220,348	204,291	149,552	54,739	16,057
93 Demand notes issued to the U.S. Treasury	20,928	19,274	14,332	4,942	1,655
94 Other borrowed money	48,786	45,167	28,093	17,074	3,619
95 Banks liability on acceptances executed and outstanding	34,770	33,961	24,736	9,226	809
96 Notes and debentures subordinated to deposits	1,996	1,377	1,202	176	618
97 Net due to own foreign offices, Edge and Agreement subsidiaries and IBFs	9,557	7,144	5,664	1,479	2,413
98 Remaining liabilities	68,012	60,190	42,446	17,744	7,822
99 Total equity capital ⁸	134,902	109,546	83,808	25,738	25,355
MEMO					
100 Holdings of commercial paper included in total loans, gross	1,560	1,081	893	188	479
101 Total individual retirement accounts (IRA) and Keogh plan accounts	55,476	43,222	35,942	7,281	12,254
102 Total brokered deposits	23,083	20,105	17,328	2,777	2,979
103 Total brokered retail deposits	7,090	6,298	5,558	740	792
104 Issued in denominations of \$100,000 or less	1,991	1,473	1,415	58	518
105 Issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less	5,099	4,825	4,144	682	274
106 Nontransaction savings deposits	392,853	309,796	252,012	57,784	83,057
107 Total time deposits of less than \$100,000	302,697	228,753	194,605	34,148	73,945
108 Time certificates of deposit of \$100,000 or more	215,258	168,328	137,885	30,442	46,930
109 Open-account time deposits of \$100,000 or more	32,363	28,715	18,938	9,777	3,648
110 Super NOW accounts	93,648	71,927	60,836	11,091	21,721
111 Money market deposit accounts (MMDAs)	291,933	231,538	188,099	43,439	60,394
112 Total time and savings deposits	1,044,599	813,488	669,400	144,088	231,111
Quarterly averages					
113 Total loans	1,151,345	944,107	751,281	192,826	207,238
114 Obligations (other than securities) of states and political subdivisions in the United States	57,589	48,944	35,966	12,979	8,645
115 Time certificates of deposit of \$100,000 or more	218,550	171,135	139,833	31,302	47,415
116 Super NOW accounts, money market deposit accounts, and time deposits (other than certificates of deposits of \$100,000 or more)	707,814	550,006	455,346	94,660	157,808
117 Number of banks	2,465	1,436	1,221	215	1,029

Footnotes appear at the end of table 4.22

A80 Special Tables □ June 1987

4.22 DOMESTIC OFFICES, Insured Commercial Bank Assets and Liabilities^{1,2,3}
 Consolidated Report of Condition, June 30, 1986
 Millions of dollars

Item	Total	Members			Non-members
		Total	National	State	
1 Total assets⁶	2,382,253	1,792,580	1,409,060	383,520	589,673
2 Cash and balances due from depository institutions	220,221	170,584	134,379	36,205	49,638
3 Currency and coin	21,970	16,507	13,597	2,910	5,462
4 Noninterest-bearing balances due from commercial banks	38,773	22,162	17,934	4,228	16,611
5 Other	159,479	131,915	102,848	29,067	27,564
6 Total securities, loans, and lease financing receivables (net of unearned income)	1,966,634	1,451,918	1,159,025	292,893	514,716
7 Total securities, book value	418,151	275,838	218,326	57,512	142,313
8 U.S. Treasury securities and U.S. government agency and corporation obligations	253,227	161,623	131,607	30,016	91,604
9 Securities issued by states and political subdivisions in the United States	142,679	99,949	75,746	24,203	42,730
10 Other securities	22,245	14,266	10,973	3,293	7,979
11 All holdings of private certificates of participation in pools of residential mortgages	2,295	1,699	1,235	464	596
12 All other	19,950	12,567	9,738	2,829	7,383
13 Federal funds sold and securities purchased under agreements to resell	133,358	99,693	78,738	20,955	33,664
14 Total loans and lease financing receivables, gross	1,429,676	1,086,452	869,731	216,721	343,223
15 Less: Unearned income on loans	14,551	10,066	7,770	2,296	4,485
16 Total loans and leases (net of unearned income)	1,415,125	1,076,387	861,961	214,426	338,739
<i>Total loans, gross, by category</i>					
17 Loans secured by real estate	448,127	316,574	268,101	48,473	131,553
18 Construction and land development	97,116	76,866	63,173	13,692	20,250
19 Farmland	12,222	5,866	4,995	871	6,356
20 1-4 family residential properties	203,225	139,689	119,744	19,945	63,537
21 Multifamily (5 or more) residential properties	13,495	9,726	8,462	1,264	3,769
22 Nonfarm nonresidential properties	122,069	84,428	71,728	12,700	37,641
23 Loans to depository institutions	31,294	26,749	19,837	6,912	4,545
24 Loans to finance agricultural production and other loans to farmers	34,151	18,303	15,507	2,797	15,848
25 Commercial and industrial loans	453,360	356,604	277,670	78,934	96,756
26 Acceptances of other banks	3,138	1,993	1,748	245	1,144
27 Loans to individuals for household, family and other personal expenditures (includes purchased paper)	298,294	224,892	187,058	37,833	73,402
28 Obligations (other than securities) of states and political subdivisions in the United States	60,108	49,350	36,878	12,473	10,758
29 Nonrated industrial development obligations	46,221	37,390	27,415	9,975	8,831
30 Other obligations (excluding securities)	13,887	11,960	9,463	2,497	1,926
31 All other loans	80,474	73,677	48,306	25,371	6,797
32 Lease financing receivables	20,730	18,309	14,625	3,684	2,421
33 Customers' liability on acceptances outstanding	33,681	32,865	23,488	9,377	817
34 Net due from own foreign offices, Edge and Agreement subsidiaries and IBFs	51,277	47,396	32,363	15,033	3,881
35 Remaining assets	161,716	137,214	92,168	45,046	24,502
36 Total liabilities and equity capital	2,382,253	1,792,580	1,409,060	383,520	589,673
37 Total liabilities⁷	2,210,956	1,667,652	1,312,658	354,994	543,304
38 Total deposits	1,805,949	1,298,435	1,048,269	250,166	507,514
39 Individuals, partnerships, and corporations	1,611,997	1,152,389	938,089	214,301	459,608
40 U.S. government	5,244	4,151	3,612	539	1,092
41 States and political subdivisions in the United States	102,622	67,539	55,804	11,736	35,082
42 Commercial banks in the United States	45,783	41,267	30,253	11,013	4,517
43 Other depository institutions in the United States	9,024	6,948	4,860	2,088	2,076
44 Certified and official checks	19,959	15,509	9,832	5,677	4,450
45 All other	11,319	10,631	5,819	4,812	688
46 Total transaction accounts	585,189	445,172	347,662	97,510	140,017
47 Individuals, partnerships, and corporations	488,523	363,953	290,581	73,371	124,570
48 U.S. government	3,606	2,805	2,360	444	802
49 States and political subdivisions in the United States	25,522	18,240	14,294	3,946	7,281
50 Commercial banks in the United States	31,231	29,602	21,608	7,994	1,629
51 Other depository institutions in the United States	6,966	5,889	3,955	1,934	1,077
52 Certified and official checks	19,959	15,509	9,832	5,677	4,450
53 All other	9,383	9,174	5,031	4,143	209
54 Demand deposits (included in total transaction accounts)	444,774	351,085	268,280	82,805	93,688
55 Individuals, partnerships, and corporations	357,049	275,275	215,620	59,655	81,773
56 U.S. government	3,506	2,717	2,275	442	789
57 States and political subdivisions in the United States	16,721	12,931	9,969	2,962	3,790
58 Commercial banks in the United States	31,228	29,600	21,606	7,994	1,628
59 Other depository institutions in the United States	6,930	5,880	3,948	1,932	1,050
60 Certified and official checks	19,959	15,509	9,832	5,677	4,450
61 All other	9,381	9,173	5,029	4,143	208
62 Total nontransaction accounts	1,220,760	853,263	700,607	152,656	367,496
63 Individuals, partnerships, and corporations	1,123,475	788,437	647,507	140,929	335,038
64 U.S. government	1,637	1,347	1,252	95	291
65 States and political subdivisions in the United States	77,100	49,299	41,509	7,790	27,801
66 Commercial banks in the United States	14,553	11,665	8,645	3,020	2,888
67 Other depository institutions in the United States	2,059	1,059	905	154	1,000
68 All other	1,936	1,457	788	669	479
69 Federal funds purchased and securities sold under agreements to repurchase	223,838	206,298	151,102	55,195	17,540
70 Demand notes issued to the U.S. Treasury	21,562	19,575	14,581	4,994	1,987
71 Other borrowed money	49,579	45,662	28,536	17,126	3,917
72 Banks liability on acceptances executed and outstanding	34,789	33,972	24,743	9,229	817
73 Notes and debentures subordinated to deposits	2,224	1,475	1,287	188	749
74 Net due to own foreign offices, Edge and Agreement subsidiaries and IBFs	9,557	7,144	5,664	1,479	2,413
75 Remaining liabilities	73,015	62,235	44,139	18,096	10,779

4.22 Continued

Item	Total	Members			Non-members
		Total	National	State	
76 Total equity capital ⁹	171,297	124,928	96,402	28,526	46,369
<i>MEMO</i>					
77 Assets held in trading accounts ¹⁰	29,773	29,429	15,795	13,634	344
78 U.S. Treasury securities	14,269	14,226	6,018	8,208	43
79 U.S. government agency corporation obligations	4,312	4,309	2,230	2,080	3
80 Securities issued by states and political subdivisions in the United States	4,560	4,542	2,768	1,774	18
81 Other bonds, notes and debentures	245	245	147	99	0
82 Certificates of deposit	1,675	1,675	1,449	226	0
83 Commercial paper	188	188	188	0	0
84 Bankers acceptances	2,929	2,914	2,054	860	15
85 Other	952	940	577	363	11
86 Total individual retirement accounts (IRA) and Keogh plan accounts	70,666	49,357	41,024	8,333	21,309
87 Total brokered deposits	23,574	20,325	17,507	2,818	3,249
88 Total brokered retail deposits	7,430	6,458	5,690	768	972
89 Issued in denominations of \$100,000 or less	2,259	1,585	1,510	76	674
90 Issued in denominations greater than \$100,000 and participated out by the broker in shares of \$100,000 or less	5,172	4,873	4,181	693	298
91 Nontransaction savings deposits	482,921	349,470	284,661	64,809	133,451
92 Total time deposits of less than \$100,000	442,978	284,761	240,381	44,380	158,217
93 Time certificates of deposit of \$100,000 or more	260,496	189,522	155,954	33,568	70,974
94 Open-account time deposits of \$100,000 or more	34,366	29,511	19,611	9,900	4,854
95 Super NOW accounts	130,747	87,430	73,739	13,691	43,317
96 Money market deposit accounts (MMDAs)	352,024	258,469	210,441	48,027	93,555
97 Total time and savings deposits	1,361,175	947,350	779,989	167,361	413,825
<i>Quarterly averages</i>					
98 Total loans	1,370,575	1,038,249	829,184	209,066	332,326
99 Time certificates of deposit of \$100,000 or more	263,794	192,192	157,802	34,389	71,602
100 Super NOW accounts, money market deposit accounts, and time deposits (other than certificates of deposit of \$100,000 or more)	946,652	648,442	536,682	111,760	298,211
101 Number of banks	14,182	5,953	4,866	1,087	8,229

1. Effective Mar. 31, 1984, the report of condition was substantially revised for commercial banks. Some of the changes are as follows: (1) Previously, banks with international banking facilities (IBFs) that had no other foreign offices were considered domestic reporters. Beginning with the Mar. 31, 1984 call report these banks are considered foreign and domestic reporters and must file the foreign and domestic report of condition; (2) banks with assets greater than \$1 billion have additional items reported; (3) the domestic office detail for banks with foreign offices has been reduced considerably; and (4) banks with assets under \$25 million have been excused from reporting certain detail items.

2. The "n.a." for some of the items is used to indicate the lesser detail available from banks without foreign offices, the inapplicability of certain items to banks that have only domestic offices and/or the absence of detail on a fully consolidated basis for banks with foreign offices.

3. All transactions between domestic and foreign offices of a bank are reported in "net due from" and "net due to." All other lines represent transactions with parties other than the domestic and foreign offices of each bank. Since these intraoffice transactions are nullified by consolidation, total assets and total liabilities for the entire bank may not equal the sum of assets and liabilities respectively, of the domestic and foreign offices.

4. Foreign offices include branches in foreign countries, Puerto Rico, and in U.S. territories and possessions; subsidiaries in foreign countries; all offices of Edge Act and Agreement corporations wherever located and IBFs.

5. The 'over 100' column refers to those respondents whose assets, as of June 30 of the previous calendar year, were equal to or exceeded \$100 million. (These respondents file the FFIEC 032 or FFIEC 033 call report.) The 'under 100' column refers to those respondents whose assets, as of June 30 of the previous calendar year, were less than \$100 million. (These respondents filed the FFIEC 034 call report.)

6. Since the domestic portion of allowances for loan and lease losses and allocated transfer risk reserve are not reported for banks with foreign offices, the components of total assets (domestic) will not add to the actual total (domestic).

7. Since the foreign portion of demand notes issued to the U.S. Treasury is not reported for banks with foreign offices, the components of total liabilities (foreign) will not add to the actual total (foreign).

8. The definition of 'all other' varies by report form and therefore by column in this table. See the instructions for more detail.

9. Equity capital is not allocated between the domestic and foreign offices of banks with foreign offices.

10. Components of assets held in trading accounts are only reported for banks with total assets of \$1 billion or more; therefore the components will not add to the totals for this item.

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 Regulation Z: The Right of Rescission
 The Right to Financial Privacy Act
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Index to Statistical Tables

References are to pages A3–A81 although the prefix “A” is omitted in this index

- ACCEPTANCES, bankers (*See* Bankers acceptances)
 Agricultural loans, commercial banks, 19, 20
 Assets and liabilities (*See also* Foreigners)
 Banks, by classes, 18–20, 70–81
 Domestic finance companies, 37
 Federal Reserve Banks, 10
 Financial institutions, 26
 Foreign banks, U.S. branches and agencies, 21
 Nonfinancial corporations, 36
 Automobiles
 Consumer installment credit, 40, 41
 Production, 47, 48
- BANKERS acceptances, 9, 23, 24
 Bankers balances, 18–20, 70, 72, 74, 76, 78, 80.
 (*See also* Foreigners)
 Bonds (*See also* U.S. government securities)
 New issues, 34
 Rates, 24
 Branch banks, 21, 55
 Business activity, nonfinancial, 44
 Business expenditures on new plant and equipment, 36
 Business loans (*See* Commercial and industrial loans)
- CAPACITY utilization, 46
 Capital accounts
 Banks, by classes, 18, 71, 73, 75, 77, 79, 81
 Federal Reserve Banks, 10
 Central banks, discount rates, 67
 Certificates of deposit, 24
 Commercial and industrial loans
 Commercial banks, 16, 19, 70, 72, 74, 76, 78, 80
 Weekly reporting banks, 19–21
 Commercial banks
 Assets and liabilities, 18–20, 70–81
 Commercial and industrial loans, 16, 18, 19, 20, 21
 Consumer loans held, by type, and terms, 40, 41
 Loans sold outright, 19
 Nondeposit funds, 17
 Number, by classes, 71, 73, 75, 77, 79, 81
 Real estate mortgages held, by holder and property, 39
 Time and savings deposits, 3
 Commercial paper, 23, 24, 37
 Condition statements (*See* Assets and liabilities)
 Construction, 44, 49
 Consumer installment credit, 40, 41
 Consumer prices, 44, 50
 Consumption expenditures, 51, 52
 Corporations
 Nonfinancial, assets and liabilities, 36
 Profits and their distribution, 35
 Security issues, 34, 65
 Cost of living (*See* Consumer prices)
 Credit unions, 26, 40. (*See also* Thrift institutions)
 Currency and coin, 18, 70, 72, 74, 76, 78, 80
 Currency in circulation, 4, 13
 Customer credit, stock market, 25
- DEBITS to deposit accounts, 15
 Debt (*See specific types of debt or securities*)
 Demand deposits
 Banks, by classes, 18–21, 71, 73, 75, 77, 79, 81
 Demand deposits—Continued
 Ownership by individuals, partnerships, and corporations, 22
 Turnover, 15
 Depository institutions
 Reserve requirements, 8
 Reserves and related items, 3, 4, 5, 12
 Deposits (*See also specific types*)
 Banks, by classes, 3, 18–20, 21, 71, 73, 75, 77, 79, 81
 Federal Reserve Banks, 4, 10
 Turnover, 15
 Discount rates at Reserve Banks and at foreign central banks and foreign countries (*See* Interest rates)
 Discounts and advances by Reserve Banks (*See* Loans)
 Dividends, corporate, 35
- EMPLOYMENT, 45
 Eurodollars, 24
- FARM mortgage loans, 39
 Federal agency obligations, 4, 9, 10, 11, 31, 32
 Federal credit agencies, 33
 Federal finance
 Debt subject to statutory limitation, and types and ownership of gross debt, 30
 Receipts and outlays, 28, 29
 Treasury financing of surplus, or deficit, 28
 Treasury operating balance, 28
 Federal Financing Bank, 28, 33
 Federal funds, 6, 17, 19, 20, 21, 24, 28
 Federal Home Loan Banks, 33
 Federal Home Loan Mortgage Corporation, 33, 38, 39
 Federal Housing Administration, 33, 38, 39
 Federal Land Banks, 39
 Federal National Mortgage Association, 33, 38, 39
 Federal Reserve Banks
 Condition statement, 10
 Discount rates (*See* Interest rates)
 U.S. government securities held, 4, 10, 11, 30
 Federal Reserve credit, 4, 5, 10, 11
 Federal Reserve notes, 10
 Federal Savings and Loan Insurance Corporation insured institutions, 26
 Federally sponsored credit agencies, 33
 Finance companies
 Assets and liabilities, 37
 Business credit, 37
 Loans, 40, 41
 Paper, 23, 24
 Financial institutions
 Loans to, 19, 20, 21
 Selected assets and liabilities, 26
 Float, 4
 Flow of funds, 42, 43
 Foreign banks, assets and liabilities of U.S. branches and agencies, 21
 Foreign currency operations, 10
 Foreign deposits in U.S. banks, 4, 10, 19, 20
 Foreign exchange rates, 68
 Foreign trade, 54
 Foreigners
 Claims on, 55, 57, 60, 61, 62, 64
 Liabilities to, 20, 54, 55, 57, 58, 63, 65, 66

GOLD

- Certificate account, 10
- Stock, 4, 54
- Government National Mortgage Association, 33, 38, 39
- Gross national product, 51

HOUSING, new and existing units, 49**INCOME**, personal and national, 44, 51, 52

- Industrial production, 44, 47
- Installment loans, 40, 41
- Insurance companies, 26, 30, 39
- Interest rates
 - Bonds, 24
 - Consumer installment credit, 41
 - Federal Reserve Banks, 7
 - Foreign central banks and foreign countries, 67
 - Money and capital markets, 24
 - Mortgages, 38
 - Prime rate, 23
- International capital transactions of United States, 53–67
- International organizations, 57, 58, 60, 63, 64
- Inventories, 51
- Investment companies, issues and assets, 35
- Investments (*See also specific types*)
 - Banks, by classes, 18, 19, 20, 21, 26
 - Commercial banks, 3, 16, 18–20, 39, 70, 76
 - Federal Reserve Banks, 10, 11
 - Financial institutions, 26, 39

LABOR force, 45Life insurance companies (*See Insurance companies*)

- Loans (*See also specific types*)
 - Banks, by classes, 18–20
 - Commercial banks, 3, 16, 18–20, 70, 72, 74, 76, 78, 80
 - Federal Reserve Banks, 4, 5, 7, 10, 11
 - Financial institutions, 26, 39
 - Insured or guaranteed by United States, 38, 39

MANUFACTURING

- Capacity utilization, 46
- Production, 46, 48
- Margin requirements, 25
- Member banks (*See also Depository institutions*)
 - Federal funds and repurchase agreements, 6
 - Reserve requirements, 8
- Mining production, 48
- Mobile homes shipped, 49
- Monetary and credit aggregates, 3, 12
- Money and capital market rates, 24
- Money stock measures and components, 3, 13
- Mortgages (*See Real estate loans*)
- Mutual funds, 35
- Mutual savings banks, (*See Thrift institutions*)

NATIONAL defense outlays, 29

National income, 51

OPEN market transactions, 9**PERSONAL** income, 52

- Prices
 - Consumer and producer, 44, 50
 - Stock market, 25
- Prime rate, 23
- Producer prices, 44, 50
- Production, 44, 47
- Profits, corporate, 35

REAL estate loans

- Banks, by classes, 16, 19, 20, 39
- Financial institutions, 26
- Terms, yields, and activity, 38
- Type of holder and property mortgaged, 39
- Repurchase agreements, 6, 17, 19, 20, 21
- Reserve requirements, 8
- Reserves
 - Commercial banks, 18, 71, 77
 - Depository institutions, 3, 4, 5, 12
 - Federal Reserve Banks, 10
 - U.S. reserve assets, 54
- Residential mortgage loans, 38
- Retail credit and retail sales, 40, 41, 44

SAVING

- Flow of funds, 42, 43
- National income accounts, 51
- Savings and loan associations, 26, 39, 40, 42. (*See also Thrift institutions*)
- Savings banks, 26, 39, 40
- Savings deposits (*See Time and savings deposits*)
- Securities (*See specific types*)
 - Federal and federally sponsored credit agencies, 33
 - Foreign transactions, 65
 - New issues, 34
 - Prices, 25
- Special drawing rights, 4, 10, 53, 54
- State and local governments
 - Deposits, 19, 20
 - Holdings of U.S. government securities, 30
 - New security issues, 34
 - Ownership of securities issued by, 19, 20, 26
 - Rates on securities, 24
- Stock market, selected statistics, 25
- Stocks (*See also Securities*)
 - New issues, 34
 - Prices, 25
- Student Loan Marketing Association, 33

TAX receipts, federal, 29

- Thrift institutions, 3. (*See also Credit unions and Savings and loan associations*)
- Time and savings deposits, 3, 13, 17, 18, 19, 20, 21, 71, 73, 75, 77, 79, 81
- Trade, foreign, 54
- Treasury cash, Treasury currency, 4
- Treasury deposits, 4, 10, 28
- Treasury operating balance, 28

UNEMPLOYMENT, 45

- U.S. government balances
 - Commercial bank holdings, 18, 19, 20
 - Treasury deposits at Reserve Banks, 4, 10, 28
- U.S. government securities
 - Bank holdings, 18–20, 21, 30, 70, 72, 74, 76, 78, 80
 - Dealer transactions, positions, and financing, 32
 - Federal Reserve Bank holdings, 4, 10, 11, 30
 - Foreign and international holdings and transactions, 10, 30, 66
 - Open market transactions, 9
 - Outstanding, by type and holder, 26, 30
 - Rates, 24
- U.S. international transactions, 53–67
- Utilities, production, 48

VETERANS Administration, 38, 39

- WEEKLY** reporting banks, 19–21
- Wholesale (producer) prices, 44, 50

YIELDS (*See Interest rates*)

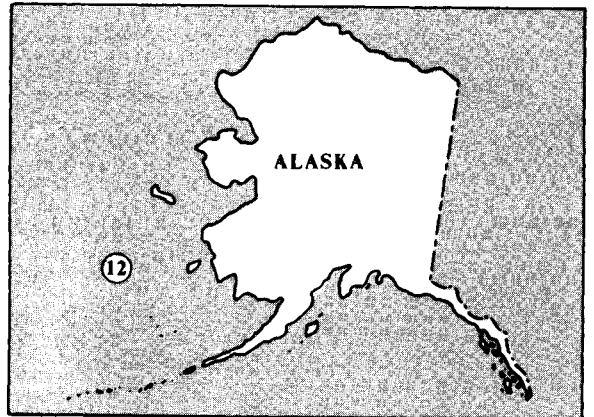
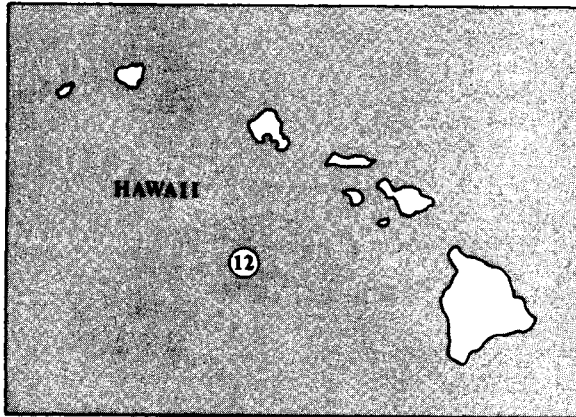
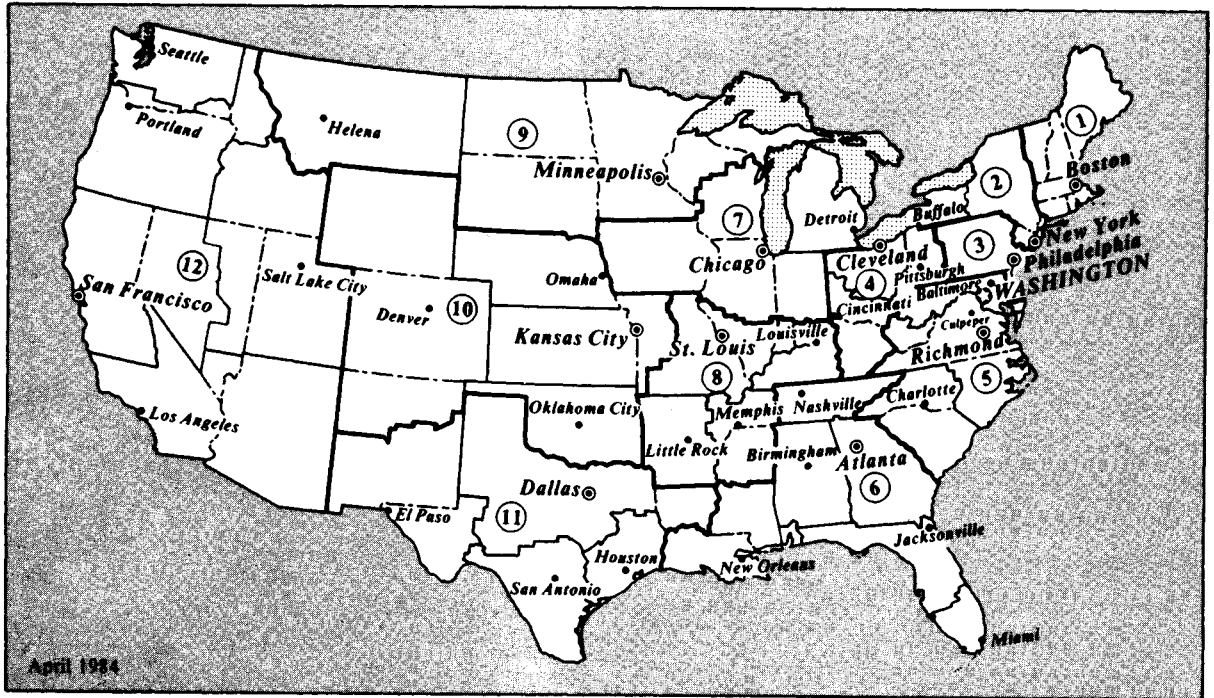
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Salt Lake City84125	Don M. Wheeler		
Seattle98124	John W. Ellis		

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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