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U.S. International Transactions in 1983

Peter Isard of the Board's Division of International Finance prepared this article.

The U.S. merchandise trade and current account deficits widened considerably during 1983. For 1983 as a whole, the trade deficit exceeded $60 billion, while the current account deficit reached $40 billion. These deficits, which are projected to be substantially larger in 1984, have raised concerns about the state of U.S. tradable goods industries. In addition, the prospect that a significant fraction of the saving of foreign countries will continue to flow into the United States in conjunction with large U.S. current account deficits has raised questions about how long large deficits can be sustained.

Major Influences on U.S. International Transactions

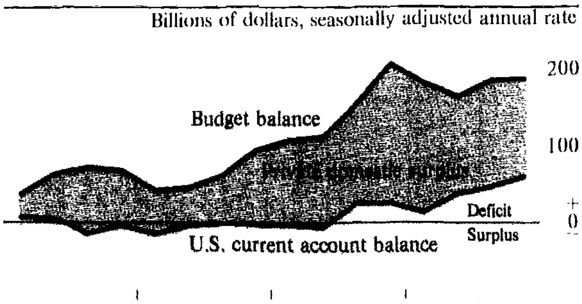
U.S. current account transactions in recent years have responded to many factors, including the movement of exchange rates, the growth of economic activity in the United States and the rest of the world, the decline in the dollar price of oil, and the sharp reductions in the imports of debt-ridden countries. Each of these factors has been influenced in turn by economic policies in the United States and abroad.

U.S. capital account transactions are sensitive to a somewhat different set of factors ex ante, although apart from errors and omissions in reporting, the current account and capital account balances must be equal (but opposite in sign) ex post. Among the factors that induced large net capital inflows in 1983 were relatively high U.S. interest rates, the relatively attractive outlook for U.S. economic growth and inflation, and the view of the United States as a relatively safe haven for investments. These factors were, also, influenced in turn by economic policies in the United States and abroad.

Shifts in U.S. fiscal policy since 1980 have had major impacts on the factors that influence U.S. current and capital account transactions. Following the introduction of staged reductions in U.S. income taxes, reductions in nondefense spending, and increases in defense spending, the U.S. federal budget deficit expanded from about $60 billion in 1980 and 1981 to more than $180 billion in calendar-year 1983 (chart 1). The current account deficit is linked to the budget deficit in the national income accounts. Whenever one sector of the economy runs a deficit, other sectors must, on balance, show a matching surplus. In the case of the federal government budget deficit, some of the counterpart surplus has been supplied by an excess of private domestic saving over private domestic investment, including the surplus of state and local governments. The remainder has come from a net capital inflow from abroad, which is essentially the counterpart of the current account deficit.

The surpluses that private domestic residents and foreign residents together must provide to match a federal budget deficit do not develop automatically. Historically, moreover, the current account and federal budget balances have

1. U.S. federal budget and current account balances

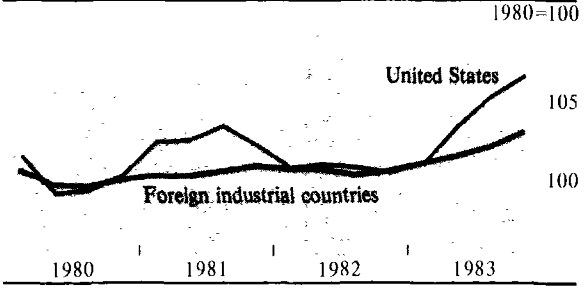


National income accounts basis.

The private domestic surplus equals private domestic saving, including the surplus of state and local governments, less private domestic investment.

Source. U.S. Department of Commerce, Bureau of Economic Analysis.

2. Real gross national product



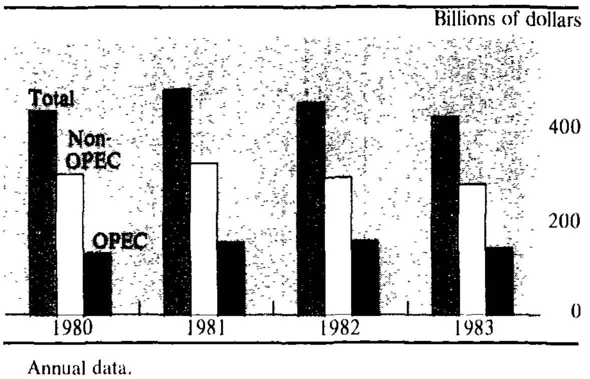
Seasonally adjusted quarterly data.

The GNP of foreign industrial countries is the weighted-average GNP for the Group of Ten countries and Switzerland. Weights are proportional to each country's share in world exports plus imports during 1972-76. The same countries and weights are used throughout this article in weighted-average indexes of consumer prices and interest rates in foreign industrial countries and in indexes of the exchange value of the dollar against the currencies of foreign industrial economies.

not moved closely in parallel, as is evident from the fact that U.S. current account positions over the past have accumulated to an international net creditor position, while federal budget imbalances have led to a large public debt. Over recent years, however, the widening of the structural deficit in the U.S. federal budget has put pressures on interest rates, exchange rates, economic activity, and other factors, which in turn have helped induce the widening of the current account deficit.

The behavior of the U.S. current account during the 1980s is attributable partly to the differences in cyclical behavior of the U.S. and foreign industrial economies (chart 2) and the adjustment of imports by developing countries (chart 3). The U.S. current account remained close to balance from mid-1981 through mid-

3. Imports of developing countries

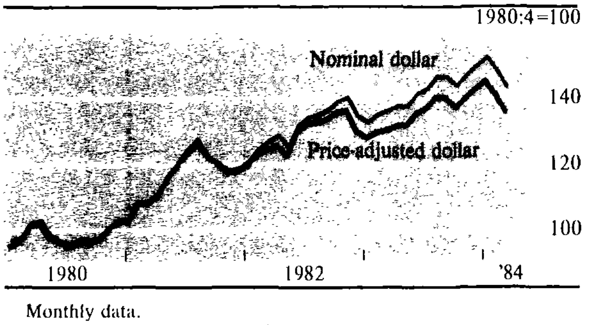


Annual data.

1982, a period when the U.S. economy went into a deep recession. The rapid widening of the U.S. current account deficit during 1983 came about largely because the rapid recovery of the U.S. economy stimulated imports at a time when the growth of exports was depressed both by the slow expansion of economic activity in foreign industrial economies and by the contraction of imports into developing countries in response to severe foreign exchange constraints.

The net impact of these factors on the U.S. current account since the last quarter of 1980 has been outweighed, however, by the impact of exchange rate developments. From the fourth quarter of 1980 through March 1984, the dollar appreciated in nominal terms nearly 45 percent on average against the currencies of the foreign industrial countries (chart 4). Some of the appreciation reflected the fact that in recent years inflation was less rapid in the United States than it was on average in foreign countries: U.S. consumer prices rose 18 percent from the fourth

4. Average exchange values of the U.S. dollar

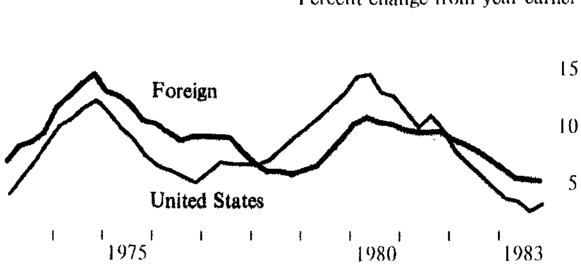


Monthly data.

The nominal dollar is a weighted-average index of the nominal exchange values of the U.S. dollar against the currencies of the foreign industrial countries. The price-adjusted dollar is the nominal dollar multiplied by relative consumer prices (the U.S. consumer price index divided by a weighted-average index of foreign consumer prices). For a further description, see the note to chart 2.

quarter of 1980 through the fourth quarter of 1983, while foreign consumer prices rose 24 percent on average. But even in real, or price-adjusted, terms, the weighted average value of the dollar rose almost 40 percent in those three years to a level roughly 25 percent above its average value for the entire eleven-year period of floating rates. The dollar appreciated 30 percent in real terms against the Swiss franc, 45 percent against the German mark, 55 percent against the British pound, and 20 percent against the Japa-

5. U.S. and foreign inflation rates



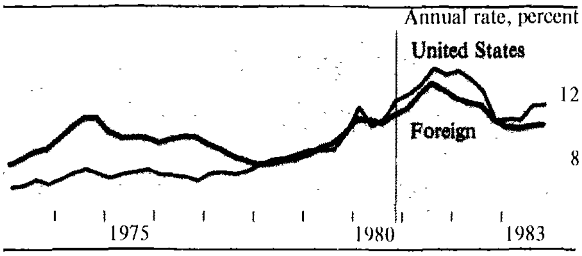
Seasonally adjusted quarterly data.
Based on consumer price data. For a further description, see the note to chart 2.

nese yen, while against the Canadian dollar it depreciated slightly on a price-adjusted basis.

To the extent that it can be explained, the dollar's real appreciation since the fourth quarter of 1980 has been associated mainly with two factors: first, the decline in U.S. inflation rates relative to foreign inflation rates (chart 5), which has lowered expected levels of future U.S. inflation rates relative to expected levels of future foreign inflation rates; and second, the attractiveness of investing in the United States, partly because of the outlook for the U.S. economy, and partly because the United States is perceived to be a relatively safe haven for funds. Differentials between nominal interest rates on dollar-denominated assets and on assets denominated in foreign currencies have shown little net change since the fourth quarter of 1980 (chart 6).

Chart 7 shows that during much of the floating-rate period, swings in the price-adjusted weighted average value of the dollar have been correlated with changes in the differential between long-term real U.S. interest rates and a weighted

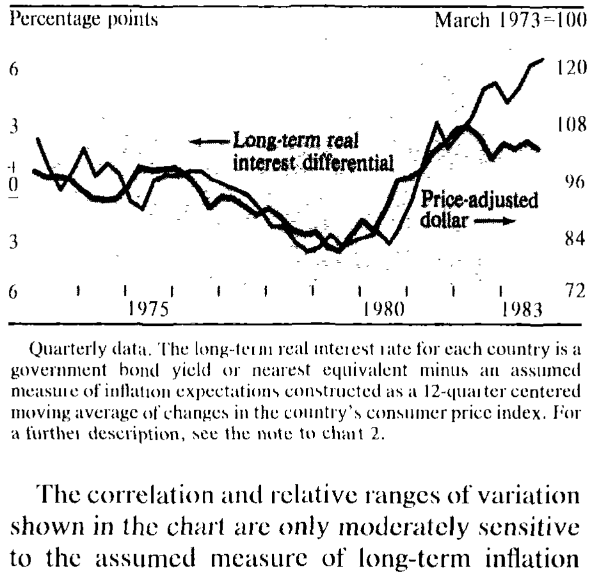
6. U.S. and foreign long-term nominal interest rates



Quarterly data. Government bond yields or nearest equivalents. For a further description, see the note to chart 2.

average of comparable foreign interest rates. The chart also shows that the real exchange value of the dollar has varied about 20 percent on each side of its March 1973 level, while the real long-term interest differential (measured in percent per annum) has varied from about 4 percentage points below its level at the beginning of the floating-rate period to around 2½ percentage points above that level. The magnitudes of these ranges of variation suggest that exchange market participants, however short their actual investment horizons, have bid spot exchange rates to levels that implicitly compound changes in interest rates and inflation expectations over horizons much longer than a year.

7. Price-adjusted dollar and long-term real interest differential



Quarterly data. The long-term real interest rate for each country is a government bond yield or nearest equivalent minus an assumed measure of inflation expectations constructed as a 12-quarter centered moving average of changes in the country's consumer price index. For a further description, see the note to chart 2.

The correlation and relative ranges of variation shown in the chart are only moderately sensitive to the assumed measure of long-term inflation expectations. A large part of the variation in exchange rates since 1973 has been associated with changes in the differential between long-term real interest rates, but those changes have certainly not explained all of the variation. Since the middle of 1982, in particular, the dollar has appreciated more than 10 percent, while the real interest differential has declined 1 percentage point.

MERCHANDISE TRADE

The U.S. merchandise trade deficit exceeded $60 billion in 1983, following a 1982 deficit of $36

1. U.S. merchandise trade and current accounts

Billions of dollars, seasonally adjusted annual rates

Year or quarter	Trade balance	Exports		Imports		Current account balance
		Agricultural	Nonagricultural	Oil	Non-oil	
1980	−26	42	182	79	171	0
1981	−28	44	193	78	187	5
1982	−36	37	174	61	186	−11
1983	−61	37	164	54	207	−41
1982:4	−45	33	160	61	178	−27
1983:1	−36	36	162	42	191	−15
2	−59	35	160	52	202	−39
3	−73	37	164	66	209	−48
4	−75	39	168	56	226	−61

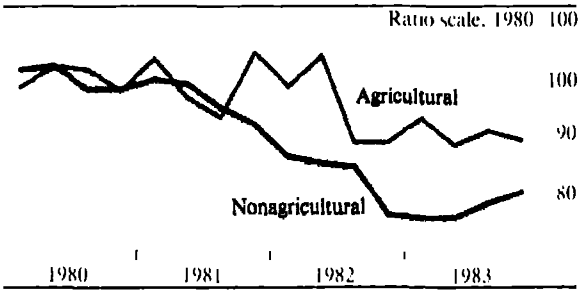
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

billion (table 1). On the export side, shipments of nonagricultural goods began to rise during the second half of 1983, and by the fourth quarter they were nearly 5 percent above their level in the fourth quarter of 1982. However, the volume of these exports in the fourth quarter of 1983 was still about 20 percent below the average quarterly level in 1980 (chart 8). About half of the rise in the volume of nonagricultural exports during 1983 was accounted for by increases in shipments to Canada of automotive products, most of which were parts that were to be assembled into cars and sent back to the United States. The weak growth of other nonagricultural exports reflected the sluggishness of economic activity in most foreign industrial countries, the foreign exchange constraints on countries burdened by debt, and the continuing impact of the appreciation of the dollar on the price competitiveness of U.S. goods.

The volume of agricultural exports showed little net change from the fourth quarter of 1982 to the fourth quarter of 1983, remaining more than 10 percent below the average quarterly volume in 1980. These exports have been held down by generally good harvests abroad, and by the damping effects on foreign demand of slow growth in the industrial countries, debt problems in the developing countries, and the translation of the appreciation of the dollar into increases in prices in foreign currencies. At the end of 1983, the volume of agricultural exports was also restrained by low U.S. supplies of several major crops, reflecting both the influence of the payments-in-kind program on crop acreage and the impact of drought on yields per acre.

Prices of nonagricultural exports showed little change during 1983 (chart 9), reflecting the moderate rise in U.S. producer prices combined with the restraint that the dollar's appreciation exerted on the prices U.S. exporters charged. Prices of agricultural exports rose more than 15 percent from the fourth quarter of 1982 to the fourth quarter of 1983, as droughts in the northern hemisphere helped force up corn and soybean prices about 40 percent.

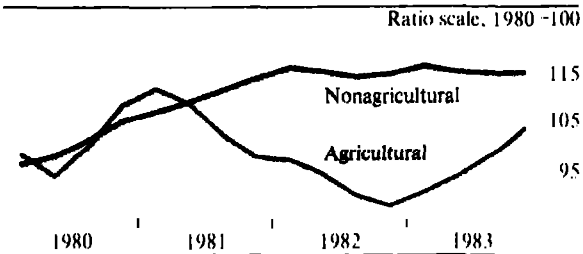
8. Volume of U.S. exports



Seasonally adjusted quarterly data.

SOURCES. U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

9. U.S. export unit values



Seasonally adjusted quarterly data.

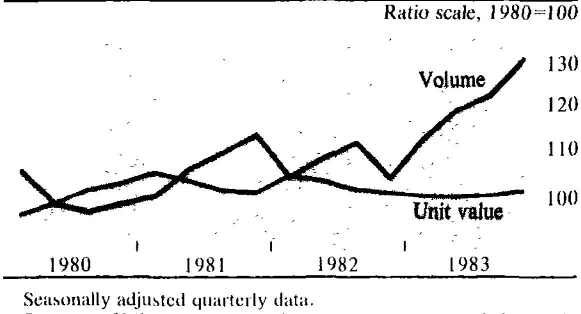
SOURCE. U.S. Department of Commerce, Bureau of the Census.

On the import side, the rapid growth of the U.S. economy and the continuing appreciation of the dollar led to a surge in the volume of non-oil imports during 1983 to a fourth-quarter level that was 30 percent higher than the average quarterly volume in 1980 (chart 10). The price of non-oil imports held virtually stable during the year as the effects of the dollar's appreciation offset the effects of foreign inflation.

Oil imports were $7½ billion, or 12 percent, lower in 1983 than in 1982 (table 2). The unit value of oil imports declined nearly 10 percent; but the volume was relatively constant, as unusually warm weather largely counterbalanced the stimulus from the strong U.S. recovery.

Consumption of oil in the United States from October 1982 through March 1983 was 5 percent below that of the previous winter, a result of both the depressed level of economic activity and mild weather. Consequently, the volume of imports dropped to 3.9 million barrels per day during the first quarter of 1983. Demand in other major oil-consuming regions was depressed at the start of the year by the same factors, as well as by the lagged responses to the increase in oil prices during 1979–80 and to the effect of the dollar's appreciation on oil prices in foreign currencies. This state of depressed demand induced price reductions, which began in mid-February when the United Kingdom and Norway—two major oil producers that are not members of the Organization of Petroleum Exporting Countries—endeavored to expand their sales by reducing prices $3 to $5.50 per barrel. After Nigeria cut its prices, fears of a price war mounted. Around the middle of March, however, the OPEC cartel reached an

10. Non-oil imports



Seasonally adjusted quarterly data.
SOURCES. U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

2. Oil imports, consumption, and prices

Seasonally adjusted data

Year or quarter	Consumption (millions of barrels per day)	Imports (millions of barrels per day)	Average import price (dollars per barrel)	Value of imports (billions of dollars)
1980	17.1	7.1	30.6	79.3
1981	16.1	6.3	34.0	77.8
1982	15.3	5.4	31.2	61.2
1983	15.2	5.2	28.4	53.8
1982:4 ..	14.7	5.4	31.0	60.5
1983:1 ..	14.6	3.9	29.4	41.5
2 ..	15.2	5.1	27.7	51.6
3 ..	15.5	6.4	28.3	65.8
4 ..	15.4	5.5	28.3	56.3

SOURCES. U.S. Department of Commerce, Bureau of Economic Analysis, and U.S. Department of Energy.

agreement on production and prices (benchmarked at $29 per barrel for Saudi light crude oil), and the non-OPEC producers stabilized their prices in line with the OPEC benchmark.

Since March 1983 the OPEC producers (Saudi Arabia in particular) have allowed their production to vary in order to prevent substantial price variation. The volume of U.S. imports expanded rapidly in the second and third quarters of 1983, stimulated by surging economic activity. Unusually warm weather reappeared in October and November and, along with a drawdown in private inventories of oil, contributed to a sharp reduction in the volume of oil imports. In the first quarter of 1984, oil imports remained at relatively low volumes, despite increased levels of domestic oil consumption, as private inventories were drawn down further.

As an alternative to focusing on exports and imports separately, table 3 shows balances of exports over imports for major commodity groups. At the end of World War II, the United States had a net export position in virtually every commodity category. With the subsequent reconstruction and expansion of capacity abroad, the United States expanded its net exports of agricultural goods, capital goods, and chemicals, while becoming a large net importer of fuels, automotive products, and other consumer goods. During the period from 1973 to 1980, U.S. net exports of capital goods and of agricultural products benefited considerably from the large increase in the revenues of oil-exporting countries and the access of developing countries to international credit. Thus, while net imports of fuels

3. Commodity trade balances
Billions of dollars

Commodity or aggregate balance	Balance				Change in balance	
	1947	1973	1980	1983	1973 to 1980	1980 to 1983
Commodity balance[1]						
Agricultural goods....	2	9	24	18	15	−6
Capital goods........	3	14	43	26	29	−17
Chemicals..........	1	3	12	10	9	−2
Fuels..............	1	−7	−76	−49	−69	27
Automotive products .	1	−4	−11	−25	−7	−14
Consumer goods[2].....	1	−8	−18	−31	−10	−13
Other[3].............	1	−6	0	−10	6	−10
Aggregate balance						
Merchandise trade....	10	1	−26	−61	−27	−35
Other current account transactions........	−1	6	26	20	20	−6
Current account......	9	7	0	−41	−7	−41

1. Commodity balances are exports less imports.
2. Excludes fuels, foods, and automotive products.
3. Mainly industrial supplies other than fuels and chemicals.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

expanded $69 billion, net exports of capital goods increased $29 billion, and net exports of agricultural products rose $15 billion. As it turned out, the U.S. trade balance swung into deficit, while the surplus on other current account transactions increased almost as much.

From 1980 to 1983, net imports of fuel declined $27 billion, and net exports of capital goods and of agricultural products again changed in the same direction. In part, this correlation reflects the positive association of both U.S. exports and the price of oil with the strength of world economic activity. In addition, it reflects a direct link between the export revenues and imports of oil-exporting countries, and perhaps a link between the imports of non-oil developing countries and the surplus that, in the past, oil-exporting countries chose to invest in international financial markets.

The decline in U.S. exports during recent years has not been uniform across geographic regions (table 4). About half the $24 billion decline in exports from 1980 to 1983 was accounted for by a 35 percent contraction of shipments to Latin America, reflecting the marked slowdown in international lending to countries burdened with debt. Among the industrial areas, the Western European countries reduced their purchases of U.S. goods 20 percent. By contrast, exports to Canada and Japan increased from 1980 to 1983, partly because of the moderate expansion of economic activity in those regions and partly because the value of the dollar changed less against the Canadian dollar and the Japanese yen than against the Western European currencies.

The geographic pattern of changes in imports between 1980 and 1983 reflected geographical differences in the sources of non-oil imports, which increased $36 billion in total, and oil imports, which declined $26 billion in total. The large decline in U.S. imports of oil mainly affected imports from the group of "all other" countries (table 4, last column). Canada, Japan, and

4. U.S. merchandise trade, by area
Billions of dollars

Item	All areas	Canada	Western Europe	Japan	Other Asian countries	Latin America[1]	All other countries[2]
Exports							
1980...........	224.2	41.6	67.6	20.8	21.0	38.8	34.4
1983...........	200.2	43.8	54.9	21.7	23.0	25.6	31.2
Non-oil imports							
1980...........	170.5	38.8	42.7	31.2	23.0	18.9	15.9
1983...........	206.9	49.1	47.3	41.3	33.7	21.9	13.6
Oil imports							
1980...........	79.3	4.1	4.6	*	5.4	18.6	46.6
1983...........	53.8	5.1	6.5	*	4.5	20.0	17.7
Trade balance							
1980...........	−25.5	−1.3	20.3	−10.4	−7.4	1.3	−28.1
1983...........	−60.6	−10.4	1.0	−19.6	−15.2	−16.3	−.1

1. Western Hemisphere except United States and Canada.
2. Includes Australia, New Zealand, the Middle East, Africa, and Communist countries.
*Less than $50 million.
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

the group of other Asian countries each accounted for nearly 30 percent of the total increase in non-oil imports, while Western Europe accounted for somewhat more than 10 percent. The relatively small increase in the value of non-oil imports from Western Europe presumably resulted in part from a relatively large decline in the unit value of these imports (on which data are not collected by area), since the European currencies depreciated against the dollar on a price-adjusted basis considerably more than did the Canadian dollar and the Japanese yen.

Nontrade Current Account Transactions

The surplus from nontrade current account transactions declined to $19.8 billion in 1983, reflecting changes in a number of categories of service receipts and payments (table 5). Both receipts and payments of portfolio investment income declined from 1982 to 1983, largely because of the declines in dollar interest rates after midyear 1982. Direct investment income receipts remained depressed in 1983 as economic activity abroad remained sluggish, while direct investment income payments picked up with the strong rise in business profits in the United States. Military sales and expenditures both increased somewhat in 1983, as did exports and imports of other services.

5. Nontrade current account transactions

Item	1979–81 average	1982	1983
Services receipts			
Portfolio investment income	38.3	61.3	55.9
Direct investment income	35.9	22.9	22.2
Military sales	8.1	12.1	12.7
Exports of other services	36.8	40.9	43.3
Services payments			
Portfolio investment income[1]	35.1	52.0	47.3
Direct investment income	7.8	4.8	7.1
Military expenditures	10.0	11.9	12.2
Imports of other services	31.5	35.1	39.0
Services balance	**34.9**	**33.2**	**28.4**
Unilateral transfers, net	**−6.6**	**−8.0**	**−8.6**
Total, nontrade current account	**28.4**	**25.2**	**19.8**

1. Includes interest paid on U.S. government obligations.

Official Capital Flows

Net foreign official reserve assets in the United States increased more than $6 billion in 1983 after increasing about $3 billion in 1982 (table 6). Holdings of OPEC members in the United States declined $8½ billion as the combined current account deficit of the member countries approached an estimated $25 billion. Foreign industrial countries as a group added more than $10 billion to their reserve holdings in the United States last year, despite substantial net intervention sales of dollars. The difference between the buildup of reserve holdings in the United States and the net intervention sales of dollars reflected interest earnings, borrowings, and perhaps a reduction in foreign official holdings of dollar-denominated assets outside the United States.

U.S. official assets increased $6.1 billion net in 1983, of which $1.2 billion was a net increase in U.S. official reserve assets and $4.9 billion represented a net increase in U.S. government loans and other nonreserve assets. The U.S. reserve position in the International Monetary Fund increased $4.4 billion, reflecting the IMF's provision of dollars in connection with members' drawings, along with a U.S. reserve-asset subscription of $1.4 billion equivalent in connection with the increase in IMF quotas. The increase in the reserve position in the IMF was largely offset by decreases in U.S. holdings of foreign currencies and special drawing rights. Holdings of foreign currencies fell partly as a result of repayments by Mexico of its earlier drawings on swap facilities with the Federal Reserve and the U.S. Treasury, and repayments by Brazil of drawings on its swap facilities with the Treasury. In addition, the last outstanding Carter notes reached maturity and were redeemed during the year, which reduced both U.S. official reserve assets and Treasury liabilities denominated in marks and Swiss francs.

Private Capital Flows

Recorded private capital transactions swung from a net outflow of $22.7 billion in 1982 to a net inflow of $33.7 billion in 1983. The change was more than accounted for by flows through U.S.

6. U.S. international transactions

Billions of dollars, not seasonally adjusted; + = net inflow

Item	1982	1983	1983			
			1	2	3	4
Current account balance	**−11.2**	**−40.8**	**−3.4**	**−8.9**	**−14.1**	**−14.4**
Official capital flows	**−7.5**	**.0**	**−1.9**	**.8**	**−3.2**	**4.3**
Foreign official assets in the United States, net	3.2	6.1	.0	2.0	−2.6	6.6
Industrial countries	−6.5	10.3	.3	3.7	.5	5.9
OPEC	7.4	−8.6	−1.4	−3.4	−2.1	−1.7
Other countries	2.3	4.3	1.2	1.7	−1.0	2.4
U.S. official assets, net[1]	−10.7	−6.1	−2.0	−1.1	−.7	−2.3
Reserve assets	−5.0	−1.2	−.8	.0	.5	−1.0
Other U.S. government assets	−5.7	−4.9	−1.2	−1.2	−1.2	−1.4
Private capital flows	**−22.7**	**33.7**	**−3.7**	**9.5**	**14.2**	**13.7**
Net flows into U.S. banking offices	−45.1	26.3	−5.3	6.1	13.0	12.5
Foreign net purchases of U.S. securities	13.1	17.2	5.9	5.7	2.9	2.7
U.S. Treasury securities	7.0	8.6	2.9	3.1	1.0	1.6
Corporate bonds	2.5	2.2	.1	.9	.5	.7
Equities	3.6	6.4	2.9	1.8	1.3	.4
U.S. net purchases of foreign securities[1]	−8.0	−7.5	−1.8	−3.2	−1.5	−.9
Foreign net direct investment in the United States	10.4	9.5	2.1	2.2	3.2	2.1
U.S. net direct investment abroad[1]	3.0	−7.6	−.0	−1.0	−3.9	−2.7
Other recorded capital flows, net	3.9	−4.2	−4.5	−.3	.6	n.a.
Statistical discrepancy	**41.4**	**7.1**	**9.0**	**−1.4**	**3.1**	**−3.7**

1. − = increase (outflow).

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

banking offices (including international banking facilities), which shifted from a net outflow of $45.1 billion in 1982 to a net inflow of $26.3 billion in 1983.

The shift in banking transactions did not begin until the second quarter. In the first quarter, $5.3 billion net flowed out of U.S. banking offices, which experienced a rapid buildup of newly introduced money market deposit accounts and placed some of the deposited funds with related banking offices in other countries. In the second quarter, an incentive for U.S. banking offices to reduce their net claims on foreign residents was provided by the response of interest differentials to relatively strong credit demands in the United States fostered by the rapid growth in economic activity and the Treasury's borrowing needs. In particular, yields on placements in the Eurodollar market declined during 1983 relative to yields on domestic money market instruments. At the same time, interest rates offered on Eurodollar deposits rose relative to foreign-currency interest rates, motivating foreign residents to acquire dollar-denominated deposits with banks in the Euromarket.

Reported private foreign net purchases of U.S. securities increased from $13.1 billion in 1982 to $17.2 billion in 1983. Net acquisitions of U.S. Treasury securities rose to a record level of $8.6 billion, despite $1.3 billion in redemptions of Carter notes, while net acquisitions of U.S. corporate stocks reached a record $6.4 billion. U.S. net purchases of foreign securities declined from $8.0 billion in 1982 to $7.5 billion in 1983.

Foreign net direct investment in the United States was recorded at $9.5 billion in 1983, compared with $10.4 billion in 1982. U.S. net direct investment abroad increased to an outflow of $7.6 billion after an unusual net inflow of $3.0 billion in 1982. Several factors figured in this reversal of U.S. direct investment flows. More rapid economic growth abroad contributed to an increase in reinvested earnings; less reliance by U.S. corporations on the Eurobond markets as a source of funds led to lower inflows of intercompany account funds from Netherlands Antilles finance affiliates; and finally, net inflows of intercompany trade credits declined sharply.

THE STATISTICAL DISCREPANCY

The errors and omissions in the balance of payments accounts netted to an unrecorded inflow of \$7.1 billion in 1983, considerably less than the \$41.4 billion statistical discrepancy in 1982. This item includes both unrecorded merchandise trade and services transactions and unrecorded capital flows. Presumably, the accuracy in recording current account transactions does not shift abruptly from year to year, so most of the decline in the statistical discrepancy from 1982 to 1983 probably centered in unrecorded capital flows. Part of the decline may have reflected a change in the composition of capital flows. Capital flows through U.S. banking offices are regarded as more accurately reported than capital flows that bypass banks and that in principle should be reported by nonbanks.

The Outlook

The U.S. trade and current account deficits for 1984 seem likely to exceed their 1983 levels considerably, even if the dollar were to depreciate substantially. One factor in this outlook is a continuing lagged response of import and export volumes to the substantial appreciation of the dollar over the past several years. A second factor is the expectation that economic activity will continue to expand more rapidly in the United States than in the rest of the world, and thus will support a higher percentage growth rate of U.S. imports than of U.S. exports. A third factor is the initial deficit positions of the trade and current accounts. When the external accounts begin in deficit, the trade deficit tends to increase even if exports expand at as rapid a percentage rate as imports; and the current account deficit tends to increase still more as reductions in U.S. net claims on foreigners lead to reductions in net investment income receipts. A depreciation of the dollar, of course, would reduce the U.S. trade and current account deficits, other things equal, but with a lag of perhaps several quarters. Such lags, or "J curve" effects, develop in the trade balance if the rise in the dollar price of imports in response to a depreciation initially outweighs the more gradual decline in the volume of imports and increase in the volume of exports.

The strong dollar and growing external deficits have raised concerns about the state of U.S. tradable goods industries. These industries have lost a substantial volume of sales in foreign markets and at home have faced strong competition from imports. The effects have been felt by the manufacturing sector, agriculture, and some of the service industries. At the same time, however, most tradable goods industries have benefited from the rapid expansion of the American economy since the end of 1982. Thus in February 1984 the industrial production index for manufacturing was 7½ percent above its level at the end of 1980, when the dollar was beginning to appreciate. The increase in manufacturing production was accompanied by rapid productivity growth, however, so that employment in the manufacturing sector declined about 3½ percent over the same period. This experience extended the negative trend in the share of manufacturing employment in total private employment; over the past several decades, relatively rapid productivity growth in the manufacturing sector has enabled a diminishing share of the nation's work force to produce a relatively constant share of the nation's output.

Questions have also been raised about the sustainability of the large external deficits and the strong dollar. The prospect of a rapidly expanding U.S. net external indebtedness position has contributed to sentiment that a substantial depreciation of the dollar is likely unless the external deficits are reduced significantly through other channels. From this perspective, the outlook for the external deficits and the dollar hinges on whether the structural deficits in the U.S. federal budget are reduced substantially and on how rapidly economic activity expands abroad.

One scenario, if U.S. budget deficits are reduced significantly, is that the dollar may depreciate somewhat as real interest rates in the United States decline. The short-run contractionary effects on U.S. economic activity of the measures taken to reduce the government deficits would then be cushioned by the stimulus to the domestic production of tradable goods from the dollar's depreciation, together with the general stimulus to private domestic spending from the decline in real interest rates.

In the absence of actions to reduce the structural budget deficits, the dollar may depreciate without a decline in real interest rates. Indeed, if the dollar depreciated by enough to reduce the current account deficit substantially, with no reduction in the budget deficit, a rise in real interest rates in the United States would likely be required to induce the increase in the excess of private domestic saving over private domestic investment that would be needed to replace the lost net capital inflow from abroad. In this case, the tradable goods sectors of the U.S. economy would benefit from the lower dollar, but interest-sensitive sectors would suffer. Moreover, the discouragement of private capital formation ultimately could leave the United States with permanently lower levels of aggregate output and income. □

Annual Revisions to the Money Stock

Thomas D. Simpson prepared this article with substantial contributions from Wayne Smith. Messrs. Simpson and Smith are in the Board's Division of Research and Statistics. Footnotes appear at the end of the article.

Annual revisions to the money stock published in February 1984 were, on balance, larger than normal, especially for M1. These revisions consisted of seasonal adjustment and benchmark revisions and a change in the definition of M3 to include term Eurodollar deposits held by U.S. residents. With this latter change, term Eurodollar deposits, domestically issued large denomination time deposits, and term repurchase agreements are treated on a more consistent basis.

Procedures used in making seasonal and benchmark revisions were similar to those employed in recent years. Seasonal factors were updated using the X-11 ARIMA procedure adopted in 1982. In a departure from the past, the nontransactions portions of M2 and M3 were not built up from seasonally adjusted components. The non-M1 portion of M2 was seasonally adjusted as a whole to reduce distortions to seasonal factors caused by substantial portfolio shifts in recent years, most notably the shifts to money market deposit accounts in 1983; and a similar procedure was used to seasonally adjust the remaining portion of M3.[1] A comparable method had been adopted in 1982 to reduce distortions to the deposit component of M1 caused by shifts to NOW accounts, primarily the shift that occurred in 1981.

In the past two years, the impact of revisions to seasonal factors for monthly and quarterly M1 growth rates has been large, reflecting distortions in the behavior of deposits in 1980 caused by credit controls and by shifts in the pattern of transactions deposit holdings as payment practices changed and the menu of monetary assets expanded. Such circumstances make it difficult for any seasonal adjustment procedure to identify underlying variations in deposits, and relatively large revisions to seasonal factors can be expected.

Benchmark revisions were also quite large. Typically, benchmark revisions apply to the deposits of institutions that do not submit deposit reports on a frequent and timely basis (such as weekly); estimates of their deposits are used until reported data from these institutions become available. Such standard revisions—that is, differences between the amounts reported and previous estimates—tend to be fairly uniform over any particular period. However, unusual revisions affecting deposit growth, many of a one-time nature, arose from reporting changes made during 1983. Also, some banking institutions—New York Investment Companies—had been reporting their demand deposit data incorrectly for some time, and the coin element of the currency component had been incomplete. The impact of these three types of revisions need not be as uniform as the more conventional type. In 1983, benchmark revisions in effect boosted growth of all measures of the money stock; the stronger growth of M1 was concentrated in the second half of the year.

This article discusses in more detail recent seasonal and benchmark revisions and their effects on monetary growth in 1983, with particular emphasis on the growth of M1. Tables in the appendix illustrate these effects.

Seasonal Factor Revisions

The basic time unit for seasonal adjustment continues to be the month. The X-11 ARIMA procedure used to update monthly seasonal adjustment factors conforms to a recommendation made in 1981 by the Committee of Experts on Seasonal Adjustment.[2] When seasonal factors were reviewed in 1982, a combination of an X-11 and an ARIMA procedure replaced the previous X-11 procedure. As shown in table 1, the effects of revisions to seasonal factors on monthly and

1. Annual revisions to growth rates of the money stock: mean absolute changes[1]
Percent, annual rates

Year and monetary aggregate	Monthly revision		Quarterly revision		Semiannual revision	
	Total	Seasonal	Total	Seasonal	Total	Seasonal
1978[2]						
M1	1.39	1.33	.43	.43	.18	.18
M2	.65	.43	.48	.10	.48	.00
1980						
M1	1.66	1.67	.68	.55	.30	.38
M2	1.27	1.32	.88	.78	.63	.68
M3	.86	1.09	.28	.62	.28	.62
1981						
M1	2.68	2.09	.35	.23	.10	.03
M2	1.54	1.16	.95	.73	.30	.53
M3	1.57	1.32	.83	.80	.13	.20
1982						
M1	3.73	3.84	1.48	1.63	.08	.13
M2	1.75	1.67	1.25	.88	1.25	.88
M3	1.57	1.39	.95	.68	.95	.68
1983						
M1	3.06	3.07	1.30	1.10	1.30	1.00
M2	2.07	1.77	.78	.65	.33	.10
M3	1.66	1.72	.98	.68	.53	.08
MEMO: Average[3]						
M1	2.50	2.40	.85	.79	.39	.34
M2	1.66	1.48	.96	.76	.63	.55
M3	1.42	1.38	.76	.70	.47	.40

1. First revisions to growth rates are published in the year following the revision. No revisions are shown for the year 1979, as seasonal and benchmark revisions to that year that were made in 1980 applied to a redefined set of monetary aggregates.

Total revisions include the effects of minor definitional changes. These changes are: the inclusion of travelers checks of nonbank issuers in 1981 that affected growth in 1980; the inclusion in M2 of retail purchase agreements and the removal from M2 of institution-only money market mutual funds in 1982, the inclusion of tax-exempt money market mutual funds in M2 and M3 and the removal of Individual Retirement Accounts and Keogh accounts from balances in M2 and M3 in 1983; and the inclusion of term Eurodollars in M3 in 1984.

2. Old definitions of M1 and M2.

3. For M1, the averages apply to 1978 and 1980–83. For M2 and M3, the data apply only to 1980–83.

quarterly growth rates of M1 have been especially large in the past two years, with revisions to growth in 1982 (made in early 1983) being the largest. Seasonal revisions on semi-annual growth of M1 had the greatest impact in 1983 because of the unusual tendency for monthly revisions during the first and second halves of the year to cumulate.[3] In general, revisions to individual seasonal factors tended to be largest in the spring (April and May).

Staff analysis suggests that difficulties in identifying evolving seasonal patterns were compounded in recent years by the effects of the credit control program in 1980. Despite efforts to minimize distortions to computed seasonal factors, evidence suggests that it took about two years of subsequent data for the procedure to identify evolving patterns.[4] Also contributing to changing seasonal patterns were recent changes in the composition of money stock measures and accompanying changes in the way the public manages its holdings of liquid assets. As a result, revisions to seasonal factors can be expected to be unusually large as the behavior of the money stock adapts, and even after a new pattern emerges, because statistical procedures require ample historical experience to estimate reliably the new seasonal variations.

A somewhat different picture emerges for the broader measures of the money stock.[5] The impact of revisions to seasonal factors on monthly growth rates of M2 and M3 in 1983 was much smaller than for M1, although large by the experience of recent years (see table). The impact on quarterly growth of M2 and M3 was much more in line with that of past experience; the impact on semi-annual growth was considerably below that of earlier years, especially revisions to 1982.

Benchmark Revisions

Effects of benchmark revisions on monetary growth in 1983 were also quite large, especially for M1. Moreover, benchmark revisions to M1 tended to reinforce seasonal revisions, thereby causing a larger boost to monetary growth in the second half of 1983. In addition to ordinary benchmarks to call reports, there were a number of extraordinary revisions to deposits.[6]

Changes in Reporting Requirements

These extraordinary revisions arose from changes in deposit reporting that were implemented during the year, many of which were associated with reduced deposit reporting mandated by the Garn–St Germain Act of 1982. The act specifies that the first $2 million of reservable liabilities at each depository institution be exempt from reserve requirements (with this exemption being indexed each year to the growth of reservable liabilities); it also mandates a reduction in the reporting burden of those institutions totally exempt from reserve requirements.

In response, the Board cut back the frequency of reports due to it from fully exempt institutions.[7] Previously, depository institutions with more than $15 million in total deposits (regardless of the amount of their reservable liabilities) were required to report weekly, and those with deposits between $2 million (as of December 1979) and $15 million were to report quarterly.[8] Because so many institutions reported on a quarterly basis, they were divided into three panels, with one panel reporting each month. The only time when all three panels reported simultaneously was January 1981; the relationship implied in those data formed the basis of estimates of total deposits for all these institutions using subsequent staggered monthly reports. With the new reduced reporting procedures, those institutions with reservable liabilities below the exemption level that had been reporting weekly—that is, those whose deposits totaled more than $15 million—started submitting an abbreviated quarterly report. Those with reservable liabilities below the exemption level that had been reporting quarterly generally were switched to a reduced annual report.

In addition, depositories that had not been reporting to the Federal Reserve on either a weekly or quarterly basis were asked to report deposits and other reservable liabilities as of mid-year 1983, unless it could be determined from other reports that they were well below the exemption level. The subsequent reporting status of these institutions was determined by those reported levels; in some cases, institutions that had not done so previously began reporting detailed deposit data—and maintaining reserves—on a weekly or quarterly basis.

These reporting changes were implemented around mid-year 1983. At the same time, the staggered system for institutions that reported quarterly ended, and the Board established a single "as-of" date for all institutions that report quarterly. However, in view of the large number of institutions involved and the limited experience of many institutions with the content and procedures of the reports, processing, editing, and revision times were very long, extending toward the end of the year.[9]

Effects of Benchmark Revisions on M1

These changes in reporting procedures affected the growth of deposits in several ways in 1983. First, it was discovered that a sizable number of institutions had not been included in previous estimates and that deposits at these institutions had grown rather rapidly. Second, some of these institutions, assumed to have been quarterly reporters based on Board criteria, in fact had not been included in aggregated total deposit figures that were being transmitted to the Board. Third, several other institutions, some of which were rapidly growing de novo banks, had not previously been incorporated into deposit estimates. Fourth, simultaneous reporting of deposits by all three panels of quarterly reporters indicated that those institutions as a group held more deposits than had been estimated previously under staggered reporting. As shown on the first line of table 2, the net effect of revisions from all of these sources was a $1.1 billion boost in M1 in 1983, with the bulk of this increase occurring in the second half of the year.[10]

Fifth, special edits revealed that New York Investment Companies (banking institutions that do not report on the same basis as other depositors) included balances due to own foreign offices in their reported figures for demand deposits. Revisions to historical data for these

2. Contribution of benchmark revisions to increases in the monetary aggregates in 1983
Quarterly averages, millions of dollars

Monetary aggregate	1983:H1	1983:H2	Total, 1983
M1			
1. Deposits at nonreporters and quarterly reporters	400	700	1,100
2. Deposits at New York investment companies	100	100	200
3. Deposits at weekly reporters	-700	700	0
4 Currency	300	300	600
5. Other	0	-100	-100
6. **Total M1**	**100**	**1,700**	**1,800**
M2			
7. Savings, small time deposits, and MMDAs (gross)	400	1,400	1,800
8. IRAs and retail RPs	1,400	400	1,800
9 Overnight Eurodollars	-500	100	-400
10. Other	500	-800	-300
11. **Total M2**	**1,900**	**2,800**	**4,700**
M3			
12. Large time deposits (gross)	400	700	1,100
13. Consolidation	900	300	1,200
14 Term RPs at thrift institutions	200	1,300	1,500
15. Other[1]	200	600	800
16. **Total M3[1]**	**3,600**	**5,700**	**9,300**

1. Excluding redefinition to include term Eurodollars.

institutions were available in time for the benchmark. As shown in the second line of the table, revisions of this type raised M1 growth in 1983, even though they lowered the level of demand deposits, as deposit levels in the fourth quarter of 1982 were reduced by more than those in fourth quarter of 1983.

Revisions associated with money market deposit accounts (MMDAs) significantly affected the pattern of M1 growth during 1983, although growth for the year as a whole was not affected. MMDAs were authorized by the Garn–St Germain Act of 1982. The surge in MMDAs following their introduction occasioned other changes in procedures for reporting deposits, which were implemented in the spring of 1983. At that time, these accounts were added to the body of the weekly (and quarterly) deposit reports; previously, they had been reported on a special slip sheet to the regular deposit report.

Editing of the revised deposit reports revealed that a large number of institutions had incorrectly included MMDAs in their demand deposits or other checkable deposit accounts as well as in their MMDA totals. Since these miscalculations were concentrated in the first half of the year, M1 balances were lower during that period, causing a larger increase in the second half of the year (see line 3, table 2). In addition, the currency series was revised upward during 1983 and for earlier years because of incomplete reporting of the coin component by the mints. Table 2 shows that benchmark revisions as a whole boosted M1 growth in 1983 by $1.8 billion, virtually all of which came in the second half of the year.

Effects of Benchmark Revisions on M2 and M3

Benchmark revisions to M2 and M3 were larger in dollar amounts than they were for M1. Revisions to growth rates for the year as a whole were smaller for M2 than for M1 because of the much larger size of the former. Deposits in nontransactions M2 were boosted, mainly in the second half of the year (line 7 of table 2). This revision stemmed largely from the reporting changes noted above that affected deposits in M1.[11]

Benchmark revisions to Individual Retirement Accounts (IRAs) and Keogh accounts and retail repurchase agreements (RPs) (line 8 of table 2) swelled M2 in 1983, especially in the first half of the year. IRA and Keogh account balances are removed from small time deposits in M2, while retail RPs are added to this component. Call report data on IRA and Keogh balances indicated that previous estimates had been too large; a revision to reported data of retail RPs at thrift institutions indicated that previous estimates of such balances had also been too large, which reduced the net effect of the IRA and Keogh–retail RP revision. The overnight Eurodollar series (line 9) was also revised, owing to a change in the reporting panel that raised the level of such balances in 1982.[12]

Revisions to M3 were larger than for M2, both in dollar amounts and in relative terms. Large time deposits on a gross basis (line 12 of table 2) were revised upward for the same reasons that deposits in M1 and M2 were. Shown on line 13 is the impact on the expansion of M3 of revisions to consolidation items—mostly large time deposits held by thrift institutions and, to a lesser degree, M3 assets held by money market mutual funds, both of which are subtracted from gross large time deposits to avoid double counting. The table indicates that these netting items had previously been overestimated.

Another substantial change reflected revisions to term RPs at thrift institutions (line 14 of the table). A portion of this revision resulted from updated benchmarks to call reports from savings and loan associations, and the remainder was due to temporary disruptions in the flow of data that arose when a number of savings and loans converted to federal savings banks.

CONCLUSION

The above discussion suggests that many of the benchmark revisions to money stock measures—which like seasonal revisions had an unusually large impact on growth in 1983—stemmed from recent changes in reporting. To the degree that the pace of reporting changes subsides, which depends on regulatory and other financial changes, future benchmark revisions will probably have a smaller impact on the measures of the monetary aggregates.

FOOTNOTES

1. In the past, not all components of nontransactions M2 and M3 had been seasonally adjusted. In view of data difficulties, money market mutual funds, repurchase agreements, money market deposit accounts, and overnight Eurodollars entered these measures on a not-seasonally adjusted basis.

2. *Seasonal Adjustment of the Monetary Aggregates: Report of the Committee of Experts on Seasonal Adjustment Techniques* (Board of Governors of the Federal Reserve System, 1981), p. 2.

3. The effect of revisions to monthly growth rates of the Board's published experimental M1 series, which uses model-based seasonal factors, were also relatively large. Growth in the first half of 1983 was similarly reduced and growth in the second half boosted by these revisions, but to a lesser extent than for the X-11 ARIMA procedure.

4. See Thomas D. Simpson and John R. Williams, "Recent Revisions in the Money Stock: Benchmark, Seasonal Adjustment and Calculations of Shift-Adjusted M1-B," FEDERAL RESERVE BULLETIN, vol. 67 (July 1981), pp. 539–42. For a more detailed description of the statistical methodology used for distortions during the credit control period, see David Pierce and William Cleveland, "Intervention Analysis and Seasonal Adjustment of the Monetary Aggregates," Special Studies Paper 163 (Board of Governors of the Federal Reserve System, Division of Research and Statistics, 1981; processed).

5. As noted above, the non-M1 portion of M2 and the non-M2 portion of M3 were seasonally adjusted as a whole. To reduce the distortion to seasonal factors caused by shifts at the end of 1982 and throughout 1983 from outside M2 to money market deposit accounts, the level of nontransactions M2 was adjusted downward by the amount of balances in money market deposit accounts estimated to have come from other sources (20 percent). Similarly, in view of the tendency for depository institutions to react to the swelling of inflows to core deposits by reducing their large time deposits, the non-M2 portion of M3 was adjusted upward by the amount that large time deposits were estimated to be depressed by money market deposit accounts (14 percent).

6. Commercial bank deposits were benchmarked to the September 1982, December 1982, March 1983, and June 1983 call reports.

7. Edge Act and Agreement Corporations and U.S. branches and agencies of foreign banks were deemed ineligible for reduced reporting, however.

8. The quarterly panel also included member banks with deposits below $2 million. Other banks with deposits below $2 million were not initially required to report regularly. Reserve Banks were to monitor deposit growth at such institutions and provide the Board with information on institutions whose deposits had grown to more than $15 million, at which time they were to report regularly.

9. In view of the massive amount of work involved in completing edits of reports and subsequent benchmarking, not all deposits were benchmarked to the new reports. In particular, the benchmarking of savings and time deposits at thrift insitutions was not completed in time for this benchmark, but it will be incorporated later.

10. Some of the increase in the second half of the year reflected benchmarking to the September and December deposit reports of the quarterly reporters; unusual delays in these benchmarks were caused by difficulties in converting to the new reporting panel.

11. These deposit revisions were primarily to deposits of commercial banks, as revisions to deposits at thrift institutions have not been completed.

12. Contributing to other revisions (line 10) were changes to average monthly levels of certain items reported as of a single day each week (such as money market mutual funds) because of a change occasioned by contemporaneous reserve requirements. Previously, levels reported on Wednesdays were treated as weekly averages for the weeks ending on Wednesday. Under the revised procedures, Wednesday levels are treated as weekly averages for weeks ending on the following Monday. Average monthly levels constructed from the prorated weeks were therefore revised.

A.1. Comparison of revised and old growth rates of M1, October 1982–January 1984

Percent changes, annual rates

Period	Revised M1	Old M1	Difference (1 − 2)	Difference: Benchmark	Difference: Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1982—October	17.3	14.2	3.1	.5	2.6
November	15.8	13.6	2.2	.8	1.4
December	10.3	10.6	−.3	−.4	.1
1983—January	11.5	9.8	1.7	−2.4	4.1
February	14.8	22.4	−7.6	.2	−7.8
March	13.0	15.9	−2.9	0	−2.9
April	3.6	−2.7	6.3	1.7	4.6
May	21.0	26.3	−5.3	.5	−5.8
June	10.2	10.2	0	1.4	−1.4
July	9.4	8.9	.5	.9	−.4
August	5.8	2.8	3.0	0	3.0
September	3.5	.9	2.6	.6	2.0
October	6.2	1.9	4.3	1.6	2.7
November	3.2	.9	2.3	0	2.3
December	5.3	6.5	−1.2	−1.0	−.2
1984—January	10.7	7.4	3.3	.5	2.8
Quarterly					
1982.4	15.4	13.1	2.3	.2	2.1
1983.1	12.8	14.1	−1.3	−.7	−.6
2	11.6	12.2	−.6	.8	−1.4
3	9.5	8.9	.6	.8	−.2
4	4.8	2.1	2.7	.6	2.1
Annual					
1982.4–1983.4	10.0	9.6	.4	.4	0
Semiannual					
1982.4–1983.2	12.4	13.3	−.9	0	−.9
1983.2–1983.4	7.2	5.5	1.7	.7	1.0

A.2. Comparison of revised and old growth rates of M2, October 1982–January 1984

Percent changes, annual rates

Period	Revised M2	Old M2	Difference (1 − 2)	Difference: Benchmark	Difference: Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1982—October	9.3	7.9	1.4	−.1	1.5
November	10.5	9.5	1.0	.4	.6
December	12.1	8.9	3.2	.5	2.7
1983—January	31.9	30.9	1.0	−.6	1.6
February	21.7	24.4	−2.7	−.9	−1.8
March	7.8	11.2	−3.4	0	−3.4
April	8.4	2.8	5.6	1.9	3.7
May	11.8	12.4	−.6	.1	−.7
June	8.4	10.4	−2.0	−.1	−1.9
July	5.4	6.8	−1.4	0	−1.4
August	4.9	6.0	−1.1	0	−1.1
September	7.1	4.8	2.3	.6	1.7
October	10.8	9.1	1.7	.9	.8
November	8.3	7.3	1.0	0	1.0
December	7.7	5.0	2.7	.3	2.4
1984—January	5.6	4.9	.7	.6	.1
Quarterly					
1982:4	10.6	9.3	1.3	.3	1.0
1983:1	20.5	20.3	.2	−.2	.4
2	10.6	10.1	.5	.5	0
3	6.9	7.8	−.9	.1	−1.0
4	8.5	7.0	1.5	.4	1.1
Annual					
1982:4–1983:4	12.1	11.7	.4	.3	.1
February/March 1983–1983:4	8.3	7.8	.5	.6	−.1

A.3. Comparison of revised and old growth rates of M3, October 1982–January 1984[1]

Percent changes, annual rates

Period	Revised M3	Old M3	Difference (1 − 2)	Difference: Benchmark	Difference: Seasonals
	(1)	(2)	(3)	(4)	(5)
Monthly					
1982—October	11.7	9.3	2.4	0	2.4
November	7.7	9.3	−1.6	−.8	−.8
December	5.7	3 7	2.0	−.3	2.3
1983—January	14.4	13.0	1.4	−1.2	2.6
February	13.1	13.7	−.6	1.4	−2.0
March	7.2	8.1	−.9	1.2	−2.1
April	8.7	3.3	5.4	2.8	2.6
May	9.6	10.9	−1.3	.5	−1.8
June	10.3	11.0	−.7	.2	−.9
July	5.1	5.5	−.4	−.2	−.2
August	6.1	8.8	−2.7	−.3	−2.4
September	8.8	7.6	1.2	−.5	1.7
October	9.4	8.6	.8	−1.0	1.8
November	14.4	12.2	2.2	2 7	−.5
December	8.3	6.2	2.1	.2	1.9
1984—January	6.0	5.6	.4	−1.4	1.8
Quarterly					
1982:4	10.0	9.5	.5	−.3	.8
1983:1	10.8	10.2	.6	−.1	.7
2	9.3	8.1	1.2	1.5	−.3
3	7.4	8.4	−1.0	−.1	−.9
4	10.0	9.0	1.0	.1	.9
Annual					
1982:4–1983:4	9.7	9.2	.5	.5	0

1. Revised M3 includes term Eurodollars; the inclusion of term Eurodollars boosted M3 growth in 1983 by no more than 0.1 percentage point.

Industrial Production

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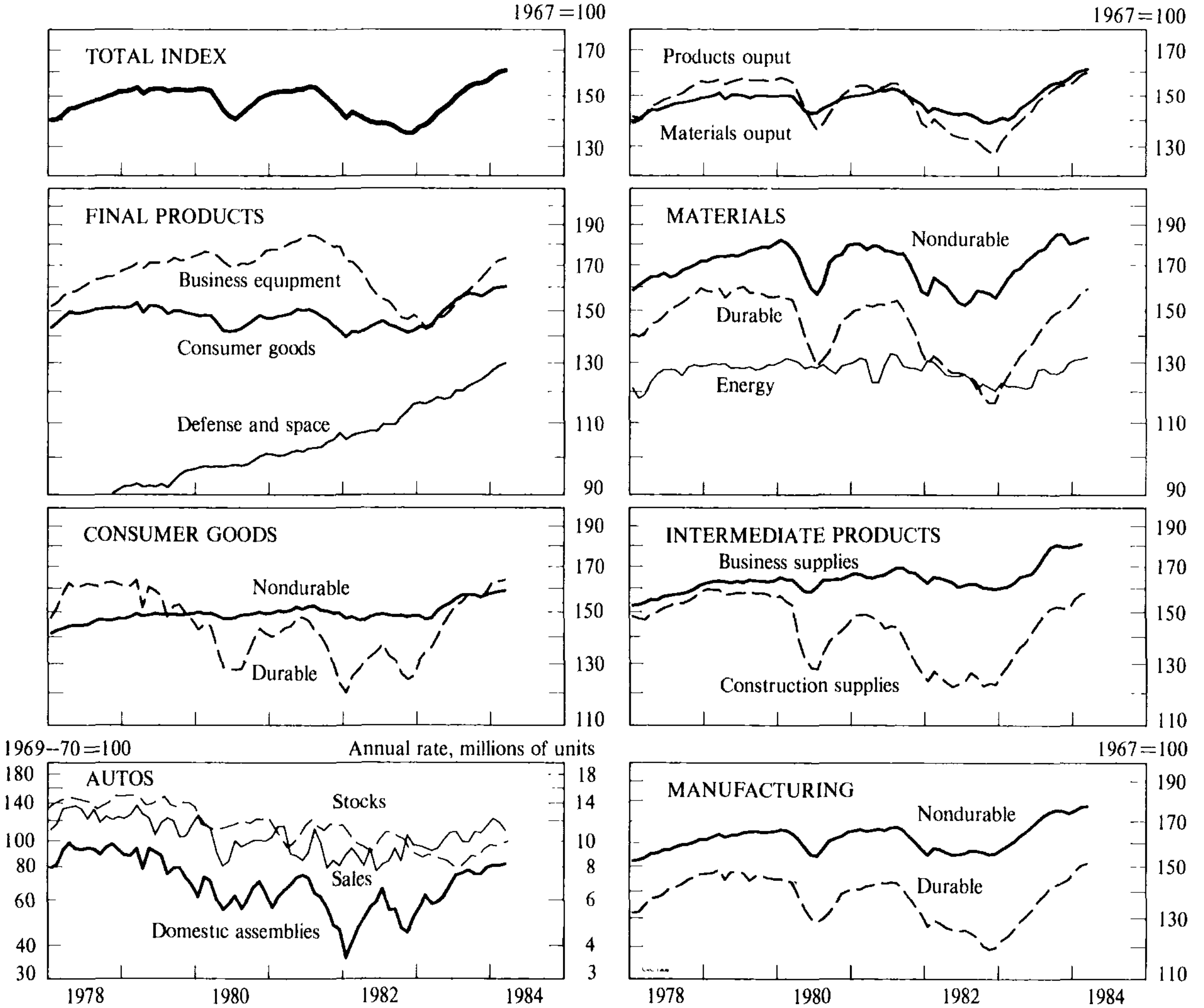
Industrial production increased an estimated 0.4 percent in March following revised increases in January and February of 1.4 and 1.0 percent respectively. Gains in output were widespread among most materials and products. After 16 consecutive monthly increases, the March index at 160.7 percent of the 1967 average was more than 4 percent above its earlier peak reached in July 1981.

In market groupings, output of consumer goods increased 0.3 percent in March, the same as the revised gain for February but substantially below the gains in other recent months. Production of autos and trucks for consumer use rose moderately; however, output of home goods edged downward. Autos were assembled at an



All series are seasonally adjusted and are plotted on a ratio scale. Auto sales and stocks include imports. Latest figures: March.

Grouping	1967 = 100		Percentage change from preceding month					Percentage change, Mar 1983 to Mar 1984
	1984		1983		1984			
	Feb.	Mar	Nov.	Dec.	Jan	Feb.	Mar	
			Major market groupings					
Total industrial production	**160.0**	**160.7**	**.2**	**.6**	**1.4**	**1.0**	**.4**	**14.8**
Products, total	160.7	161.2	.1	1.0	1.5	6	.3	13.8
Final products	158.4	159.0	.3	1.3	1.5	6	4	13.7
Consumer goods	159.9	160.3	−.5	1.0	1.1	.3	.3	11.1
Durable	163.2	163.8	−.5	1.7	3.0	−1	.4	20.2
Nondurable	158.6	158.9	−.6	.8	.4	4	.2	7.7
Business equipment	172.5	173.3	1.7	2.0	2.2	9	.5	20.6
Defense and space	129.0	129.9	.9	1.4	1.5	1.1	.7	11.0
Intermediate products	169.3	169.6	−.6	−.1	1.5	.9	2	14.7
Construction supplies	157.6	158.0	−.5	−.1	2.6	1.4	.3	18.7
Materials	158.9	159.8	3	0	1.3	1.5	6	16.1
			Major industry groupings					
Manufacturing	161.4	162.1	.1	3	1.6	1.3	.4	15.5
Durable	150.7	151.5	.6	1.0	2.2	1.7	.5	20.0
Nondurable	177.0	177.3	−.5	−5	.8	1.0	2	10.3
Mining	124.6	123.9	2.4	2.1	7	0	−6	10.0
Utilities	177.0	178.8	−.1	3.5	−.8	−2.2	1.0	7.8

NOTE. Indexes are seasonally adjusted

annual rate of 8.2 million units, up more than 1 percent from February; current industry schedules indicate a seasonally adjusted annual rate of 7.8 million units for April. Production of business equipment, which had reached a low in February 1983, showed average monthly increases of about 1.8 percent through January 1984. The advances in March and February were more moderate, as sizable declines occurred in oil and gas well drilling activity in both months. However, production increases remained strong in manufacturing and commercial equipment. Production of defense and space equipment continued to expand in March. Output of construction supplies increased only an estimated 0.3 percent following very large gains in January and February.

Production of materials rose 0.6 percent in March. Durable materials increased 0.8 percent, with a large gain in output of equipment parts. Production of nondurable materials increased 0.3 percent and energy materials, 0.4 percent.

In industry groupings, manufacturing output rose 0.4 percent, with a gain of 0.5 percent in durable manufacturing and 0.2 percent in nondurables. Utility output increased 1.0 percent, but mining activity was reduced 0.6 percent.

Statements to Congress

Statement by Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the Committee on Energy and Commerce, of the U.S. House of Representatives, March 14, 1984.

I appreciate the opportunity to appear before this subcommittee on behalf of the Federal Reserve Board to discuss title I of H.R. 4557—the Secondary Mortgage Market Enhancement Act of 1983. This legislation is intended to encourage and facilitate wider participation by private institutions in the markets for mortgage-backed securities, primarily by amending federal securities laws and by preempting certain state securities and investment statutes.

You have indicated that your subcommittee is concerned primarily about the implications of such measures for investor protection. You also have raised questions about the impact of the proposed legislation on the sectoral allocation of capital and on the performance of the economy as a whole. After briefly reviewing the status of the markets for private mortgage-backed securities, I will turn to the issues of investor protection and economic impact raised by the legislation under consideration. Let me say at the outset, however, that your emphasis on investor protection is well placed. It is a vital public policy concern that the emerging market for private mortage-backed securities be subject to adequate degrees of federal supervision and regulation. Abuses early in the game not only could compromise the interests of individual investors but also could seriously undermine the process of development of this market.

Mortgage securities markets, of course, have been an important component of the housing finance system during the past decade. Furthermore, the need for such markets is likely to increase in the future, particularly if thrift institutions utilize the expanded asset powers recently provided to them by law and regulation. To better match the duration and interest rate sensitivity of assets with liabilities, thrifts and other mortgage originators with predominantly short-term debts may move more and more long-term mortgages to investors through the secondary markets. Mortgage pass-through securities, which represent ownership interests in pools of residential loans, can be the most efficient secondary market instruments to accomplish this shift.

Since the early 1970s, the thrust of public policy has been to encourage development and growth of markets for mortgage pass-through securities guaranteed by federal agencies and federally sponsored enterprises. By the end of last year, outstanding pass-through securities guaranteed by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Federal National Mortgage Association (FNMA) totaled $243 billion—equivalent to nearly a fifth of all residential mortgage debt outstanding.

By contrast, development of markets for fully private mortgage pass-through securities—that is, securities without federal sponsorship issued against pools of conventional loans—has been quite modest. While a fair number of banks, thrift institutions, mortgage companies, insurance companies, and so-called conduit organizations have issued private pass-throughs, available estimates suggest that the total amount outstanding is only about $10 billion. To date, private institutions have been successful mainly in the market space left by FNMA and FHLMC. Most issues have been private placements tailored to the needs or preferences of individual investors, or public offerings issued against pools of those mortgage loans that are individually larger in amount than those that may be purchased by the federally sponsored enterprises under limits established by the Congress.

Private pass-through securities generally have been unable to compete, head to head, against those issued or guaranteed by federal agencies and federally sponsored enterprises, largely because of the market benefits enjoyed by these federally related entities. But development of the private market also has been hampered by state and federal laws and regulations that have increased the cost of issuing private securities or have constrained investment in private pass-throughs by various types of institutions. The President's Commission on Housing, on which I served as a member before being appointed to the Federal Reserve Board, identified a host of legal and regulatory impediments in its 1982 report.

The Federal Reserve Board traditionally supports measures that promise to improve the efficiency of private financial markets. In this case, we believe that changes in laws and regulations that encourage a broadening of the mortgage pass-through securities markets through more extensive involvement of the private sector would constitute sound public policy, so long as other legitimate public policy objectives are not compromised in the process. It certainly seems appropriate to adjust laws and regulations that have disadvantaged the competitive position of private mortgage securities in our financial markets with inadvertent or unintended constraints and obstacles. Indeed, some technical problems have been caused by state or federal statutes or regulations written long before mortgage-backed securities were a significant market factor, and some impediments have arisen because of inadequate understanding of the unique nature of these securities.

Some of these types of technical constraints recently have been alleviated by regulatory changes at the federal level. For example, last year the Securities and Exchange Commission (SEC) tailored some of its registration and disclosure requirements to the special characteristics of private mortgage pass-through securities, recognizing the need for both shelf registration procedures and sales of these securities on a "blind pool" basis. At the Federal Reserve Board, we have amended Regulation T—which governs margin credit extended by brokers and dealers for the purpose of purchasing or carrying securities—to specify that private mortgage-backed securities are eligible collateral for such credit. We also have tailored the Regulation T criterion to fit special features of the mortgage instruments—that is, the amortizing or depreciating nature of mortgage securities.

Some components of title I of H.R. 4557 also constitute technical amendments designed to properly accommodate private mortgage securities. Section 108, which would require the Securities and Exchange Commission (SEC) to provide a permanent procedure for the delayed or continuous registration of private mortgage-backed securities, falls into this category. These types of registration procedures, which are vital to the success of a public market in mortgage securities, currently are available under an administrative rule of the Commission. A legislative mandate to the SEC would remove any market uncertainty over the future of these flexible registration procedures.

The removal of statutory limitations on investment in mortgage pass-through securities by federally chartered financial institutions, leaving the regulators to specify investment limits as well as factors relating to the diversity of underlying mortgage pools, is another appropriate technical adjustment (section 106). The current law for national banks, for example, limits investment in the securities of any one issuer to a percentage of unimpaired capital stock and surplus and, in effect, treats private mortgage pass-through securities as obligations of the issuer rather than as shares in pools of loans constituting the obligations of many mortgage borrowers. The current treatment for banks is a good example of law that does not properly accommodate the true nature of mortgage pass-through securities.

I understand that this subcommittee is concerned that some of the provisions of title I of H.R. 4557 may go beyond technical adjustments to law and regulation. Any provisions that involve trade-offs of policy objectives, of course, need to be considered carefully. As a general principle, caution should be exercised whenever federal or state laws that were intended to protect savers, investors, or financial institutions are amended, or preempted, in order to further the development of a particular market. Several provisions of the proposed legislation raise issues along these lines: the exemption of sales of private mortgage-backed securities from federal registration and disclosure requirements; the federal preemption of state legal-investment and blue-sky laws applicable to private mortgage-backed securities; and the provisions that seek to facilitate development of forward-delivery markets for such securities by amending federal laws relating to the extension of margin credit by securities brokers or dealers.

The proposed exemption from securities registration requirements (section 101)—applicable only to large sales (those over $250,000) of "investment grade," mortgage-backed securities (those rated in one of the top four categories by a nationally recognized statistical rating organization) by financial institutions to investors for their own accounts—generally appears to be a desirable extension of the current transactional exemption for mortgages and mortgage participations contained in federal securities law. Such large transactions presumably involve investors with a high level of sophistication and thus do not require all of the normal investor protections provided by the 1933 act.

The Congress, however, should recognize the implications of several aspects of the proposed exemption. First, reliance would be placed upon private rating organizations to set market standards. There is no assurance that these organizations will retain their current rating schemes or will not adjust their rating categories in a manner inconsistent with the risk levels anticipated by the Congress. Second, the exemption would be extended to all mortgagees approved by the Department of Housing and Urban Development, including mortgage companies that are not subject to the same levels of supervision, regulation, and examination applicable to depository institutions. These factors raise questions about two important aspects of consumer protection in the private market for pass-through securities: adequate information about the quality of mortgages in the underlying pools, and adequate assurance of performance by the issuer–servicer over the life of the pass-through security. It may be appropriate to design a simplified, special-purpose set of SEC registration requirements for the types of transactions envisioned in section 101, specifying pertinent characteristics of the pooled mortgages as well as the responsibilities of the issuer–servicer.

Federal preemption of state blue-sky and legal-investment laws for large sales of investment-grade-mortgage-backed securities (section 107) raises further questions about investor protection as well as about the interests of savers in state-chartered depository institutions, life insurance companies, and pension funds. Investment grade is not a particularly strict standard, and in fact, most public offerings of private mortgage pass-through securities have been rated in the top two categories. It may be questionable public policy to require the states to treat all mortgage-backed securities rated in the top four categories by any nationally recognized rating organization as if they were Treasury or federal agency securities, even though the proposed legislation would give the states three years to opt out of the federal preemption. Some states eventually may feel that it is appropriate to apply more stringent legal investment standards than federal law would permit or to require more complete disclosure with respect to the character of the underlying mortgage pools. Thus, it may be preferable to allow the states an unlimited amount of time to override federal preemption of their blue-sky and legal-investment statutes rather than to incorporate private rating service standards in federal law and to set a time limit on the state override.

The provisions that would facilitate development of forward-delivery markets in private mortgage-backed securities, by specifying that contracts made by brokers and dealers for delayed delivery of such securities (within 180 days) do not involve extensions of credit (section 103–105), appear to constitute sound public policy. Forward-delivery arrangements currently are an integral part of the markets for federally related mortgage pass-through securities, and such arrangements clearly are essential to the success of private markets. Furthermore, under these provisions both the Federal Reserve Board and the Securities and Exchange Commission would have the authority to institute remedial measures if the need should arise, by shortening the forward-delivery period. The SEC also would retain its regulatory authority over self-regulatory broker–dealer organizations to ensure that these organizations maintain adequate margin deposit rules for forward contracts in private mortgage-backed securities. And, of course, the SEC would retain authority to establish minimum net capital requirements that reflect exposure of a broker–dealer in the forward-trading market. These types of controls should prevent repetition of some of the problems that arose in the unregulated forward market for securities guaranteed by the GNMA several years ago.

The potential impact of the package of measures contained in title I on the allocation of capital among the housing sector and other sectors of the economy, and on the growth of the economy as a whole, is difficult to judge in quantitative terms. It seems safe to say, however, that changes in law that reduce the costs of issuing private mortgage pass-through securities or enhance the attractiveness of these securities to investors should translate into lower costs of mortgage credit for the ultimate borrowers whose loans are in the pools behind the securities. Thus, enactment of title I should encourage more capital to flow into the housing sector and less to flow to other private sectors. If this process altered capital allocation away from plant and equipment, there could be some impact on business productivity growth over time.

These types of conclusions assume, of course, that the provisions in the proposed legislation are the only adjustments that are made to the structure of the secondary mortgage markets. If the measures designed to enhance the development of the private secondary markets were coupled with measures designed to limit the secondary market activities of the federally sponsored enterprises, any potential impacts of the legislation currently under consideration on capital allocation and economic growth could be altered.

A shift of secondary market functions from the public to the private sector may now be a proper course for public policy, after more than a decade of valuable demonstration and market development by the federally related entities. Both FNMA and FHLMC have done pathbreaking work by helping to standardize the conventional home mortgage instrument and by moving large amounts of pass-through securities issued against pools of such loans into a capital market that had been unaccustomed to conventional pass-throughs. We have now reached a point when conventional mortgage documents are standardized nationally, when mortgage pass-through securities are a familiar instrument in national financial markets, and when the private mortgage insurance industry is capable of providing mortgage pool insurance necessary to secure high ratings for a large volume of conventional pass-throughs. These foundations, coupled with the types of legal adjustments contained in title I of H.R. 4557—and perhaps with the creation of more flexible mortgage investment trusts under federal tax law—can provide the basis for a viable private secondary mortgage market that can serve the needs of the housing industry during the years ahead. □

Statement by Lyle E. Gramley, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Government Operations Committee, U.S. House of Representatives, March 14, 1984.

I am happy to have the opportunity to present the views of the Board of Governors of the Federal Reserve System on proposals to limit the use of fully insured brokered deposits. Briefly, the Board's position is that brokered deposits serve a useful function. Excessive reliance on insured brokered deposits, however, poses serious risks to individual depository institutions, to the financial system, and to the federal deposit insurance funds. The Board believes that legislation to limit the use of such deposits is needed. Until the necessary legislation is passed, the Board would not object to the proposal published for comment by the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) to limit insurance coverage to $100,000 per brokerage firm.

Insured brokered deposits are a relatively new source of funds to the nation's depository institutions. Reliable data on how large the activity presently is, and how fast it is growing, are sparse. We know, however, that total brokered deposits at federally insured savings and loan associations (S&Ls) rose from less than $2 billion at the end of 1979 to something like $25 billion to $30 billion at the end of last year. At commercial banks, brokered deposits at the end of 1983 amounted to about $22 billion.

It appears from available data that S&Ls rely more heavily on brokered deposits than do commercial banks. Not surprisingly, smaller institutions rely more heavily on such deposits than do larger institutions that have ready access to the market for large-denomination negotiable certificates of deposit. We know, also, that a few individual S&Ls obtain half or more of their total deposits through brokers. Moreover, among those institutions that rely heavily on brokered deposits are a number with relatively low ratios of net worth to total liabilities—that is, ratios of less than 3 percent. Such deposits constituted approximately one-sixth of total deposits held by banks that failed in the past two years and, in a few of those cases, they amounted to more than one-half of total deposits of the failing institution. This development suggests that there is a tendency for the marketing process to direct brokered deposits toward financially weaker institutions—and, in extreme cases, to failing institutions.

The volume of fully insured brokered deposits is still very small in relation to total deposits. Apparently, however, the proportion is rising rapidly, and no one can be sure what the limits of this market may be. The effects of some of the factors giving rise to the recent growth of the industry—such as regulatory actions permitting payment of finder fees to brokers and the effective deregulation by the Depository Institutions Deregulation Committee (DIDC) of interest rate ceilings on most time deposits—may be less of a catalyst to growth in the future. Nationwide marketing of brokered deposits, however, stems more generally from a process of financial innovation—driven by both deregulation and rapid technological advances—that is changing financial practices dramatically, and the impact of those forces on financial markets and institutions is far from over. Moreover, the element of subsidy contained in federal deposit insurance will provide a continuing incentive to growth of insured deposits channeled through brokerage arrangements.

Brokered deposits would be less of a problem from the standpoint of public policy if they were not fully insured. Uncertainties prevailing in financial markets in recent years, however, have caused depositors to place a high value on safety of principal. For example, the failure and liquidation of Penn Square National Bank in July 1982, in which many depositors incurred losses, served as an important catalyst to the practice of breaking up large brokered deposits into amounts of $100,000 or less to achieve fully insured status. Federal insurance, in such cases, removes the incentive for depositors to seek strong, well-managed depository institutions in which to place their funds. This lack of market discipline can have unfortunate consequences.

Brokered deposits, the Board believes, provide economic benefits to individual depository institutions and to the nation as a whole—benefits that should be preserved. They serve as a conduit—although by no means the only one—for transferring funds from capital-rich to capital-short areas. They permit smaller depository institutions to compete on more equal grounds with larger ones in the attraction of funds. They provide an additional source of liquidity to the individual depository institutions in time of need. And they increase the options open to depositors—institutions as well as individuals—in the placement of funds, and often increase the yields available to them.

I know of no empirical studies that seek to put quantitative dimensions on such benefits. But we must recognize that brokered deposits give rise to costs as well as benefits, particularly when they are fully insured. For example, facilitating easy movement of funds from one market to another through full insurance for brokered deposits loosens the links between depositors and consumers and their local institutions. The competitive position of some smaller depository institutions improves, but that of other small institutions may deteriorate, reducing their ability to meet local needs for credit. Heavy reliance on brokered deposits as a source of funds may encourage some institutions to move away from their traditional community orientation, with effects that are hard to predict on the economic welfare of those communities. Indeed, it is not entirely clear that economic efficiency is increased when funds are transferred from one use to another solely because brokered deposits are fully insured. The element of subsidy contained in federal deposit insurance may, in fact, lead to the opposite result because it erodes market discipline as regards risktaking.

While the economic and social benefits of brokered deposits are mixed, the Board believes that, on balance, continued use of this financial instrument is desirable. The Board also believes, however, that excessive reliance on fully insured brokered funds results in risks that are sufficiently serious to warrant prudential measures by the Congress and the federal regulatory authorities.

First, there are risks created for individual financial institutions that may not be capable of safely employing brokered funds on a large scale, especially when the attraction of brokered funds permits an institution to grow at a spectacular pace, as sometimes happens. To attract brokered deposits, an institution often pays above-market rates to depositors and a fee to the broker. In order to employ the funds profitably, the institution must invest them in assets that earn a relatively high rate of return. Methods by which such higher rates of return are earned may include taking credit risks that are greater than normal and mismatching of maturities.

Over time, an institution may become overly dependent on brokered deposits as a source of funding. Despite efforts to diversify sources of deposits, this dependency may make the institution susceptible to pressures from the principal funding source, including suggestions that it make credit available to particular borrowers. Failure to make good credit judgements is particularly likely when an institution obtains funds on a scale that exceeds its capacity to document properly and control its credit decisions. Experience has indicated that this can prove to be troublesome.

Brokered deposits, it is sometimes argued, provide individual depository institutions with the opportunity to restructure their assets and liabilities in ways that lead to a better match of maturities. That is true. But unfortunately, it is also true that the opportunity is provided to create a serious mismatch by borrowing short and lending long.

When an activity such as brokered deposits grows as rapidly as it has in recent years, there is a danger that the problems of individual financial institutions may become so widespread as to warrant concern for the stability of financial markets more generally. That is probably not a concern at the moment, but the prospect that even larger numbers of small depository institutions might become heavily dependent on a relatively higher-cost, and potentially a highly volatile, source of deposits to finance their lending activities is clearly worrisome.

Troubled institutions may end up with relatively large volumes of insured brokered deposits because once an institution is facing difficulties, this may be one of the few sources of funds it can still attract. Brokered deposits can be used to replace uninsured funds that are being withdrawn by wary depositors, or to finance additional asset growth in the hope that the earnings generated will offset losses in existing operations. Unfortunately, all too often the effort is futile, and the end result is to prolong the life of a failing institution, increase its overall size and in particular the volume of insured deposits, and add to the liabilities faced by the federal insurance funds.

The danger to the federal deposit insurance system is a clear and present one. The potential liability to the federal insurance funds is growing at a disturbing rate as the reliance on fully insured brokered funds increases, particularly when such deposits are concentrated among financially weak institutions.

The proposal published for comment by the FDIC and FSLIC, limiting federal insurance to \$100,000 per broker, would severely limit the use of brokered deposits. A less disruptive means of addressing this problem would be to impose a limit on the total amount of insured brokered deposits that may be accepted by a depository institution. This limitation could take the form of a "cap," calculated as a percentage of insured brokered deposits to total deposits, of, say, 5 percent. Alternatively, the proportion of such deposits to the total could be made to depend, to some degree, on the ratio of an institution's capital to its assets. Although the limit should be clearly set, it would be desirable for the regulatory authorities to have the flexibility to grant exceptions in special situations.

Effective implementation of a cap on insured brokered deposits on a Systemwide basis could best be done with new legislation. The regulatory agencies do have the authority through cease-and-desist powers to proceed on an institution-by-institution basis. However, using this authority requires proving for each situation a direct relationship between safety and soundness and a specific level of fully insured brokered deposits, a process that could bog down in litigation and delay.

The Congress faced a similar problem in the field of capital adequacy, and it provided the regulators with new authority to require specific levels of capital in connection with the recent legislation concerning the International Monetary Fund. Similar action is needed in the case of fully insured brokered deposits. Because of the inevitable pressures that would be brought to bear on agencies to broaden and make more flexible any administratively established levels pursuant to a general grant of authority provided by the Congress, we believe that in this instance it would be desirable for the Congress to set a specific legislative cap.

Legislative caps have the advantage of allowing reasonable use of insured brokered deposits, while maintaining such use within limits that institutions should be able to manage. In view of the inherent incentive for fully insured brokered funds to gravitate to those institutions that are prepared to take the greatest risks and to pay the highest rates, the cap approach takes the prudent course of limiting access and thus avoiding the necessity of attempting to correct, with cease-and-desist action, a dangerous situation after it has occurred.

In the design of enabling legislation, thought must be given as to how such a cap should be phased in to avoid disruptive effects on individual institutions whose ratio of fully insured brokered deposits to the total exceeds the cap. (The Board does not believe that grandfathering existing ratios would be appropriate.) It would also be desirable to discourage increases in reliance on such deposits before the effective date of the cap. The Board would be happy to work with the Congress in developing legislative language that would achieve such results.

The Board recognizes that congressional authorization may take some time to enact and implement. In view of the need to take action now to prevent problems from developing later, the Board would not object to implementation of the proposal made by the FDIC and FSLIC in its current rulemaking process pending the enactment of legislation. As with implementation of a legislated cap, it would be desirable if their proposal included arrangements for an orderly phasedown of insured brokered deposits for those institutions already significantly dependent on this source of funding.

If the Congress is disposed to enact new legislation imposing a cap on fully insured brokered deposits, it would be desirable for such legislation to be enacted promptly and to take effect before October 1, 1984, when the FDIC–FSLIC proposal is scheduled to take effect. Depository institutions dependent on such funds and brokerage firms engaged in this activity would then be disrupted less by regulatory change. □

Statement by Henry C. Wallich, Member, Board of Governors of the Federal Reserve System, before the Committee on Finance, U.S. Senate, March 23, 1984.

The U.S. merchandise trade and current account deficits widened considerably during 1983. For 1983 as a whole, the trade deficit exceeded $60 billion, and by the fourth quarter it had reached an annual rate of $75 billion. The current account was in deficit by more than $40 billion for the year as a whole, and reached an annual rate of $60 billion in the fourth quarter. Many are predicting that the current account deficit will be about $80 billion for 1984 as a whole and the trade deficit will be about $100 billion.

Causes of the External Deficits

It is customary to analyze changes in the external deficits by focusing on proximate causes, such as changes in exchange rates and the growth of economic activity at home and abroad. In that tradition, the widening of the external deficits can be related first and foremost to the substantial appreciation of the dollar and the conditions that have given rise to the appreciation. On a weighted-average basis against the currencies of the other major industrial countries, the dollar has appreciated more than 45 percent since the fourth quarter of 1980, when our current account balance was showing a small surplus. Some of the appreciation reflects our relatively good inflation performance, but even in real terms—adjusted for changes in consumer price levels—the weighted-average value of the dollar is now nearly 40 percent higher than it was at the end of 1980, and roughly 25 percent higher than its average for the entire floating-rate period since 1973. Against the European currencies, the appreciation in real terms has come to 30 percent against the Swiss franc, 45 percent against the German mark, and higher amounts against the weaker currencies. Against the Japanese yen the dollar has risen 20 percent in real terms; against the Canadian dollar it has depreciated slightly.

The cyclical behavior of the U.S. and foreign economies has been a second factor contributing both to the time profile and to the widening of the U.S. trade deficit. The U.S. recession held down imports and thus delayed the rise in the trade deficit until after the middle of 1982, and the relatively rapid expansion of the U.S. economy in 1983 was a dominant element in last year's trade developments, accounting for more than half the $30 billion increase in the U.S. trade deficit from the fourth quarter of 1982 to the fourth quarter of 1983.

As a third factor, the external financing problems of some countries, especially of our neighbors in Latin America, have resulted in lower exports to these countries.

A fourth factor has been the failure in the past of some of our industries to adjust adequately to the pressures of international competition.

While the strong dollar and large external deficits reflect, in part, our improved macroeconomic performance and the greater return on financial investment in this country, in a more fundamental sense they are related to the budget deficit. When the U.S. government runs a deficit, other sectors must, on balance, finance it. Part of the financing has been provided by foreigners in the form of the net capital inflow that is the counterpart of the current account deficit. The remainder of the financing has been provided by private domestic residents and state and local governments, which has diverted resources from productive domestic capital formation. Naturally, the net capital inflow and the surplus of private domestic saving over private domestic investment have not arisen automatically, but have had to be induced. As a result, real interest rates have been higher then they would otherwise have been. In addition, the higher real interest rates have been associated with upward pressure on the dollar: such upward pressure has prevailed over whatever downward pressure may have emanated from the external deficit, which usually is a negative element in the market's evaluation of a currency. Thus the dollar has risen. In this way, high real interest rates, the strong dollar, and large external deficits are all linked to large federal budget deficits.

Consequences of the Deficits and the Strong Dollar

Some of the damaging consequences of the deficits and the strong dollar are reflected in the decline in our exports. In value terms, exports declined about $25 billion from the fourth quarter of 1980 to the fourth quarter of 1983, with two-thirds of the drop accounted for by a 40 percent contraction of shipments to Latin America, mainly to Mexico, and the other third reflecting a 15 percent reduction in shipments to Western Europe. It is noteworthy that exports to both Japan and Canada expanded somewhat from 1980 to 1983.

In volume terms, our merchandise exports were more than 15 percent lower in the fourth quarter of 1983 than in the fourth quarter of 1980. Exports of capital goods declined more than 25 percent in volume terms, exports of nonagricultural industrial supplies more than 20 percent, and exports of agricultural products about 10 percent. The longer exports remain depressed, the more difficult it becomes to maintain marketing networks and the more costly and difficult it becomes to recover foreign sales.

If our current account deficit were to continue for long at the rate of about $80 billion that is likely to be recorded in 1984, the United States would soon become an international debtor country. At the end of 1983, the United States had an estimated international net creditor position of about $125 billion. This balance could be pushed to the minus side in little more than one year. Our position as an international creditor has been a major support to our balance of payments so far. Thanks to the very productive character of some of our foreign assets, the United States had a surplus of investment income that averaged more than $30 billion annually from 1979 through 1981. This surplus has meant that we have been able to tolerate a sizable trade deficit without incurring a deficit in the current account, which combines services and trade. If our international position shifts to that of a debtor country, this advantage will be eroded; indeed, it is estimated that our surplus of investment income fell below $25 billion in 1983. Eventually, the United States might find itself in the position of having to earn a surplus in the trade balance to cover a deficit on investment income. Other things being equal, the larger the net debtor position we build up, the lower will be the value of the dollar necessary in the long run to generate the required trade balance.

In addition, I might say that, for one of the richest countries in the world, it seems hardly appropriate either to be borrowing currently on a massive scale from the rest of the world or to be a net debtor to it.

The external deficit also has a strong bearing on the future of the dollar. I have noted the severe appreciation the dollar has experienced against a number of currencies, which has been one—but only one—of the reasons for the trade deficit. As the United States continues to borrow abroad and moves toward net debtor status, causing the rest of the world to hold ever-larger amounts of dollar-denominated assets, the good acceptance that our currency has had in the world may wear out. Nobody can predict the timing, but in the longer run it seems probable that the dollar-depressing effect of the external deficit will begin to overwhelm the dollar-supporting effect of higher interest rates.

I do not believe, therefore, that the current value of the dollar is sustainable, although it is impossible to predict the sequence or timing of events that will bring it down. If the dollar does decline substantially while the budget deficit remains unchanged, the external deficit will, with a lag, also decline. That would reduce, in a sense, the magnitude of the problem that this committee is addressing. It would also, however, intensify other problems created by the budget deficit. With a return of the external sector toward balance, the foreign financing of the budget deficit would cease. It would have to be financed entirely at home, absorbing a still-higher fraction of scarce available savings, thereby raising interest rates. The "crowding out" resulting from the budget deficit, which now goes in part against the foreign trade-related sectors of the U.S. economy and in part only against other sectors of the economy, would then be directed fully against the other sectors. This result needs to be emphasized in order to make clear that a reduction or ending in the external deficit, without a reduction in the budget deficit, would only shift the impact of our nation's budget problems without resolving them.

The impacts of the external deficit and of the strong dollar have been felt by our manufacturing industries, the agricultural sector, and some of our service industries. The effects are adverse not only for exports but also for domestic import-competing sectors. On the whole, nevertheless, these impacts have been quite well absorbed. The American economy has expanded strongly. This has offset some of the pressure of mounting import competition that derives from a strong dollar. Moreover, some of the industries that have suffered from import competition are in that condition more because of factors specific to their industry than because of the high dollar. Industries that have failed to invest and reduce costs, that have not kept up with modern technology, and that in some cases have paid wages far above the national average for production workers are bound to suffer even at a lower level of the dollar.

Aside from such industry-specific problems, I do not see the United States being deindustrialized. The combined domestic and foreign demand for U.S. industrial output has increased since 1980. In particular, the industrial production index for manufacturing is currently almost 7½ percent higher than its level at the end of 1980, when the dollar began to appreciate. Employment in the manufacturing sector, on the other hand, is currently 3½ percent below its level at the end of 1980, partly reflecting relatively rapid productivity growth in the manufacturing sector, which historically has contributed to a negative trend in the share of manufacturing employment in total private employment.

Arguments Against Import Restrictions

My purpose in citing these statistics is to counsel strongly against additional import restrictions at this juncture as a means of dealing with the trade deficit. The type of import-restricting actions authorized by section 122 of the Trade Act, which would apply on a broad and uniform basis, are certainly contrary to the national interest of the United States. Thanks to the strong economic recovery last year, our tradable-goods industries as a group have not been severely injured on balance. Their circumstances cannot justify additional import restrictions, except when foreign competition is judged to be unfair as defined by our trade acts.

The costs of import protection are well known. The decision to protect one industry invariably imposes costs elsewhere in the economy. It is costly to other industries if foreign countries retaliate against U.S. exports, or if import restrictions lead to higher dollar exchange rates than would otherwise prevail, or if the prices U.S. firms must pay for inputs rise. Protection typically leads also to higher prices and less choice for consumers. An example of the consequences of protection for consumers we now observe in the recent high profits of the automobile industry, which is protected by "voluntary" export restraints in Japan. Finally, protected industries typically delay making the adjustments that are necessary if they are ever to stand on their own feet. These costs should make us hesitant even to reciprocate against foreign protectionist actions. Retaliatory measures taken by us damage our own interests, whatever they may do to foreigners.

Reducing the trade deficit by protectionist methods without reducing the budget deficit would not resolve our problems. It would certainly not ease the pressures on our export industries, which, thanks to the discipline of international competition, are bound to be among our most efficient.

Other Policy Options

The appropriate policy prescription for dealing with the trade deficit and the excessively strong dollar, in my view, is to reduce the structural deficit in our federal budget. Controls on trade or on capital inflows, or any other proposals for reducing the external deficits without reducing the budget deficit, would only shift the impact of our nation's budget problems by pushing up real interest rates.

You have asked, as well, for an analysis of whether the system of floating exchange rates itself may have contributed to our problems. In my view, the floating-rate system has served us fairly well. Swings in exchange rates over the past decade, to be sure, have been extremely wide. But many of these swings can be related mainly to changes in the relative outlooks for interest rates, inflation, and real growth in different countries. A good part of the changes in relative economic outlooks in turn can be related to changes in monetary and fiscal policies. Given the stances of monetary and fiscal policies in the United States and abroad during the past four or five years, it is hard to believe that the Bretton Woods system of pegged exchange rates would have survived, and certainly not without major upward adjustments in the exchange value of the dollar. Greater stability of exchange rates, which is greatly to be desired, must be founded in the first place on greater domestic stability in all countries and on policies supporting this stability.

Finally, you raised the question of whether the dollar is overvalued. In my view, the meaningful answer to this question is yes. It is sometimes argued, to be sure, that whatever exchange rate prevails in the market at any moment balances demand and supply and therefore cannot be overvalued or undervalued. That argument, however, begs the question. Interpreting the question as referring to the effect of the exchange rate on the economic magnitudes in which this committee is interested, such as the trade balance or the current account, it seems evident that the recent value of the dollar has been clearly inconsistent with even approximate balance in either the trade or the current account and that therefore, in this sense, the dollar is overvalued.

Given this interpretation of our situation, the right policy prescription for dealing with the trade deficit is to deal with the circumstance that is at the root of the high dollar. This brings me back to the need to reduce the structural deficit in our federal budget. Such action, of course, would not cure all the diverse problems encountered in the various sectors of our economy. But a substantial adjustment of the budget toward balance, other things equal, would lead to declines in real interest rates, a depreciation of the dollar in exchange markets, and (with some lag) a reduction in the external deficits. Recent statements by the President and members of the Congress, such as the one by the chairman of this committee announcing these hearings, give hope that some progress may be made in that direction. I hope that my remarks have conveyed the message that the strong dollar and large external deficits are partly symptoms, themselves damaging, of large budget deficits. I hope as well that the Congress and the administration will resist temptations to try to suppress the symptoms without curing the disease. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 27, 1984.

I am pleased to come before you as one of the concluding witnesses in what has been a thorough and searching examination of proposals to restructure the law governing bank and thrift holding company activities. These hearings are a culmination of a long process of evaluation of legislative proposals to simplify regulatory procedures and to assure a competitive environment for the provision of financial services.

Hearings on various bills of this kind began in the fall of 1981. Since then, this committee has held 44 days of hearings, has heard more than 235 witnesses, and has before it more than 7,000 pages of testimony. This extensive record—including analysis of historical problems, present difficulties, and future solutions—provides a solid foundation on which to build legislative decisions at this session of the Congress.

I have on several occasions emphasized to this committee the basic framework within which we in the Federal Reserve approach these questions. We want to see a competitive and innovative banking and financial system, providing economical and efficient services to consumers. At the same time, we believe that banks, and depository institutions generally, perform a unique and critical role in the financial system and the economy—as operators of the payments system, as custodians of the bulk of liquid savings, as unbiased suppliers of short-term credit, and as the link between monetary policy and the economy. This unique role implies continued government concerns about the stability and impartiality of these institutions—concerns that are reflected in the federal "safety net" long provided by the discount window and deposit insurance, by regulatory protection against undue risk, and by policies to discourage conflicts of interest and undue concentration of banking resources. As a corollary to these concerns, and as a result of our practical experience in regulating bank holding companies, we also believe that these basic policies must, to a degree, apply to the holding companies of which banks and other depository institutions are a part; banking institutions cannot be wholly separated from the fortunes of their affiliates and from the success or failure of their business objectives.

A review of the testimony before this committee indicates that these principles are broadly accepted. Progress has been made toward achieving some convergence of views on the definitions of a bank and a thrift institution, on the scope of regulatory authority, and on possible simplification of regulatory approaches toward bank holding companies.

In my testimony in January in Salt Lake City, I suggested new legislation is urgently needed dealing with the following areas: (1) a strengthened definition of bank; (2) a definition of a qualified thrift; (3) new procedures to streamline application of the bank and thrift holding company acts; (4) the powers of depository institution holding companies; and (5) statutory guidelines to govern the division of state and federal authority in the area of banking organization powers.

There are a growing number of issues about interstate banking that soon will need to be dealt with as well, but, with one exception, those questions could be deferred to later legislation. The exception concerns congressional policy toward the present movement toward regional interstate banking arrangements.

Our analysis of the bills and much of the testimony that have been placed before this committee indicates elements of agreement in several of the necessary areas. There appears to be an emerging consensus on defining what is a bank—a fundamental building block for any legislation to clarify the role of banks and bank holding companies within our financial and economic system. New procedures for applying the Bank Holding Company Act and simplifying regulation seem to be broadly accepted. Some convergence on the appropriate role of thrift institutions and their holding companies may be developing, as well as on the need to rewrite guidelines for state–federal relationships. Equally clear, substantial differences in defining the appropriate range of powers for bank holding companies remain apparent.

It seems to me the time has come to consolidate areas of agreement, to consider objections to the proposals before the committee, and to test alternative approaches to bridging the remaining differences. Today, I would like to share with you our further thinking on the five key problem areas and, in particular, address some possible solutions to the remaining problems.

Definition of Bank

The definition of "bank" is a crucial provision of the Bank Holding Company Act. It defines those institutions that are covered by the act, and for them the boundaries for the safeguards against excessive risk, conflicts of interest, and concentration of resources deemed appropriate as a matter of public policy. The application of these policies depends upon a meaningful definition that encompasses all depository institutions that perform essential banking functions.

Marketplace, technological, and regulatory developments have seriously undermined the present definition, which defines a bank as an institution that accepts demand deposits and makes commercial loans. Functional evasion of the purpose of the act is becoming the rule rather than the rare exception through the creation of "nonbank banks" and other devices that permit combinations of banking activity and commercial, retail, insurance, and securities firms. As a result, established policies on conflicts of interest and concentration of resources are undercut or jeopardized. The same techniques are being used to undermine the congressional prohibition on interstate banking. The haphazard exploitation of "loopholes" in existing law is reflected in an understandable sense of competitive unfairness and could, in time, jeopardize the safety and soundness of the banking and payments system. The developments are broad in scope, as reflected in the tabulation in appendix A.[1]

To deal with this situation, last year we suggested a redefinition of the term "bank" to include any depository institution (other than an institution insured by the Federal Savings and Loan Insurance Corporation (FSLIC)) that (1) is insured by the Federal Deposit Insurance Corporation, (2) is eligible for FDIC insurance, or (3) takes transaction accounts and makes commercial loans. This definition was included in the proposed financial institutions deregulation act (FIDA) and was adopted in Senator Proxmire's bill (S. 2134) and a number of bills introduced in the House.

Our review of this proposal in the light of comments made at the hearing suggests consideration should be given to three changes. First, industrial banks that are not federally insured and do not offer deposit accounts with checking or other third-party transaction capabilities should be excluded. Appendix B describes these institutions and the scope of their activities.

Second, state-chartered thrift institutions (also described in appendix B), which are not federally insured and which would have been covered by the definition of bank described above, should be encompassed within the same holding company rules as federally insured savings and loan associations because of the focus of many of these state institutions on home lending. These institutions could be exempted from coverage by the Bank Holding Company Act if the relevant state regulator certified their activities were appropriately confined.

Third, the nonfederally insured thrifts and industrial banks that would be excluded from the coverage of the Bank Holding Company Act should be subject to rules that would prevent "tandem" operation—that is, joint sale of banking or thrift products or integrated operations—of these institutions with owners engaged in impermissible activities for bank holding companies. This limitation, on which we place considerable importance, is explained in detail in ap-

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

pendix C. Its basic objective is to prevent the kinds of tying that are judged to be unfair or unsound for depository institutions, including joint offerings of deposit products or loans with other products of affiliated industrial and commercial firms.

We believe that the Congress should not exempt the so-called consumer bank from the definition of a bank. Such a proposal is contained in section 104 of S. 2181, which would allow a consumer bank to take all forms of deposits, including transaction accounts, and make consumer loans, as well as a wide variety of other types of credit extensions, including some commercial loans.

Such an approach would permit commercial and industrial firms to enter into essential depository institution activities, including access to the payments system, in a manner that would inevitably undermine public policy objectives incorporated in the Bank Holding Company Act generally, and there would be the appearance of unfair competition with banks subject to the act. In such circumstances, the regulated banking sector would inevitably wither and much of the banking business would take place in institutions not subject to the policy restrictions on risk, conflicts of interest, and concentration of resources. The lengthening list of nonbank bank acquisitions demonstrates that we are beginning to see that migration today. In this connection, I would point out that 19 percent of commercial banks now have commercial loan portfolios (narrowly defined) equal to not more than 5 percent of assets and that 47 percent have 10 percent or less of their assets in this form. Thus, almost half of the number of commercial banks in this country could, with some minor restructuring of their portfolios, conduct basically the same activities as they do today and escape application of the policies of the Bank Holding Company Act.

Finally, I believe competitive equality requires that the recent and current proliferation of nonbank banks not be blessed by grandfather provisions, subject to a reasonable period of time to permit divestiture when this is necessary.

Definition of Qualified Thrift

Essentially the same problems of consistency with the public policy objectives of the Bank Holding Company Act arise when commercial and industrial firms acquire thrift institutions, particularly in the light of the broader powers provided such institutions in recent legislation. Indeed some state initiatives have provided state-chartered thrifts essentially the full panoply of banking powers and more. At the same time, there may be institutions with no restrictions on the activities of the parent firm, an ability to obtain long-term government-sponsored credit, favorable tax treatment, and a freedom to branch intrastate and interstate—privileges that are denied commercial banks. As in the case of nonbank banks, there has been increasingly clear recognition of the need to adopt rules to assure equality of treatment of various kinds of depository institutions exercising similar or overlapping powers. The need for action is reflected in the strong interest of a variety of financial and nonfinancial businesses in the acquisition of thrifts in order to benefit from thrifts' bank-like powers, to gain access to federal deposit insurance, and to participate in the payments mechanism.

The administration proposals attempt to deal with this question by requiring all thrifts, with certain exceptions for grandfathered service corporations, to meet the requirements of bank holding companies. This approach has been opposed mainly on the grounds that it is not necessary to apply the same rules applicable to bank holding companies to those thrifts that concentrate their assets in home mortgages. In an attempt to recognize these concerns, the concept of a "qualified thrift" has been developed, reflected in the proposals of both Senators Garn and Proxmire, to exclude thrifts truly specializing in residential mortgage credit from comparable rules to those limiting the scope of activities of bank holding companies.

We would support this general approach. Thrifts that meet an adequate "specialization" test rooted in the public policy concern of support for residential mortgage lending could be owned by commercial or industrial firms as unitary thrifts are now.

In developing the specifics of such an approach, we would endorse the recommendation of the Federal Home Loan Bank Board that an underwriter of corporate debt and equity not be permitted to own a thrift, whether or not it meets the qualifying assets test. We would also rely upon a single direct test of the proportion of assets held in residential mortgages or mortgage-backed securities. An optional test of limited commercial lending, such as not more than 25 percent of its assets in certain qualifying commercial loans, as proposed in S. 2181, would leave open the clear possibility that institutions not engaged substantially in home mortgage lending would retain the liberal treatment with respect to permissible activities now accorded to unitary savings and loans. For example, with such a test, 75 percent of all commercial banks today could be treated as thrifts because they have less than 25 percent of their assets in qualifying commercial loans; only six commercial banks would qualify under the part of the dual test of S. 2181 that requires 60 percent of assets in residential mortgages.

We believe an appropriate test would require that to be eligible for unitary savings and loan holding company treatment, institutions must devote at least 65 percent of their assets to residential mortgages or mortgage-backed securities. For this purpose, mortgages would include those on both one- to four-family and multifamily dwellings, mortgage-backed securities, mobile home loans, and loans for home improvements, including participation interests in such instruments. Based on this definition, according to our calculations, almost three-fourths of FSLIC institutions would currently meet this test. We also believe the limits on commercial lending set in the Garn–St Germain Act remain appropriate for federally chartered institutions, and in the light of the much wider powers provided by some states for commercial lending, a supplementary (not optional) limit on commercial lending could be considered for eligibility of these state-chartered institutions.

We recognize some S&Ls and mutual savings banks that could not meet the qualified thrift test currently, but that still wish to emphasize home lending and to retain the privilege of "unitary" S&L treatment, should be permitted a substantial period in which to conform their activities. During this transition period, which could be five to ten years, milestones should be set in terms of measuring progress toward achieving the required asset composition. While ownership by an industrial or commercial firm could be retained during the transition period and thereafter, we do not believe such thrifts should be permitted to operate in tandem with the parent commercial or industrial firms. (The details of this suggestion are outlined in the form of legislative language in appendix D. The description of the limitations on tandem operations is, as noted above, contained in appendix C.)

In general, under this approach, those thrifts (and their service corporations) not meeting the asset test (or in transition toward it) would have to conform to the limitations on ownership of, and powers provided to, bank holding companies generally. Special tax benefits and the access to long-term credit from the Home Loan Banks for these nonqualifying institutions should be reviewed. At the same time, methods should be developed to permit mutual institutions to take advantage of powers permitted bank or thrift holding companies in stock form.

Bank Holding Company Procedures

The third core element of legislation is the provisions on bank holding company procedures. S. 2181, S. 2134, and FIDA contain essentially identical provisions on this point, and I believe that this similarity reflects widespread support for procedural simplification.

These provisions make improvements in two major areas: they change the present, somewhat complex applications process into a notice procedure; and they put bank holding companies on more equal footing with their competitors by changing the "benefits vs. adverse effects" test and formal hearings requirements. Instead, new activities could go forward, after notice to the Federal Reserve Board, unless the Board found grounds for disapproval under specific statutory criteria. Those statutory tests include adequacy of financial and managerial resources, protection of impartiality in the provision of credit, and avoidance of adverse effects on bank safety and soundness.

The thrust of these provisions, and a provision reducing the scope for judicial review by competitors, is intended to reduce the burden placed upon bank holding companies by government regulation to a minimum level consistent with protection of the public policy interests embodied in the specified criteria. Agency procedures would not be burdened by formal hearings and judicial review at the instance of competitors. Formal rulemaking procedures would, of course, remain necessary before decisions to add new activities to the list of permissible holding company powers, and the Board could continue to request comment on notices and hold informal hearings, where necessary, to obtain information necessary to make decisions.

We also believe the new procedures set out in S. 2181, S. 2134, and FIDA provide the Board with adequate supervisory authority over the activities of the holding company and its nonbank subsidiaries after they are in operation. Those procedures would emphasize the desirability of relying upon other regulatory agencies, such as the Commodity Futures Trading Commission in the area of commodity brokerage and the Securities and Exchange Commission in the case of securities activities, for supervisory and reporting requirements in order to avoid unnecessary duplication of effort. However, the statute provides adequate authority to take whatever regulatory or data-gathering steps may be necessary to ensure compliance with the Bank Holding Company Act.

My conclusion is that these provisions adequately balance the need for reducing unnecessary regulatory burdens with the requirements for adequate supervision to enforce fully the provisions of the Bank Holding Company Act. These provisions seem to me ready for inclusion in legislation.

New Activities of Bank Holding Companies

The fourth element of needed legislation is expanded powers for holding companies. S. 2181 provides new authority for holding companies to do the following: (1) sponsor and distribute mutual funds and underwrite and distribute revenue bonds and mortgage-backed securities, (2) engage in real estate brokerage and development, (3) provide insurance brokerage and underwriting, (4) own a thrift institution, and (5) take part in other services of a financial nature.

Considerations of competitive equality and potential benefits to consumers of a broader range of suppliers of financial services strongly suggest a presumption broadening the range of powers permitted bank holding companies. The point is reinforced by technological developments that enhance the options in the delivery of such services. However, as I stressed at the outset, those objectives must be balanced against other public policy concerns: assurance of fair and open competition in the provision of credit and other services, maintenance of impartiality of banks in credit judgments, and avoidance of practices that can undermine the strength of the bank itself. Balancing these objectives is surely the most difficult task before you.

Certain of the proposed activities, including those involving essentially "agency" activities, such as real estate and insurance brokerage, raise few questions of safety and soundness. In certain other areas, such as real estate development, much more significant risks to the holding company, and potentially to the bank itself, arise. Questions about conflicts of interest and tying for a number of the activities have been discussed in detail by the witnesses that have preceded me in recent weeks.

Review of comments made during these hearings and other information has suggested a number of areas in which the committee might bridge differences by modifying or limiting earlier proposals. In particular, we have attempted to address carefully the safety and soundness and the competitive fairness considerations that appear to stand in the way of broad agreement on a substantial broadening of bank holding company powers. In my testimony today I would like to review each of the categories of proposed new activities in light of those considerations.

Securities Activities—Underwriting Municipal Revenue Bonds and Mortgage-Backed Securities, and Sponsoring and Distributing Mutual Funds. Both S. 2181 and S. 2134 would authorize bank holding companies to underwrite municipal revenue bonds and similar instruments and to sponsor and distribute mutual funds. The Board supports both of these activities, based on a considerable period of experience with bank underwriting of general obligation bonds and managing trust assets. The Board believes that these activities involve a manageable degree of risk for banking organizations and there is potential for substantial gain for customers in terms of a variety of services and lower costs.

At the same time, bank performance of these services has been opposed because of several concerns. One line of concern suggests that the provision of credit by a bank affiliate, or guarantees of underwritten obligations by bank affiliates, would provide a distinct advantage to bank-affiliated underwriters, or that temptations to link underwriting and loan business would be strong, to the potential detriment of the bank or its customers. It is alleged that investment flows might be influenced by the bank's interests, or that poor investment or underwriting performance by a holding company affiliate might reflect adversely on the bank itself.

We approach these arguments with some care, taking account of the fact that bank underwriting of corporate securities is not proposed and of the rather successful coexistence of bank-affiliated and independent underwriters of municipal general obligation bonds. Moreover, S. 2181 and S. 2134 already contain a number of provisions specifically designed to promote competitive equity and limit risk to affiliated banks.

Those bills already require that all securities activities of the holding company, including its subsidiary banks, be conducted in a separate holding company affiliate. The affiliate must be separately capitalized in a manner comparable to similar firms not affiliated with a bank holding company. The present rules contained in section 23A of the Federal Reserve Act, and the proposed new section 23B, would limit intercompany transactions and require that they be on market terms. All these provisions provide fundamental protections against conflicts of interest and unequal tax and regulatory treatment.

Nevertheless, a cautious approach in this area is justified, and a number of suggestions proposed by others to assure competitive equity and avoid conflicts deserve attention. Thus, it may be reasonable to prohibit a securities or investment company affiliate of a bank holding company from using the name of an affiliated bank or bank holding company (in the interest of appropriate disclosure, an indication of company affiliation should be permissible). It may also be desirable to require that the officers and employees of a securities affiliate or investment company advisor be separate from those that operate an affiliated bank, and that information on the financial activities of the bank's customers not be made available to the securities affiliate and vice versa. Banks might be prohibited from guaranteeing or providing letters of credit to support obligations that are underwritten by a securities affiliate.

So far as mutual funds are concerned, the existing provisions of the Investment Company Act, together with the applicable suggestions above, appear generally adequate to assure independent investment judgment. However, those provisions could be reviewed to determine if any other special provisions are necessary to assure independence from the bank affiliate.

I have noted in earlier testimony a trend toward conglomerates of financial services, and toward the explicit or implicit tying of various financial products by financial conglomerates not including banks. To assure competitive equality, I believe that restrictions of the kind I have described above, if adopted, would need to be accompanied by provisions giving the Board certain discretion in their application should nonbank conglomerates develop combinations of services prohibited bank holding companies.

Questions have also arisen over bank holding company participation in brokerage services. The Federal Reserve, as you know, has permitted "discount" brokerage—that is, the passive provision of brokerage services without investment advice—under present law. Because that ruling is under court challenge, we believe it should be explicitly provided for in the proposed legislation. You may wish to review, however, the further question of the appropriateness of combining such services with investment advice—that is, providing a full range of brokerage services—within the framework of a bank holding company.

The mortgage market is being transformed by innovations in communications technology and in marketing techniques. Banking organizations are major mortgage lenders and are familiar with the credit analysis and have other expertise necessary to establish mortgage pools and evaluate the underlying risks of the constituent elements in the pool. They can already underwrite mortgage bonds guaranteed by the government or sold by government-related agencies.

What is at issue here is whether a bank affiliate should be permitted to underwrite private securities. Should the authority be confined to securities backed by one- to four-family mortgages, potential risks would be substantially defused. Risks and conflicts of interest in bank holding company participation in underwriting in those circumstances would appear to be manageable within the confines of the antitying rules already contained in present law and in S. 2181. As in other areas, however, questions of competitive equity have been raised, particularly in view of the ability of depository institution holding companies to provide, through their subsidiary banks, guarantees or letters of credit to support mortgage pools established and underwritten by securities affiliates. The appropriateness of combining those two aspects of financing services could be reexamined.

In summary, we believe adequate techniques are available to satisfy legitimate concerns about bank holding company activity in the securities area, so long as corporate security underwriting remains prohibited. The potential benefits to competition in terms of reducing underwriting costs, in these circumstances, point to action along the lines proposed by the administration, and by Senators Garn and Proxmire.

Real Estate Brokerage and Development. As I suggested earlier, the main issue in providing authority for bank holding companies to engage in real estate brokerage is not risk but potential conflicts of interest and problems of competitive equity. It has been suggested that the ability of a real estate broker affiliated with a bank holding company to offer assured bank financing, or even the impression that such assured financing is available because of the ownership tie between affiliated broker and bank lender, could be sufficient to divert business away from the independent and toward the bank or thrift-affiliated broker.

As with the case of securities affiliates, limiting use by a holding company broker of the same name as the holding company or its subsidiary bank, strengthening the already strict rules against explicit or implicit tying, and enhancing enforcement through providing a private right of action could provide considerable protection against abuse. Possibly, a further step could be taken by prohibiting any mortgage loans by a subsidiary bank or thrift of a depository holding company to any customer of an affiliated real estate brokerage firm.

It should not be necessary—nor would it seem fair—to limit loans by a mortgage banking subsidiary of a holding company to the customers of the affiliated broker. Nondepository firms are today permitted to combine ownership of brokerage and mortgage banking subsidiaries. Of course, appropriate supervisory steps would and could be taken to prevent reciprocal lending arrangements or other steps to evade this limitation.

Smaller banks, without mortgage banking subsidiaries, might be put in a difficult competitive position by such a limitation. Consequently, such an approach might be accompanied by an exemption for smaller banks, reasonably related to a relative unavailability of competing brokerage services. It should be possible, for instance, to draw an analogy to provisions of title VI of the Garn–St Germain Depository Institutions Act of 1982, which permits bank holding companies to offer insurance brokerage services when they would otherwise be impermissible if their consolidated assets were $50 million or less, or in towns of under 5,000, provided a brokerage affiliate is required to permit or encourage a home purchaser to explore other possible sources of credit.

Technology is providing both independent brokers and those now associated with financial and retail conglomerates almost instant access to an array of providers of mortgage credit, enabling their customers to compare terms and conditions. In these circumstances, real estate brokerage appears to be an area in which bank holding companies can draw on relevant experience, undertake little additional risk (particularly if tie-ins are avoided), and increase competitive outlets.

In my past appearances before this committee, I have expressed serious concern about the potential risks and conflicts for bank holding companies under the general rubric of "real estate development." Those concerns remain.

Present proposals deal with those risks by limiting the capital a bank holding company could apply to real estate development activities or by prohibiting construction activity—limitations that should be reinforced by also limiting the leverage of the real estate development subsidiary. I would go further by urging you to consider: (1) confining "real estate development" to passive equity participation in projects or developments managed by others, and (2) limiting bank loans to projects sponsored by affiliates of a bank holding company.

The first change would be consistent with what we understand to be the basic objective of most bank holding companies in the real estate development area—to participate in the potential benefits accruing only to equity participants in a real estate project. To achieve this goal, the rather broad scope of the authorization for real estate development activities contained in FIDA or S. 2181 could well be narrower; for example, participation could be confined to investment vehicles such as nonvoting common stock, preferred stock, or limited partnership interests.

Some of those testifying have expressed concern about the competitive and risk implications of a bank, as lender, participating in a project in which an affiliate has an equity interest. They suggest that a bank in those circumstances will be more willing to extend credit, and to carry a weaker credit longer, to one of its "own" projects and perhaps be less willing to extend credit to competing projects, than if no equity interest is involved. To deal with this situation, it might be useful to provide the Board with clear discretionary authority to impose an aggregate or particular limitation on loans by a bank to projects in which a real estate affiliate of a bank is an equity participant.

Insurance Brokerage and Underwriting. Insurance brokerage by bank holding companies, as is the case with real estate brokerage, does not involve major issues of risk; rather, the focus of the testimony has been on assuring competitive equity between bank-affiliated brokers and independent distributors of insurance products. Thrift institutions already have unlimited authority to engage in insurance brokerage, and the broadening of this activity for bank holding companies should provide competitive benefits so long as abuse of the bank relationship is avoided.

S. 2181, in section 107, contains a number of new provisions that attempt to reduce tying and competitive inequity problems. It would, for example, require banks to inform their customers of the availability of insurance products elsewhere, allow customers purchasing insurance products from bank holding subsidiaries an adequate opportunity to reject their contracts, and prohibit banks and their holding companies from offering insurance until the customer is given a commitment that credit will be extended. It does not seem practically feasible to go much further in this area without destroying completely the ability of holding company organizations to participate in this activity. We would, however, suggest that to the extent the Congress deems these provisions necessary when financial institutions sell insurance, they should also be applied to thrift institutions and their holding companies, which are permitted to broker insurance without restrictions such as contained in title VI of the Garn–St Germain Act.

Consideration could also be given to possible approaches for phasing in greater bank participation in the insurance brokerage area. Again, it might be useful to build upon title VI of the Garn–St Germain Act, which permits bank holding company participation in insurance brokerage activities in cases when the holding company's consolidated assets are $50 million or less, in towns of 5,000 or less, or otherwise when the holding company demonstrates that existing insurance agency facilities are inadequate. For instance, those limitations might be gradually increased over time by some amount up to a limit, which would provide an occasion for further congressional review.

If bank holding companies are permitted to engage in underwriting, careful attention will have to be given to containing risk, avoiding concentration of resources, and more subtle conflicts of interest. For example, there may be particular lines of insurance underwriting that raise issues of risk that require special safeguards and limitations on such matters as the amount of capital investment. Moreover, I have earlier suggested that banks not be permitted to lend to companies in which their holding company affiliates had very substantial equity interests.

In order to limit the potential for concentration of resources associated with large bank holding companies acquiring large insurance firms or vice versa, S. 2181 would limit bank holding company investment in nonbanking activities to not more than 25 percent of the holding company's capital if the holding company's consolidated assets amount to more than 0.3 percent of total domestic deposits. However, our review of the data indicates that this test does not effectively limit the ability of some of the largest bank holding companies to acquire control of some of the largest insurance companies.

I recognize that our attempt to devise a numerical test of that kind must be arbitrary at the margin. However, an alternative approach could be to provide specific criteria on the size of bank holding company participation in insurance underwriting and insurance underwriter participation in banking. This could be done by requiring that bank holding companies enter insurance underwriting de novo or through relatively small acquisitions. Similarly, insurance underwriters would also be confined to de novo or foothold acquisition of banks. This approach would deal with the concentration issues, and it would provide time for the participants, the Board, and state insurance regulators to gain experience in dealing with combined insurance and banking entities.

An alternative approach would be to expand bank holding company participation in insurance underwriting in directions that flow naturally from existing bank functions. For example, it would seem appropriate for bank holding companies to participate in insuring or guaranteeing the credit risk in home mortgages and in real estate title insurance. Dollar limits on individual credit-related property and casualty insurance policies underwritten by bank holding company nonbank affiliates could be lifted. After some experience, the Congress could then consider other areas of insurance underwriting activity that might be appropriate as part of a gradual evolution of bank holding company insurance underwriting.

Ownership of Thrifts. S. 2181 specifically permits bank holding companies to acquire thrifts insured by the FSLIC, subject to the same kind of limitations on interstate acquisitions as are written in the Douglas Amendment and the same kind of branching restrictions on the acquired thrift as are contained in the McFadden Act. The Board has supported bank holding company acquisition of thrift institutions as a reasonable extension of the presently authorized scope of bank holding company activities. We recognize, however, that acquisition of thrifts by bank holding companies on an interstate basis may, in some situations, not be fully consistent with the prohibition on interstate banking contained in the Douglas Amendment. The Board has indicated its views that the Congress should, in the future, address the overall question of interstate banking in comprehensive legislation. However, pending congressional action on the overall question, the Board believes it is reasonable to incorporate Douglas- and McFadden-type limitations on thrift acquisitions that are proposed in S. 2181.

Financial Services. S. 2181 authorizes holding companies to engage in "services of a financial nature." This provision gives useful flexibility for the Board to deal with uncertain and unknown circumstances in the future. We recommend its inclusion in legislation.

The decision of the Congress on the inclusion or exclusion of the various activities that have been discussed above will provide some guidance on the intended scope of this provision. Additional guidance would be desirable with respect to other activities that the Congress might consider to be within the scope of this authorization.

Activities of State-Chartered Banks

Much concern has been expressed about possible authorizations to state-chartered banks of new authorities to conduct nonbanking businesses that would not be permitted to bank holding companies under present or new federal laws. It is reasonable to ask the question whether it makes sense for the Congress to work out carefully balanced arrangements for the conduct of nonbanking activities of bank holding companies only to see far different and inconsistent arrangements established for state banks under state law.

Some states have adopted, and others are considering, legislation to authorize state-chartered banks to engage in insurance, securities, and real estate development activities; and others have authorized state-chartered thrifts to engage in virtually unlimited activities. Last year, South Dakota authorized state-chartered banks to engage in insurance-related activities essentially in all of the states of the Union except

South Dakota. The states are motivated in part by a desire to make their financial institutions competitive with those in other states and in part by a desire to obtain new employment and revenues—inevitably at the expense of others. As the process gains momentum, more and more states will feel themselves forced, in self-defense, to take similar steps. The threat is obvious—any sense of congressional or federal control over the evolution of the banking and financial system will be lost.

S. 2181 attempts to deal with this problem by requiring that insurance activities be conducted in the state and outside the state on the same terms. S. 2134 would go considerably further by requiring that states may only authorize activities for state-chartered banks to be conducted within the state and for residents of that state.

In the light of current developments, it now appears desirable to go somewhat further than the provisions of S. 2134, while still maintaining flexibility for state experimentation and innovation. In balancing these considerations, perhaps it is desirable to distinguish between those activities that the Congress may decide to prohibit or limit for banking organizations because of safety and soundness problems, and those that arise from conflicts of interest that are particularly important for the protection of local customers.

For example, if the Congress reaffirms its decision to exclude banking organizations from participating in underwriting corporate debt and equity, and limits the participation of these organizations in real estate development, it would not seem to be desirable for the states to have the authority to overrule the judgment of the Congress and expose the insured depository system to the greater risks of these activities. On the other hand, if the Congress decides not to authorize real estate or insurance brokerage because of reasons of consumer protection and competitive equity, it would not seem inconsistent with the federal interests if state legislatures authorize banking organizations to participate in these activities within the confines of their own state. Here the state may be in the best position to make the judgment about what is necessary to protect local customers and local interests.

Thus, the balance between federal and state interest could be struck as follows: states may not authorize activities that the Congress has ruled out of bounds for safety and soundness reasons; the states may optionally authorize other activities but only if they are conducted within their borders. We would be prepared to assist the committee in drafting such a provision.

Other Provisions of S. 2181

My comments today have focused only on title I of S. 2181 as I believe it is that title that requires the priority attention of the Congress. Before my concluding remarks, I would like to comment specifically on the provisions contained in title X on regional interstate banking.

Title X provides specific authority, for a five-year period, for states to authorize regional interstate banking acquisitions. Such legislation would presumably resolve the question of the constitutionality of regional arrangements that have been authorized in New England and have been proposed in a number of other areas of the country. Yesterday, the Board approved two bank holding company mergers under the reciprocal arrangements of Massachusetts and Connecticut. Although there is a strong argument that these state laws are not consistent with the prohibitions against discriminatory burdens on interstate commerce established by the Commerce Clause of the Constitution, there is an absence of clear and unequivocal evidence to that effect. Consequently, the Board proceeded on the assumption of constitutionality and applied the criteria of the Bank Holding Company Act. But plainly, the differing constitutional interpretations raised by parties to merger applications demonstrate the need for congressional action to clarify this issue at this time.

We believe this is all the more important because of our concern about the permanent establishment of regional banking areas. If the Congress should decide to endorse regional arrangements, in our view it would be desirable to limit them to a transitional period. We would also urge you to consider the interstate banking question more broadly at an early date, once the powers issues are settled.

Conclusion

I cannot emphasize strongly enough the urgent need for definitive congressional action on the legislation now before you during the current session. Decisions cannot be postponed—the failure to act only means that others have acted and will continue to act, to markedly restructure the financial system without the participation of the Congress. These actions, arising out of market initiatives, state legislation, court decisions, and new federal regulatory rules, are pushing at the outer boundaries of the legal framework established by the Congress for the banking and financial systems. In my judgment, they are pushing beyond the basic policies established by the Congress in setting out a broad distinction between banking and commerce.

I am not speaking about theoretical concerns. The policies of the Bank Holding Company Act against excessive risk, conflicts of interest, impartiality in the credit-granting process, and concentration of resources have long been considered essential parts of our financial system. They are now being undermined by a haphazard pattern of interindustry and interstate acquisitions and by new combinations of banking, securities, insurance, and commercial products.

The Bank Holding Company and Glass-Steagall Acts were intended to prevent combinations of firms that underwrite securities and take deposits. Yet today there are 32 securities firms that own so-called nonbank banks that can perform many of the essential functions of banks. Court and regulatory decisions are opening new avenues for bank holding companies to undertake securities functions without clear legislative guidance.

The Bank Holding Company Act was intended to prevent combinations of commercial or industrial firms from owning banks, yet today there are retailers, diversified industrial-commercial conglomerates, and insurance firms that own either nonbank banks or thrifts with banking powers.

The states are rapidly considering and adopting legislation granting state-chartered banks powers that, in some cases, have not even been contemplated under federal law for banks and bank holding companies, in large part reflecting interstate competition for jobs and tax revenue rather than any judgment of the national interest in a stable banking structure.

The federal financial regulators are also pressing against the outer boundaries of their delegated authority. The Board has adopted the broadest definition of the term bank that it felt was feasible under existing law in an effort to carry out what it believes to be congressional intent and to preserve the ability of the Congress to act without being faced with a *fait accompli*. That action is being challenged in the courts with, thus far, unfavorable results. The SEC has before it a proposal to consider banks as broker–dealers when they engage in discount brokerage, despite the exclusion of banks from the securities laws because of the comprehensive system of bank regulation. Under existing law, the FDIC is considering the question of whether state nonmember banks should be authorized by regulation to underwrite corporate debt and equity, despite long-presumed congressional intent to separate commercial banking and corporate underwriting. The Comptroller has before it a well-known proposal to authorize a family of "nonbank" national banks in 25 states. We have been compelled to approve the establishment by a New York bank holding company of a nonbank bank in Florida, which would take demand deposits but not make commercial loans as we have broadly defined them.

As things now stand, many of these specific issues will be decided on a case-by-case basis in the courts—but we cannot expect those decisions to be guided by a policy perspective on how the financial system as a whole should evolve. That, in the end, is the task of the legislature, not of the courts, which must struggle to adapt today's circumstances to yesterday's laws. Until all of us—the regulators, the banks, other competing industries, and the courts—have more congressional guidance, every new decision will be subject to legal challenge.

If the Congress does not decide, decisions will still be made. But they seem certain to be conflicting, and not to fit into a coherent whole. One clear risk is that the overriding public interest in a strong, stable, and competitive financial system will be lost.

The time for action is here. Many elements of comprehensive legislation are already broadly accepted. I believe the remaining elements and the necessary compromises can be put together soon. I hope and believe this committee can be the vehicle for moving ahead. □

Statement by Nancy H. Teeters, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Consumer Affairs and Coinage of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, March 27, 1984.

I am pleased to appear before you this morning to present the views of the Board of Governors on the issue of whether the Truth in Lending Act should prohibit merchants from charging higher prices to credit card purchasers than to cash purchasers through the use of a "surcharge."

As you know, the purpose of the Truth in Lending law, which was passed in 1968, is to provide for a uniform disclosure of the cost of credit to consumers through the identified "finance charge" and "annual percentage rate." As a result, the act originally required that any differential between the price charged in a cash transaction and that charged in a credit transaction be treated as a cost of credit and included in the finance charge and annual percentage rate.

This requirement, as well as state disclosure and usury laws, however, was viewed in subsequent years as an obstacle to merchants wishing to implement two-tiered pricing systems for cash and credit card customers—that is, establishing two prices for property or services, a lower price for customers paying cash and a higher price for customers paying with a credit card. Consumer groups argued that the fee imposed on merchants by credit card companies was being passed on in higher prices to all customers.[1] As a result, it was argued that cash customers were being forced to subsidize credit customers when they were required to pay the same price for an item. Two-tiered pricing systems were thus viewed as potentially beneficial to consumers as a means of eliminating the subsidy.

The Congress responded to this concern and sought to eliminate this subsidy by removing the Truth in Lending and state law obstacles to merchants offering lower prices to cash customers. It amended the federal act in 1974 to provide that discounts for cash need not be considered finance charges for purposes of Truth in Lending. There was, however, a great deal of uncertainty after that action as to whether the Congress intended to permit additions to prices for credit card customers (surcharges) as well as reductions in prices for cash customers (discounts). In response, the Congress in 1976 prohibited the imposition of surcharges—that is, adding an amount to the regular price of an item when it was sold to credit card customers.[2] At the same time, the Congress responded to the concern that state disclosure and usury laws presented an obstacle to discount programs by preempting them to the extent that those laws treated discounts as finance charges.

However, because of some uncertainty as to the effect of the surcharge prohibition, it was originally scheduled to expire on February 27, 1979. Subsequently, the ban was extended until February 27, 1984. The principal reason for the temporary nature of the surcharge prohibition was to allow the Congress to study the issue more thoroughly. The Congress wanted to determine whether there is, in fact, a higher cost associated with the use of credit cards; whether cash customers do, as a result, subsidize credit customers; and whether it is necessary to allow surcharges as well as discounts in order to eliminate any subsidization. When the prohibition was last extended in 1981, the Board was directed to prepare a report on the effects of credit cards so that the Congress would have a basis for making a permanent decision regarding surcharges. The report was to discuss the impact of credit cards on the costs that merchants incur, on the pricing of goods and services, and on retail sales volume.

The Board submitted its report in July 1983. Appendix A contains a more detailed summary of the results, but these are the main findings:[3]

• The costs to retailers of credit card transactions (including point-of-sale, security-related,

1. The charge assessed by a credit card company on a merchant's credit card transactions is often referred to as the "merchant discount." If a merchant accepts a credit card for a $100 purchase, for example, the merchant might be assessed a 3 percent fee, thus receiving only $97 when the transaction is processed by the credit card company.

2. In amending the act the Congress defined a discount as a reduction in the regular price and a surcharge as an addition to the regular price. The "regular price" was not defined, however. In order to allow merchants to determine whether their programs involved discounts or surcharges, the Board by regulation defined "regular price." This definition was made part of the act in 1981.

3. The appendixes to this statement are available from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

and financial costs) are higher than the costs for other types of transactions. The extra cost is about 2 to 3 percent of the transaction amount.

- There is little evidence that credit card usage increases overall retail sales volume. Since credit cards are so widely accepted, retailers as a whole do not recover the added cost of credit card transactions through increased sales.
- The extra cost of credit card transactions (to the extent it is not recovered directly from credit card users) is reflected in retail prices. It appears that on average the price of a given item is increased by something less than 1 percent.
- About 25 percent of gasoline stations and 6 percent of other retailers offer discounts. Approximately 40 percent of all retailers surveyed believed that discounts for cash are "a good idea."

In finding that credit card transactions cost most retailers more than cash or check transactions, and that the additional cost is generally not offset by higher sales volume but is reflected in the price level, the report supports the conclusion that cash buyers, at least to some extent, subsidize credit card users when all customers pay the same price.

The finding that credit card transactions cost more than cash or check transactions is based on a survey of retailers about the relative costs associated with cash, check, and credit card transactions, as well as a review of other studies dealing with the costs of various means of payment. Two of the other studies, one by Payment Systems, Inc., (PSI) and one by Robert M. Grant, could be viewed as indicating that credit card transactions do not cost more than cash and check transactions.[4] We believe, however, that drawing this conclusion from these studies would be incorrect because of the limited cost factors considered in one of the studies and the assumptions made in the other. The PSI study looked at only point-of-sale and other handling costs among the three means of payment—cash, check, and credit card—and did not consider other costs associated with the transactions, most notably the merchant discount in credit card transactions. The Grant study, in order to conclude that the additional cost of credit card transactions was offset by a reduction in fixed costs due to increased sales, assumed that credit cards had resulted in a 20 to 30 percent increase in incremental sales revenues, an assumption that we find without basis and a position with which we disagree in our study.

The Board's study found that the additional cost of credit card transactions was between 2 and 3 percent of the transaction amount, and estimates the typical size of the subsidy to be between ½ percent and 1¼ percent of the total price. These findings appear to confirm the belief held by the Congress in 1974 that cash customers subsidize credit card customers. At the same time, the size of the subsidy may be smaller than many people had assumed, since the additional cost of credit card transactions is spread over all sales—both cash and credit. The relatively small size of the subsidy, as a percent of the price of a particular item, may help to explain why few retailers have seen fit to adopt two-tiered pricing systems; at the same time, the total amount of the additional cost due to credit card transactions and the total amount of the subsidy, in the economy as a whole, are probably large.

Of the many options available to the Congress, two are currently being considered in pending bills. One bill, H.R. 5026, would make the surcharge prohibition permanent, necessitating that two-tiered pricing be accomplished through discounts for cash. Under this approach, existing discount programs would be expected to continue, but there would be little reason to expect more to be offered in the future. The other bill, S. 2336, would discontinue the characterization of certain price differences as "discounts" and others as "surcharges." At the same time, by excluding the price differences from treatment as a cost of credit under federal and state laws, it would continue to encourage merchants to offer price differences to induce payment by cash instead of by credit card. The Board supports this approach, which, by no longer distinguishing between a "discount" and a "surcharge," might promote additional two-tiered pricing.

Our position is based on the proposition that discounts and surcharges are fundamentally equivalent, as well as on a number of practical considerations. First, while advocates of dis-

4. Payment Systems, Inc., *Cost of Cash: A Strategic Analysis*, Atlanta, 1981; Grant, Robert M., "Transaction Costs to Retailers of Different Methods of Payment. Result of a Pilot Study." Processed. Report prepared at The City University, London, 1982.

counts have claimed that discount programs result only in price reductions for cash buyers, without penalizing credit card users, economic reality is such that prices generally will be restructured so that the "new" credit price is above—and the discounted cash price only somewhat below—the "old" single price. The Board's study indicates that if discount programs are to be economically feasible, most are likely to involve some increase in the price, from which discounts to cash customers are calculated. In fact, two-tiered pricing through discounts ordinarily would result in essentially the same level of credit and cash prices as would a surcharge program. (This is discussed in more detail in Appendix B.)

Second, allowing two alternative methods of pricing may provide merchants the flexibility they need to offer more of the two-tiered pricing that the Congress is trying to encourage. Although 40 percent of the retailers surveyed by the Board considered cash discounts a good idea, only 6 percent actually offered them. This low figure may mean that merchants find discount programs too difficult to administer. Another possible explanation is that the similarity between discounts and surcharges has caused confusion among merchants about the difference between a permissible discount and an illegal surcharge—as evidenced by many inquiries the Board has received about the distinction. This uncertainty about the law may have discouraged merchants from offering discounts. If the lack of two-tiered pricing is related to either or both of these factors, then there is some hope that permitting both pricing schemes might promote the result the Congress originally hoped to achieve.

A third consideration concerns the claim made by some opponents of surcharges that allowing both types of two-tiered pricing will lead to consumer confusion in a marketplace in which some merchants offer discounts and others impose surcharges. While the possibility of some initial confusion certainly exists (much like the confusion that accompanied the introduction of discount programs at service stations), we do not think the problem would be major because merchants would still be required to disclose their policies. In addition, the Board believes that competition and the merchants' desire for customer goodwill would lead them to make clear to their customers what their pricing practices are. Furthermore, there is at least one type of problem with discount programs that would not exist with surcharges. Some reports indicate that cash customers have not always received the discounts to which they were entitled; this has occurred, for example, when customers believed that the posted price reflected the discount, when in fact it did not.

Although the Board believes that merchants should be free to charge different prices without having to characterize the difference as a cash discount instead of a surcharge (a requirement imposed by the previous ban on surcharges), it believes that the limitations found in the Senate bill are appropriate. First, the Board agrees that, in any two-tiered pricing system, the price difference that is excluded from truth in lending requirements and state disclosure and usury laws should be limited to 5 percent of the cash price of the property or service. Any difference in the price charged to cash customers and to credit customers is a cost of credit and normally would be viewed as a finance charge. In the case of a price difference to induce customers to pay by cash instead of by credit card, however, the Congress chose to make an exception to encourage merchants to eliminate the cash customers' subsidization of credit card customers, even though it sacrificed some accuracy in the credit cost disclosures and in the protection offered by state usury laws. Since this provision involves a trade-off with the goals of the Truth in Lending Act and state laws, we think some limits are appropriate. Furthermore, we think the 5 percent limit would not keep merchants from offering price differences related to the extra cost of credit card transactions. The Board's study indicates that the fee imposed by credit card companies on merchants averages 3.1 percent (with an average of 4.1 percent for small businesses), well within the 5 percent limit. In addition, most cash discounts now being offered are in the neighborhood of 3 to 5 percent.

Second, we agree that the two-tiered pricing provision should be limited to credit cards as it is in the Senate bill. The purpose of the original exception, in fact the only focus of the discussions over the years, was to provide a means to remove the extra cost of credit card transactions from the price charged to the cash customer.

However, in 1981 the Congress changed the language of the act to provide special treatment for discounts not only in credit card transactions, but in all open-end credit transactions. The Board believes that since open-end credit transactions not involving a credit card do not generally result in a "merchant discount," this special treatment for discounts may have been an unwarranted extension of the provision and could further undercut the accuracy of the Truth in Lending disclosures and the effectiveness of state laws.

I appreciate the opportunity to address the subcommittee and hope that our testimony will be of assistance in your efforts to deal with this difficult question. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, April 4, 1984.

I appreciate the opportunity to appear before this subcommittee to review with you a wide range of issues affecting developments in markets for banking and other financial services.

I have repeatedly expressed my conviction that the Congress should move with a sense of urgency to reform the existing legislative framework governing banking organizations. We need assurance that the powerful forces of change in the marketplace for financial services are channeled in a manner consistent with the broad public interests at stake—the need to maintain a safe and sound financial system, to assure equitable and competitive access to financial services and credit by businesses and consumers, and to preserve an effective mechanism for transmitting the influence of monetary, credit, and other policies to the economy. The simple fact is that assurance is lacking today. Quite to the contrary, we have a system that is changing, helter-skelter, in response to a variety of economic and other forces, but with little sense of the public policy issues at stake.

The process has emerged over a number of years, but it is accelerating. Much of the change is, in fact, a constructive response to technological and market pressures and the opportunities made possible by deregulation. New combinations of firms in the financial area, new services, and new packaging of older services can be vehicles for responding more effectively to consumer needs and new communications technology.

What is so disturbing is not that change is taking place. Rather it is that much of the activity we see is forced into "unnatural" organizational forms by provisions of existing law and regulation, and that some of the fundamental concerns that motivated those laws and regulations are being lost or overlooked without considered judgment about the continued validity of those concerns. The old laws and rules may or may not serve today's purposes; in some instances, they may themselves be a source of distortions, competitive imbalance, and weakness. But deregulation by fiat, by exploitation of loopholes, and by diverse actions taken by individual states is hardly an appropriate response, and threatens to undermine and render ineffective federal oversight of banking. For all these reasons, I appreciate the opportunity to review with you some general considerations that we at the Federal Reserve feel are relevant in assessing what legislative steps are necessary and desirable.

THE CURRENT SITUATION

The accelerated pace of change in the structure of our financial system grows out of several developments. New technology has led to computerization of banking services and has made it easier for institutions to provide those services or to combine several services. Business and consumer experience with inflation and related high interest rates of the late 1970s and early 1980s has increased the premium on moving money flexibly. Deregulation of interest rate ceilings on liabilities of depository institutions has spurred efforts by those institutions to attain new asset powers and new sources of income. Nonbanks have sought ways to enter the banking business to gain access to insured deposits and the payments mechanism.

There have been numerous reactions to the forces driving change I have just mentioned. We see new combinations of financial institutions and new services—the rapid growth of the money market mutual fund and, more recently, an explosion in brokerage of insured deposits, are leading cases in point. There is the phenomenon of so-called "nonbank banks," providing a vehicle by which financial and nonfinancial firms can enter the banking business outside the framework of law and regulation surrounding bank holding companies, and actually or potentially violating the policy proscriptions of combinations of banking and commerce. There is a blurring of distinctions among depository institutions themselves, with some thrift institutions increasingly assuming the characteristics of commercial banks. At the same time, states are enacting banking and thrift legislation that is much more permissive than federal law; a narrow purpose is often evident—to attract institutions and new employment opportunities—rather than broader judgments about sound national policy.

New and sometimes conflicting federal regulatory initiatives seek to facilitate changes or to maintain congressional intent, but those approaches are circumscribed and often rendered ineffective by the outmoded character of the basic legislation. As a result, legal challenges through the courts to stop or speed the process, depending upon the particular private interest concerned, are proliferating, and the court rulings themselves are not guided and informed by any fresh indications of congressional intent.

All of this has naturally been reflected in an unusual sense of uncertainty and uneasiness among the affected institutions themselves. After decades of stability in the relative position of commercial banks in our financial system, owners and managers of those institutions feel their position threatened by a situation in which they remain heavily regulated but in which other financial or nonfinancial firms can perform basic banking functions. That is one reason why banks are driven to exploit "loopholes" in legislation designed to limit their activities or to turn to state legislatures.

Concerns of the thrifts as to how they could survive in the highly competitive environment have also been acute. In part because of the large portfolios of fixed rate mortgages acquired at lower interest rates, they have been under particularly strong earnings pressure and their capital positions have eroded. With their future prospects seeming in jeopardy, the whole orientation of the industry is in a state of flux. Some individual institutions respond to immediate concerns and earnings pressures by taking greater risks, and others are turning away from their traditional role oriented toward housing finance—a role that through the years has been the justification for special benefits provided by federal law.

Deposit-like instruments and payments services are springing up in significant volume partially or wholly outside the framework of governmentally protected and supervised depository institutions. Depository institutions themselves have today—in this highly competitive environment—a potentially more volatile structure of liabilities and smaller capital cushions than in the past, and there are strong incentives to take advantage of the most liberal (or least binding) legal and regulatory philosophies and frameworks—between thrifts and banks, between federal and state laws, and potentially even among federal regulatory authorities. Such anomalies in the structure of our regulatory system—and challenges to long-standing regulatory and legal interpretations—are quickly eroding traditional constraints intended to separate deposit taking from other activities.

As regulators and legislators concerned with the public interest, our task is not to block responses to real needs in the marketplace. But I do believe we have a responsibility to see that change is channeled along constructive lines and sensitive to abiding and valid concerns of the public interest.

Left unattended, there is no assurance that the process of change now under way will adequately address these concerns. In fact, it is clear that some of these concerns are being violated as market pressures and competitive instincts play against an outmoded legal and regulatory structure. The longer we postpone difficult decisions about the direction in which change should be encouraged or discouraged by public policy the more difficult those decisions will ultimately become, and the greater the risk that continuing policy concerns—including the safety and soundness of the banking system—will be undermined.

GENERAL CONSIDERATIONS

The continuing goals of public policy in this area are easy to summarize:

- We want to encourage competition in the provision of banking and financial services;
- We want to promote efficiency and minimal cost;
- We want to protect against discrimination, conflicts of interest, and other potential abuses;
- We want equitable and consistent treatment of competing financial institutions; and
- We want a strong and stable banking system, implying continuing attention to safety and soundness of banks.

These "core" goals in some circumstances may be in conflict or point to different approaches. In normal circumstances—and in most industries—it may be enough to look to the marketplace to promote competition and efficiency. But when safety and soundness, broad confidence in banking institutions, and continuity in the provision of money and payments services are at stake, competition alone cannot be relied upon to achieve the goals. In recognition of that fact, the creation of the Federal Reserve and federal deposit insurance systems—both the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC)—have long been accepted as important elements in a "safety net" supporting depository institutions. And the existence of that safety net, and the special privileges it implies, is naturally matched by burdens and responsibilities not shared by other institutions in our society.

The need to protect the integrity of the payments system deserves special attention. In seeking an overall balance between protections and restrictions for banking institutions, we can and should avoid placing depository institutions at a competitive disadvantage relative to others. To do otherwise would be to erode the vitality and strength of the very sector of the financial system deemed of special importance to the economy. To the extent that other institutions—financial or nonfinancial—operating outside the protected, regulated framework nonetheless tend to perform the essential function of banks, there are several alternatives. We can encompass those institutions within a basic framework of supervision and regulation designed to assure safety and soundness and competitive equality (such as regulation as bank holding companies or application of reserve requirements on all types of transaction balances). We can, if consistent with other objectives, relieve the regulatory burden on banks (such as streamlining bank holding company applications procedures and paying interest on reserves). Or, we can confine the performance of essential banking functions (such as third party payments and direct access to the clearing mechanism or the coverage, implicit or explicit, of deposit insurance) to banks alone. In practice, some or all those approaches can be adopted.

BANKS AND THEIR REGULATION

The regulation of banks, and the related "safety net," has long reflected their critical role as operators of the payments system, as custodians of the bulk of the liquid savings of the country, as essential suppliers of credit, and as the link between monetary policy and the economy. In that connection, I must emphasize that individual components of the banking and payments systems are, to a large extent, dependent on the health of other elements. Adverse developments here or abroad affecting one institution, particularly of substantial size, can dramatically and suddenly affect other institutions, some of whom may not even have a business relationship with the institution in difficulty. While secondary and tertiary effects are, of course, present in some degree in the failure of any business firm, seldom will the effects be so potentially contagious or so disruptive as when the stability of the banking system or the payments mechanism is at stake. At such times, serious implications for overall output, employment, and prices—indeed, for the entire fabric of the economy—are apparent.

The first and most important line of defense is the interest of banking institutions themselves in maintaining the confidence of their customers. But long ago, in establishing the Federal Reserve System, the FDIC, and the FSLIC, the government determined that normal market incentives and protections needed to be supplemented by an official support apparatus. Ironically, the confidence and related competitive advantages engendered in the public by that support apparatus can, over time, induce greater risk-taking by the depository institutions that benefit from it. That is one reason why I believe a comprehensive system of examination, supervision and regulation, limitations on permissible activities, and insurance premiums will remain necessary.

The practical and ongoing issues in this area, it seems to me, do not involve a wholesale revolution in past approaches, but a reexamination of the appropriate balance—the balance between desirable risk-taking and safety, and the balance among competing depository and nondepository institutions—in today's market circumstances.

One important area that is beginning to receive attention is the appropriate structure of deposit insurance. The insurance agencies are rightly concerned about the proliferation of insured brokered deposits, which have been particularly important in the case of a number of failing institutions and those characterized by aggressive risk-taking, and the unintended effect such activity may have on both the insurance funds and structure of depository institutions. I share the concerns of the FDIC and FSLIC. The Federal Reserve Board has taken the position that legislation to permit regulatory agencies to set a cap on such deposits—at a low level tied to some ratio of deposits or capital—would be an appropriate approach. Absent such legislation, I support the action taken recently by the insurance agencies to limit severely insurance protection of brokered deposits. Developments in this area are one example of how the marketplace can respond to one element of government intervention—in this case deposit insurance—in a manner that can, despite some immediate benefits, have unintended and undesirable effects on the banking system or the regulatory system generally. More generally, recognizing that deposit insurance has become such an important element in the support apparatus for depository institutions, substantial change requires careful assessment of the possible consequences.

Bank Holding Company Regulation

Concern with the activities of organizations encompassing banks cannot stop with the bank itself. The restrictions long applied to bank holding companies are importantly rooted in prudential considerations; experience strongly suggests the difficulty of insulating a bank from the problems of a company affiliated with a bank through a holding company. To be sure, the fortunes of the bank and its affiliates can be (and are) separated to a degree by restrictions on the transactions among them. But I doubt that the insulation can ever be made so complete—at least without defeating the business purpose in the affiliation—as to rely on those rules alone. The holding companies themselves, the securities markets, and the general public tend to look upon affiliates as part of a larger whole.

Other concerns—potential conflicts of interest and concentration of resources, particularly through extensions of credit by the bank to customers of the nonbanking subsidiaries—can also be addressed by law or regulation. But again, insulation is not likely to be complete at all times.

At the same time, segregating nonbanking activities of a bank holding company outside the bank itself can provide important advantages. To some degree, the bank may be shielded from the activities of other elements of the holding company. Segregation from the banks should, in any event, make it easier to assure regulatory consistency and competitive equity between nonbanking affiliates of a bank holding company and other businesses providing comparable services.

Regulations specific to nonbanking activities may not always reflect certain important prudential concerns of bank supervision; to that degree, nonbanking activities conducted by banking organizations may appropriately be subject to rules or surveillance by banking regulators. Conversely, when bank holding companies engage in nonbanking activities, we should seek to avoid competitive advantages arising simply from the association with a banking institution able, implicitly or explicitly, to draw upon government support. One consideration in this regard is the capitalization of the nonbanking activity. The higher degree of leverage common in banking should not automatically extend to nonbanking activities; capitalization of the nonbank subsidiaries should broadly reflect that required of nongovernmental protected competitors by market forces and other regulatory agencies, federal and state. Indeed, adequate capitalization of a bank holding company as a whole, taking account of the particular nature of the nonbanking activities, is important to the safety and soundness of the bank.

In the end, the appropriate range of activities for a bank holding company should remain, in my judgment, a matter for determination by a balance of public policy considerations; it should not be solely a matter of market incentives, and some degree of supervisory oversight over the activities of the holding company as a whole will remain important. The traditional presumption has been that there should be some separation of banks from businesses engaged in a general range of commercial and industrial activities, and vice versa. That presumption still seems to me a reasonable starting point in approaching particular questions. At the margin, that separation will be arbitrary, but in a broad way it reflects legitimate and lasting concerns about risk, about potential conflicts of interest between a bank as owner of a nonfinancial firm and as an impartial provider of credit to the community, and about the dangers of excessive concentration of economic power. Moreover, to the degree that affiliation with a bank implies the need for some regulatory or supervisory oversight, practical and desirable limitations on the reach of such regulation into industrial and commercial activities implies some limitation on the scope of bank holding company affiliations.

Within this general framework, the precise line dividing what ought to be permissible for banking organizations to do and what should be proscribed does need reexamination in the light of current market conditions, changes in technology, consumer needs, and the regulatory and economic environment. Some activities now denied banks would seem natural extensions of what these institutions currently do, involving little additional risk or new conflicts of interest, and potentially yielding significant benefits to consumers in the form of increased convenience and lower costs. For some time, for instance, the Federal Reserve has suggested that banking organizations be allowed to underwrite municipal revenue bonds and establish and distribute mutual funds. Certain brokerage activities have already been approved within existing law, as have a wide range of data processing services.

Other activities seem ripe for and are being given consideration by other congressional committees. One general category would be further extension of "brokerage" or "agency" activities, including sales of a variety of real estate, insurance, and travel products. Insurance underwriting, currently limited largely to credit-related insurance, is being considered within a framework that limits concentration of resources and risk to the banking organization taken as a whole.

Some activities that have been discussed raise considerably greater questions in my mind primarily because of risk, but also because possibilities of conflicts of interest or concentration of economic resources might not be contained without the most elaborate and self-defeating kinds of regulation. Corporate securities underwriting, some forms of real estate development, and, more generally, significant equity positions in unrelated nonfinancial activities fall into that category.

In any event, to the extent that regulation is needed, the goal should be to minimize the costs and burdens of regulation, consistent with the public interest. For example, experience has convinced us that some of the present procedural requirements for bank holding company applications under the Bank Holding Company Act can lead to unnecessary delay. The Federal Reserve Board has gone as far as it feels it can, consistent with present law, to speed up procedures and lessen regulatory burden. Specifically, present statutory requirements for approval of nonbanking activities could be modified to permit simpler "notice" procedures, with a presumption of approval unless there is a judgment that "safety and soundness" and similar considerations are adverse. Such recommendations have been made in legislation supported by the administration and in bills already introduced in the Senate, and they appear to have broad support.

CONSISTENCY IN BANK–THRIFT REGULATIONS

The observation that thrift institutions have essentially become bank-like institutions is indisputable with respect to the powers they are allowed to exercise and increasingly accurate with respect to the powers they do exercise. Moreover, in important instances powers available to thrift institutions extend well beyond those available to banks and call into question the separation of banking and commerce now applicable to banks. Considerations of competitive equity alone would seem to dictate that the special privileges and restrictions of banks and thrifts be brought into a more coherent relationship.

Anomalies go beyond considerations of competitive equity. The kind of considerations I just reviewed with respect to the powers of banking organizations cannot be valid for commercial banks alone; limitations on bank holding companies could not be effective to the extent thrift institutions could simply substitute as a vehicle for combining various activities. I recognize that there are difficult questions posed by the firms that already have operations on both sides of the line between commerce and "thrift banking," but some way needs to be found to resolve these questions and establish a firmer policy for the future if we are to bring about a rational structure in this regard.

The implication is not that all thrifts and their holding companies must be regulated in all ways like commercial banking organizations. There are ways of adequately defining a thrift institution that would allow us to achieve necessary functional consistency and assure the integrity of our policy intent, while still permitting the special benefits provided by law for institutions truly concentrating on residential mortgage lending. Various asset tests have been suggested for eligibility for treatment as a "unitary" savings and loan holding company—a minimum percentage of assets in residential mortgages and mortgage-backed securities or such a test in combination with a supplemental test of a maximum of assets in commercial loans.

The interest of investment companies, securities firms, and commercial companies in acquiring savings and loans suggests that an asset limitation too broad in nature would not deter substantial nondepository participation in deposit taking and payments services. Specific limitations on such acquisitions—similar to those limiting their acquisitions of banks—appear necessary if the basic prohibitions of the Glass–Steagall Act against combining commercial banking and the underwriting of corporate securities are to remain valid.

Federal-State Regulations

For over a century this country has maintained a dual system for the regulation and supervision of banking. On the whole, this dual banking system has played a useful and constructive role in encouraging innovation in the financial regulatory environment and in helping to accommodate local differences in the needs of banking organizations and their customers.

The system has worked as well as it has because the goals and techniques of regulation were commonly shared, and the divergences between federal and state systems were kept within tolerable bounds. As I mentioned earlier, this commonality of goals appears to be breaking down, as states consider expansions of powers for banks and thrifts—to attract institutions and jobs—that go far beyond standards allowed by federal law. Yet, they would still rely on the federal safety net for their state-chartered institutions.

Recent developments strongly point to the need to provide a new framework for the dual banking system. We need an arrangement for the exercise of the discretion of states in authorizing new powers for state-chartered banking institutions without that discretion being pushed to the point of undercutting vital national policies. Otherwise, to the extent the Congress, in the national interest, finds it necessary to circumscribe the activities of depository institutions and their holding companies, such limitations will be rendered null and void over time by unrestrained state action.

For example, we at the Board, in view of existing law and expressions of congressional intent, and with the knowledge that the matter is currently under intensive congressional review, have recently indicated that we could not approve the acquisition of state-chartered banks by bank holding companies with the apparent intent of undertaking, under relevant state law, widespread insurance activities beyond the state in which the bank is chartered. This is one illustration of an area in which the Board needs congressional direction in setting appropriate guidelines.

In the area of securities powers, the Glass–Steagall Act presumably was originally intended to apply to virtually all banks. However, even in this case the statutory framework needs to be examined because, as a result of changes in law in the late 1930s regarding the requirement of Federal Reserve membership for all insured banks, the question has arisen whether certain sections cover state-chartered nonmember banks. In fact, the FDIC has a proposed rule that would permit holding companies with state nonmember banks to engage in securities activities that are generally prohibited for banks or bank holding companies.

INTERSTATE BANKING

The geographic scope of depository institutions has long been a key question of federal–state relations. The proliferation of nonbank affiliates of bank holding companies operating across state lines, loan production and "Edge Act" offices, integrated national markets for money and credit at the wholesale level, the current action of some states themselves to permit entry of out-of-state banking organizations, and the broadened power of thrift institutions able to operate interstate have by now led to interstate banking de facto for many banking services. But, as a general matter, we have still prohibited on an interstate basis the provision of an integrated range of services in a single office, and we force particular activities into "unnatural," and less efficient, channels. Even in the consumer area, restrictions are rapidly breaking down. Recently, we were compelled by existing law to approve the acquisition of a Florida "nonbank bank," designed to engage in a full range of deposit-taking and consumer lending, by an out-of-state bank. We simply, under the provisions of the Bank Holding Company Act, felt we had no alternative.

We sorely need a fresh congressional review of our entire policy toward interstate banking. While most of the issues in this controversial area will need to be held over to a later Congress, the present movement toward regional interstate banking arrangements does need to be dealt with now. Just last week the Board approved two bank holding company mergers under the reciprocal arrangements of Massachusetts and Connecticut, even though there are serious questions both about the constitutionality of such arrangements and their implications for public policy. If the Congress wishes to support these regional arrangements, appropriately limited to a transitional period, legislation explicitly authorizing that approach should be enacted.

CONCLUSION

The legislative framework governing the banking system is sorely in need of change—change that can take account of the vast changes in the environment for the conduct of banking and our future needs. After long discussion and debate, the time is ripe for action. I believe there is a wide area of "conceptual" consensus, and agreement on a critical "core" of legislation—on the definition of a bank and a qualified thrift and on regulatory simplification—is clearly within grasp. The remaining issues surrounding the particular powers of a bank holding company are inevitably more controversial, but nonetheless ready for decision. We should not confuse lack of agreement among affected industry interests with absence of necessary information and argumentation. Workable approaches responsive to the various concerns elicited by months of debate and study can be developed in this legislative session.

I know of the potential difficulties in completing legislation this year. But the simple fact is we don't have much time. A failure of the Congress to act only means that the decisionmaking about the evolution of the banking and financial system will fall to others, without congressional direction. The current framework and intent of banking law cannot hold in the face of technological change, intense market pressures, competition among states, and potentially conflicting decisions of courts attempting to apply old law to today's circumstances. Regulators are being pushed to and beyond the outer boundaries of the legal framework established by the Congress. None of this will stop in the absence of congressional action. The system will change, but not in ways that fit into a coherent whole, responsive to national policy. The clear risk is that the overriding public interest in a strong, stable, and competitive financial system will be lost.

We want competition, and the benefits to the consumer inherent in competition. We also want a safe and sound banking system, stable in itself, and contributing to a larger economic stability.

If we act—and act promptly—we can further both those aims. We want to cooperate with you actively in working toward that end. □

Statement by Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, April 4, 1984.

I am pleased to appear before this subcommittee to present the views of the Federal Reserve Board on the issue of delayed availability—the practice of some depository institutions (and other intermediaries such as money market funds) to impose "holds" on funds representing checks deposited by customers. There is no subject in consumer banking today that has generated more consumer interest and controversy. This topic is an extremely complex one, and has been the subject of several congressional hearings in the past few years. While there are no easy solutions to this sometimes frustrating problem, I believe that we have begun to see some progress in the area, as witnessed by the recently issued joint policy statement of the federal regulators and our own recent experience in experimenting with ways to speed up the return of dishonored checks. Recent legislation in the states of New York and California as well as proposed legislation now pending before both Houses of Congress have also addressed this problem.

We at the Federal Reserve recognize that delayed availability can be a source of confusion, annoyance, inconvenience, and even embarrassment to consumers. Let me reaffirm our position that we do not sanction the practice of undue delays in providing collected funds to depositors. We are concerned, however, that some solutions proposed to date may have results that could be conceivably worse than the problem itself. That is why we have spent a considerable amount of time studying this issue—easy solutions are just not forthcoming. Even the legislative solutions put forth so far may not be entirely successful in resolving the problem. I am concerned that unless we fully understand the nature of the problem and the potential effects of the legislative proposals put forward to date, particularly upon smaller depository institutions, we may find that future Congresses are still having to deal with this question.

Sources of the Problem

While I do not believe it necessary to dwell at great length about how checks are collected in this country, I think it desirable to review the mechanics of how they are collected in order to comment on the problem. The use of checks is universally accepted in our society as a means of making payments of all sorts in large part due to the efficiency of our payments mechanism. A customer accepts a check as payment and deposits the check into his or her account at a depository institution. The sooner the check is presented for payment, the sooner the collecting institution has use of the funds, which it then is able to pass back to its customer. Institutions may give immediate availability to known customers. Consequently, it is in the best interests of the institution to move that check as quickly as possible through the collection process in order to obtain "good funds." Before that happens, however, the check may pass through several hands—the institution where it is first deposited, a correspondent bank, one or more Federal Reserve Banks, the payor institution's correspondent bank, and finally, the payor bank.

Although cumbersome at times, our nation's check collection system works quite effectively. Almost 40 billion checks are collected annually, and 99 percent of them are collected in one or two business days. We estimate that the financial industry, including small and large banks, savings and loan associations, and credit unions, spends approximately $2 billion in operating expenses every year to collect these checks. More than $1 billion of society's capital is tied up in equipment and other capital resources required to process and deliver checks to the payor institution.

The Federal Reserve accepts its responsibility to improve the payments system over time. We have introduced programs, such as "noon presentment," that have resulted in improved collection times and faster availability for billions of dollars worth of checks. While we will continue to introduce refinements into the system, I must advise you that given the existing legal and procedural requirements, it is unlikely that the speed with which checks are being collected can be dramatically improved in the short run. As long as the requirement for the physical presentation of checks continues, there will always be a justification for at least a short delay in availability.

Reasons for Delays

The basic reason that depository institutions delay availability beyond the one or two days it takes to clear the check is the concern that the institution will not be able to recover the funds from its depositor, often a new depositor or a very large deposit, in the event that the check is returned unpaid. We recognize that depository institutions point to the operational problems associated with the return check process as the basis for lengthy delays some of them impose. However, 99 percent of all checks are paid the first time through the collection process. Furthermore, over 60 percent of the checks that are returned are for amounts of less than $100. Finally, about half of the 1 percent of checks that are returned are paid when they are presented for payment the second time. It is important to recognize that all of these returns do not actually result in a loss since in most instances the institution is able to recover the funds from its depositor. This is why we and the other agencies have focused our joint policy statement released on March 22 on measures depository institutions can take to reduce delays in availability without increasing the likelihood that they will incur losses.

Our statement urges that institutions utilizing the practice of delayed availability should take steps to reduce further the delays they impose, consistent with prudent banking practices. This means that an institution should carefully consider the actual risk of loss that it faces should a check a customer deposited be returned unpaid. We believe that before, say a teller, imposes a delay in availability, he or she should take into account the length of time the depositor has been a customer, past experience with the depositor, whether the depositor has other deposit accounts or an overdraft line of credit that could be relied upon, the identity of the drawer, and the type of check. Further, we advise that institutions should not impose delays on U.S. government checks beyond the time required to receive credit from their correspondent or from the Federal Reserve. At the same time, the statement reminds institutions to disclose their hold policies to customers when the account is opened and, when practical, frequently when a check is deposited if a hold is to be placed.

In any event if an institution imposes a delay in availability on a customer's deposit in an interest-bearing account, we believe it appropriate for the institution to begin paying interest at least from the time it receives credit from its correspondent bank or from the Federal Reserve Bank. In fact, we understand that many institutions pay interest from the date of deposit.

We have had extensive discussions concerning these matters with the financial institution trade associations and have received their unqualified endorsement and support. We believe that this approach has considerable merit and is the best way to proceed at this time.

One Possible Solution

I believe that the most feasible way to eliminate the problem of delayed availability once and for all is to move toward electronic payments and reduce substantially the requirement of moving paper from place to place. We have made great strides in this country in introducing electronics into virtually every phase of our lives—from communications to home entertainment, but we still have not overcome the customer's need for physically moving pieces of paper from depository institution to depository institution until they reach the payor. If a check is not paid, it then follows the same path back to the institution of first deposit.

The customer in the "wholesale" side of banking has moved into the electronic funds transfers in a big way. It is estimated that in 1980 electronic transfers moved $117 trillion in payments, six times the $19 trillion moved by checks. Clearly the large balance transfer sector is on to something to which consumers should be alert. In fact, I believe there is strong evidence that consumers are making greater use of electronics in their financial affairs and I think it would be wrong to underestimate the receptivity of consumers to electronic improvements in banking. Automated teller machines are intensively used on a 24-hour basis. Indeed, many customers report that they prefer to use an automated teller at their convenience any time during the day or night rather than having to go to the bank during normal banking hours.

The rapid growth of automated clearinghouse payments is also an indication of the consumer's responsiveness to electronic fund transfers. Each month millions of Americans receive their Social Security and other U.S. government payments through direct deposit into their accounts. These payments are never subject to a delay in availability. Other efforts toward electronic delivery of checks seem very promising. The Federal Reserve and the banking industry have begun experiments with various ways of delivering checks electronically. While these procedures are in an early stage, we believe that such innovations have the long-run potential of totally eliminating the need for delays in availability and for saving considerable amounts of society's resources devoted to check collection.

Consumers have been responsive to programs that eliminate the return of checks. In fact, federal credit unions are required by regulation not to return share drafts to customers. By eliminating the need to return the paper check and through the increased use of electronic collection, we can improve the efficiency of the payments system quite dramatically. Informed of the faster availability of funds and potentially lower fees due to cost savings, I believe that consumers will be willing to accept over time, indeed some will even demand, changes in the way in which checks are collected. We would be pleased to determine for the Congress if you so desire the feasibility, benefits, potential consequences, and operational aspects of greater uses of electronics to make payments and collect checks. In all of this, however, I think that it is important to recognize that checks will most likely continue to be the principal method used by consumers for the foreseeable future. Therefore, efforts to continue to improve collection procedures and funds availability to depositors are certainly worthwhile.

The Dallas Return-Item Pilot

We are also experimenting with programs to speed up the return of unpaid checks. Under the generally used return-item procedure, a check that is dishonored for whatever reason by a payor bank retraces the collection steps that it followed. By law, the payor bank and each institution that receives it has until its midnight deadline to pass the check back to the institution from whom it was received. I need not dwell at great length on the process other than to indicate that it presently is highly labor intensive, as the return-item process has not as yet benefited from the advantages of automation. Further, many institutions merely place the dishonored items in the mail rather than using the courier services used to collect checks. All of these lead to a sometimes long and tedious procedure for the return of an unpaid check.

The Federal Reserve Bank of Dallas has been conducting a pilot program designed to speed up the return process. The ultimate objective is to reduce the potential risk of loss to depository institutions due to dishonored checks. One approach that we have been implementing is to return dishonored checks directly to the institution of first deposit rather than through each institution in the collection chain. Another approach that appears to have considerable merit is to ensure that the institution of first deposit promptly receives wire notice of a returned check. The Dallas Reserve Bank has approached this objective in stages. We have now gained considerable experience with returning unpaid checks directly to the institution of first deposit within the Dallas Reserve Bank's District, and we are now preparing to move to the next stage of the pilot. Returning the dishonored check directly to the institution of first deposit has speeded up the return process by more than one day for those checks handled by the Dallas Reserve Bank.

During our next phase, Dallas intends to expand the process to include returned checks from payor banks, regardless of whether or not the check originally cleared through the Reserve Bank. This will require additional operational adjustments at the Reserve Bank and at depository institutions.

State laws, however, may present a barrier to the nationwide implementation of direct returns. Several jurisdictions (the District of Columbia, Nebraska, Nevada, New Jersey, Oregon, and Wisconsin) have not adopted a provision in the Uniform Commercial Code that permits the direct return of dishonored checks. We have discussed with state officials the desirability of changing their state law to add the direct return option to their state codes. Until these laws are changed, or unless the Congress authorizes the direct return of unpaid checks to the institution of first deposit, many of the benefits envisioned for programs such as the Dallas pilot could not be achieved nationwide because institutions would be uncertain as to whether the institution they send checks to will return the unpaid checks directly to them or through each institution in the collection chain.

Wire Notice of Returned Items

Another procedure that appears to have significant potential for further reducing the risk of return items is the expansion of the Federal Reserve's wire notice of return items service to speed up notification of dishonored checks to the institution of first deposit. Under our existing procedures, a depository institution is to provide a wire notice if it dishonors a check of $2,500 or more. Unfortunately it is difficult to enforce this standard, particularly since the payor institution is required to incur the expense of providing the notice. Further, the provision does not apply to checks collected outside of the Federal Reserve.

Our Dallas pilot provides for the notification of nonpayment on all returns of $2,500 or more by the Reserve Bank to the institution of first deposit. Of course not every institution in the Dallas District is linked to the Reserve Bank by a computer terminal. Consequently, in many instances, the notice of dishonor must be passed on by telephone, a cumbersome and costly process. We are making great strides in establishing additional automated communication linkages with small institutions. We anticipate that additional experience with the wire advice of nonpayment procedure will result in a low-cost method for providing more timely information about returned checks to the institution of first deposit.

Based upon what we have learned to date, we believe that there are several possibilities for providing wire notices for all types of returns, including those of amounts below $2,500. Wire advice, however, may not be cost effective for small-denomination checks. Because small-amount checks do not seem to present the same risks that large-amount checks present, it may be easier to handle the question of these checks by extending the deadline for returns to provide additional time for drawers to cover these checks. This could be accomplished through legislation at the state or federal level. The expanded use of wire advice for large-amount checks in combination with an extended return deadline could serve to reduce almost all the risks of unpaid checks.

Standard Endorsements

There has been a considerable amount of attention devoted to the development of a standard form of endorsement for the financial industry. In 1981 the American National Standards Institute (ANSI) developed a specification for check endorsements in conjunction with the financial industry and other providers of payment services and equipment. Our experience with trying to decipher first endorsements in Dallas indicates that considerable time and effort could be saved by the industry if it implemented this standard. However, formal legislation to require this standard may not be in the best interests of the financial system.

We are concerned that adoption of the ANSI standard may require extensive investment in new check processing equipment and make the current equipment obsolete. Given the already heavy investment in capital equipment of many financial institutions, we would expect that mandating the adoption of the ANSI standard would result in additional unnecessary expenses that would likely be passed along to depositors in the form of higher service charges. This is of particular concern to smaller institutions that may not have the resources to afford new, expensive equipment. A more reasonable approach, therefore, would be to provide some kind of incentives and encourage the gradual phase-in of the ANSI standard as old check processing equipment becomes obsolete and as new equipment is purchased. Mr. Chairman, the language contained in your bill, which would have the Board consider whether to require the ANSI standard, in my view is consistent with this approach.

CURRENT LEGISLATIVE EFFORTS

We believe that the efforts I have outlined above—the joint agency policy statement, continued improvements in the procedure for returning unpaid checks and further efforts toward electronic presentments—are moving the industry in the direction of reducing delays in availability. Let me emphasize that not all institutions impose delays in availability. A study performed for us in 1983 indicated that 89 percent of respondents who had checking, savings, or money market accounts did not experience delays in funds availability and 64 percent of the respondents to our 1983 survey indicated that their banks do not delay availability. While legislative efforts may force some in the industry to reduce delays they now impose, a mandated availability schedule may exacerbate the problem by encouraging institutions that do not delay availability to impose delays. I believe that the New York and California experiences can provide us with a basis for making an informed judgment on this issue, and I encourage you to review the results of these efforts at the state level before decisions are made on federal legislation.

It is difficult to estimate what the appropriate availability periods should be. The New York Banking Board regulations establish a schedule ranging from one business day for checks drawn in a face amount of $100 or less to six business days for checks drawn on another institution located outside New York State. Is this the appropriate range? Should institutions be encouraged to reduce the outside range to less than six business days if possible, as they are urged to do by our policy statement? Should the proposed legislation be limited only to consumer accounts? After all, small businesses often experience delays in availability also. Given the potential risks and special factors associated with business accounts, should different standards apply? Should small depository institutions be treated differently, particularly if they use a correspondent bank for their collection services? Should the legislation apply to money market mutual funds and other intermediaries, many of which also delay availability? Should the legislation override conflicting or more restrictive state legislation? Who would make the determination as to whether state legislation is in conflict with any federal laws? I believe that these and other fundamental questions raised by any legislation should be carefully addressed to ensure that the problem is addressed in a deliberate fashion.

CONCLUSION

The Congress has charged the Federal Reserve with the responsibility for overseeing the continued smooth functioning of the payments mechanism. We are all working toward the common goal of improving the efficiency of the payments system and providing depositors with the lowest-cost methods of making payments. We are now making considerable progress, in conjunction with the financial industry and the other federal supervisors, toward reducing the problems associated with delayed availability. We believe that the current efforts supported by the financial industry are well-suited to solving the problem of delayed availability.

Some legislative proposals under consideration would mandate operational improvements, such as wire advice of nonpayment, that are now being actively considered by the Federal Reserve and by the industry. As I have indicated, we have been considering several approaches toward improving collection times and the return-items process through technological means, and we may find it necessary to seek legislation in the future to facilitate these changes. We believe operational improvements such as those actively being considered are quite promising and will enable institutions to provide better availability of funds to depositors than through legislated schedules. This cooperative effort between the industry and the Federal Reserve will provide greater benefits to depositors and result in a more competitive and efficient payments mechanism. □

Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, April 10, 1984.

I am pleased to have this opportunity to discuss some of the issues surrounding our large and growing trade and current account deficits. As always, the flows of trade and other payments with the rest of the world reflect a variety of forces here and abroad. A substantial disequilibrium, such as at present, can usually be traced to other difficulties and imbalances in domestic economies or economic policies. That is the case now.

To summarize my basic point, our external deficits currently are linked—not exclusively but importantly—to the internal budget deficit. To restore better balance in our external accounts consistent with a healthy and noninflationary economy at home, we cannot, in my judgment, escape the need for decisive action to deal with our internal deficit. Policies aimed directly at the external deficit that cut against market forces—for example, import restrictions or other controls—are likely to have limited effects at best on the overall trade or current account balance or would work at cross-purposes to other objectives. In the end, I believe they would be counterproductive.

Our trade deficit reached the unprecedented magnitude of more than $60 billion last year—$75 billion at an annual rate in the fourth quarter. It is now generally expected that our merchandise imports will exceed our exports by at least $100 billion this year—already in January and February the deficit averaged more than $100 billion at an annual rate. Consistent with that trade deficit, the entire current account is likely to be in deficit by about $80 billion in 1984, or more than 2 percent of the gross national product. That percentage is nearly twice as large as any U.S. historical experience since World War I.

The causes of our large external deficits can be analyzed at two different levels. The most direct approach is to explain trends in the trade balance in terms of such proximate causes as the behavior of exchange rates, the strength of economic activity at home and abroad, and relative rates of inflation. But a full explanation must look beyond those considerations to factors determining exchange rates, economic activity, and inflation. That naturally brings us to a consideration of economic policies both in the United States and abroad.

For purposes of analysis, it may be convenient to assess the change in the trade balance from a base period of late 1980 when our current account was roughly in balance. U.S. trade, during that period, was in deficit at a rate of about $25 billion. The difference reflected in large part a sizable surplus of net investment income—income built up as a result of net investment abroad over many years, but which may be dwindling away in the future as a result of our heavy borrowing abroad. Indeed, available statistics suggest that the net creditor position of the United States vis-à-vis other countries—a position built up over many years—is being reversed: we will shortly be a net debtor.

The deterioration in our trade balance since the base period of roughly $75 billion took place despite a sizable reduction of about $25 billion in our imports of oil. There has been an adverse swing of about $100 billion in the "non-oil balance"—that is, the difference between our payments for non-oil imports and our export revenues. (See the table attached to my statement.[1]) To put that figure in perspective, the entire residential building sector of the GNP, which attracts much attention, is some $150 billion; the change in the non-oil trade balance over little more than three years was equivalent to two-thirds the size of that whole industry. Plainly, the deterioration in our trade position has had pro-

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

found effects spread through many firms in all parts of the United States. Those engaged in foreign trade or competing with imports have not shared proportionately in the strong expansion in economic activity generally, and some important industries are still operating well below 1980 levels.

One factor that has contributed importantly to the widening of the U.S. deficit has, in fact, been the relatively stronger expansion of the U.S. economy relative to foreign industrial economies. In that sense, part of the deterioration is cyclical, and reflects not loss of markets at home or abroad but absence of proportionate gains. In addition, exports have dropped sharply to developing countries that are burdened with large external debts and are in the midst of readjusting their own economies and balance of payments. That is particularly true with respect to our neighbors in Latin America; exports to that area have dropped $13 billion since the base period. These two factors appear to explain a third to a half of the adverse swing in the non-oil trade balance.

The third factor directly affecting our non-oil trade balance has been the dramatic appreciation of the dollar over the past three years. Starting at a relatively low level historically, the value of the dollar against the currencies of foreign industrial countries has risen about 45 percent in nominal terms since the end of 1980. Over the same period, U.S. price performance has been somewhat better than the average in foreign industrial economies; U.S. consumer prices, for instance, rose 18 percent from the fourth quarter of 1980 through the fourth quarter of 1983, while consumer prices in the foreign industrial countries rose almost 25 percent on average. But even allowing for the differential in inflation, the dollar has appreciated substantially, and it is now roughly 25 percent higher than its average level for the entire 11-year period of floating exchange rates. Some calculations suggest that more than half the $100 billion change in the non-oil trade balance from the base period can be traced to the dollar's appreciation.

Such calculations concern only the proximate causes of the growing U.S. trade deficit. The more relevant questions concern what lay behind those developments and what are the prospects. We know economic recovery in other industrialized countries has been quite moderate, reflecting in part relatively restrained fiscal policies—in the sense of working toward reduced government deficits. That approach has been motivated in large part out of concern about inflation, as well as the size of deficits carried over from earlier years. To some extent the depreciation of their currencies relative to the dollar—in which important import commodities are denominated—added to price pressures in those countries, and some of them probably were constrained to maintain relatively restrictive monetary as well as fiscal policies in the light of those pressures.

By now, increased exports to the United States, among other factors, have helped encourage recovery in the foreign industrial countries and expansionary momentum now appears more firmly established. Moreover, the process of adjustment in some of the deeply indebted developing countries has reached the point at which some resumption of import growth appears to be developing, although imports will not reach the levels of a few years ago for some time. As a consequence, prospects for U.S. exports during the remainder of 1984 and beyond are improving, albeit moderately.

For the time being, the strength of our own expansion—which is still proceeding more rapidly than abroad—may continue to be reflected in imports growing as fast or faster than exports. In these conditions, and because imports are now so much larger than exports, significant progress in closing the trade deficit cannot be anticipated for some quarters.

At the same time, stronger growth abroad may well mean that savings in other countries will be more fully utilized at home so that, other things being equal, capital will flow less freely to the United States. That could pose a problem because we are bound to be dependent upon capital inflows from abroad for some time to finance our trade and current account deficits, and those inflows are moderating pressures on our financial markets.

There can be little doubt that the ready availability of imports and the strength of the dollar—together with the related capital inflow—have had some short-run beneficial effects during the past year in support of relatively noninflationary expansion. With the huge federal deficit feeding purchasing power into the economy, domestic demand—reflected in consumption, domestic investment, and government spending—is estimated to have grown over the past five quarters at an annual rate of about 8 percent, faster than during the equivalent period of any earlier postwar recovery. Some of that demand was absorbed by imports; as a consequence, GNP—a comprehensive measure of U.S. production—grew more slowly than demand. But that growth was still large, at a rate of 6½ percent over the period; and the availability of imports has been a key factor in keeping inflation in check and in avoiding strong pressures on capacity in some industries. At the same time, the capital necessary to finance the current account deficit has also increasingly supplemented the supply of domestic savings. In historical terms, interest rates have remained high in the United States; they would have been higher still had we been required to finance our domestic growth and the budget deficit from internal sources alone.

That point is illustrated in the chart attached to my statement showing the demands for, and the sources of, savings in recent years and, prospectively, in 1984. The combination of rising private investment and the high level of the budget deficit exceeds our savings domestically by an increasing margin. The difference is increasingly made up by savings from abroad, supplementing domestic savings this year by perhaps 25 percent, or about 2 percent of the GNP.

Whatever their benefits at the moment for the economy as a whole—and they are very real—rising trade deficits and capital inflows are not sustainable indefinitely. And, of course, those industries most exposed to foreign competition do not share in the benefits, and they increasingly demand protection. In effect, our trade problems do, in my judgment, signal deep-seated imbalances in the world economy and in economic policies.

The central thrust of my remarks is that these imbalances must be dealt with in a constructive way—by going to the source—rather than by protectionist measures. The latter are like medical tourniquets; they may sometimes seem justified to stop bleeding, but applied too long and too strongly they cripple the limb and threaten the recovery and good health of the whole body.

Many have pointed to an "over-valued" or "artificially high" dollar as a major source of the difficulty. In terms of the trade balance, the point is understandable. But the dollar is where it is because of a balance of forces in the market, reflecting capital as well as trade flows. There is not, in my judgment, evidence that the value has been manipulated, in any significant way, by our trading partners, through intervention in the exchange markets or otherwise. Instead, appreciation of the dollar over the past three years in the face of larger trade deficits reflects the strength of incentives to place capital in the United States.

While capital flows do not always closely reflect changing interest rate differentials, there can be no doubt that the persistence of high real interest rates in the United States, relative to those prevailing in most other major countries, contributed importantly to attracting money from abroad. That was particularly true during a period when, in relative terms, political and economic confidence in the United States has been strong. In an uncertain world, many individuals and businesses in both developed and developing countries have looked upon the United States as a "safe haven" for their liquid funds and for their capital. At the same time, U.S. banks and others have curtailed their net lending abroad, in the light of stronger demands for credit in the United States and of political and economic uncertainties in some other countries.

It cannot be in our interest to curtail capital inflows and to precipitate a fall in the dollar by taking actions that undermine confidence in our economic policies and outlook—specifically by undermining the progress against inflation or prospects for sustained growth. Moreover, as I emphasized a few moments ago, we are, for the time being, dependent on capital inflows to help finance both domestic growth and the trade deficit; neither the budgetary nor the trade deficit will end suddenly.

There is, however, a positive and constructive way to approach the problem—a way entirely consistent with maintaining and indeed reinforcing confidence in our economic outlook and our domestic needs. Specifically, forceful action to reduce the federal budget deficit would directly reduce pressures on our financial markets by restoring a better balance between domestic sources and uses of credit and capital. The restraining effects on economic activity of the lower deficits should be wholly or partially offset by lower interest rates than would otherwise prevail, and as interest rates moved lower relative to those abroad, we would be weaned from our dependence on foreign capital. In that context, prospects for foreign growth could improve, helping our exports, and exchange rates should in time reflect a better long-run competitive equilibrium. As we move to restore a sustainable international trading position, the improved trade balance will also help maintain domestic growth.

No doubt that process will proceed more unevenly, and perhaps more slowly, than we would like. But there are enormous dangers in an effort to short-circuit the process through more direct measures to curtail imports or inflows of capital, both of which would work at cross-purposes with the basic requirements for growth and stability in the United States and elsewhere.

Beware, in particular, of those arguments that suggest import restrictions designed to benefit one industry or another will produce more jobs for the economy as a whole. To a particular firm or industry, shutting off import competition offers immediate advantages; more generally, it is argued that—other things equal—each reduction of $1 billion of the trade deficit represents an added $1 billion of domestic output. Given the rule of thumb that each $1 billion worth of domestic output requires about 25,000 workers, calculations are made that, say, cutting the trade deficit in half, or $50 billion, would produce nearly 1¼ million jobs. But, from the standpoint of the whole economy, the pitfalls in such reasoning at a time when the economy is already expanding strongly should be clear.

If we should actually succeed in reducing our trade and current account deficits by means of import controls, we would also lose the capital inflow and undoubtedly experience stronger inflationary pressures. Both of those factors would tend to push interest rates higher, curtailing jobs in interest-sensitive sectors of the economy, including both homebuilding and long-term business investment. Alternatively, jobs might be created in those industries directly benefiting from the controls, but the exchange rate would be driven still higher than otherwise, hurting other import-competing industries and exporters, including farmers, and multiplying the demands for protection or subsidies. No doubt, pressed very far, there would be a mixture of effects, further complicated by retaliation abroad and international political antagonisms.

That is the case—and it seems to me overwhelming—for not yielding to generalized demands for import protection. So long as we fail to deal with the underlying causes, our action will not only be ineffective in dealing with the trade problem, but also will undermine the broader goal of sustained, noninflationary growth.

The hard fact is that, even if trade restrictions could be pressed far enough to be successful in reducing our current account deficit, they would only redistribute the strains and imbalances in the economy so long as we cannot finance rising domestic investment from domestic savings. We would assist some industries at the expense of others more sensitive to interest rates, and in the process open the way for renewed inflation and undercut efforts to improve productivity and efficiency.

No doubt there may be specific instances in which trade restrictions have been, or are, justified to counter subsidies or other unfair competitive practices abroad; carefully assessed and monitored, such action can be consistent with encouraging fairer and open trading practices around the world. But there are areas where existing restrictions can no longer be justified and run the risk of encouraging pricing and wage bargaining inconsistent with the longer-run competitive health of the industries directly affected.

Another approach that has been proposed to reduce our external deficit is to intervene in foreign exchange markets to bring about a depreciation of the dollar and subsequent improvement in our trade balance. In my judgment, exchange market intervention can occasionally play a useful role in dealing with disturbed market conditions or even in signaling the desires or policy intent of the financial authorities in various countries, particularly when the approach is coordinated among them. But its role is subsidiary; experience strongly suggests that intervention alone is a limited tool that cannot itself, greatly or for long, change the market results unless accompanied by changes in more basic policies. And if those policies are appropriate, continuing intervention on any large scale is not likely to be necessary.

In that light, some might suggest that monetary policy should be directed at bringing about lower nominal interest rates and a depreciation of the dollar by accelerating growth in money and credit. But in the United States, with the economy growing strongly and credit growth already large, such an effort would be counterproductive. It could only rekindle expectations of rising inflation, with the clear associated danger of a perverse influence on interest rates as potential lenders withhold funds because of fears of more inflation. In those circumstances, confidence could all too easily be undermined to the point that declines in the dollar would cumulate on themselves in a manner reminiscent of some earlier years, reinforcing inflationary pressures.

We have come a long way in bringing down inflation and inflationary expectations in the United States and in laying the foundations for sustained expansion. We are beginning to enjoy the fruits of that effort. But it is also clear that our trade accounts, and our external position generally, reflect basic imbalances in our economy and in our policies that must be dealt with promptly and effectively. The main direction those efforts should take is clear enough, and I can only be encouraged by the efforts of your committee and of many others in the Congress to take steps necessary to deal with our budget deficit.

Equally important, we must avoid striking out in the wrong directions—toward renewed inflation or toward controls and protectionism. Those paths would only encourage more instability here and abroad. We would risk substituting new, and even more intransigent, problems for those now before us—problems that were all too familiar a few years ago.

Finally, I would like to comment briefly about the general instability of exchange rates during the past decade and more since the breakdown of the Bretton Woods system. This is not the time or place, were I capable, of reviewing all the possibilities for thoroughgoing reform of the international monetary system. But I do believe the amplitude of the swings we have seen in exchange rates over that period are excessive and potentially damaging in terms of maintaining an open world economy.

In approaching that problem, I believe we must keep in the forefront of our minds the evidence that the instability and uncertainty in international markets can in large part be traced back to instability in domestic economies and policies, and to lack of coordination in the mix of policies among countries.

With great difficulty and pain, we have made progress here and abroad in dealing with inflation, and now growth has been restored. We must, and we can, deal with the remaining imbalances in ways that contribute to those fundamental goals. As we do so—and only if we do so—we should be able to look forward to greater stability in exchange markets.

In that connection, as we develop our "mix" of economic policies in the United States, and as other countries approach their economic policy decisions, the desirability of greater stability in exchange rates seems to me to deserve real weight. More often than not, disturbances in exchange markets, and misalignments of currency values and trade balances, are symptomatic of more fundamental problems of economic policy. That seems to me to have been the case over a number of years. We should learn from that experience—and the current situation seems to me an apt case in point. □

Announcements

Change in the Discount Rate

The Federal Reserve Board announced an increase in the discount rate from 8½ percent to 9 percent, effective April 9, 1984. The discount rate is the interest rate that is charged for borrowings from the District Federal Reserve Banks.

The change—the first since late 1982—was undertaken in the light of the relatively wide spread that has developed in recent weeks between short-term market rates and the discount rate.

In announcing the change, the Board voted on requests submitted by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, and Dallas.

(Subsequently, the Board approved similar actions by the directors of the Federal Reserve Banks of Cleveland and Atlanta, effective April 10, 1984, and Kansas City and San Francisco, effective April 13, 1984.)

Measures to Reduce Risk in Large Electronic Fund Transfers

The Federal Reserve Board, on March 29, 1984, announced the following actions as part of its continuing effort to reduce risks involved in the electronic movement of hundreds of billions of dollars a day:

- The Board requested public comment on a wide variety of possible measures for reducing risk in the operations of large-dollar wire transfer systems.
- At the same time, the Board issued a policy statement designed to ensure that depository institutions do not use the Federal Reserve's wire transfer network to avoid the efforts that are under consideration to reduce Federal Reserve or private sector risk.

There are at present four large-dollar electronic fund transfer systems that together handle more than $500 billion in wire transfers a day: Fedwire—the Federal Reserve's wire transfer system; CHIPS (Clearing House Interbank Payments System) operated by the New York Clearing House; CashWire, operated by a consortium of banks; and CHESS (Clearing House Electronic Settlement System) operated by the Chicago Clearing House. On Fedwire, average daily volume was about $355 billion in 1983, involving some 150,000 transactions a day.

In taking its actions, the Board said, vis-à-vis the risks involved:

> If a transfer is made over Fedwire [the Board's rules] provide that the transfer is final when the receiver's Reserve Bank credits the receiver's account or sends advice of credit; at that point the transfer is irrevocable. . . .If the sender's Reserve Bank processes the transfer when the sender did not have sufficient funds in its account to cover the amount of the transfer, the sender incurs a "daylight overdraft" in its account with the Federal Reserve. The Federal Reserve bears the risk of loss if the sender is unable to cover the overdraft. The failure of an institution to cover overdrafts on Fedwire, therefore, would by itself have no effect on other institutions, including the receiver; all of the loss would be absorbed by the Federal Reserve.
>
> Private wire networks (those other than Fedwire) however, are typically net settlement networks; that is, they operate by the transmission of payment messages throughout the day, with settlement of net positions at the end of the day. The (time) gap between the sending of payment messages and their settlement gives rise to intra-day credit exposures among participants in private networks. These exposures are often quite large. Should a participant be unwilling or unable to settle a large net debit position (which could be due to its funds transfer activities, to other activities, or even to circumstances such as political developments, that are beyond its control) its corresponding net creditors could experience a sudden, rapid deterioration in their financial position. . . .The failure of one participant to settle could affect not only other network participants, but also the full range of creditors of network participants, including bank and nonbank depositors. Sudden, large changes in the financial conditions of both network participants and their creditors could ultimately lead to serious disruptions in money and other financial markets, as well as to the disruption of trade and commercial activities.

The Board said that it is concerned with the possibility of developments that could destabilize financial markets and noted that the Federal Reserve has already taken a number of actions designed to minimize risks associated with daylight overdrafts on Fedwire. These and a number of other actions by the Federal Reserve and by the private sector during the past several years, aimed at identifying and minimizing risks of this nature, are described in the notice requesting public comment. The Board said that these developments show a widespread recognition of risks that makes it appropriate for the Board to solicit comment on possible methods for reducing wire transfer risks.

In issuing its request for comment, the Board stated four policy goals that it seeks to achieve: (1) containment of the effects of settlement failure; (2) reduction of the volume of intra-day credit exposures; (3) control of remaining credit risk; and (4) smooth operation of the payments system.

The Board identified the following three methods of reducing risks as deserving the most serious consideration and requested comment on them by July 27, 1984.

Sender Net Debit Caps. This would be a limit imposing a maximum ceiling or cap on the aggregate net debit position that an individual sending financial institution could incur during the day. (This cap could be applied to the sender's payments made over a particular network or a single cap could be applied to all its transfer activities.)

Bilateral Net Credit Limits. Each receiving financial institution would determine the maximum amount it is willing to receive from any sender.

Finality of Payments. Under this arrangement, the receiving financial institution would guarantee that it will promptly provide the beneficiaries of funds transfers with irrevocable credit for funds transfers.

The Board noted that each of these methods could be used singly or in concert with others and requested commenters to suggest optimum combinations of risk reduction with respect to each of these three possible risk-reduction methods. The Board posed a series of questions in connection with each of these methods for the consideration and reaction of commenters. The Board also requested comment on certain specific issues (such as how policies should apply to Edge Act and Agreement corporations and to U.S. branches and agencies of foreign banks), and invited commenters to suggest alternative methods for reducing risks and to comment on any related topic.

The Board's policy statement is aimed at ensuring that institutions do not use Fedwire to avoid Federal Reserve or private sector risk reduction policies. The Board said that the most likely vehicle for such avoidance would be the use of periodic settlement between depository institutions (probably at the end of the day) through the exchange of Fedwire transfers.

The Board lifted a current moratorium on private network access to Federal Reserve net settlement facilities over the Fedwire, but established the following interim conditions for eligibility for such access: (1) all participants must set bilateral net credit limits; (2) each network must adopt a sender cap of 50 percent of capital for each participant, applied to transfers sent over that network; (3) each network must agree to provide the Federal Reserve with transaction data.

As the Board's requirements for access to net settlement services by large-dollar transfer networks evolve over time, such policies would apply to both existing networks and to those given access under the interim requirements.

The statement sets forth measures to enforce the Board's view that it is inappropriate to use Fedwire to avoid Federal Reserve or other risk reduction measures. The enforcement measures include the following: (1) ex post monitoring of Fedwire transactions to detect patterns indicating inappropriate use of the Federal Reserve network; (2) counseling of institutions observed using Fedwire to avoid risk-reduction measures; (3) removal of institutions from direct, on-line, access to Fedwire if they repeatedly abuse use of the wire, or barring an offending institution from use of the Federal Reserve network.

The Board said it anticipates cooperation from financial institutions in achieving the objectives of this policy.

Revision to the Private Sector Adjustment Factor

The Federal Reserve Board, on March 21, 1984, approved revisions to its procedure for calculation of the private sector adjustment factor (PSAF). The PSAF is an allowance for the taxes that would have been paid and the return on capital that would have been provided had the Federal Reserve's priced services been furnished by a private sector firm.

The revisions to the procedure used in calculating the PSAF for 1984 are listed below:

- Expansion of the sample used to calculate the PSAF from the 12 to the 25 largest bank holding companies. The bank holding company with the highest and the lowest return on equity in the sample will be excluded.
- Employment of the direct determination methodology for establishing the asset base used for computing the PSAF.
- Inclusion of the net effect of those assets expected to be acquired and disposed of during 1984 in the priced services asset base.
- Recovery of the estimated sales taxes that would have been paid on the purchases of certain goods and services if the Reserve Banks were subject to such taxes.
- Inclusion of those portions of expenses and fixed assets of the Board of Governors related to the development of priced services.
- Inclusion of an imputation for the assessment of Federal Deposit Insurance Corporation insurance.
- Removal of the financing costs of net adjustment float from the asset base because such float is not priced explicitly.

In addition, the tax rate used in the PSAF calculation will be based on the ratio of current federal, state, and local income taxes to total taxable income of the bank holding companies included in the sample.

Fees on International Loans: Adoption of Rules

The Federal Reserve Board, on April 5, 1984, announced adoption of rules to establish uniform requirements for accounting for fees on international loans. The rules implement a part of the International Lending Supervision Act of 1983.

The other federal banking regulators—the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency—have issued similar regulations for institutions they supervise as one facet of a joint program under the act to strengthen the supervision and regulation of foreign lending by U.S. banking organizations. The Board's rules apply to state chartered banks that are members of the Federal Reserve System and to bank holding companies and Edge and Agreement corporations engaged in banking. Nonmember banks and national banks are covered by the rules of the other agencies.

The rules as adopted by the three agencies are effective June 30, 1984, except for those dealing with restructured international loans, which are effective immediately.

The rules deal with the following: (1) section 906(a) of the act, which prohibits a banking institution from charging any fee in connection with a restructuring of an international loan that exceeds the administrative cost of the restructuring; and (2) section 906(b), which provides that the agencies shall establish rules for accounting for other fees charged in connection with international loans to ensure that appropriate portions are accrued into income over the life of the loan.

The Board adopted its rules in final form after consideration of comment received on proposals published in February. The final rules incorporate significant changes based on the comment received. The principal provisions of the fee-accounting rules as adopted are the following:

1. The proposed rules did not differentiate among types of international loans. In light of the comment received and the legislative history of the act, the final rules distinguish between restructured and all other international loans in establishing accounting treatment for fees.

2. A "restructured international loan" is defined as a loan that meets the following criteria:

   - The borrower cannot service an existing loan and is a resident of a foreign country experiencing a generalized inability to service external debt due to lack of foreign exchange in the country; and either
   - The loan terms are amended to reduce stated interest or extend the schedule of payments; or a new loan is made to or for the benefit of the borrower enabling the borrower to service or refinance the existing debt.

3. No banking institution may charge any fee in connection with a restructured international loan unless the portion of the fee exceeding administrative costs is deferred and amortized over the effective life of the loan.

4. Administrative costs are defined to include only specifically identified direct costs. Supervisory and administrative expenses or other indirect expenses such as occupancy may not be included.

5. In an international syndicated loan, a banking institution may not take into income immediately that portion of a syndication fee that represents an interest yield adjustment, but must recognize the yield adjustment over the life of the loan. For the managing banks of an international syndicated loan, the final rule adopts a presumption that the yield adjustment portion of the fee is at least equal to the largest fee received by a nonmanaging loan participant on a pro rata basis.

6. The remainder of any fee received by a managing bank in an international syndicated loan may be taken into income immediately only if the bank can identify and document the services for which it received the fee. Such documentation would at a minimum include the loan agreement signed by all parties to the loan.

7. Commitment fees may be taken into income over the commitment period. Commitment fees must be recognized as income over the combined commitment and loan period only when it is not practicable to identify that portion of the fee related to making the commitment as compared with any portion related to lending funds.

Discontinuance of Use of Bankers Acceptances by the FOMC

The Federal Open Market Committee on April 9, 1984, announced that as of July 2, 1984, it will discontinue use of repurchase agreements on bankers acceptances in open market operations to manage reserves. The Federal Reserve Bank of New York will continue to serve as agent in buying and selling acceptances for the accounts of foreign central banks.

In taking the action, the Committee noted that the use of repurchase agreements on acceptances for reserve management has declined in relative importance in recent years. In 1983, about 7 percent of System repurchase agreements was arranged against bankers acceptances compared with an average of about 16 percent in the previous three years.

The Committee's action also recognizes that the market for bankers acceptances has reached a scale of activity that does not require or justify continuing Federal Reserve support. It continues the disengagement from the market begun in 1977, when the Federal Reserve ceased buying these private instruments on an outright basis. Since then, the System's involvement has been limited to the use of repurchase agreements on acceptances for managing bank reserves as a modest supplement to operations in Treasury and federal agency securities.

Repurchase agreements are used by the Federal Reserve to meet short-term reserve needs. In these transactions, the System purchases government securities, federal agency issues, or bankers acceptances from dealers under an agreement that requires the dealer to buy back the securities after a fixed period, usually one to seven days. Interest rates in these transactions are determined by competitive bidding.

The market for bankers acceptances has continued to grow since 1977. The outstanding volume of acceptances at the end of 1983 was $78 billion compared with $23 billion at the end of 1976, and $642 million at the end of 1955 when the Federal Reserve resumed operations in acceptances after a lapse of more than 20 years.

Bankers acceptances are negotiable instruments generally drawn to finance the export, import, shipment, or storage of goods. They are termed "accepted" when a bank agrees to pay the draft at maturity.

Regulation T: Amendment

The Federal Reserve Board, on March 12, 1984, amended Regulation T (Credit by Brokers and Dealers) to permit an options clearing agency to accept margin securities to meet its deposit requirements. The new rule becomes effective April 13, 1984.

The Board acted to facilitate regulatory coordination with the recent Securities and Exchange Commission (SEC) approval of an options clearing corporation program. An options clearing corporation issues options contracts and guarantees their performance.

The Board's amendment, in concert with the related action taken by the SEC, will generally permit brokers and dealers to use the same securities for the clearing deposit as they now use at banks in connection with loans secured by customer securities.

Revised Regulation T: Deferment of Effective Date

The Federal Reserve Board, on March 26, 1984, announced that it is deferring the effective date for compliance with the completely revised Regulation T to June 30, 1984.

The Board said it deferred the effective date of the completely revised regulation in response to requests by broker–dealers encountering operational problems in conforming their computer systems to the requirements of the revised regulation. The effective date had previously been deferred from November 21, 1983, to March 31, 1984.

The revised regulation governing credit extended by brokers and dealers was adopted by the Board on May 16, 1983.

Regulation Z: Update to Staff Commentary

The Federal Reserve Board, on April 3, 1984, made public an update to the official staff commentary on Regulation Z (Truth in Lending). This interpretation represents final action on proposed changes in the commentary published in November 1983, and takes account of comment received.

Changes in Board Staff

The Board of Governors has announced the following changes in its official staff in the Division of Data Processing:

Neal H. Hillerman, Assistant Director, has transferred from the Software Applications Branch to the Data Applications Branch in the Division of Data Processing.

Elizabeth B. Riggs has been promoted to Assistant Director of the Software Applications Branch.

Ms. Riggs came to the Board as an Applications Analyst in October 1967, having worked previously as a Computer Specialist at the National Bureau of Standards and as an Analyst-Programmer and Management Intern for the Department of the Navy. She assumed her present position as Chief, International Finance–Business Conditions Section, in July 1981. Ms. Riggs has B.A. and M.A. degrees in Economics from the University of Michigan.

Policy Statement on Multi-Rate Time Deposits

The Federal Reserve Board, on March 23, 1984, issued a policy statement concerning advertisements for time deposits that pay more than one fixed rate over the term of the account.

At the same time, the Board published for public comment a proposal to amend its Regulation Q (Interest on Deposits) that would incorporate the substance of the policy statement into the regulation. The Board requested comment by May 22, 1984, on alternatives to the policy statement and on other advertising and disclosure issues that may warrant consideration under Regulation Q.

The policy statement provides that advertisements for time deposits that pay more than one fixed interest rate should set forth, in equal size type, each rate of interest to be paid together with the length of time each rate will be paid and the average effective annual yield for the entire term of the account. Further, advertisements for deposits to be used in connection with Individual Retirement Accounts (IRAs) should not refer to such accounts as being tax-free or tax-exempt.

The Board's action was taken in response to recent advertisements in which an initial high rate of interest appears in large print while a lower rate to be paid for the predominant part of the account appears in much smaller type. The Board expressed concern that such advertisements are potentially misleading and confusing to depositors. The Board anticipates that the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Comptroller of the Currency will issue similar policy statements in the near future.

PROPOSED ACTIONS

The Federal Reserve Board, on March 12, 1984, published for public comment a proposal that would automatically permit brokers and dealers to lend on over-the-counter securities designated for trading in the National Market System portion of NASDAQ (the National Association of Securities Dealers Automated Quotation System) in conformance with the Board's margin requirements. The proposal would amend the Board's margin regulations (Regulations G, T, and U). Comment is requested by April 27.

AVAILABILITY OF SUPPLEMENT 10 TO THE COMPLIANCE HANDBOOK

Supplement 10 to the Board's Compliance Handbook is now available from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. It replaces pages in Part I that discuss Regulation Z and pages in Part II that describe workpapers for consumer compliance examinations. This supplement also contains new and revised workpapers. The new workpapers include a checklist for disclosures in deposit contracts, a worksheet for use in checking interest calculation and early withdrawal penalties, an applicant profile spreadsheet, and a worksheet for checking interest for savings and time deposit accounts. A list of the pages that have been replaced by the new supplement is also available from Publications Services.

REPORT ON PRICED SERVICES

The Federal Reserve Board issued on April 9, 1984, a report summarizing developments in the priced services areas for 1983 and providing detailed financial results of providing those services. The report is available on request from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

A report on priced services is expected to be issued annually, and a financial statement consisting of the Federal Reserve's priced service balance sheet and income statement will be issued quarterly. The pro forma 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.

SYSTEM MEMBERSHIP: ADMISSION OF STATE BANKS

The following banks were admitted to membership in the Federal Reserve System during the period March 10 through April 10, 1984:

California
Anaheim .... Pacific Inland Bank
Hollister .... San Benito Bank
Illinois
Fairview Heights..... Midamerica Bank and Trust Company of Fairview Heights
Mascoutah ..... Midamerica Bank and Trust Company
Pennsylvania
Claysburg .... Central Bank

Record of Policy Actions of the Federal Open Market Committee

MEETING HELD ON JANUARY 30–31, 1984

Domestic Policy Directive

The information reviewed at this meeting indicated that growth in real gross national product had moderated to an annual rate of about 4½ percent in the fourth quarter of 1983, following expansion at annual rates of about 9¾ percent and 7½ percent in the second and third quarters respectively. Strength in personal consumption expenditures and further substantial expansion in business fixed investment in the fourth quarter were major factors in the continued growth of economic activity. Price and wage increases generally remained moderate, though advances in some indexes were somewhat larger than in the spring and summer.

The index of industrial production increased ½ percent in December, following gains of about ¾ percent in October and November. Production of consumer durable goods strengthened in December, as auto assemblies increased substantially, and output of business equipment continued to rise at a relatively rapid pace; production changed little in most other major market groupings.

Nonfarm payroll employment advanced about 230,000 further in December, compared with an average monthly increase of about 325,000 since the first quarter. Employment gains continued to be widespread across industry groupings and were particularly marked in manufacturing and service industries. The civilian unemployment rate declined 0.2 percentage point further to 8.2 percent.

The nominal value of retail sales was reported to have changed little in December, after large gains in preceding months. Sales at furniture and appliance stores and at automotive outlets remained strong, but were about offset by declines at food and apparel stores and gasoline stations. Although the reported data for retail sales in the pre-holiday weeks proved weaker than had been suggested by qualitative reports, real personal consumption expenditures for the fourth quarter as a whole rose at an annual rate of about 6½ percent. One factor in that rise was a strengthening in automobile demand; sales of new domestic autos rose to an annual rate of about 7¾ million units in December, after averaging about 7 million units in other recent months. In the last 20 days of December, auto sales were at an annual rate of nearly 8 million units, a selling pace that was maintained through the first 20 days of January.

Private housing starts declined about 5 percent in December, but for the fourth quarter were at a rate close to the 1.7 million units recorded for the year as a whole. Sales of new and existing homes, which had changed little in November, rose about 28 percent and 8½ percent respectively in December. The exceptional rise in sales of new homes reflected a record volume of activity in the South; sales in other regions held steady or declined.

Recent data indicate very considerable strength in business capital spending. Shipments of nondefense capital goods increased markedly in November and December. Real expenditures on equipment rose at an exceptionally rapid pace in the fourth quarter, when they registered one of the largest quarterly increases in the postwar period. Strong sales of heavy industrial machinery and communications equipment and a continued brisk pace of truck sales contributed to the fourth-quarter gain.

The producer price index for finished goods was unchanged on balance in November and December. For the year 1983 the index increased about ½ percent. The consumer price index rose marginally less in November and December than the 3¾ percent rate recorded for the year as a whole. The rise in the index of average hourly earnings was somewhat larger in the fourth quarter than in the preceding two quarters, but over 1983 the index rose a little less than 4 percent, compared with 6 percent over 1982.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had appreciated on balance by about 1 percent further since the latter part of December, with most of the rise occurring in early January. After mid-January the dollar receded from its peak and then moved somewhat erratically, partly reflecting uncertainties among market participants regarding the outlook for economic activity and interest rates in the United States. The U.S. foreign trade deficit was higher in the fourth quarter than in the third; a sharp rise in non-oil imports accounted for the increase, as oil imports declined and exports changed little.

At its meeting on December 19–20, 1983, the Federal Open Market Committee had decided that in the short run, open market operations should be directed toward maintaining at least the existing degree of reserve restraint. The members anticipated that such a policy would be associated with growth of both M2 and M3 at annual rates of around 8 percent from November to March, and that growth of M1 at an annual rate of around 6 percent over the four-month period was likely to be consistent with the objectives for the broader aggregates. Expansion in total domestic nonfinancial debt was expected to be within the tentative range of 8 to 11 percent established for the year 1984. It was agreed that, depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more rapidly.

M2 and M3 expanded at annual rates of about 8 percent and 8½ percent respectively in December and apparently continued to grow at moderate rates in January.[1] Expansion in M1 accelerated in January, after several months of reduced growth. By the fourth quarter of 1983, M2 was at a level close to the midpoint of the Committee's range for the year, M3 was around the upper limit of its range, and M1 was near the middle of the Committee's monitoring range for the second half of the year.

The debt of domestic nonfinancial sectors expanded at an annual rate of about 10 percent in both November and December. For the year ending December 1983, debt grew 10½ percent, well within the Committee's monitoring range of 8½ percent to 11½ percent. Growth in total credit at U.S. commercial banks remained strong in December, at an annual rate of about 13 percent, as additional lending activity offset a reduced pace of securities acquisition. The increased loan demand reflected a further pickup in all major categories of loans—business, consumer, and real estate. Businesses continued to rely heavily on external financing as expenditures for inventories and fixed investment evidently began to outpace growth in internally generated funds. In addition to the expansion in borrowing from banks, commercial paper issued by nonfinancial corporations rose sharply in December.

Nonborrowed reserves expanded at a modest rate on average in December and January while total reserves grew only slightly, as the average level of adjustment plus seasonal borrowing declined somewhat. Borrowing temporarily bulged to $1.3 billion in the reserve statement week that encompassed the year-end statement date, but averaged about $650 million during the other weeks of the intermeeting interval.

The federal funds rate averaged close to 9½ percent over the intermeeting period, little changed from the level prevailing just before the

1. The growth rates cited are based on revised data for the monetary aggregates, reflecting new benchmarks and revised seasonal factors and a minor change in the definition of M3 to include term Eurodollars that U.S. residents hold in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

The monetary aggregates are defined as follows: M1 comprises demand deposits at commercial banks and thrift institutions, currency in circulation, travelers checks of nonbank issuers, negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at banks and thrift institutions, and credit union share draft accounts. M2 contains M1 and savings and small-denomination time deposits (including money market deposit accounts (MMDAs)) at all depository institutions, overnight repurchase agreements (RPs) at commercial banks, overnight Eurodollars held at foreign branches of U.S. banks by U.S. residents other than banks, and money market mutual fund shares other than those restricted to institutions. M3 is M2 plus large-denomination time deposits at all depository institutions, large-denomination term RPs at commercial banks and savings and loan associations, institution-only money market mutual funds, and term Eurodollars held by U.S. residents in Canada and the United Kingdom and at foreign branches of U.S. banks elsewhere.

December meeting. Most other market rates moved somewhat lower, reflecting a perception of a slowing in the economic expansion and an abatement of seasonal pressures after the mid-December tax date. Yields on private short-term debt and on corporate and municipal bonds declined about ½ to ⅝ percentage point while yields on most Treasury securities fell about ¼ percentage point. Average rates on new commitments for fixed-rate conventional home mortgage loans also fell slightly over the intermeeting period.

The staff projections presented at this meeting continued to indicate that real GNP would grow at a moderate pace in 1984. Consumption expenditures, new residential construction, and business inventory investment were projected to expand at reduced rates in 1984. Business fixed investment was expected to remain a source of strength, and export demand was believed likely to improve in conjunction with rising world economic activity and an expected drop in the foreign exchange value of the dollar. A decline in the unemployment rate was anticipated over the projection period. Prices were expected to increase marginally more than in 1983.

In the Committee's discussion of the economic situation and outlook, the members agreed that growth in real GNP was likely to moderate in 1984 and that the rate of unemployment would probably fall somewhat further by year-end. The members referred to the performance of real GNP in the fourth quarter and to other recent data that suggested slower economic expansion. On the other hand, it was observed that domestic final demands were well maintained in the fourth quarter and that economic activity would continue to be sustained by a stimulative fiscal policy.

Most of the members expected prices to rise somewhat faster on average in 1984 than in 1983, reflecting growing cost pressures likely to be associated with the cyclical rise in capacity utilization rates and declining unemployment and special circumstances such as the impact of adverse weather conditions on food prices. Concern was also expressed that a possible decline in the foreign exchange value of the dollar could also tend to have some inflationary impact on the domestic economy; that impact, one member commented, would be greater if it occurred at a time when the economy had a reduced margin of idle capacity.

For this meeting, the individual members of the Committee had prepared specific projections of economic activity, the rate of unemployment, and average prices. For the period from the fourth quarter of 1983 to the fourth quarter of 1984, the central tendency of the members' projections for growth in real GNP was in a range of 4 to 4¾ percent, while the range for all members was 3½ to 5 percent. The central tendency for the GNP deflator was a range of 4½ to 5 percent, and for growth in nominal GNP it was a range of 9 to 10 percent. Projections for the rate of unemployment in the fourth quarter of 1984 varied from 7¼ to 8 percent, with a central tendency of 7¼ to 7¾ percent. These projections were based on the Committee's objectives for monetary and credit growth established at this meeting, and on the assumption that any legislation to reduce substantially the deficit in the federal budget would affect mainly the years beyond 1984.

The members expressed a great deal of concern at this meeting about the risks that unprecedented deficits in the federal budget posed for the sustainability of the economic expansion and the stability of financial markets, domestic and international. Unless decisive action were taken to reduce the deficits, federal financing needs would continue to absorb a large part of available net savings in the economy and curtail the availability of credit to private borrowers at a time in the cyclical expansion when business credit demands were likely to be growing. The result would be to increase pressures in financial markets with potentially adverse consequences for interest-sensitive sectors of the economy such as housing and long-term business investment. Moreover, unprecedented net capital inflows from abroad, which helped to finance domestic credit needs, might well prove to be unsustainable and their eventual diminution or reversal could have highly unsettling effects on domestic credit markets. Concern was also expressed about the risks to the domestic economy and financial markets from other international conditions, such as the severe debt-servicing problems of several developing countries.

At this meeting the Committee completed the review, begun at the December meeting, of the

1984 growth ranges for the monetary and credit aggregates that it had tentatively set in July within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey–Hawkins Act). Those tentative ranges included growth of 6½ to 9½ percent for M2 and 6 to 9 percent for M3 during the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee had indicated that growth of M1 in a range of 4 to 8 percent over the same period was likely to be consistent with the ranges for the broader aggregates. The associated range for total domestic nonfinancial debt was provisionally set at 8 to 11 percent for 1984.

In the Committee's discussion, nearly all the members indicated that the ranges tentatively established for 1984 remained acceptable, although some expressed a preference for slightly lower ranges for one or more of the aggregates. The members viewed the various ranges under consideration as broadly consistent with the objectives of promoting sustainable growth in economic activity and encouraging progress toward price stability. While all of the tentative ranges for 1984 represented reductions from the 1983 ranges, slight further reductions would, in the view of some members, help to underscore the Committee's commitment to an anti-inflationary policy. With regard to the range for M2, a small additional reduction was also favored on technical grounds to make the resulting range for 1984 more consistent with the reduced ranges contemplated for the other monetary aggregates. The 1983 range for M2 had been set slightly on the high side to allow for some residual shifting of funds into that aggregate associated with the introduction of money market deposit accounts; those shifts had in fact occurred to about the extent expected, but they now appeared to have been virtually completed.

The ranges under consideration for 1984 assumed that the relationships between the monetary aggregates and nominal GNP—the velocity of money—would be broadly consistent with past trends and cyclical patterns following atypical behavior in 1982 and early 1983. A tendency for velocity to rise as 1983 progressed suggested a return toward earlier velocity patterns, but several Committee members believed that more experience was needed before that trend was confirmed. Accordingly, they emphasized the desirability of interpreting actual monetary growth in the context of the emerging performance of the economy, the outlook for inflation, and conditions in domestic and international financial markets. The members also recognized that recent regulatory and institutional developments might be reflected in some permanent changes in the underlying trends of velocity, particularly that of M1. Those changes were not yet knowable, given the limited experience under the deregulated institutional structure.

In this situation most members agreed that for the time being substantial weight should continue to be placed on M2 and M3 in policy implementation, while growth in M1 should be evaluated in light of the performance of the broader aggregates. The view was expressed that emphasis on the broader aggregates appropriately recognized the remaining uncertainties with respect to the relationship between M1 and economic activity, and it was also observed that the use of a relatively wide range for M1 tended to work in the same direction. However, one member urged placing primary emphasis on M1 and also supported a narrower range for that aggregate, noting that the introduction of contemporaneous reserve accounting provided an opportunity to exert closer control over its short-run behavior. A number of other members supported giving M1 greater weight, if not primary emphasis, in light of what they viewed as the emergence of a more predictable pattern in its velocity, at least in relation to that of M2 and of M3. Still other members were not prepared to increase the policy role of M1, at least at this time. In the view of these members, the prospective behavior of M1 velocity remained subject to unusual uncertainties, in part because of the institutional changes reflected in the increased role in M1 of NOW (negotiable order of withdrawal account) and Super NOW components, which bear interest and serve both a transactions and a longer-term savings function. These and related changes made it difficult to anticipate the public's demand for cash balances under varying circumstances or the response of depository institutions in altering terms on the newer components of M1.

Nearly all the members agreed that the Committee should not increase the weight given to the behavior of total domestic nonfinancial debt but should continue to monitor the expansion in such debt. However, one member favored giving primary emphasis to this variable. Most of the members endorsed a reduction in its range for 1984 in light of its historical relationship with nominal GNP. The upper part of the tentative range allowed for the possibility that its growth might outpace that of nominal GNP in 1984 as had often occurred in the second year of past cyclical recoveries.

After further discussion most of the members indicated that they favored or found acceptable the reduced ranges for monetary and credit growth that the Committee had tentatively approved in July for 1984, subject to a further reduction of ½ percentage point in the range for M2. A few members would have preferred an additional reduction of ½ percentage point in the range for M1. It was anticipated that actual growth of the broader aggregates and total debt of domestic nonfinancial sectors might fluctuate in the upper part of their ranges. For M1, growth around the midpoint of its range appeared likely on the assumption of relatively normal growth in its velocity, but if velocity growth remained weak compared with historical experience, M1 expansion might appropriately be higher in the range. The actual growth of M2 and M3 would be affected by the aggressiveness with which depository institutions sought to influence their share of total credit growth in an environment where interest rate ceilings had largely been deregulated. Growth in the broader aggregates was also thought likely to be affected by inflows of capital from abroad. In particular, a portion of bank credit expansion during 1984 might be funded through nonresident placements in the Eurodollar market rather than directly in domestic deposits. Such expansion would not be reflected in M2 or M3, and growth in those aggregates would therefore tend to be somewhat restrained relative to growth in bank credit and nominal GNP.

At the conclusion of its discussion the Committee adopted the ranges for monetary and credit growth in 1984 that had been tentatively approved in July, but with a reduction of ½ percentage point in the range for M2 from the tentative target. The behavior of all of the aggregates would be interpreted against the background of economic and financial developments, including conditions in domestic credit and international markets. The Committee did not anticipate any further regulatory or statutory changes that would significantly affect monetary growth rates in 1984. However, if some outstanding proposals for change were enacted and took effect in 1984, such as the payment of interest on demand deposits and/or on reserve balances, the Committee would have to reconsider its monetary growth ranges, especially for M1.

The following paragraphs relating to the longer-run ranges were approved:

The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Morris.

Mr. Morris dissented from this action because he believed that regulatory changes and financial innovations had made M1, M2, and M3 unsuitable targets for monetary policy since, in his view, they were no longer predictably related to nominal GNP. Accordingly, he preferrred to focus on total domestic nonfinancial debt and total liquid assets as intermediate targets for monetary policy.

In the Committee's discussion of policy for the short run, all of the members indicated that they could support a policy directed toward maintaining essentially the existing degree of restraint on reserve positions. Such a policy was thought likely to be associated with short-run growth in the monetary aggregates consistent with the Committee's objectives for the year. With regard to deviations in pressure on reserve positions toward lesser or greater restraint in response to incoming information, many members endorsed a symmetrical approach that would relate any deviation in either direction to the behavior of the monetary aggregates and to emerging indications of the strength of the business expansion and inflationary pressures in the economy. Other members preferred somewhat more asymmetrical approaches. A few members would give more weight to the potential need for easing of reserve conditions should monetary growth prove weaker than anticipated, while being a bit more tolerant, up to a point, of some tendency for the aggregates to strengthen. Other members believed the Committee should be prepared to move promptly toward restraint if monetary growth should accelerate, particularly in the context of a more ebullient economy. No member anticipated developments that would call for a substantial change in the degree of reserve pressure over the weeks ahead.

In their discussion the members took note of uncertainties associated with the introduction of contemporaneous reserve accounting on February 2. The members agreed that no substantial changes would be made in open market operating procedures at this time, but they anticipated the passage of some time before depository institutions fully adjusted their reserve management to the new accounting system. In that interval, for instance, depository institutions might want to hold more excess reserves than usual. The members agreed that such developments would need to be accommodated by adjustments to reserve paths.

At the conclusion of the Committee's discussion, the members indicated their acceptance of a short-run policy directed at maintaining the existing degree of restraint on reserve positions. The members expected such a policy to be associated with growth of both M2 and M3 at an annual rate of around 8 percent for the period from December to March and growth of M1 at an annual rate of about 7 percent over the three-month period. The rate of expansion in total domestic nonfinancial debt was thought likely to be within the Committee's monitoring range for 1984. The members agreed that lesser restraint on reserve conditions would be acceptable in the event of a significant shortfall in the growth of the aggregates over the period ahead, while somewhat greater restraint might be acceptable in the context of more rapid growth in the aggregates. In either case, the need for lesser or greater restraint on reserves would also be evaluated against the background of developments relating to the strength of the business expansion and of inflationary pressures. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, would remain at 6 to 10 percent.

The following directive, embodying the Committee's longer-run ranges and its short-run operating instructions, was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting indicates that the advance in real GNP moderated in the fourth quarter, following rapid expansion in the spring and summer. In December, industrial production and nonfarm payroll employment increased somewhat further and the civilian unemployment rate declined 0.2 percentage point to 8.2 percent. Retail sales were reported to have changed little in December following sizable gains in preceding months. Housing starts declined in December but for the fourth quarter as a whole were close to their average for the year. Recent data indicate substantial strength in business capital spending. Producer prices were about unchanged on average in November and December, and consumer prices increased at about the moderate pace recorded for the year as a whole. The index of average hourly earnings rose somewhat faster in the fourth quarter than in the previous quarter, but for the year 1983 the index increased more slowly than in 1982.

The foreign exchange value of the dollar against a trade-weighted average of major foreign currencies has appreciated somewhat further since the latter part of December, with most of the rise occurring in early January. In the fourth quarter the U.S. foreign trade deficit was markedly higher than in the third quarter, reflecting a sharp rise in non-oil imports.

M2 and M3 have expanded at moderate rates over the past two months. Expansion in M1 apparently accelerated in January, following several months of reduced growth. By the fourth quarter M2 was at a level close to the midpoint of the Committee's range for 1983, M3 was around the upper limit of its range, and M1 was around the middle of the Committee's monitoring range for the second half of the year. Most interest rates have declined somewhat since the latter part of December.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. The Committee established growth ranges for the broader aggregates of 6 to 9 percent for both M2 and M3 for the period from the fourth quarter of 1983 to the fourth quarter of 1984. The Committee also considered that a range of 4 to 8 percent for M1 would be appropriate for the same period, taking account of the possibility that, in the light of the changed composition of M1, its relationship to GNP over time may be shifting. Pending further experience, growth in that aggregate will need to be interpreted in the light of the growth in the other monetary aggregates, which for the time being would continue to receive substantial weight. The associated range for total domestic nonfinancial debt was set at 8 to 11 percent for the year 1984.

The Committee understood that policy implementation would require continuing appraisal of the relationships not only among the various measures of money and credit but also between those aggregates and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

In the short run, the Committee seeks to maintain the existing degree of pressure on bank reserve positions, anticipating that approach will be consistent with growth of M2 and M3 each at annual rates of about 8 percent and M1 at an annual rate of about 7 percent during the period from December to March. Growth in nonfinancial debt is expected to be within the range established for the year. Lesser restraint would be acceptable in the context of a shortfall in monetary and credit growth from current expectations, while somewhat greater restraint might be acceptable with more rapid expansion of the aggregates, both viewed in the context of the strength of the business expansion and inflationary pressures.

In implementing policy in the weeks ahead, the Manager was instructed to take account of the uncertainties associated with the introduction of the system of more contemporaneous reserve requirements, particularly including the possibility that depository institutions, during a transition period, may desire to hold more excess reserves.

The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for the short-run operational paragraphs: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

On March 20, the Committee held a telephone conference to review monetary and economic developments following the January 30–31 meeting, including some increase in interest rates over the period. It was noted that economic activity in most sectors was rising with considerable momentum, helping to generate strong demands for credit. While measures of monetary growth have remained broadly in line with objectives for the year, it was also felt that, in the light of current and prospective developments, the Committee would need to remain alert to the possibility of excessive growth in credit and money. Against that background, it was the consensus of the Committee that, in the short interval until the next scheduled meeting, pursuit of the degree of reserve restraint and associated reserve paths, consistent with the money and credit objectives set at the January 30–31 meeting, should not be constrained by a federal funds rate at or above the monitoring range set at that meeting.

Legal Developments

AMENDMENTS TO REGULATION K

The Board of Governors has amended 12 CFR Part 211, Regulation K, to establish uniform requirements for the accounting for fees associated with the restructuring of international lending arrangements and nonrefundable fees charged by banking institutions in connection with other international loans. These regulations implement one aspect of the joint program of the Federal banking agencies to strengthen the supervisory and regulatory framework relating to foreign lending by U.S. banking institutions, incorporated in section 906 of the International Lending Supervision Act of 1983.

The effective date of the regulations is June 30, 1984, except for subsection 211.45(a) which is effective March 29, 1984. The Board has amended 12 CFR Part 211, Subpart D, as follows:

Part 211—International Banking Operations

1. By redesignating paragraph 211.42(d) as 211.42(h) and by adding new paragraphs 211.42(d), (e), (f) and (g), to read as follows:

Section 211.42—Definitions

* * * * *

(d) "International loan" means a loan as defined in the instructions to the "Report of Condition and Income" for the respective banking institution (FFIEC Nos. 031, 032, 033 and 034) and made to a foreign government, or to an individual, a corporation, or other entity not a citizen of, resident in, or organized or incorporated in the United States.

(e) "International syndicated loan" means a loan characterized by the formation of a group of "managing" banking institutions and, in the usual case, assumption by them of underwriting commitments and participation in the loan by other banking institutions.

(f) "Loan agreement" means the documents signed by all of the parties to a loan, containing the amount, terms and conditions of the loan, and the interest and fees to be paid by the borrower.

(g) "Restructured international loan" means a loan that meets the following criteria:

(1) The borrower is unable to service the existing loan according to its terms and is a resident of a foreign country in which there is a generalized inability of public and private sector obligors to meet their external debt obligations on a timely basis because of a lack of, or restraints on the availability of, needed foreign exchange in the country; and

(2) the terms of the existing loan are amended to reduce stated interest or extend the schedule of payments; or

(3) a new loan is made to, or for the benefit of, the borrower, enabling the borrower to service or refinance the existing debt.

* * * * *

2. By adding a new section 211.45, to read as follows:

Section 211.45—Accounting for Fees on International Loans

(a) *Restrictions on fees for restructured international loans.* No banking institution shall charge any fee in connection with a restructured international loan unless all fees exceeding the banking institution's administrative costs, as described in subsection (c)(2) of this section, are deferred and recognized over the term of the loan as an interest yield adjustment.

(b) *Amortizing fees.* Except as otherwise provided by this section, fees received on international loans shall be deferred and amortized over the term of the loan. The interest method should be used during the loan period to recognize the deferred fee revenue in relation to the outstanding loan balance. If it is not practicable to apply the interest method during the loan period, the straight-line method shall be used.

(c) *Accounting treatment of international loan or syndication administrative costs and corresponding fees.*

(1) Administrative costs of originating, restructuring, or syndicating an international loan shall be expensed as incurred. A portion of the fee income equal to the banking institution's administrative costs may be recognized as income in the same period such costs are expensed.

(2) The administrative costs of originating, restructuring, or syndicating an international loan include those costs which are specifically identified with

negotiating, processing and consummating the loan. These costs include, but are not necessarily limited to: legal fees; costs of preparing and processing loan documents; and an allocable portion of salaries and related benefits of employees engaged in the international lending function and, where applicable, the syndication function. No portion of supervisory and administrative expenses or other indirect expenses such as occupancy and other similar overhead costs shall be included.

(d) *Fees received by managing banking institutions in an international syndicated loan.* Fees received on international syndicated loans representing an adjustment of the yield on the loan shall be recognized over the loan period using the interest method. If the interest yield portion of a fee received on an international syndicated loan by a managing banking institution is unstated or differs materially from the pro rata portion of fees paid other participants in the syndication, an amount necessary for an interest yield adjustment shall be recognized. This amount shall at least be equivalent (on a pro rata basis) to the largest fee received by a loan participant in the syndication that is not a managing banking institution. The remaining portion of the syndication fee may be recognized as income at the loan closing date to the extent that it is identified and documented as compensation for services in arranging the loan. Such documentation shall include the loan agreement. Otherwise, the fee shall be deemed an adjustment of yield.

(e) *Loan commitment fees.*

(1) Fees which are based upon the unfunded portion of a credit for the period until it is drawn and represent compensation for a binding commitment to provide funds or for rendering a service in issuing the commitment shall be recognized as income over the term of the commitment period using the straight-line method of amortization. Such fees for revolving credit arrangements, where the fees are received periodically in arrears and are based on the amount of the unused loan commitment, may be recognized as income when received provided the income result would not be materially different.

(2) If it is not practicable to separate the commitment portion from other components of the fee, the entire fee shall be amortized over the term of the combined commitment and expected loan period. The straight-line method of amortization should be used during the commitment period to recognize the fee revenue. The interest method should be used during the loan period to recognize the remaining fee revenue in relation to the outstanding loan balance. If the loan is funded before the end of the commitment period, any unamortized commitment fees shall be recognized as revenue at that time.

(f) *Agency fees.* Fees paid to an agent banking institution for administrative services in an international syndicated loan shall be recognized at the time of the loan closing or as the service is performed, if later.

Amendments to Regulation T

The Board of Governors has amended 12 CFR Part 220—Credit By Brokers and Dealers to permit an options clearing agency to accept margin securitites to meet its deposit requirements. This action is being taken to facilitate regulatory coordination with the recent SEC approval of an Options Clearing Corporation program whereby the class of securities eligible for the options clearing agency's deposit requirements were expanded.

Effective April 13, 1984, Regulation T is amended by removing paragraphs 220.14(b)(3) and (4), and adding a new paragraph 3 as set forth below:

Part 220—Credit By Brokers and Dealers

Section 220.14—Clearance of Securities

* * * * *

(b)***

(3) The deposit consists of any margin security and complies with the rules of the clearing agency which have been approved by the SEC.

Bank Holding Company, Bank Merger, and Bank Service Corporation Orders Issued by the Board of Governors

Orders Issued under Section 3 of Bank Holding Company Act

Avenue Financial Corporation
Oak Park, Illinois

Order Approving Formation of Bank Holding Company

Avenue Financial Corporation, Oak Park, Illinois, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("Act")(12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring Transworld Corporation, Lake Forest, Illinois ("Transworld"), and thereby acquiring Transworld's subsidiary banks, Dempster Plaza State Bank, Niles, Illinois ("Dempster Bank"), and Northlake Bank, Northlake, Illinois ("Northlake Bank"). Applicant also proposes to acquire Avenue Bank of Elk

Grove, Elk Grove Village, Illinois ("Elk Grove Bank").

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

Applicant is a nonoperating corporation formed to acquire Transworld and Avenue Bank. Upon consummation of this proposal, Applicant would control 0.05 percent of total commercial bank deposits in Illinois, and thus consummation of the proposal would not have a significant effect on the concentration of banking resources in the state. Principals of Applicant are affiliated with First National Bank of Deerfield, Deerfield, Illinois ("Deerfield Bank"), and with Avenue Bank and Trust Company, Oak Park, Illinois ("Oak Park Bank").

Dempster Bank, Northlake Bank, Elk Grove Bank, Deerfield Bank, and Oak Park Bank all compete in the Chicago banking market.[1] Dempster Bank controls total deposits of $24.6 million, representing 0.04 percent of total deposits in commercial banks in the market.[2] Northlake Bank controls total deposits of $13.6 million, or 0.02 percent of market deposits, and Elk Grove Bank controls total deposits of $10.1 million, which also represents approximately 0.02 percent of market deposits. Thus, upon consummation of this proposal, Applicant will control total deposits of $48.3 million, representing 0.08 of market deposits. Deerfield Bank controls total deposits of $48.5 million, or 0.08 percent of market deposits, and Oak Park Bank controls total deposits of $119.2 million, or 0.20 percent of market deposits. The five banks combined control total deposits of $216 million, representing 0.36 percent of total deposits in commercial banks in the market.

The Chicago banking market is not highly concentrated and there are numerous competitors in the market significantly larger than the combination of these five banks. In view of the small relative and absolute size of the banks involved and other facts of record, the Board finds that consummation of this proposal would not have a significant effect on existing competition, nor would it adversely affect the concentration of banking resources in any relevant area. Accordingly, considerations relating to competitive factors under the Act are consistent with approval of Applicant's proposal.

1. The Chicago banking market is defined as Cook, Lake, and DuPage Counties, Illinois.

2. Banking data are as of June 30, 1983.

The financial and managerial resources and future prospects of the companies and banks involved in this proposal are generally satisfactory, and considerations relating to banking factors under the Act are consistent with approval of Applicant's proposal. Applicant has proposed no new services for any of the banks involved in its proposal. However, there is no evidence that the banking needs of the community to be served are not being met. Accordingly, considerations relating to the convenience and needs of the communities to be served are consistent with approval of Applicant's proposal.

Based on the foregoing, and other facts of record, it is the Board's judgment that consummation of this transaction is consistent with 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 following the effective date of this Order, unless such latter period is extended for good cause by the Board or by the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 16, 1984.

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

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

Bankers' Bancorporation of Wisconsin, Inc. Madison, Wisconsin

Order Approving Formation of a Bank Holding Company

Bankers' Bancorporation of Wisconsin, Inc., Madison, Wisconsin, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("Act") (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring all of the voting shares of Wisconsin Independent Bank, Madison, Wisconsin ("Bank").

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. The time for filing comments and views has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)).

Applicant is a nonoperating corporation organized for the purpose of acquiring Bank, with total deposits of $4 million.[1] Bank, a Wisconsin-chartered "bankers' bank," is owned by 122 Wisconsin state and national banks and may only engage in providing banking and banking-related services to other banks.[2]

Bank does not do business with the general public; instead, it operates as a correspondent bank for 122 Wisconsin community banks, providing services including cash letter clearing, loan participations, short-term investment services, and coin and currency operations. Accordingly, Bank only competes with other banks that offer correspondent banking services in Wisconsin. Based on total deposits in commercial banks in the state, Bank is the smallest of 12 Wisconsin banks that offer correspondent banking services in the state.[3] Further, Applicant's proposal is essentially a corporate reorganization. The Board has determined that consummation of this proposal will have no significant effect on competition, either existing or potential, and will not affect the concentration of banking resources in Wisconsin.

The financial and managerial resources of Applicant and Bank are considered generally satisfactory, in view of the nature of the activities of a bankers' bank, and the prospects of each appear favorable. Although Applicant has proposed no new correspondent activities for Bank upon consummation of this proposal, acquisition of Bank by Applicant would allow greater flexibility in providing the services that Bank's competitors deliver through their nonbank affiliates. Moreover, a bank holding company structure would expand the sources of capital available to Bank and any future nonbank affiliates, and could make Bank more competitive with other banks offering correspondent banking services in Wisconsin. Accordingly, factors relating to the convenience and needs of the community to be served are consistent with approval of this proposal.

Based on the foregoing and other facts of record, the Board has determined that this 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 Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 8, 1984.

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

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

1. Banking data are as of June 30, 1983.
2. Wisconsin law allows the establishment of "bankers' banks," provided all of their stock is owned by two or more state or national banks whose home offices are located in Wisconsin or by a bank holding company owned by two or more state or national banks whose home offices are located in Wisconsin. Wis Stat §§ 221.04(4g) and 221.57 "Bankers' banks" have all the powers of other Wisconsin state banks, except that their activities are restricted solely to providing banking and banking-related services to other banks. Wis. Stat. § 221.57 "Bankers' banks" are defined in section 2(c) of the Act as "banks" for the purposes of the Act. 12 U.S.C. § 1841(c).
3. In addition, several money center banks located in New York, Chicago, and Minneapolis offer correspondent banking services to Wisconsin banks.

Concord Bancshares, Inc.
Overland Park, Kansas

Order Approving Formation of a Bank Holding Company

Concord Bancshares, Inc., Overland Park, Kansas, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act of 1956, as amended ("Act")(12 U.S.C. § 1842(a)(1)), to become a bank holding company by acquiring all of the voting shares of College Boulevard National Bank, Overland Park, Kansas.

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

Applicant, a nonoperating company, was organized for the purpose of becoming a bank holding company by acquiring Bank. Bank, with deposits of $4.5 million, is one of the smallest banks in Kansas, holding 0.03 percent of the total deposits in commercial banks in the state.[1] Bank is the smallest of 134 banks in the Kansas City banking market [2] and controls less than 0.01 percent of the total deposits in commercial banks in that market. One of Applicant's principals is also affiliated with two other banking organizations that operate in the market. On a combined basis, the three organizations control 0.4 percent of the total deposits in commercial banks in the market. In light of these facts, the Board concludes that consummation of this

1. Banking data are as of December 31, 1982.
2. The Kansas City banking market is defined as the Kansas City, Missouri, Ranally Metro Area.

transaction would not result in any significant adverse effects upon competition or increase the concentration of banking resources in any relevant area.

The financial and managerial resources of Applicant and Bank are considered satisfactory and their prospects appear favorable. Although Applicant will incur some debt in connection with the proposed acquisition, it appears that Applicant will have sufficient resources to service the debt without adversely affecting Bank. Considerations relating to the convenience and needs of the community to be served are also consistent with approval.

On the basis of these and other facts of record, it is the Board's judgment that the application should be, and hereby 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 Kansas City pursuant to delegated authority.

By order of the Board of Governors, effective March 8, 1984.

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

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

Dacotah Bank Holding Company
Aberdeen, South Dakota

Order Denying Acquisition of Bank

Dacotah Bank Holding Company, Aberdeen, South Dakota, 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 100 percent of the voting shares of The First National Bank of Selby, Selby, South Dakota ("Bank").

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. The time for filing comments and views 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 fourth largest banking organization in South Dakota, controls seven banks with total deposits of $186.8 million, representing 3.5 percent of the total deposits in commercial banks in the state.[1] Upon acquisition of Bank, with deposits of $18.6 million, Applicant's share of deposits in commercial banks in South Dakota would increase by only 0.4 percent. Accordingly, consummation of this proposal would not have an appreciable effect upon the concentration of commercial banking resources in South Dakota.

Bank is located in Walworth County, South Dakota. Applicant currently has one banking subsidiary located in Walworth County, Citizens Bank of Mobridge, Mobridge, South Dakota ("Mobridge Bank"). Walworth County and the counties surrounding it are sparsely populated, rural areas in the north-central part of South Dakota. The primary industry in the counties is agriculture.

Applicant contends that Walworth County should be divided into two separate banking markets, with the eastern three-fourths of the county, where Bank is located, plus the adjoining southern one-half of Campbell County, less the western one-fourth of that county, regarded as the relevant geographic banking market for the purposes of analyzing the competitive effects of the proposed transaction. Applicant's proposed market would exclude the northwestern one-fourth of Walworth County, including the town of Mobridge where Mobridge Bank is located, and the southeastern one-fifth of the county. Bank would be the only commercial bank located in this geographic market proposed by Applicant. Applicant bases its contention on the lack of significant primary service area overlap between Bank and Mobridge Bank, and the absence of characteristics that encourage commercial interaction between the towns of Mobridge and Selby.

Alternatively, Applicant asserts that, if the Board were to find that Bank and Mobridge Bank were in the same banking market, then the relevant banking market would have to be expanded to include the city of Aberdeen, South Dakota,—80 miles from Selby—and all of the five intervening rural counties of Walworth, Potter, Campbell, McPherson, and Edmunds, as well as the western one-half of Brown County, South Dakota, where Aberdeen is located. Applicant bases its contention on the reasoning that Selby residents could turn to banks as far away as Aberdeen for banking services because there is some evidence that Selby and Mobridge residents occasionally travel to Aberdeen, primarily for the purpose of shopping.

The Board has indicated that the relevant geographic banking market must reflect commercial and bank-

1. All state banking data are as of March 31, 1983

ing realities and be economically significant.[2] In situations such as presented by this application, the Board has stated that the relevant geographic market consists of the area in which the banks involved offer their services and to which their customers can practicably turn for alternatives.[3] As the Supreme Court has stated, "the proper question is not where the parties to the merger do business or even where they compete, but where, within the area of competitive overlap, the effect of the merger on competition will be direct and immediate." *United States* v. *Philadelphia National Bank*, 374 U.S. 321, 357 (1963). This area "must be charted by careful selection of the market area in which the seller operates and to which the purchaser can practicably turn for supplies." Id. at 359.

Applying these principles to the facts of this case, the Board concludes that the relevant geographic market within which to evaluate the competitive effects of this proposal consists of Walworth and Campbell Counties, South Dakota, plus the northern one-half of Potter County, the eastern three-fourths of Dewey County, and the eastern one-half of Corson County, all in South Dakota.

This market delineation is supported in part by a study done in 1966 by South Dakota State University which identified Mobridge as a trade center with a trade area that included the relevant banking market.[4] In addition, the facts show that Mobridge and Selby are located 21 miles apart with no intervening geographic barriers, and that Mobridge is the primary population center for Walworth County and the surrounding areas included in the relevant geographic market.[5] The closest towns of at least similar size in South Dakota with at least comparable commercial alternatives to Mobridge are Pierre and Aberdeen, which were identified in the South Dakota State University study as the nearest alternative trade areas. Pierre is approximately 109 road miles from Mobridge and 88 road miles from Selby, while Aberdeen is about 101 road miles from Mobridge and 80 road miles from Selby.

2. *St. Joseph Valley Bank*, 68 FEDERAL RESERVE BULLETIN 673 (1982); *Pennbancorp*, 69 FEDERAL RESERVE BULLETIN 548 (1983).

3. E.g., *Wyoming Bancorporation*, 68 FEDERAL RESERVE BULLETIN 313 (1982), aff'd sub nom., *Wyoming Bancorporation* v *Board of Governors*, No. 82-1634, slip op. (10th Cir. Mar 12, 1984). *Independent Bank Corporation*, 67 FEDERAL RESERVE BULLETIN 436 (1981)

4. *Some Guidelines for Organizing Economic Development Efforts in South Dakota Along Trade Area Lines*, by John T. Stone, Cooperative Extension Service, South Dakota State University, Extension Circular 651 (1966). The Mobridge trade area was larger than the relevant banking market, as defined by the Board. However, the localized nature of banking services suggests that the radius of a banking market should be smaller than that of a trade area

5. Mobridge has a population of 4,174. Selby has a population of 884.

The towns of Mobridge and Selby are connected by U.S. Route 12, a direct and well-maintained highway which is the main east-west route in northern South Dakota. South Dakota Department of Transportation statistics show that the average daily traffic count on the road between Selby and Mobridge is approximately 1,635 vehicles, but only 910 vehicles west of Mobridge and 1,425 east of Selby.[6]

A survey commissioned by Applicant and conducted in July 1983 showed that over 50 percent of the Mobridge respondents had made at least one visit to Selby in the past 12 months, and all of the Selby respondents had visited Mobridge at least once during that period.

In addition, each town has characteristics that encourage commercial interaction between them. Mobridge offers medical services that Selby lacks, including a hospital, medical clinics, doctors and optometrists. Mobridge, which is situated on the Missouri River, offers recreational opportunities, such as fishing, boating, and other sports associated with the Missouri River and Lake Oahe to the south of Mobridge. Mobridge has certain commercial facilities that are not available in Selby. Selby is the Walworth County seat and, therefore, is the center for government facilities in the county. A number of county offices, on the other hand, are located in Mobridge, including the State's Attorney's office, the circuit judge's office, and a courtroom.[7] Selby has the only Farmers Home Administration office in Walworth County, while Mobridge has the county's only Federal Land Bank office. Finally, Walworth County's only radio station is located in Mobridge.

A study of checks and other cash items conducted by Applicant at both Bank and Mobridge Bank during a nine-day period in June 1983 shows that an average of 125.4 cash items per day flow from Bank to both the Mobridge Bank and the only other commercial bank located in Mobridge, Norwest Bank-Mobridge. The study also reveals that an average of 77.4 cash items per day flow from Mobridge Bank alone to Bank. Assuming that Bank receives cash items from Norwest Bank-Mobridge in proportion to that bank's deposits, Bank would have received an additional 95.2 cash items per day from Norwest Bank-Mobridge, or a total average of 172.6 cash items per day from both Mobridge banks. In view of the fact that there are only

6. Applicant disputed the reliability of the traffic count, primarily on the basis that U.S. Route 84 joins U.S. Route 12 from the north about three miles northwest of Selby. Although the Board recognizes that exact data for traffic flow between Mobridge and Selby cannot be obtained, the traffic counts available indicate that a substantial amount of traffic passes between Mobridge and Selby on a daily basis.

7. The record indicates that most sessions of the circuit court are held in Mobridge.

about 884 residents of Selby, this activity indicates a substantial reliance on Mobridge by residents of Selby for goods and services. The data also indicate a smaller, but significant, reliance on Selby by Mobridge residents for goods and services.

The Board has also considered the areas from which Bank and Mobridge Bank derive their business. Applicant has indicated that Bank derives 3.0 percent of its deposits and 2.1 percent of its loans from Mobridge Bank's primary service area, while Mobridge Bank derives 8.8 percent of its deposits and 3.4 percent of its loans from Selby Bank's primary service area. These statistics demonstrate that some customers in each town have found it practical to do banking business in the other town and that there is existing competition between the two banks.[8] This evidence also indicates that neither Bank nor Mobridge Bank has regarded the other town as being so far removed from its major service area as to warrant a refusal to extend credit to borrowers there.[9]

Applicant argues that neither Bank nor Mobridge Bank solicits business from the other's service area, as evidenced by the fact that neither bank advertises in the newspaper outside of the town where it is located. In addition, Applicant asserts that, because the percentage of the total circulation that the Selby and Mobridge weekly newspapers each have in the other town is less than five percent, advertising in one paper does not reach a significant portion of households in the other town. While the Board believes that these data show that a relatively insignificant proportion of Mobridge residents read the Selby newspaper, they reveal that a substantial percentage of Selby residents read the Mobridge paper. Although Applicant correctly points out that the percentage of the Mobridge newspaper's total circulation in Selby is less than five percent, the percentage of Selby residents in terms of population that read the Mobridge newspaper is at least 23.4 percent. This number, in itself not insignificant, would be much higher if taken as a proportion of Selby households. Consequently, the Board concludes that advertising in the Mobridge paper reaches a significant portion of Selby households. Finally, it appears that the radio station broadcasting from Mobridge is received in Selby, so that advertising on the Mobridge radio station reaches residents of both towns.

8. It is likely that Norwest Bank-Mobridge and the only other financial institution in Mobridge, a thrift institution, also obtain a significant percentage of their deposits from Selby Bank's service area.

9. Applicant itself has previously indicated that Mobridge Bank's "local community" for purposes of the Community Reinvestment Act includes the town of Selby. Delineation of a bank's "local community" for this purpose involves many of the same considerations involved in delineating a geographic market.

Applicant contends that the differences in interest rates charged on loans by Bank and Mobridge Bank over the 12 months of 1983 indicate a lack of competition between the two banks. Numerous other factors also affect interest rates, however, such as the maturity of a loan, the level of monthly or other payments, the amount of collateral required, and the level of any compensating balances required. Applicant's contention that the relative interest rates prove a lack of competition between Bank and Mobridge Bank is inconclusive and not supported by the evidence.

In the Board's judgment, based on the relative proximity of Selby and Mobridge, the ready accessibility of each to the other, their relative positions as the economic, recreational, trade and governmental centers of the Walworth County region, the substantial distance to other comparable commercial centers, and the interaction between the two towns, each town offers to residents of the other an available and practical alternative for a variety of services, including banking services. These facts contradict Applicant's thesis that Selby and Mobridge are located in two separate banking markets, each of which is sufficiently isolated from competitive forces in the other such that residents of one would not turn to the other nearby community for banking services. In the Board's view, Applicant's proposed market definition disregards the economic reality and market forces presently existing between the towns of Selby and Mobridge and throughout the Walworth County, South Dakota, area.

Based on these and all of the other facts of record, the Board concludes that the towns of Selby and Mobridge are part of the same relevant geographic market and that this area includes Walworth and Campbell Counties, South Dakota, the northern one-half of Potter County, the eastern three-fourths of Dewey County, and the eastern one-half of Corson County, all in South Dakota.

With respect to Applicant's alternative contention that, if the Board finds that Bank and Mobridge Bank are in the same banking market, then the market should be expanded to include the city of Aberdeen, South Dakota, and all or part of six intervening rural counties, the Board believes that Applicant's alternative expanded market definition is unrealistically large and not supported by substantial evidence. The Supreme Court has indicated that banking is a localized activity and that customers "find it impractical to conduct their banking business at a distance." *United States* v. *Philadelphia National Bank,* 374 U.S. 321, at 357–58 (1963).

While Bank, which is 21 miles from Mobridge, represents a "practicable alternative" for Mobridge Bank customers, the Board concludes that Aberdeen banks, which are about 101 miles from Mobridge and

80 miles from Selby, do not represent practicable banking alternatives for Mobridge and Selby residents. Applicant submitted the results of a telephone survey which indicated that the 15 Selby respondents traveled as frequently to Aberdeen as to Mobridge during a one-year period. However, the Board does not believe that this fact indicates that Aberdeen and Mobridge are in the same geographic banking market. While occasional travel over distances as great as 80 to 100 miles for shopping trips may be reasonable in a rural, sparsely-populated area, the Board believes that it is unlikely that people would maintain their primary banking relationships at institutions located at distances of that magnitude.

There are a total of seven banking organizations in the geographic banking market delineated by the Board; these provide customers of Bank and Mobridge Bank with more convenient and accessible alternatives than the banks in Aberdeen. The Board also notes that available evidence indicates that Aberdeen and Mobridge are two separate trade centers.

Finally, Applicant submitted evidence showing that banks in Aberdeen have some loan customers in the geographic banking market defined by the Board. However, Applicant provided no relevant deposit data, and the number of loans and loan customers are too few to substantiate the existence of meaningful competition.[10]

Accordingly, the Board concludes that the relevant geographic market within which to evaluate the competitive effects of this proposal consists of Walworth and Campbell Counties, South Dakota, the northern one-half of Potter County, the eastern three-fourths of Dewey County, and the eastern one-half of Corson County, all in South Dakota.

Within the relevant banking market, Applicant is the second largest of seven banking organizations, with total deposits of about $29.5 million, which represents 21.5 percent of the total deposits in commercial banks in the market.[11] Bank is the fourth largest banking organization in the market, controlling 12.2 percent of the total deposits in commercial banks in the market. As a result of the proposed acquisition of Bank, Applicant would become the largest commercial banking organization in the market, and its share of market deposits would increase from 21.5 percent to 33.7 percent. The share of deposits held by the four largest commercial banking organizations in the market would increase from 73.0 percent to 84.3 percent, and the Herfindahl–Hirschman Index ("HHI") would increase by 526 points to 2251. Thus, the relevant banking market would become highly concentrated upon consummation of this proposal, and would be subject to challenge under the United States Department of Justice Merger Guidelines (June 14, 1982).[12]

In its evaluation in previous cases of the competitive effects of a proposal, the Board has indicated that thrift institutions have become, or at least have the potential to become, major competitors of commercial banks.[13] In this case, only one thrift institution competes in the relevant banking market. It is the smallest of all the financial institutions in the market and controls deposits of $9.2 million, which represents only 6.3 percent [14] of the total deposits in commercial banks and thrift institutions in the market.[15]

Based upon the foregoing and all the facts of record, the Board concludes that the effect of consummation of this proposal may be substantially to lessen competition in the relevant banking market,[16] and that the inclusion of the single thrift institution as a competitor in the market does not significantly mitigate the anticompetitive effects of the proposal.

The financial and managerial resources of Applicant, its subsidiaries and Bank are generally satisfactory and consistent with approval. The record of this application indicates that Applicant would increase Bank's lending limit, expand the types of loans offered by Bank, and offer Bank's customers various trust services not currently available through Bank. In the Board's view, these considerations do not outweigh the substantially adverse competitive effects of this proposal.

10. The Board notes that Applicant's large alternative market definition excludes three of Applicant's banking subsidiaries that are located within a radius of about 40 miles from Aberdeen, even though it includes Mobridge 101 miles to the west

11. All market data are as of June 30, 1982

12. Under these Merger Guidelines, a market in which the post-merger HHI is above 1800 is considered highly concentrated. In such markets, the Justice Department is likely to challenge a merger that produces an increase in the HHI of 100 points or more, as in this case.

13. *Comerica, Inc.* (Bank of Commonwealth), 69 FEDERAL RESERVE BULLETIN 797 (1983); *General Bancshares Corporation*, 69 FEDERAL RESERVE BULLETIN 802 (1983); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

14 Thrift data are as of September 30, 1982.

15 If the deposits of the one thrift institution were taken into account in computing market shares, Applicant and Bank's combined market share would be 31.9 percent, the HHI would increase 461 points to 2016, and the share of deposits held by the four largest financial institutions in the market would be 79.0 percent.

16. The Board notes that the Justice Department has analyzed the proposed transaction and, using Walworth County, South Dakota, as the relevant banking market, has determined that the proposed transaction would have a significantly adverse effect on competition. Under the Justice Department geographic market definition, Applicant and Bank's combined market share would be 56.1 percent, and the HHI would increase 1455 points to 5074. While the Board disagrees with the Justice Department's definition of the relevant banking market, the Board agrees with the conclusion that the proposal would have a significantly adverse effect on competition.

Based on the foregoing and other considerations reflected in the record, it is the Board's judgment that the proposed acquisition is not in the public interest and that the application should be, and hereby is, denied.

By order of the Board of Governors, effective March 23, 1984.

Voting for this action: Chairman Volcker and Governors Wallich and Partee. Voting against this action: Governors Martin and Rice. Absent and not voting: Governors Teeters and Gramley.

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

Dissenting Statement of Vice Chairman Martin and Governor Rice

We agree with the Board's definition of the relevant banking market in this case. However, we would approve this application because we believe that, notwithstanding the substantial market shares that would result from consummation of this proposal, the anticompetitive effects of the transaction are substantially mitigated by the presence in the relevant banking market of the largest commercial banking organization operating in South Dakota, Norwest Bancorporation ("Norwest"), which commands total assets of nearly $18 billion. Norwest controls the largest commercial bank in the market, Norwest Bank-Mobridge, with $36.3 million in deposits, representing 26.4 percent of the total deposits in commercial banks in the market. In our view, this bank's competitive influence in the relevant market is much greater than its market share would suggest because of its affiliation with Norwest.

Specifically, Norwest can and does provide to all its subsidiary banks, including Norwest Bank-Mobridge, a substantial array of consumer and business banking services, as well as a central pricing system for those services determined by prices offered in the competitive Minneapolis-St. Paul banking market, where Norwest is headquartered. Similarly, we believe that the presence in a banking market of a large organization, such as Norwest, prevents banking organizations of limited size and resources, such as Applicant and The First National Bank of Selby, from using their market power to take advantage of their customers through higher prices or other anticompetitive practices. Consequently, in our view, the degree of anticompetitive effect that might normally be expected to result from a combination of banking organizations with market shares of the size involved here is not likely to result upon consummation of this proposal. Indeed, we believe that the smaller banking organizations in the market, such as Applicant, are placed at a competitive disadvantage relative to Norwest's banking subsidiary in the market. In our view, permitting acquisitions and mergers among smaller competitors in markets dominated by large organizations is essential in order to maintain a competitive environment in such markets.

Accordingly, we dissent from the Board's decision to deny this application.

March 23, 1984

First Chicago Corporation
Chicago, Illinois

Order Approving Acquisition of Bank Holding Company and its Subsidiary Banks

First Chicago Corporation, Chicago, Illinois ("Applicant"), 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)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire 100 percent of the voting shares of American National Corporation, Chicago, Illinois ("Company"), and thereby indirectly to acquire Company's five subsidiary banks: American National Bank and Trust Company of Chicago, Chicago, Illinois ("ANB"); First American Bank of Bensenville, Bensenville, Illinois; First National Bank of Libertyville, Libertyville, Illinois; First Arlington National Bank, Arlington Heights, Illinois ("Arlington Bank");[1] and Elgin National Bank, Elgin, Illinois ("Elgin Bank").[2]

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. The time for filing comments and views 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, the largest commercial banking organization in Illinois, controls one banking subsidiary with total domestic deposits of approximately $13.3 billion, representing 13.6 percent of the total deposits in commercial banks in the state.[3] Company, with total domestic deposits of approximately $2.0 billion, is the

1. Upon consummation of this proposal, Arlington Bank's name would be changed to American National Bank of Arlington Heights, Arlington Heights, Illinois.

2. ANB, one of Company's bank subsidiaries, acquired 90.8 percent of the voting shares of Arlington Bank and 80 percent of the voting shares of Elgin Bank in satisfaction of debts previously contracted. In connection with the acquisition of Company by Applicant, Company intends to acquire these voting shares of the Arlington and Elgin Banks

3. All banking data are as of June 30, 1983.

fifth largest commercial banking organization in Illinois and controls 2.0 percent of the total deposits in commercial banks in the state. Upon consummation of this transaction, Applicant would remain the largest commercial banking organization in Illinois and would control 15.6 percent of the total deposits in commercial banks in the state. Although the Board is concerned about the effect of the combination of the first and fifth largest banking organizations in Illinois on the concentration of banking resources within the state, certain conditions that would exist after the proposed acquisition mitigate that concern. A number of other large bank holding companies would remain in the state upon consummation of this proposal. In addition, the share of commercial bank deposits held by the four largest banking organizations in Illinois would increase to only 36.8 percent after consummation of the proposed merger, and Illinois would remain one of the least concentrated states in the United States. Accordingly, it is the Board's view that consummation of this transaction would not have any significantly adverse effects on the concentration of commercial banking resources in Illinois.

Both Applicant and Company compete in the Chicago banking market.[4] Applicant holds 19.9 percent of the total deposits in commercial banks in the market, and Company holds 2.9 percent of the total deposits in commercial banks in the market. Upon consummation of this transaction, Applicant's share of the total deposits in commercial banks in the market would increase to 22.8 percent.

This proposal represents an acquisition by the largest commercial banking organization in the Chicago banking market to acquire the fifth largest organization in the market and involves a combination of competitors having significant shares of the total deposits in commercial banks in the market. As a general matter, the Board is concerned about proposals that would result in the largest competitors in a market acquiring banking organizations with a significant share of the total deposits in commercial banks in the market. In the absence of the mitigating circumstances discussed below, the competitive effects of such an acquisition could well be so adverse as to warrant denial of the proposal and the Board will carefully scrutinize the effect of any such proposal on competition and the concentration of banking resources in the market.

The Chicago banking market is not concentrated now and would not become concentrated after consummation of this transaction. The share of deposits held by the four largest commercial banking organizations in the market is 50.6 percent and would increase to 53.5 percent upon consummation of the proposal. The Herfindahl–Hirschman Index ("HHI") in the market is 862 and would increase by 116 points to 978 upon consummation of the transaction.[5] In addition, numerous commercial banking organizations, including four of the state's five largest, would remain in the market after consummation of the proposal.

Finally, in its evaluation of the competitive effects of previous proposals, the Board has indicated that thrift institutions have become, or at least have the potential to become, major competitors of commercial banks.[6] On this basis, in a number of cases the Board has accorded substantial weight to the influence of thrift institutions in its evaluation of the competitive effects of a proposal. In this case, the anticompetitive effects of this transaction in the Chicago banking market are further mitigated by the presence of 140 thrift institutions in the market, controlling $26.5 billion in deposits, which represents approximately 28.4 percent of the total deposits in the market.[7] Four of these thrift institutions are among the ten largest financial institutions in the Chicago banking market with over $1 billion in deposits. The record indicates that most of the thrift institutions in the market currently offer a full range of consumer services, NOW accounts and other transaction accounts, and some of them are currently involved in commercial lending activities.[8] On the basis of these and other facts of record, the Board concludes that the effects of consummation of the proposal on existing competition in the Chicago banking market would not be significantly adverse.[9]

Company also competes in the Elgin banking market where Applicant is not represented.[10] Because the

4. The Chicago banking market is approximated by Cook, DuPage, and Lake Counties, all in Illinois.

5. Under the United States Department of Justice Merger Guidelines (June 14, 1982), a market in which the post-merger HHI is below 1000 is considered unconcentrated, and the Department is unlikely to challenge mergers in such markets.

6. *Comerica Inc.* (Bank of the Commonwealth), 69 FEDERAL RESERVE BULLETIN 797 (1983); *General Bancshares Corporation*, 69 FEDERAL RESERVE BULLETIN 802 (1983); *First Tennessee National Corporation*, 69 FEDERAL RESERVE BULLETIN 298 (1983).

7. All deposit data for thrifts are as of September 30, 1982.

8. Under the provisions of the Thrift Institutions Restructuring Act, Title III of the Garn-St Germain Depository Institutions Act of 1982, 96 Stat. 1469, 1499–1500, the commercial lending powers of federally chartered thrift institutions were significantly expanded. A provision in Illinois law grants state-chartered thrift institutions the same lending powers accorded to federal thrift institutions. 32 Ill. Stat. Ann. § 706(c)(1970).

9. If thrift institutions in the Chicago banking market are included in the calculation of market concentration, the share of total deposits held by the four largest organizations in the market (one of which is a thrift institution) would be 39.7 percent, the HHI would be 540, and the combined market share of Applicant and Company would be 16.3 percent.

10. The Elgin banking market is approximated by the southern half of McHenry County, Illinois, excluding the town of Woodstock, and by the northern third of Kane County, Illinois, including the town of Elgin.

Elgin banking market is not highly concentrated (the four largest banking organizations in the market hold 47.5 percent of the total deposits in commercial banks in the market) and there are numerous other probable future entrants into the market, the Board concludes that consummation of this proposal would not have any significant adverse effects on probable future competition in any relevant market.[11]

The financial and managerial resources of Applicant, Company and their subsidiaries are regarded as generally satisfactory and their future prospects appear favorable. The record of this application indicates that Company's existing commercial customers, typically small and mid-sized businesses, would benefit from a number of products and services not conveniently available to them now. These new products include advanced cash management services, capital market and financial advisory services, and export trading services. Applicant also proposes to increase the percentage of its income that it devotes to neighborhood development projects. Consequently, considerations relating to the convenience and needs of the community to be served lend weight toward approval of the application and outweigh any anticompetitive effects that may result from consummation of this proposal. Accordingly, the Board has determined that consummation of the transaction would be consistent with the public interest and that the application should be approved.

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

By order of the Board of Governors, effective March 23, 1984.

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

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

11. Elgin Bank is the tenth largest banking organization in the Elgin banking market, controlling $27.5 million in deposits, which represents 3.8 percent of the total deposits in commercial banks in the market.

Hartford National Corporation
Hartford, Connecticut

Order Approving Acquisition of a Bank Holding Company

Hartford National Corporation, Hartford, Connecticut ("HNC"), a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1841 et seq.) ("BHC Act"), has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)), to acquire Arltru Bancorporation, Lawrence, Massachusetts ("Arltru"), also a bank holding company, and thereby to acquire indirectly The Arlington Trust Company, Lawrence, Massachusetts.

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

HNC, the second largest commercial banking organization in Connecticut, has consolidated assets of $5.9 billion.[1] Its sole subsidiary bank, The Connecticut National Bank ("CNB"), has deposits of $3.1 billion, representing 23.8 percent of the total deposits in commercial banks in the state.[2] Arltru, which has total assets of $819 million and total deposits of $689 million, is the eighth largest bank holding company in Massachusetts. Arltru holds 2.4 percent of all deposits in commercial banks in Massachusetts.

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

1. Banking data are as of September 30, 1983.

2. These figures do not reflect the mergers of CNB with The Mattatuck Bank and Trust Company, Waterbury, Connecticut, or with the three subsidiary banks of First Bancorp, Inc., New Haven, Connecticut, which would increase CNB's deposits by approximately $825 million and make HNC the largest commercial banking organization in Connecticut, with 29 percent of the deposits in commercial banks in the state.

state authorizes on a reciprocal basis the acquisition of a bank in that state by a Massachusetts bank holding company.[3] Connecticut has passed such a reciprocal statute.[4]

The Massachusetts Board of Bank Incorporation has approved the proposed merger pursuant to these reciprocal Interstate Banking Acts, thus finding that the transaction satisfies the reciprocity requirements of the respective statutes authorizing the interstate acquisition of banks. Based upon its review of the Massachusetts Interstate Banking Act, the Board concludes that Massachusetts has by statute expressly authorized a Connecticut bank holding company, such as HNC, to acquire a Massachusetts bank or bank holding company, such as Arltru. Thus, the Massachusetts Act meets the requirement of express authorization for interstate bank acquisitions imposed by section 3(d) of the Bank Holding Company Act.

Citicorp has protested this application and has challenged the constitutionality of the Massachusetts Interstate Banking Act, in particular, its provision that allows only New England bank holding companies[5] to acquire banks or bank holding companies located in Massachusetts.

The Board has stated that in the absence of clear and unequivocal evidence of the inconsistency of a state law with the United States Constitution, it will not hold the state statute to be unconstitutional.[6] In the Board's Order issued today with respect to the application of Bank of New England Corporation, Boston, Massachusetts, to merge with CBT Corporation, Hartford, Connecticut, the Board considered the validity of the Connecticut Interstate Banking Act under the Commerce Clause, Compact Clause, and Equal Protection Clause of the United States Constitution and did not find there to be clear and unequivocal evidence that the Connecticut statute was unconstitutional.

In language and effect, the challenged provisions of the Massachusetts statute parallel the provisions of the Connecticut Interstate Banking Act, and the legislative history of both acts confirms that the two states intended complementary statutes.[7] The Board thus believes that its reasoning with respect to the Connecticut Act's constitutionality applies directly to the Massachusetts Interstate Banking Act. Therefore, for the reasons set forth in detail in the Appendix to the Board's Order approving the application of Bank of New England Corporation, the Board concludes that the Massachusetts Interstate Banking Act is not unconstitutional. Accordingly, the Board will not deny this application on the grounds of unconstitutionality urged by protestant.

In addition to determining that the merger of HNC and Arltru is expressly authorized by a valid statute, as required by section 3(d) of the Bank Holding Company Act, the Board must decide whether this acquisition is consistent with the statutory standards of section 3 of the Act. Arltru's single banking subsidiary, The Arlington Trust Company, operates in the Boston banking market,[8] the largest and the least concentrated of the banking markets in Massachusetts. Arltru is the sixth largest of sixty-four commercial banking organizations in the Boston market and controls 3.1 percent of the total deposits in commercial banks in that market.[9] Inasmuch as none of HNC's banking subsidiaries operates in Massachusetts and Arltru's banking subsidiary does not operate in Connecticut, the proposed transaction would not eliminate any significant existing competition in any relevant banking market. HNC does control a loan production office that operates in the Boston market, but it opened in April 1983, and is not a significant competitor.

The Board has considered the effects of this proposal on probable future competition and has also examined the proposal in light of its proposed guidelines for

3. Mass. Ann. Laws Ch. 167A ("Massachusetts Interstate Banking Act"), § 2.

4. 1983 Conn. Acts 411 (Reg. Sess.) entitled "An Act Concerning Interstate Banking" ("Connecticut Interstate Banking Act"), § 2.

5. New England bank holding companies include those located in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

6. *Bank of New England Corporation*, Federal Reserve Board Order of March 26, 1984; *NCNB Corp.*, 68 FEDERAL RESERVE BULLETIN 54 (1982).

7. Massachusetts State Senator John A Brennan, Jr., the primary sponsor of the Massachusetts Interstate Banking Act, stated, in testimony before the Connecticut Senate Banking Committee, that the proposed Connecticut bill bore a "remarkable similarity" to the Massachusetts Act. Transcript of Hearings before the Connecticut Joint Standing Committee on Banks, March 3, 1983, at 14. Further, the committee summary of the revised Senate bill that became the Massachusetts Interstate Banking Act stated that the purpose of the legislation was "to establish the necessary authority . . . for a regional, New England, banking system" and that the bill's revision was meant to "ensure that only New England based financial institutions can avail themselves of this authority." Massachusetts Joint Standing Committee on Banks & Banking, Research Staff Summary at 1 (November 9, 1982).

8. The Boston banking market includes all of Suffolk and Essex Counties, most of Middlesex, Norfolk, and Plymouth Counties, and small parts of Bristol and Worcester Counties. The market extends over the entire eastern coast of Massachusetts, excluding Cape Cod, and also includes 13 towns in southern New Hampshire.

9. Market deposit data are as of June 30, 1982. Over 200 thrift institutions compete in the market. Arltru is the tenth largest depository institution in the market and it controls only 1.4 percent of all deposits in financial institutions in the market

assessing the competitive effects of market-extension mergers or acquisitions.[10] In evaluating the effects of a proposal on probable future competition, the Board considers market concentration, the number of probable future entrants into the market, the size of the bank to be acquired, and the attractiveness of the market for entry on a de novo or foothold basis absent approval of the acquisition. After consideration of these factors in the context of the specific facts of this case, the Board concludes that consummation of this proposal would not have any significant adverse effects on probable future competition in any relevant market.

The record shows that the Boston banking market, in which Arltru operates, is not highly concentrated. In view of this consideration and other facts of record, the Board concludes that elimination of HNC as a probable future entrant into the Boston market would not have a substantial anticompetitive effect in that market. HNC's banking subsidiaries operate in the ten Connecticut banking markets.[11] There are numerous probable future entrants into nine of these markets, since bank holding companies located in Rhode Island and Massachusetts are now eligible for entry. The tenth market is not highly concentrated.

Based on the foregoing and other facts of record, the Board concludes that consummation of the proposed acquisition of Arltru's banking subsidiary would not have any significant adverse effects on existing or probable future competition and would not increase the concentration of banking resources in any relevant area.

The financial and managerial resources of HNC and Arltru are considered satisfactory and their prospects appear favorable. HNC has made a commitment, as a part of this transaction, to increase the capital of Arltru's subsidiary, The Arlington Trust Company. The Board considers financial considerations to be positive.

With respect to convenience and needs considerations, both HNC and Arltru have a satisfactory record of Community Reinvestment Act compliance. Consummation of this merger would permit Arltru to provide additional credit capacity to serve more and larger commercial customers. HNC also proposes to expand The Arlington Trust Company's trust department as well as its mortgage lending, municipal financing, and commercial banking services. The considerations related to the convenience and needs of the communities to be served weigh in favor of approval.

Based on the foregoing and other facts of record, the Board concludes that the proposed acquisition is in the public interest and that the application should be and hereby is approved. The acquisition shall not be made 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 Boston, pursuant to delegated authority.

By order of the Board of Governors, effective March 26, 1984.

Voting for this action: Chairman Volcker and Governors Martin, Wallich, Partee, Teeters, Rice, and Gramley.

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

Independent Financial, Inc.
Lubbock, Texas

Order Approving Formation of a Bank Holding Company

Independent Financial, Inc., Lubbock, Texas, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act of 1956, as amended ("Act") (12 U.S.C. § 1842(a)(1)), to become a bank holding company by acquiring all of the voting shares of Whisperwood National Bank, Lubbock, Texas.

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

Applicant, a nonoperating company, was organized for the purpose of becoming a bank holding company by acquiring Bank. Bank, with deposits of $10.3 million, is the 935th largest of 1129 commercial banking organizations in Texas, holding 0.01 percent of the total deposits in commercial banks in the state.[1] Bank is the 14th largest of 15 banks in the Lubbock, Texas,

10. "Proposed Policy Statement of the Board of Governors of the Federal Reserve System for Assessing Competitive Factors under the Bank Merger Act and the Bank Holding Company Act," 47 *Federal Register* 9017 (March 3, 1982). Although the proposed policy statement has not been adopted by the Board, the Board is using the policy guidelines in its analysis of the effects of a proposal on probable future competition.

11. The ten Connecticut banking markets are Hartford, New Haven, Bridgeport, Waterbury, New London, Danbury, Torrington, Danielson, Willimantic, and Old Saybrook.

1. Banking data are as of June 30, 1983.

banking market and controls 0.6 percent of the total deposits in commercial banks in that market.[2] None of Applicant's principals are affiliated with any other banking organizations that operate in the market. In light of these facts, the Board concludes that consummation of this transaction would not result in any significant adverse effects upon competition or increase the concentration of banking resources in any relevant area.

The financial and managerial resources of Applicant and Bank are considered satisfactory and their prospects appear favorable. Although Applicant will incur some debt in connection with the proposed acquisition, in light of certain commitments made by Applicant, it appears that Applicant will have sufficient resources to service the debt without adversely affecting Bank. Considerations relating to the convenience and needs of the community to be served are also consistent with approval.

On the basis of these and other facts of record, it is the Board's judgment that the application should be, and hereby 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 Dallas pursuant to delegated authority.

By order of the Board of Governors, effective March 21, 1984.

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

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

2. The Lubbock banking market is defined as the Lubbock, Texas, Metropolitan Statistical Area.

Kansas Bancorp II, Inc.
Concordia, Kansas

Order Approving Acquisition of Shares of a Bank Holding Company

Kansas Bancorp II, Inc., Corcordia, Kansas, a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, 12 U.S.C. § 1841 et seq. ("BHC Act"), has applied for the Board's approval under section 3(a)(3) of the BHC Act, 12 U.S.C. § 1842(a)(3), to acquire all of the nonvoting preferred shares of First Glasco Bancshares, Inc., Glasco, Kansas ("Glasco"), and thereby indirectly to acquire an interest in First National Bank of Glasco, Glasco, Kansas ("Glasco Bank").

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

Applicant's investment in the nonvoting preferred shares of Glasco amounts to $450,000 and will represent approximately 84 percent of the total equity of Glasco. Applicant's principals will become officers and directors of Glasco and Glasco Bank. In addition, Applicant's principals will purchase all of the voting shares of Glasco.[1]

Applicant, the 79th largest commercial banking organization in Kansas, controls First Bank and Trust, Concordia, Kansas, with deposits of $50.7 million, representing 0.3 percent of the total deposits in commercial bank in the state.[2] Glasco Bank, the 414th largest commercial banking organization in the state, holds $10.9 million in deposits. After consummation of the proposal, Applicant's share of the total deposits in commercial banks in the state would increase to 0.4 percent. Accordingly, consummation of the proposed transaction would not have a significant effect on the concentration of banking resources in Kansas.

Glasco Bank competes in the Mitchell County banking market,[3] where it is the fourth largest bank in the market, with 10.7 percent of the total deposits in commercial banks. Applicant's subsidiary bank is located in a separate banking market and is prohibited from branching into the Mitchell County banking market by state law.[4] Accordingly, consummation of the proposal would not have any significant effect on competition in the relevant banking markets.

The financial and managerial resources of these organizations are regarded as generally satisfactory,

1. Glasco proposes to redeem 89 percent of its current outstanding voting shares before consummation of this transaction. Applicant's principals propose to acquire the remaining 11 percent of Glasco's shares, effecting a complete change in the control of Glasco. Applicant will not extend funds or in any way guarantee the principals' purchase of Glasco's shares. For the reasons discussed in the Board's Order approving the application of *Fourth Financial Corporation*, 69 FEDERAL RESERVE BULLETIN 95 (1983), the Board has determined that this proposal would not violate Kansas Law.

2. All banking data are as of June 30, 1983.

3. The Mitchell County banking market is defined as Mitchell County and the southwestern portion of Cloud County, including the town of Glasco.

4. Kan. Stat. Ann. section 9–1111.

and their prospects appear favorable. Considerations relating to the convenience and needs of the communities involved are also consistent with approval.

On the basis of the record, and for the reasons discussed above, the application is hereby approved. 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, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City, pursuant to delegated authority.

By order of the Board of Governors, effective March 7, 1984.

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

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

McKeesport National Corporation McKeesport, Pennsylvania

Order Approving Formation of a Bank Holding Company

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

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

Applicant is a nonoperating Pennsylvania corporation organized for the purpose of becoming a bank holding company by acquiring Bank. Bank, which holds deposits of approximately $86 million, is one of the smaller banks in Pennsylvania.[1] This proposal involves the restructuring of Bank's ownership from individuals to a corporation owned by the same individuals. Bank operates in the Pittsburgh banking market and neither Applicant nor any of its principals has an ownership interest in any other banking organization in the market.[2] Accordingly, consummation of this proposal would have no significant effect on competition or the concentration of banking resources in any relevant area.

The financial and managerial resources of Applicant and Bank are regarded as generally satisfactory and their prospects appear favorable, particularly in light of certain financial commitments by Applicant's principals. Considerations relating to the convenience and needs of the community to be served also are consistent with approval of the proposal.

On the basis of the record, the application is approved for the reasons summarized above. The transaction shall not be consummated before the thirtieth calender 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, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 16, 1984.

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

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

Med Center Bancshares, Inc. Houston, Texas

Order Approving Formation of Bank Holding Company

Med Center Bancshares, Inc., Houston, Texas, has applied for the Board's approval pursuant to section 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) to become a bank holding company by acquiring Medical Center Bank, Houston, Texas ("Bank").

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

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

2. The Pittsburgh banking market consists of all of Allegheny County and adjoining portions of Butler, Armstrong, Westmoreland, Washington, and Beaver Counties, all in Pennsylvania.

Applicant, a nonoperating corporation, was organized for the purpose of acquiring Bank. Bank, with deposits of $133.4 million, is the 51st largest banking organization in Texas and controls 0.11 percent of the total deposits in commercial banks in the state.[1]

Principals of Applicant are associated with another banking organization in Texas, United Bancshares, Inc., Rosenburg, Texas, a one-bank holding company with respect to Rosenburg Bank and Trust ("Rosenburg Bank"). Both Bank and Rosenburg Bank operate in the Houston banking market.[2] Bank is the 20th largest bank in the Houston banking market, controlling 0.42 percent of the total deposits in commercial banks in the market. Rosenburg Bank is the 67th largest banking organization in that market, controlling 0.10 percent of the total deposits in commercial banks in the market. In light of the small share of the market's deposits held by Bank and Rosenburg Bank, the Board concludes that consummation of the proposed transaction would not have a significant effect on existing competition in any relevant area. The Board also concludes that consummation of the proposal would not have any significant effects on the concentration of banking resources in any relevant area.

The financial and managerial resources and future prospects of Applicant and Bank are generally satisfactory. Although no new services would result from consummation of this proposal, considerations with respect to the convenience and needs of the community to be served are consistent with approval.

On the basis of the record, this application is approved for the reasons summarized above. The transaction shall not be made 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.

By order of the Board of Governors, effective, March 26, 1984.

Voting for this action: Chairman Volcker and Governors Martin, Wallich, Partee, Teeters, Rice, and Gramley.

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

1. All banking data are as of December 31, 1982

2. The Houston banking market is approximated by the Houston RMA.

Midland Bancorp, Inc.
Chicago, Illinois

Order Approving Acquisition of a Bank

Midland Bancorp, Inc., Chicago, Illinois, a bank holding company within the meaning of the Bank Holding Company Act ("Act"), has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire all of the voting shares of Hawthorne Bank of Wheaton, Wheaton, Illinois.

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

Applicant controls one bank subsidiary with deposits of $385.1 million, representing 0.4 percent of the total deposits in commercial banks in Illinois.[1] Applicant seeks to acquire Bank, with deposits of $36.3 million, representing 0.04 percent of statewide deposits. Consummation of this proposal would not have a significant effect on the concentration of commercial bank deposits in the state.

Applicant and Bank are both represented in the Chicago banking market. Applicant is the 14th largest banking organization in the market, controlling 0.6 percent of commercial bank deposits in the market; Bank is the 252nd largest banking organization in the market, controlling 0.06 percent of market deposits. Upon consummation of this proposal, Applicant would become the twelfth largest banking organization in the Chicago banking market, controlling 0.66 percent of deposits. It is the Board's view that consummation of this proposal would not have a significant adverse effect upon competition in the market.

The financial and managerial resources and prospects of Applicant and Bank are consistent with approval of this application, in light of certain financial commitments made by Applicant. Although Bank will provide no new services as a result of this transaction, there is no evidence that the needs of the relevant community are not being met, and considerations relating to convenience and needs of the community to be served are consistent with approval.

Based on the foregoing and all of the 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 day

1. All banking data are as of March 31, 1983.

following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Chicago, pursuant to delegated authority.

By order of the Board of Governors, effective March 7, 1984.

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

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

NBD Bancorp, Inc.
Detroit, Michigan

Order Approving Acquisition of Bank

NBD Bancorp, Inc., Detroit, Michigan, a bank holding company within the meaning of the Bank Holding Company Act, has applied for the Board's approval under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire National Bank & Trust Company of Traverse City, Traverse City, Michigan.

Public notice of the application before the Board is not required by the Act, and in view of the emergency situation, the Board has not followed its normal practice of affording interested parties the opportunity to submit comments and views. In view of the emergency situation involving Bank, the Comptroller of the Currency has recommended immediate action by the Board to prevent the probable failure of Bank.

In connection with the application, the Secretary of the Board has taken into consideration the competitive effects of the proposed transaction, the financial and managerial resources and future prospects of the banks concerned, and the convenience and needs of the communities to be served. On the basis of the information before the Board, the Secretary of the Board finds that an emergency situation exists so as to require that the Secretary of the Board act immediately pursuant to the provisions of section 3(b) of the Act (12 U.S.C. § 1842(b)) in order to safeguard depositors of Bank. Having considered the record of this application in light of the factors contained in the Act, the Secretary of the Board has determined that consummation of the transaction would be in the public interest and that the application should be approved on a basis that would not preclude immediate consummation of the proposal. On the basis of these considerations, the application is approved.

The transaction may be consummated immediately but in no event later than three months after the effective date of this Order unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Chicago acting pursuant to delegated authority.

By order of the Secretary of the Board, acting pursuant to delegated authority for the Board of Governors, effective March 9, 1984.

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

The One Bancorp
Portland, Maine

Order Approving Formation of a Bank Holding Company

The One Bancorp, Portland, Maine, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1841(a)(1)) to become a bank holding company through acquisition of all of the voting shares of the Maine Savings Bank, Portland, Maine. The Maine Savings Bank ("Bank") is an FDIC insured state-chartered mutual savings bank that, in connection with this proposal, will convert to a stock savings bank.

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. The time for filing comments has expired, and the Board has considered the application and all comments received.

The Board has previously determined that a state guaranty savings bank is a "bank" for purposes of the BHC Act if that state savings bank accepts demand deposits (which includes NOW accounts), engages in the business of making commercial loans, and is not covered by the exemption created by the Garn–St Germain Depository Institutions Deregulation Act of 1982 for FSLIC insured thrift institutions.[1] Bank accepts demand deposits and NOW accounts and engages in the business of making commercial loans. Its deposits are not insured by the FSLIC. Accordingly, Bank is a "bank" for purposes of the BHC Act. The

1. *Amoskeag Bank Shares, Inc.*, 69 FEDERAL RESERVE BULLETIN 860 (1983). *First NH Banks, Inc.*, 69 FEDERAL RESERVE BULLETIN 874 (1983).

application has therefore been considered in light of the requirements of section 3 of the Act pertaining to the acquisition of banks.

Applicant is a recently organized corporation formed for the purpose of becoming a bank holding company through the acquisition of Bank. Bank, which holds $722.3 million in total deposits, is the second largest depository institution in Maine, controlling 10.9 percent of the total deposits in all depository institutions in the state. Bank is the largest depository institution in the Portland banking market, holding 22.3 percent of total deposits in all depository institutions in the banking market.[2] Neither Applicant nor any of its principals is affiliated with any other banking organization in the market or any other relevant market. Applicant's proposal represents simply a corporate reorganization and will not result in any adverse effects upon competition in any relevant area.

The financial and managerial resources and future prospects of Applicant and Bank are regarded as satisfactory and consistent with approval. Considerations relating to the convenience and needs of the community to be served are also consistent with approval.

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

By order of the Board of Governors, effective March 28, 1984.

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

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

2. All banking data are as of December 31, 1983. The Portland banking market is approximated by the Portland, Maine MSA, as well as the cities of Kennebunk, North Kennebunk Port, Kennebunk Port, Lyman, Dayton, Limington, Baldwin, Sebago, Naples, Casco, Pawnal, Saco, and Biddeford, all in Maine.

Shickley State Company
Shickley, Nebraska

Order Approving Formation of a Bank Holding Company

Shickley State Company, Shickley, Nebraska, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") 12 U.S.C. § 1842(a)(1), to become a bank holding company by acquiring at least 80 percent of the voting shares of Shickley State Bank, Shickley, Nebraska ("Bank").

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

Applicant is a nonoperating Nebraska corporation organized for the purpose of becoming a bank holding company by acquiring Bank, which holds deposits of $7.5 million.[1] Upon acquisition of Bank, Applicant would control the 336th largest of 461 commercial banking organizations in Nebraska and approximately 0.1 percent of the total deposits in commercial banks in the state. This proposal involves a restructuring of Bank's ownership from individuals to a corporation owned by the same individuals. Accordingly, consummation of this proposal would have no significant effect on the concentration of banking resources in Nebraska.

Bank is located in the Fillmore County banking market.[2] Applicant's principals, who control 61 percent of Bank's outstanding shares, also control two other banks in the market: Geneva State Bank, Geneva, Nebraska ("Geneva Bank") and Farmers State Bank, Fairmont, Nebraska, ("Fairmont Bank"). Bank is currently the fourth largest of seven banking organizations in the Fillmore County banking market, with total deposits of $7.5 million, representing 8.1 percent of the total deposits in commercial banks in the market. Geneva Bank is the largest commercial bank in the market, with total deposits of $44.9 million, representing 48.2 percent of the total deposits in commercial banks in the market. Fairmont Bank is the

1. Deposit data are as of December 31, 1982.
2. The Fillmore County banking market is defined as Fillmore County, Nebraska.

sixth largest bank in the market, with total deposits of $5.5 million, representing 6.0 percent of the total deposits in commercial banks in the market. Together, these three banks control $57.9 million in deposits, representing 62.2 percent of the total deposits in commercial banks in the market.

Section 3(c) of the Act precludes the Board from approving any proposed acquisition that may tend to create a monopoly or may substantially lessen competition or be in restraint of trade in any part of the United States, unless the Board finds that such anticompetitive effects are clearly outweighed by the convenience and needs of the community to be served. In analyzing a case under these standards where, as here, the principals of an applicant control another banking organization in the same market as the bank to be placed in the holding company, the Board considers the competitive effects of the transaction whereby common control of the formerly competing institutions was established.[3]

Bank and Geneva Bank came under common control in 1945. At that time, Bank was the fifth largest and Geneva Bank was the largest bank in the Fillmore County market, and together the banks controlled 58.8 percent of the total deposits in the market. Fairmont Bank became affiliated with Bank and Geneva Bank in 1947. At that time, Fairmont Bank was the fifth largest commercial bank in the market and controlled $907.0 thousand in deposits, representing 9.6 percent of the total deposits of commercial banks in the market. Geneva Bank was the largest of the six commercial banks in the market, with deposits of $4.4 million, representing 46.5 percent of the market's deposits, and Bank was the fourth largest bank in the market, with deposits of $982.0 thousand, representing 10.4 percent of the total deposits in commercial banks in the market. Together, the three banks held 66.5 percent of the total deposits in commercial banks in the market.

Ordinarily, a proposal of this type would raise significant concerns under the standards in section 3(c) of the Act. However, in its consideration of recent applications involving affiliated banks in the same market, the Board approved the formation of a bank holding company for one of the affiliated banks relying on the small absolute size of the banks at the time of affiliation, the substantial number of years that the institutions had been affiliated, and the existence of the affiliation before the application of certain of the antitrust laws to bank mergers.[4] On the Board's judgment, consideration of these factors mitigate the competitive effects of this proposal.

At the time of their affiliation, Bank, Geneva Bank and Fairmont Bank were relatively small, with the deposits in two of the banks being less than $1 million. Currently, the banks continue to be among the smaller banking organizations in the state. The affiliation in this case has been in existence for 36 years and did not represent an attempt to evade the antitrust laws. Common control was effected in 1947, before the enactment of the Celler-Kefauver Antimerger Act of 1950 and before the enactment of the Bank Merger Act of 1960, which required regulatory agencies to take competitive factors into account in approving proposed mergers.

After considering the facts of record, including the length of the affiliation of Bank, Geneva Bank and Fairmont Bank, the Board concludes that competitive considerations are consistent with approval of the application.

Where principals of an applicant are engaged in operating a chain of banking organizations, the Board, in addition to analyzing the one-bank holding company proposal before it, also considers the entire chain and analyzes the financial and managerial resources and future prospects of the chain under the Board's Capital Adequacy Guidelines. Based upon such analysis in this case, the financial and managerial resources and future prospects of Applicant, Bank and the chain banking organization appear to be satisfactory. Therefore, considerations relating to banking factors are consistent with approval of the application. Considerations relating to convenience and needs of the community to be served also are consistent with approval of this application. Accordingly, it is the Board's judgment that the proposed acquisition is in the public interest and that the application should be approved.

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

By order of the Board of Governors, effective March 2, 1984.

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

[SEAL]

WILLIAM W. WILES,
Secretary of the Board

3. *Mid-Nebraska Bankshares, Inc.*, v. *Board of Governors of the Federal Reserve System*, 627 F 2d 266 (D C. Cir. 1980).
4. *Texas East Bancorp*, 69 FEDERAL RESERVE BULLETIN 636 (1983); *First Monco Bancshares, Inc.*, 69 FEDERAL RESERVE BULLETIN 293 (1983).

Southwest Bancshares, Inc.
Houston, Texas

Order Approving Acquisition of a Bank Holding Company and Banks

Southwest Bancshares, Inc., Houston, Texas, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 et seq.) ("Act"), has applied under section 3(a)(3) of the Act (12 U.S.C. § 1842(a)(3)) to acquire Southwest Texas Bankers, Inc., San Antonio, Texas ("Bankers"), and thereby indirectly acquire San Antonio Bank and Trust, San Antonio, Texas ("San Antonio Bank"). Applicant also has applied under section 3(a)(3) of the Act to acquire Bank of the Southwest, N.A., Los Colinas, Irving, Texas ("Los Colinas Bank").

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

Applicant is the sixth largest commercial banking organization in Texas, controlling 37 banks with total deposits of $5.71 billion, representing 4.7 percent of total deposits in commercial banks in the state.[1] Bankers controls one bank, San Antonio Bank, with total deposits of $119 million, representing 0.10 percent of deposits in commercial banks in Texas and ranking it as the 64th largest commercial banking organization in the state. Los Colinas Bank is a de novo bank being organized by Applicant.

Upon consummation of these proposals, Applicant's share of statewide deposits in commercial banks will increase by .10 percent to 4.8 percent and its statewide ranking will remain unchanged. Accordingly, consummation of these proposals will have no significant effect on the concentration of banking resources in Texas.

San Antonio Bank is the ninth largest of 37 commercial banks in the San Antonio banking market,[2] controlling 2.0 percent of total deposits in commercial banks in the market. Applicant does not compete in the San Antonio banking market. Accordingly, the proposal would not result in the elimination of any existing competition in this market.

The Board also has considered the effects of Applicant's proposal on probable future competition in the San Antonio market in light of its proposed guidelines for determining whether an intensive examination of a proposed market extension merger or acquisition is warranted.[3] The proposal does not trigger an intensive analysis under the Board's proposed guidelines because San Antonio Bank is not a leader in the San Antonio market and the market is only moderately concentrated. Accordingly, consummation of this proposal will have no significant effect on probable future competition in the San Antonio banking market.

Los Colinas Bank will compete in the Dallas banking market.[4] Applicant is the seventh largest of 113 banking organizations in the Dallas banking market, controlling eight banks holding 3.34 percent of total deposits in commercial banks in the market. As a de novo bank, Los Colinas Bank represents a new source of competition in the Dallas banking market. Consummation of this proposal thus will increase competition in the Dallas banking market.

The financial and managerial resources of Applicant are considered to be consistent with approval of these proposals. The financial and managerial resources of Bankers will be improved as a result of its acquisition by Applicant. The future prospects of Los Colinas Bank are favorable. Affiliation between Applicant and San Antonio Bank will permit San Antonio Bank to offer additional services to its customers through Applicant. Los Colinas Bank, as a de novo bank, represents a new source of banking services in the Dallas banking market. Accordingly, considerations relating to the convenience and needs of the communities to be served are consistent with approval of the proposals.

Based on the foregoing, and other facts of record, it is the Board's judgment that the proposed transactions would be in the public interest and that the applications should be and are hereby approved. The proposed transactions shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is

1. Banking data are as of December 31, 1982

2. The San Antonio banking market is defined as the San Antonio Ranally Metro Area.

3. "Proposed Policy Statement of the Board of Governors of the Federal Reserve System for Assessing Competitive Factors Under the Bank Merger Act and the Bank Holding Company Act," 47 *Federal Register* 9017 (March 3, 1982).

4. The Dallas banking market is defined as 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, Waxahatchie, and Ferris in Ellis County, and Grapevine and Arlington in Tarrant County, Texas.

extended for good cause by the Board or the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 16, 1984.

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

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

Texas Commerce Bancshares, Inc.
Houston, Texas

Order Approving Acquisition of Banks

Texas Commerce Bancshares, Inc., Houston, Texas, has applied for the Board's approval under section 3(a)(3) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(3)) to acquire all of the voting shares of Texas Commerce Bank-Richardson, N.A., Richardson, Texas ("Richardson Bank"); and Texas Commerce Bank-Brookhollow, N.A., Dallas, Texas ("Brookhollow Bank").

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

Applicant, the third largest commercial banking organization in Texas, controlling 65 banks with total deposits of $11.7 billion, representing 9.7 percent of total deposits in commercial banks in the state, has applied to acquire Richardson Bank and Brookhollow Bank, both newly chartered institutions.[1] Consummation of these proposals would not immediately increase Applicant's share of deposits in commercial banks in Texas.

Both Richardson Bank and Brookhollow Bank will compete in the Dallas banking market, where Applicant also competes.[2] Applicant is the fifth largest of 113 commercial banking organizations in the Dallas banking market, controlling 11 banks with total deposits of $1.1 billion, representing 4.2 percent of total deposits in commercial banks in the market. Richardson Bank and Brookhollow Bank, as de novo banks, would represent new sources of competition in the Dallas banking market. Accordingly, considerations relating to competitive factors under the Act lend weight toward approval of these proposals.

The financial and managerial resources of Applicant, its subsidiary banks, Richardson Bank, and Brookhollow Bank are generally satisfactory, and the future prospects of each appear favorable. Accordingly, considerations relating to banking factors under the Act are consistent with approval of these proposals. Richardson Bank and Brookhollow Bank, as de novo banks, represent new sources of a full range of banking services in the Dallas banking market. Accordingly, considerations relating to the convenience and needs of the community to be served lend weight toward approval of these proposals.

On the basis of the record and for the reasons discussed above, the Board has determined that these applications should be and hereby are approved. The transactions shall not be consummated before the thirtieth calendar day following the effective date of this Order or not later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Dallas, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 6, 1984.

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

WILLIAM W. WILES,
[SEAL] *Secretary of the Board*

Orders Issued Under Section 4 of Bank Holding Company Act

A.S.B. Bancshares, Inc.
Archie, Missouri

Order Approving Application to Engage in Insurance Activities

A.S.B. Bancshares, Inc., Archie, Missouri, a bank holding company within the meaning of the Bank Holding Company Act ("Act"), has applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.25 of the Board's Regulation Y (12 CFR § 225.25), to engage

1. Banking data are as of December 31, 1982.
2. The Dallas banking market is defined as 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, Texas.

de novo, through a proposed subsidiary, in general insurance agency activities (except the sale of life insurance and annuities) in a community with a population greater than 5,000. Applicant, as a bank holding company with total assets under $50 million, relies on the statutory language contained in section 601(F) of the Garn–St Germain Depository Institutions Act of 1982 as authorization for this activity.[1]

Notice of the application, affording interested persons an opportunity to submit comments on the proposal, has been duly published. (49 *Federal Register* 4039 (Feb. 1, 1984)). The time for filing comments has expired and the Board has considered the application in light of the public interest factors set forth in section 4(c)(8) of the Act.

Applicant, with total assets of $13.8 million as of September 30, 1983, proposes to engage in general insurance agency activities in Harrisonville, Missouri, a community with a population of approximately 6,300 as of the 1980 census. Applicant states that the activities will be conducted from offices to be located in Applicant's subsidiary bank, the Archie State Bank, Harrisonville, Missouri (total deposits of $12.39 million as of September 30, 1983), and that its service area will be Bates, Cass and adjacent counties in the State of Missouri.

In order to approve an application under section 4(c)(8) of the Act, the Board is required to determine that a proposed activity is "so closely related to banking or managing or controlling banks as to be a proper incident thereto . . ." 12 U.S.C. § 1843(c)(8). In this regard, the Board has recently found that the sale of general insurance by bank holding companies with total assets of $50 million or less is an activity closely related to banking within the meaning of section 4(c)(8). *Whitewater Bancorp, Inc.*, 69 FEDERAL RESERVE BULLETIN 815 (1983).

Under section 4(c)(8), the Board also must determine that the proposed activity's performance by an individual applicant "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." 12 U.S.C. § 1843(c)(8). Upon a review of the record of this application, the Board views Applicant's proposal as procompetitive and in the public interest because de novo entry will provide greater convenience to the public and increased competition in the provision of insurance services in the geographic area to be served. Given the relative ease of entry into the market for insurance agency activities, possible adverse effects, such as undue concentration of resources or decreased or unfair competition, appear to be limited.

Based upon the foregoing and all the facts of record, the Board has determined that the public benefits associated with consummation of this proposal can reasonably be expected to outweigh possible adverse effects, and that the balance of the public interest factors favors approval of this application. Accordingly, the application is hereby approved.

This determination is subject to all of the conditions set forth in Regulation Y, including sections 225.4(d) and 225.23(b), and 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.

The proposed activities shall commence not later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City.

By order of the Board of Governors, effective March 19, 1984.

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

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

BankAmerica Corporation
San Francisco, California

Order Approving the Sale and Issuance of Payment Instruments and Related Activities

BankAmerica Corporation, San Francisco, California, a bank holding company within the meaning of the Bank Holding Company Act ("Act"), has applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 CFR § 225.23) to engage de novo in the issuance and sale of variably denominated payment instruments with a maximum face value of $10,000. These instruments will be sold by BankAmerica's subsidiaries and unaffiliated financial institutions. In connection with this application, BankAmerica has applied to engage, through its subsidiary,

1. Applicant has committed to divest itself of such activities if its assets exceed the statutory limitation of $50 million.

BA Cheque Corporation, in certain management consulting, data processing, marketing, and other services related to the issuance and sale of the payment instruments.

Notice of the application, affording interested persons an opportunity to submit comments on the relatedness of the proposed activity to banking, and on the balance of public interest factors regarding the application, has been published (48 *Federal Register* 52077 (1983)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the Act.

BankAmerica is a bank holding company by virtue of its control of Bank of America NT & SA, San Francisco, California, the largest commercial banking organization in California. With total assets of $121 billion as of December 31, 1983, BankAmerica is the second largest bank holding company in the United States. BankAmerica also engages in certain nonbanking activities, including mortgage banking, commercial lending and leasing, credit-related insurance activities, investment advisory activities, and management consulting to depository institutions.

BankAmerica proposes to engage de novo in the issuance and sale of variably denominated payment instruments with a face value of up to $10,000. These instruments will include domestic and international money orders and official checks. BankAmerica also proposes to use these instruments for certain internal transactions, such as payroll. These instruments will be issued in U.S. and foreign currency and will be sold by BankAmerica's subsidiaries, unaffiliated banks, savings and loan associations, and other financial institutions. The Board has approved the sale and issuance of these types of instruments with a face value not exceeding $1,000.[1] The Board also has recently amended Regulation Y to include the issuance or sale of money orders and other similar consumer-type payment instruments with a face value not exceeding $1,000 on the list of permissible nonbanking activities.[2] Banks have historically been in the business of issuing money orders and similar payment instruments such as cashier's checks. An increase in the denomination of such instruments would not effect their fundamental nature, and the Board concludes that the issuance and sale of the proposed instruments is closely related to banking.

In order to approve the subject application, the Board must also find that the performance of the proposed activity by a nonbank affiliate of Applicant "can reasonably be expected to produce benefits to the public such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."

The facts of record on this proposal indicate that official checks and consumer-type payment instruments, such as traditional money orders, are marketed nationally on the wholesale level by a few large organizations and locally on a retail level by a wide variety of financial and nonfinancial institutions. On the national scale, the market is concentrated, being dominated by only a few large organizations.[3] Entry into this business on a national scale involves overcoming significant barriers because a potential entrant must possess the capability for managing the extensive sales and servicing operation necessary for handling a low unit price, high volume product. Such capabilities frequently are associated with banking organizations of significant size such as BankAmerica. BankAmerica's entry into this market would result in increased competition in this industry and may be expected ultimately to result in increased prospects for some deconcentration of the industry in the future. Accordingly, the Board views BankAmerica's proposal as procompetitive and in the public interest insofar as it relates to the issuance of instruments that are intended primarily for use by consumers.

In its past consideration of the issuance of variably denominated payment instruments, the Board has been concerned that the issuance of such instruments with a face value of over $1,000 would result in an adverse effect on the reserve base. Because reserve requirements serve as an essential tool of monetary policy, the Board is concerned that this proposal may result in adverse effects due to the erosion of the reservable deposits of the banking system.

However, in order to assess the effects of the proposal on the reserve base, the Board has determined to approve the application and to closely monitor the effects of this proposal and any other similar proposals by bank holding companies on the Board's conduct of monetary policy. To this end, the Board will require BankAmerica and any other bank holding company that receives approval to engage in this

1. *Citicorp*, 63 FEDERAL RESERVE BULLETIN 416 (1977); *Republic of Texas Corporation*, 63 FEDERAL RESERVE BULLETIN 414 (1977).
2. 49 *Federal Register* 828 (1984) (to be codified at 12 CFR § 225.25(b)(12)).

3. Money orders are primarily used to transmit money by members of the consumer public who do not or cannot maintain checking accounts. Official checks can be used as a substitute for a variety of payment instruments, such as cashier's checks, and could be used by businesses as part of their cash management strategy. Traditionally, money orders have a maximum face value printed on the instrument, which is generally at or lower than the limit set by Regulation Y.

activity to file with the Board weekly reports of daily data on this activity. If it later appears that the result of this proposal is a significant reduction in the reserve base or other adverse effect on the conduct of monetary policy, the Board may impose reserve requirements on such transactions, pursuant to section 19 of the Federal Reserve Act, (12 U.S.C. § 461 (a)) and the Board's Regulation D, (12 CFR Part 204).

In addition to increased competition, BankAmerica states that its proposal should provide benefits to the public through reduced costs and increased convenience to the purchaser. BankAmerica states that it will provide telephone access to customer service centers, reissue lost or stolen instruments, provide photocopying of paid instruments, and the selling institution will be required to disclose to purchasers if a right to stop payment exists and how that right can be exercised. The Board believes that such services would benefit the purchasers of these instruments. In summary, the Board finds that these instruments, which will be issued by a large financial organization and will enjoy ready acceptability, will offer greater convenience and benefits to the public and foster increased competition in the industry.

BankAmerica also has applied to engage, though its subsidiary, BA Cheque, in marketing and servicing support for its payment instruments. These services will include the training of personnel in marketing, sales and consumer service procedures, and certain data processing activities, such as computerized tracking of instruments from issuance to storage, account reconciliation and audit, and the preparation of activity reports. Ongoing support also will include marketing services, such as processing consumer requests for stop payments and for photocopies of paid instruments. The Board believes that these activities are either permissible under Regulation Y or may be performed as incidental to the principal activity of issuing and selling payment instruments.[4]

Based upon the foregoing and other considerations reflected in the record, the Board has determined that the balance of the public interest factors the Board is required to consider under section 4(c)(8) is favorable with respect to the activity of issuing consumer-oriented payment instruments. This determination is subject to all of the conditions set forth in Regulation Y, including section 225.4(d) and 225.23(b), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

The activities approved hereby shall be commenced not later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of San Francisco.

By order of the Board of Governors, effective March 16, 1984.

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

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

Dissenting Statement of Governor Rice

I dissent from the Board's action regarding this application. The Board's decision to allow BankAmerica to issue money orders and official checks in denominations up to $10,000 will enable BankAmerica, and ultimately other banking organizations, to transfer a significant amount of money orders and official checks to a nonbank subsidiary that would not be subject to reserve requirements. Reserve requirements serve as a basic device for the implementation of monetary policy, and I am reluctant to take any step that diminishes the effectiveness of this device unless there are persuasive reasons to do so. The Board has previously recognized the potential adverse effects on the reserve base that would be associated with permitting bank holding companies to issue money orders without any denominational limits, and has imposed a $1,000 ceiling on such instruments. Although I believe that the amount of inflation that has occurred since that ceiling was initially imposed in 1977 would justify a moderate increase of that limitation, perhaps to $2,000, no further increase appears appropriate.

The adverse effect on the reserve base that is associated with this particular application is certainly not large, and even if other bank holding companies follow BankAmerica's example the resulting diminution of the Board's ability to conduct monetary policy is not likely to be overwhelming, at least on the basis of the current uses for money orders and official checks. A ten-fold increase in the ceiling for such instruments may, however, encourage other uses for these instruments that could enhance the adverse effect on reserve requirements. In addition, the exception to reserve requirements that the Board has effectively authorized by its action is only one in a series of

4. 12 CFR § 225.4(a)(8) and (a)(12) (1983). See also 49 *Federal Register* 827–28 (1984) (to be codified at 12 CFR § 225.25(a)(7) and (a)(11)).

events and developments resulting in erosion of the reserve base. I believe that the cumulative effect of these exceptions could possibly undermine the Board's ability to conduct monetary policy, and for this reason I would approve BankAmerica's application only if a much smaller increase in the ceiling for these instruments were involved.

March 16, 1984

Lawton Financial Corporation
Lawton, Oklahoma

First Frederick Corporation
Frederick, Oklahoma

Order Approving Retention of Interest in Southwest Data Management

Lawton Financial Corporation, Lawton, Oklahoma ("Lawton"), and First Frederick Corporation, Frederick, Oklahoma ("First Frederick") (together "Applicants"), bank holding companies within the meaning of the Bank Holding Company Act of 1956, as amended ("Act") (12 U.S.C. §§ 1841 et seq.), have applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.21(a) of the Board's Regulation Y (12 CFR § 225.21(a)), for each to retain a 50 percent ownership interest in Southwest Data Management, Chattanooga, Oklahoma ("Southwest"). Southwest was formed as a de novo joint venture by Applicant to provide data processing services, such as check and deposit posting; computation and posting of interest and other credits and charges; preparation of statements, notices, and similar items; and other clerical, bookkeeping, accounting, or similar functions for financial institutions in Oklahoma. Such activities have been determined by the Board to be closely related to banking and permissible for bank holding companies. 12 CFR § 225.25(b)(7).

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published. The time for filing comments has expired, and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the Act.[1]

Lawton (assets of $53.5 million) is a bank holding company by virtue of its control of Citizens Bank, Lawton, Oklahoma ("Bank").[2] First Frederick (assets of $82.1 million), also controls one bank, The First National Bank and Trust Company, Frederick, Oklahoma ("Frederick Bank"). Neither Lawton nor First Frederick engages in any other nonbanking activities.

Lawton and First Frederick initially formed Southwest de novo as a general partnership in August 1982 to better serve the data processing needs of Bank and Frederick Bank. Applicant is now providing data processing services for another bank in the area and proposes to offer its services to the other banks in the state.[3]

In its consideration of this proposal, the Board regards the standards of section 4(c)(8) for the retention of shares in a nonbanking company to be the same as the standards for a proposed acquisition. The extent to which this joint venture eliminated competition is determined by the facts at the time the co-venturers entered into the activity. In this case, Southwest was begun de novo and thus did not eliminate any existing competition in any relevant market. Accordingly, consummation of this proposal would have no adverse effects upon existing competition in any relevant market.

With respect to potential competition, the Board finds that, absent the joint venture, neither Lawton nor First Frederick is likely to engage in data processing activities independently because both companies lack the financial resources to enter the data processing market separately. Thus, the Board concludes that consummation of this proposal would not have significantly adverse effects upon competition in any market. In addition, in view of the small size of the co-venturers and the limited nature of the proposed activity, retention of Southwest would not result in an undue concentration of economic resources.

Retention of Southwest may be expected to result in public benefits because the joint venture will provide an additional source of data processing services to Oklahoma financial institutions and offer services that will enable such institutions to reduce the costs associated with processing loans, checks, deposits, and other similar functions. Further, there is no evidence in the record to indicate that retention of Southwest

1. The Board has received comments from The Association of Data Processing Service Organizations ("ADAPSO") requesting that the Board suspend action on this application pending the outcome of *ADAPSO* v. *Board of Governors of the Federal Reserve System*, Nos 82–1910 and 82–2108 (D.C. Cir. filed August 6, 1982). The Board does not believe that such suspension is appropriate. If any of Applicants' activities are found to be improper as a result of that litigation, the Board is authorized to take whatever action is necessary to ensure Applicants comply with the court's order.

2. Banking data are as of September 30, 1983.

3. Lawton and First Frederick failed to secure the Board's approval before acquiring Southwest. After reviewing the relevant facts, the Board concludes that this failure was inadvertent, and in view of certain assurances provided by Lawton and First Frederick, the Board has determined that it should not be regarded as reflecting adversely on the management of Applicants.

would result in any conflicts of interests, unsound banking practices, or other adverse effects.

Based upon the foregoing and certain commitments by Applicants that are reflected in the record, the Board has determined that the balance of the public interest factors it is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved. This determination is subject to all of the conditions set forth in Regulation Y, including those contained in sections 225.4(d) and 225.23(b), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions of 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 March 27, 1984.

Voting for this action: Chairman Volcker and Governors Martin, Partee, Teeters, and Rice. Abstaining from this action: Governors Wallich and Gramley.

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

Fidelcor, Inc.
Rosemont, Pennsylvania

Order Approving Application to Broker Options in Foreign Currency

Fidelcor, Inc., Rosemont, Pennsylvania, a bank holding company within the meaning of the Bank Holding Company Act, 12 U.S.C. § 1841 et seq. ("BHC Act"), has applied pursuant to section 4(c)(8) of the BHC Act and section 225.21(a) of the Board's Regulation Y, 49 *Federal Register* 794 (1984) (to be codified at 12 CFR § 225.21(a)), to engage de novo through its wholly owned subsidiary, Fidelcor Trading Inc., in executing and clearing options in foreign currency.

Notice of the application, affording interested persons an opportunity to submit comments on the relation of the proposed activity to banking and on the balance of the public interest factors regarding the application, has been duly published, 48 *Federal Register* 52634 (1983). The time for filing comments has expired and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the BHC Act.

Applicant is a bank holding company by virtue of its control of Fidelity Bank and Southeast National Bank of Pennsylvania. Applicant's total assets approximate $5.2 billion.[1] Applicant, through its subsidiaries, engages in various permissible nonbanking activities. The capitalization of Fidelcor Trading is adequate for it to engage in these nonbanking activities.

In order to approve an application submitted pursuant to section 4(c)(8) of the BHC Act, the Board is first required to determine that the proposed activities are closely related to banking or managing or controlling banks. In this case Applicant proposes to broker options in foreign currency on exchanges regulated by the Securities and Exchange Commission ("SEC").[2] The Board has previously determined by order that the brokering of options on certain financial physicals, i.e., securities issued or guaranteed by the U.S. government and on money market instruments is closely related to banking.[3] The rationale for the Board's prior action is equally applicable to brokerage of options in foreign exchange. Moreover, the record indicates that Fidelity Bank has been active in the cash and forward markets for foreign currency and has the expertise to provide the proposed services to customers. Accordingly, the Board concludes that in the manner proposed, Applicant's proposal to broker options in foreign currency is closely related to banking.

In order to approve this application, the Board is also required to determine that the performance of the proposed activities by Applicant "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices" (12 U.S.C. § 1843(c)(8)).

Consummation of Applicant's proposal would provide added convenience to those clients of Applicant and its subsidiaries that trade in the cash, forward and futures markets for these instruments. The Board expects that the de novo entry of Applicant into the market for these services would increase the level of competition among providers of these services already in operation. Accordingly, the Board concludes that the performance of the proposed activities by Applicant can reasonably be expected to produce benefits to the public.

1. All banking data are as of June 30, 1983.
2. Pursuant to an accord between the SEC and the Commodity Futures Trading Commission ("CFTC"), the substance of which was adopted by Congress (Pub. L. No. 97-444, 96 Stat. 2294 (codified as amended at 7 U.S.C. § 2(a) January 11, 1982) and Pub. L. No. 97-303, 96 Stat. 1409 (codified as amended at 15 U.S.C. § 77b (October 13, 1982)), options on securities are regulated by the SEC while options on futures and commodities are regulated by the CFTC. Although foreign exchange options may be traded on either commodity or security exchanges, Applicant's proposal is limited to brokering options in foreign currency on SEC-regulated exchanges.
3. *Security Pacific Corporation*, 70 FEDERAL RESERVE BULLETIN 53 (1984).

The Board has also considered the potential for adverse effects that may be associated with this proposal. In particular, the Board has taken into account and has relied on the regulatory framework established pursuant to law by the SEC for the trading of options. Moreover, the Board notes that Applicant will not trade for its own account any of the options involved. Based on the foregoing and all the facts of record, the Board concludes there is no evidence in the record that consummation of the proposal would result in any effects that would be adverse to the public interest.

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

The transaction shall be made not later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Philadelphia pursuant to delegated authority.

By order of the Board of Governors, effective March 19, 1984.

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

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

Manufacturers Hanover Corporation New York, New York

Order Approving Application to Engage in Certain Futures Commission Merchant and Futures Advisory Activities

Manufacturers Hanover Corporation, New York, New York, a bank holding company within the meaning of the Bank Holding Company Act, has applied pursuant to section 4(c)(8) of the Act (12 U.S.C. § 1843 (c)(8)) and section 225.21(a) of the Board's Regulation Y (49 *Federal Register* 794, to be codified at 12 CFR § 225.21(a)) to engage through its wholly owned subsidiary, Manufacturers Hanover Futures, Inc., in acting as a futures commission merchant ("FCM") with respect to certain financial futures. These activities, subject to certain conditions, have been determined by the Board to be permissible for bank holding companies under section 225.25(b)(18) of Regulation Y. Applicant has also applied for the Board's approval to provide certain futures advisory services to both its FCM customers and others.

Notice of the application, affording interested persons an opportunity to submit comments on the relation of the proposed activities to banking and on the balance of the public interest factors has been duly published (48 *Federal Register* 52643 (1983)). The time for filing comments has expired and the Board has considered the application and all comments received in light of the public interest factors set forth in section 4(c)(8) of the Act.

Applicant is a bank holding company by virtue of its control of Manufacturers Hanover Trust Company, New York, New York ("Bank"). Bank holds deposits of approximately $42 billion and is the third largest banking organization in New York.[1] Applicant, through its subsidiaries, engages in various permissible nonbanking activities. Applicant's financial and managerial resources, and, in particular, its capitalization, are adequate for it to engage in additional nonbanking activities.

Applicant proposes to engage through Futures in FCM activities to the extent these activities are generally permissible for bank holding companies in the Board's Regulation Y (12 CFR § 225.25(b)(18)).[2] In connection with its FCM activities, Applicant also proposes to offer investment advice to its FCM customers. In addition, Applicant proposes to provide certain advisory services to non-FCM customers. Applicant indicates that it will charge a separate fee to its FCM customers and to non-FCM customers for its advisory services.

The Board has previously determined that the provision of investment advice to FCM customers on a nonfee basis and as part of an integrated package is incidental to FCM activities.[3] The Board's decision was based on the record which, at that time, indicated that customers generally expected FCM to provide investment advice, making the offering of investment advice necessary to the performance of FCM activi-

1. All banking data are as of December 31, 1983.
2. Specifically, Applicant intends to execute and clear futures contracts in securities issued or guaranteed by the U.S. government, money market instruments and foreign exchange, and options on futures contracts for U.S. government securities.
3. E.g., *Citicorp*, 68 FEDERAL RESERVE BULLETIN 776, 778 (1982).

ties. At this time, there is evidence that while many customers expect advice, a significant number no longer do. It is not necessary to resolve at this time the issue of whether the provision of investment advice is incidental to permissible FCM activities if the provision of such advice is otherwise closely related to banking.

Under section 4(c)(8) of the Act, bank holding companies may engage in activities that the Board determines to be so closely related to banking as to be a proper incident thereto. The record demonstrates that banks, including Applicant's lead bank, create certain types of financial futures-based hedging strategies for their internal use. The record also indicates that banks have established subsidiaries which provide futures advisory services exclusive of any FCM services. Moreover, the proposed advisory services appear to be functionally similar to the investment advisory activities the Board has approved for bank holding companies generally in section 225.25(b)(4) of Regulation Y. Based on the foregoing, the Board concludes that, in the manner proposed by Applicant, the provision of futures advisory services is closely related to banking.

The Board has also considered whether adverse effects may be associated with the provision of investment advice in connection with futures transactions. The Board believes a number of factors reduce the incentive for conflicts in this case: Applicant and its subsidiary bank are authorized to hold and deal in both the underlying financial instruments as well as the futures on these instruments, Applicant will charge a separate fee for its advice, Applicant will not be a principal with respect to any of the instruments involved, and Applicant will deal solely with major corporations and other financial institutions. The Board is of the view that charging a separate fee for advice reduces the possibility for churning because it reduces the incentive to recommend additional trades to generate fees. Moreover, the possibility for other conflicts is reduced because Applicant will not be a principal or dealer with respect to any of the instruments involved and, therefore, would not benefit if any one futures or option contract was selected over another. In addition, Applicant's customers will be major corporations and financial institutions that are experienced in dealing in the underlying financial instruments. Moreover, there is no evidence that consummation would result in any other adverse effects within the meaning of section 4(c)(8).

Finally, the record indicates that consummation is reasonably likely to result in public benefits. Applicant's performance of these activities would result in an added competitor in the market, providing additional services to existing customers of Applicant and would enable Applicant to compete with other FCMs which provide these services.

Based on the foregoing and other considerations reflected in the record, the Board has determined that the balance of the public benefits associated with consummation of this proposal can reasonably be expected to outweigh possible adverse effects, and that the balance of the public interest factors which the Board is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved.

This determination is subject to the conditions set forth in the Board's Regulation Y and 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.

The proposed activities shall not commence later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York acting pursuant to delegated authority.

By order of the Board of Governors effective March 8, 1984.

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

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

Security Pacific Corporation
Los Angeles, California

Order Approving Acquisition of Factoring Assets

Security Pacific Corporation, Los Angeles, California, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841, et seq.), has applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a)(2) of the Board's Regulation Y (12 CFR § 225.23(a)(2)) to acquire, through its subsidiary, Security Pacific Business Credit Inc., Los Angeles, California ("SPBCI"), the factoring assets of: Citicorp Industrial Credit, Inc., Harrison, New York; Citicorp Business Credit, Inc., New York, New York; and Citibank, N.A., New York, New York (collectively "Companies"). This activity has been determined by the Board to be closely related to banking (12 CFR § 225.25(b)(1)).

Notice of the application, affording opportunity for interested persons to submit comments on the public interest factors, has been duly published (49 *Federal Register* 4150 (1984)). 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 4(c)(8) of the Act.

Applicant is a bank holding company by virtue of its control of Security Pacific National Bank, Los Angeles, California, the second largest commercial bank in California, with domestic deposits of $20.9 billion, representing 12.7 percent of the total deposits in commercial banks in the state.[1] Applicant also engages in a number of nonbanking activities, including discount brokerage, commercial leasing, mortgage banking, and insurance activities.

The Board has determined that the relevant market for factoring activities is national.[2] On the basis of the total volume of factoring in 1982, Applicant factored $370 million in receivables, or 1.26 percent of the total of factored receivables in the United States, while Companies handled a volume of $700 million, or 2.38 percent of the total of factored receivables.[3] Upon consummation of the proposal, Applicant would rank as the 10th largest factoring firm in the United States, with 3.64 percent of the total volume of factored receivables.[4] There are numerous firms engaged in factoring activities and the market for these activities is unconcentrated. In view of the number of factoring firms competing nationwide and the small market share that would result from consummation of this proposal, the Board concludes that the consummation of the proposal would not have any adverse effects on existing competition.

Recently, Companies announced their intention to withdraw from the factoring business and thus, they have not been vigorous competitors in the provision of factoring services. This acquisition would enable SPBCI to continue to serve Companies' current factoring customers. In addition, the acquisition of Companies by SPBCI would result in lower overhead costs and permit it to expand its customer base geographically and in terms of the type of customers that it serves.

1. Deposit data are as of March 31, 1983
2. *Barclays Bank Limited*, 66 FEDERAL RESERVE BULLETIN 980 (1980).
3. *Daily News Record*, February 14, 1983
4 Based on the amount of factored receivables held by the 29 largest factoring firms as of December 31, 1982, Applicant, through its subsidiary SPBCI, is the 23rd largest factoring firm, holding receivables of approximately $45 million, representing 1 08 percent of the total factored receivables in the United States. Companies held receivables of $70 million, representing 1.68 percent of all factored receivables in the United States. Based on these data, upon consummation of the proposal, SPBCI would become the 15th largest factoring firm in the country

On the basis of these and other facts of record, the Board concludes that the benefits to the public that would result from Applicant's acquisition of Companies are consistent with approval. Moreover, there is no evidence in the record that consummation of the proposal would result in any undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or other adverse effects.

Based upon the foregoing and other considerations reflected in the record, the Board has determined that the balance of the public interest factors it is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved. This determination is subject to the conditions set forth in § 225.23(b)(3) of Regulation Y 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. The transaction shall not be made later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 8, 1984.

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

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

U.S. Trust Corporation
New York, New York

Order Approving Expansion of Activities of Trust Company to Include Checking Accounts and Consumer Lending

U.S. Trust Corporation, New York, New York, a bank holding company within the meaning of the Bank Holding Company Act (12 U.S.C. § 1841 et seq.) ("Act"), has applied for approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a)(1) of the Board's Regulation Y (12 CFR § 225.23(a)(1)) to expand the activities of its subsidiary, U.S. Trust Company, Palm Beach, Florida ("Trust Company"), to include the acceptance of time and demand deposits, including checking accounts, and the making of consumer loans. These activities have been previously determined by the Board to be closely related to banking. 12 CFR § 225.25(b)(1); *First Bancorporation* (Beehive Thrift & Loan), 68 FEDERAL RESERVE BULLETIN 253 (1982); *Citizens Fidelity Corporation*, 69 FEDERAL RESERVE BULLETIN 556 (1983).

Notice of the application, affording opportunity for interested persons to comment, has been duly published (48 *Federal Register* 55178 (1983)). The time for filing comments and views has expired and the Board has considered the application and all comments received, including those submitted by the State of Florida, the Florida Bankers Association, the Conference of State Bank Supervisors, and Sun Bank/Palm Beach ("Protestants") in opposition to the proposal, in light of the factors set forth in section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)).

Applicant is the 19th largest commercial banking organization in New York, with total consolidated assets of $1.8 billion. Applicant operates one subsidiary bank with total deposits of $1.2 billion.[1]

Trust Company at present is a state chartered nondepository trust company that engages in the provision of fiduciary, investment advisory, agency, and custody services for local customers in Florida. Applicant has stated that Trust Company will convert to a national bank charter prior to engaging in the proposed activities and will obtain FDIC insurance for its deposits. Trust Company proposes to offer a number of different types of deposit accounts to the general public, including checking accounts with a minimum deposit of $10,000. Trust Company also will offer loans to individuals for personal, family, household, or charitable purposes.

Applicant has stated that Trust Company will not engage in the business of making commercial loans, including the purchase of commercial paper or certificates of deposit, the sale of federal funds, or any transactions that the Board has defined as commercial loans in its recent revisions to Regulation Y. Applicant states that Trust Company's excess funds will be invested in investment securities permitted for national banks under 12 U.S.C. section 24 (seventh). Applicant does not currently engage in any commercial lending activities or operate any other subsidiaries in Florida and has stated that it will seek the Board's prior approval before engaging in any commercial lending activities in Florida. Moreover, Applicant has stated that trust company will not channel funds to any commercial lending affiliate or engage in any transactions with affiliates without the Board's approval. Accordingly, it appears that Trust Company will not engage in the business of making commercial loans either directly or indirectly.

1. Deposit data are as of September 30, 1983.

"Bank" Definition

This proposal raises a significant issue as to whether the acceptance of demand deposits through an FDIC insured national bank can be regarded as a permissible nonbanking activity under the Act. The Board on a number of occasions has expressed its views that an institution that is chartered as a bank and that accepts transaction accounts from the public should be subject to the policies that Congress has established for banks in the BHC Act.[2] Nevertheless, although the Board believes that approval of this proposal presents a serious potential for undermining the policies of the Act, the Board is constrained by the definition of bank in the Act to approve the application.

The Act defines a "bank" as an institution that both accepts demand deposits and engages in the business of making commercial loans. (12 U.S.C. § 1841(c)). In its recent action defining the term "bank," (12 CFR § 225.2(a)(1)), the Board acted to the extent possible consistent with the language, legislative history and policies of the Act to bring within the scope of the Act those institutions that the Board believes Congress intended to subject to the Act's limitations on conflicts of interests, concentration of resources, and excessive risk. It was the Board's intention, in part, to bring within the scope of the policies of the Bank Holding Company Act those institutions that engage in essential banking functions that the Board believes Congress intended to be covered by these policies.

The activities proposed by Trust Company have been tested against this definition of bank. As noted above, Trust Company will accept demand deposits but not make commercial loans as defined by the Board in Regulation Y. Thus, Trust Company will not be a bank within the meaning of the Bank Holding Company Act. In this situation, where the applicant will not make commercial loans in Florida either directly or indirectly through any affiliate, the Board does not have the discretion to find that the proposal falls within the prohibitions on interstate acquisitions contained in section 3(d) of the Act (12 U.S.C. § 1842(d)), which only applies to the acquisition of banks as defined in section 2(c) of the Act.

The Board also has considered that companies other than bank holding companies have acquired banks that offer transaction accounts without being subject to the Act. The Board believes that it would be ineffective and inequitable to impose a competitive limitation only on bank holding companies by denying this proposal.

2. *Citizens Fidelity Corporation*, supra. See also *Citicorp*, 70 FEDERAL RESERVE BULLETIN 231 (1984); *Mellon National Corporation*, 70 FEDERAL RESERVE BULLETIN 234 (1984).

Protestants' Comments

Protestants argue, however, that the Board should view U.S. Trust Corporation as a single entity engaged in commercial banking operations by accepting demand deposits through U.S. Trust Company and in commercial lending through other subsidiaries in Florida in violation of section 3(d) of the Act. As noted, however, Applicant does not directly or indirectly engage in commercial lending through any subsidiary in Florida. Under these circumstances, the Board cannot conclude that Trust Company is a bank under the Act subject to the restrictions of section 3(d).

Protestants also argue that the proposal would violate the provision in Florida law that prohibits an out-of-state bank holding company from acquiring "any bank or trust company having a place of business in [Florida] where the business of banking or trust business or functions are conducted." Florida Statutes, § 658.29(1). It is the Board's general policy to presume the constitutionality of state statutes unless there is clear and unequivocal evidence of the inconsistency of the state law with the federal Constitution.[3] In this case, the Supreme Court has held a predecessor to the Florida statute unconstitutional to the extent that it prohibited out-of-state bank holding companies from offering investment advisory services.[4] Moreover, a U.S. district court has recently held that the very Florida statute at issue in this case constitutes an unconstitutional burden on interstate commerce to the extent that it seeks to prevent out-of-state bank holding companies from operating in Florida entities that do not meet the definition of "bank" in the Bank Holding Company Act.[5] Accordingly, the proposal does not appear to be barred by any valid provision of state law.

Need for Congressional Action

The requirement of Board approval of this application under the provisions of existing law is one of a number of recent developments that underscore the critical need for Congressional action on legislation to apply the policies of the Bank Holding Company Act to institutions that are chartered as banks and that offer transaction accounts to the public. The recent decision of the Tenth Circuit Court of Appeals reversing the Board's interpretation of NOW accounts as demand deposits in connection with a bank holding company acquisition of a Utah industrial loan company,[6] and the continued acquisition of nonbank banks by securities, insurance, and other nonbanking organizations present the potential for a significant, haphazard, and possibly dangerous alteration of the banking structure without Congressional action on the underlying policy issues.

If the nonbank bank concept, particularly as expanded by the interpretation of demand deposit adopted by the Tenth Circuit, becomes broadly generalized, a bank holding company or commercial or industrial company, through exploitation of an unintended loophole, could operate "banks" that offer NOW accounts and make commercial loans in every state, thus defeating Congressional policies on commingling of banking and commerce, conflicts of interest, concentration of resources and excessive risk, or with respect to limitations on interstate banking. Congressional action thus is urgently needed to ensure that the policies of the Act are maintained. In this regard, the Board does not believe that any public policy would be served by grandfathering proposals such as this that occur subsequent to the introduction of legislation that would otherwise prohibit such transactions.

Other Considerations

There is no evidence that consummation of this proposal would result in any conflicts of interest, unsound banking practices, or other adverse effects. The Board believes it is appropriate, however, to take action to ensure that Trust Company is not used by Applicant as a vehicle for evasion of section 3(d). Accordingly, the Board has determined to make its approval subject to the conditions that:

(1) Applicant will not operate Trust Company's demand deposit taking activities in tandem with any other subsidiary or other financial institutions;

(2) Applicant will not link in any way the demand deposit and commercial lending services that define a bank under the Act; and

(3) Trust Company will not engage in any transactions with affiliates, other than the payment of dividends to Applicant or the infusion of capital by Applicant into Trust Company, without the Board's approval.

Protestants have requested a hearing because of the serious policy issues raised by the subject proposal and because they claim that there are certain factual questions that need clarification. The Board has concluded that the issues in this case are legal in nature

3. *NCNB Corp.*, 68 FEDERAL RESERVE BULLETIN 54, 56 (1982). The Board has previously stated that it is doubtful that a state has the authority to impose a more stringent burden on interstate commerce than that contained in section 3(d). *KSAD, Inc.*, 70 FEDERAL RESERVE BULLETIN 44 (1984).

4. *Lewis* v. *B.T. Investment Managers*, 477 U.S. 27 (1980).

5. *Continental Illinois Corporation* v. *Lewis*, TCA 81-0944-WS (slip opinion dated December 13, 1983).

6. *First Bancorporation* v. *Board of Governors*, (10th Cir. 1984, slip opinion dated February 21, 1984). The Board is seeking a rehearing of the case before the Tenth Circuit.

and that there are no material factual issues in dispute that would warrant a hearing on the application. Accordingly, Protestants' hearing request is denied.

Based upon the foregoing and all the facts of record, the Board has determined that the balance of public interest factors it is required to consider under section 4(c)(8) is favorable. Accordingly, the application is hereby approved. This determination is subject to the conditions set forth in this Order with respect to transactions and operations in tandem with any other subsidiary of Applicant or other financial institutions and the conditions set forth in section 225.23(b) of Regulation Y (12 CFR § 225.23(b)). The approval is also subject to the Board's authority to require modification or termination of the activities of the holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

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

By order of the Board of Governors, effective March 23, 1984.

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

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

Dissenting Statement of Governor Rice

I agree with the Board's order to the extent that it recognizes the serious implications of this proposal and makes strong recommendations for Congressional action. Although the majority feels compelled to approve the application on grounds that U.S. Trust Company does not come within the Board's broad definition of "bank," I would deny the proposal because it would have the practical effect of permitting a bank holding company to engage in interstate banking without express authorization of state law in a manner that would otherwise be prohibited by the Douglas Amendment. It also provides a precedent for acquisitions of national banks that accept demand deposits by nonbanking organizations without regard to the fundamental policy of the Bank Holding Company Act against commingling of banking and commerce.

In my view, the Board is not limited by the technical definition of "bank" and has authority to deny this application using its broad discretionary powers to take appropriate action to prevent evasions of the Act. Moreover, under section 4(c)(8) of the Act, the Board may deny a proposal if it determines that the adverse effects of the proposal are not outweighed by any public benefits associated with the proposal. I believe that the adverse effects of this proposal are so seriously adverse as to outweigh any public benefits. Accordingly, I would deny the proposal.

March 23, 1984

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

Bank of New England Corporation
Boston, Massachusetts

Order Approving Merger of Bank Holding Companies and Acquisition of Companies Engaged in Commercial Finance, Leasing, Real Estate Lending, Factoring and General Trust Company Activities

Bank of New England Corporation, Boston, Massachusetts ("BNE"), a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1841 et seq.) ("BHC Act"), has applied for the Board's approval under section 3(a)(5) of the Act (12 U.S.C. § 1842(a)(5)), to merge with CBT Corporation, Hartford, Connecticut ("CBT"), also a bank holding company, and thereby to acquire indirectly The Connecticut Bank and Trust Company, N.A., Hartford, Connecticut. In addition, BNE has applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23(a)(2) of the Board's Regulation Y (12 U.S.C. § 225.23(a)(2)) to acquire CBT's nonbanking subsidiaries: CBT Trust Company of Florida, N.A., West Palm Beach, Florida ("CBT Trust"); Lazere Financial Corporation, New York, New York ("Lazere"); CBT Business Credit Corporation, Hartford, Connecticut ("BCC"); CBT Factors Corporation, New York, New York ("Factors"); CBT Realty Corporation, Hartford, Connecticut ("Realty"); and General Discount Corporation, Boston, Massachusetts ("GDC"). These companies, with the exception of CBT Trust, are subsidiaries of CBT Financial Corporation, Hartford, Connecticut, a company organized as a holding company for CBT's nonbanking subsidiaries. CBT Trust engages in general trust company activities in Florida. Lazere and BCC offer accounts receivable, inventory and equipment financing. Factors engages in "advance" and "maturity" factoring, and Realty in real estate lending. GDC, with subsidiaries in Maine, Massachusetts and Canada, engages in capital equipment financing through lending and leasing, and its Canadian subsidiary, CBT Leasing Limited, conducts such lending and leasing activities outside the United States pursuant to section 4(c)(13) of the Act (12 U.S.C. § 1843(c)(13)). All of these activities have been determined by the Board to be closely related to banking under sections 225.25(b)(1), (3) and (5) of Regulation Y (12 CFR § 225.25(b)(1), (3) and (5)).

Notice of these applications, affording an opportunity for interested persons to submit comments, has been given in accordance with sections 3 and 4 of the Act (48 *Federal Register* 41524). The time for filing comments has expired and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)). In particular, the Board has considered the comments of Citicorp, New York, New York, and Northeast Bancorp, Inc., New Haven, Connecticut, as well as the comments of several community groups located in Hartford, Connecticut.

BNE, with twelve bank subsidiaries, has consolidated assets of $5.9 billion and deposits of $3.7 billion, representing 13.3 percent of the total deposits in commercial banks in Massachusetts.[1] BNE is the fourth largest commercial banking organization in Massachusetts. CBT, which has total assets of $5.9 billion and total deposits of $3.4 billion, is the largest bank holding company in Connecticut. CBT holds 24.8 percent of all deposits in commercial banks in Connecticut. Upon consummation of the proposed merger, BNE would become the second largest bank holding company in New England in terms of assets and the largest in terms of domestic deposits.

Section 3(d) of the Act (12 U.S.C. 1842(d)), the Douglas Amendment, prohibits the Board from approving any application by a bank holding company to acquire any bank located outside of the state in which the operations of the bank holding company's banking subsidiaries are principally conducted, unless such acquisition is "specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication." The statute laws of Connecticut authorize the acquisition of a banking institution in Connecticut by a bank holding company that controls a bank located in another New England state, if that other New England state authorizes on a reciprocal basis the acquisition of a bank in that state by a Connecticut bank holding company.[2] Massachusetts has passed a reciprocal statute that authorizes such an acquisition.[3]

The Banking Commissioner of Connecticut and the Massachusetts Board of Bank Incorporation have approved this proposed merger pursuant to these reciprocal Interstate Banking Acts, thus finding that the transaction satisfies the requirements of the respective statutes authorizing the interstate acquisition of banks. Based upon its review of the Connecticut Interstate Banking Act ("CIBA"), the Board concludes that Connecticut has by statute expressly authorized a Massachusetts bank holding company, such as BNE, to acquire a Connecticut bank or a Connecticut bank holding company, such as CBT. Thus, the Connecticut Act meets the requirement of express authorization for interstate bank acquisitions imposed by section 3(d) of the Bank Holding Company Act.

The Connecticut and Massachusetts statutes are the first to be enacted that provide explicitly for limited interstate banking on a regional basis. Rhode Island has also enacted regional interstate banking legislation that limits entry into Rhode Island to bank holding companies located in New England.[4] The restriction in the Rhode Island statute, however, is of limited duration. After two years the Rhode Island statute provides for national reciprocity, permitting entry of bank holding companies from any state that will admit Rhode Island bank holding companies.

The regional interstate banking system developing in New England raises issues of considerable importance because no fewer than 15 state legislatures are considering proposals that, if enacted, would create regional banking systems in every part of the country. The Georgia legislature has already passed a regional interstate banking statute, and there are proposals for regional banking systems in the Southeast (Florida and Georgia and a combination of other states as far north as Virginia), the Northwest (Washington, Oregon and Idaho), the Mid-Atlantic (New Jersey, Pennsylvania and several other states as far south as Virginia) and the Mid-West (several different regional groupings under discussion). Both the increasing number of states considering such proposals and the progress of the proposed legislation toward enactment suggest

1. Banking data are as of June 30, 1983

2. 1983 Conn. Acts 411 (Reg. Sess.) entitled "An Act Concerning Interstate Banking" ("Connecticut Interstate Banking Act" or "CIBA"), § 2.

3. Mass. Ann. Laws ch. 167A ("Massachusetts Interstate Banking Act"), § 2

4. R.I. Gen. Laws §§ 19-30-1, 19-30-2 (Supp. 1983).

that, should the New England interstate banking zone be upheld, a system of regional zones may develop involving major areas of the nation.[5]

The Constitutionality of the Connecticut Statute

Protestants, Citicorp and Northeast Bancorp, Inc., have challenged the constitutionality of the Connecticut Interstate Banking Act[6] and, in particular, the provisions of CIBA that allow only New England bank holding companies[7] to acquire banks or bank holding companies located in Connecticut. The Protestants assert that such discriminatory legislation is unconstitutional under the provisions of the Compact Clause,[8] the Equal Protection Clause[9] and the Commerce Clause[10] of the United States Constitution.

The requirement that the Board address these issues derives from a series of judicial decisions beginning with Whitney National Bank in *Jefferson Parish* v. *Bank of New Orleans and Trust Company*, 379 U.S. 411 (1965), which required that the Board make a finding in the first instance on the applicability and validity of state laws that purport to authorize the particular transaction before the Board.[11] The United States Court of Appeals for the District of Columbia Circuit confirmed that this requirement applied to constitutional issues when it stated in *Iowa Independent Bankers Association* v. *Board of Governors of the Federal Reserve System*, 511 F.2d 1288, 1293 n.4 (1975), that it felt constrained "to register . . . substantial doubt that the Board can continue to presume conclusively the constitutional validity of state or federal laws in light of the Supreme Court's opinion in [*Whitney*] . . . ."

While in cases prior to *Iowa Independent Bankers*, supra, the Board declined to consider constitutional issues, *NCNB Corp.*, 59 FEDERAL RESERVE BULLETIN 305, 307 (1973),[12] the reservations about this course of action expressed by the D.C. Circuit in that case has led the Board to review the constitutionality of state statutes, although the Board has decided that it will not "hold a state statute to be unconstitutional without clear and unequivocal evidence of the inconsistency of the state law with the federal Constitution." *NCNB Corp.*, 68 FEDERAL RESERVE BULLETIN 54, 56 (1982).[13] The Board believes this standard to be consistent with the principle of statutory construction that legislatures are presumed to have acted within constitutional limits,[14] as well as with the historic role of the judicial branch of government in balancing state and federal interests in construing the scope of the constitutional powers of the states. This approach is also consistent with the Board's primary expertise and delegated responsibility under the Act—to review bank holding company expansion proposals for compliance with the public benefits test of section 4(c)(8) of the Act, including financial, competitive and community convenience and needs criteria.

Thus, the Board will require evidence of a clear conflict with the United States Constitution before the Board will find that CIBA constitutes an invalid authorization for the interstate merger of bank holding companies proposed in this case.

The Board has examined carefully the arguments advanced by Protestants and the unique and fundamental constitutional issues presented by CIBA in the context of the extensive record before the Board. After review of the record, the Board concludes that,

5. To date, only Maine (Me. Rev. Stat Ann. tit. 9-B, § 1013 (as amended February 7, 1984)) and Alaska (Alaska Stat § 06 05.235 (Supp. 1983)) permit interstate banking without restriction, although New York permits entry of bank holding companies from any state on a reciprocal basis (N.Y Banking Law § 142-b (McKinney Supp. 1983)).

6. By letter of November 16, 1983, counsel for BNE asserts that Citicorp is not a party in interest to this proceeding with standing to raise issues concerning the constitutionality of CIBA. Pursuant to section 105 of the BHC Act, 12 U S C. § 1850, Northeast clearly will become a competitor to BNE upon consummation of this acquisition Moreover, the Board believes that Citicorp, too, is a party in interest for purposes of this proceeding before the Board since Citicorp competes in Connecticut and Massachusetts with BNE and CBT, although on a somewhat limited basis, and, except for the restrictions contained in the very statute it challenges, it has the potential to become a more substantial competitor.

7. New England bank holding companies include those with their principal place of business in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. The Connecticut statute further restricts the definition of "New England bank holding company" to exclude bank holding companies directly or indirectly controlled by bank holding companies outside of New England. CIBA thus prohibits non-New England bank holding companies from "leap-frogging" into the Connecticut market through Maine or other New England states that may enact interstate banking statutes without regional restrictions.

8. U S. Const., Article I, section 10, clause 3

9. U S. Const., Amendment XIV, section 1.

10. U. S Const., Article I, section 8, clause 3

11. Justice Douglas in his dissent in *Whitney* noted that the specific issue with respect to the Louisiana statute at issue in that case would require the Board to decide a "bare, bald question of . . . constitutionality." 379 U.S. at 431. See also *First State Bank of Clute* v. *Board of Governors*, 553 F 2d 950 (5th Cir. 1977), and *Gravois Bank* v *Board of Governors*, 478 F.2d 546 (8th Cir 1973), which do not deal with constitutional issues but require a decision by the Board as to the applicability of state laws to bank holding company acquisitions.

12. See also *Bankers Trust New York Corp*, 59 FEDERAL RESERVE BULLETIN 364 (1973) and *Northwest Bancorporation*, 38 *Federal Register* 21530 (1973).

13. See also *Florida Coast Banks, Inc.*, 68 FEDERAL RESERVE BULLETIN 781 (1982); *Florida Coast Banks, Inc.*, 69 FEDERAL RESERVE BULLETIN 454 (1983). Moreover, the Board has indicated on one occasion that were it to follow the interpretation of a state statute urged by a party to an application it would be compelled to declare the statute to be unconstitutional. *KSAD, Inc.*, 70 FEDERAL RESERVE BULLETIN 44 (1984).

14. See *Clements* v. *Fashing*, 102 S. Ct 2836, 2843 (1982), *South Carolina State Highway Department* v. *Barnwell Bros., Inc*, 303 U S. 177, 195 (1938); *Atchison, Topeka & Santa Fe Ry Co.* v. *Matthews*, 174 U.S 96 (1899).

while the issue is not free from doubt, there is no clear and unequivocal basis for a determination that CIBA is inconsistent with the Commerce Clause, Compact Clause or Equal Protection Clause of the United States Constitution.[15] Accordingly, the Board will not deny this application on the grounds urged by Protestants that CIBA is unconstitutional. The analysis of this proposal under sections 3 and 4 of the Bank Holding Company Act is based upon this finding.

Considerations Under Sections 3 and 4 of the Bank Holding Company Act

In addition to determining that the merger of BNE and CBT is expressly authorized by a valid statute as required by section 3(d) of the BHC Act, the Board must decide whether this acquisition is consistent with the standards of sections 3 and 4 of the Act.

Section 3 Considerations. BNE's twelve banking subsidiaries operate in nine of the fourteen Massachusetts banking markets,[16] while CBT's single bank subsidiary operates in each of the ten Connecticut banking markets.[17] Since BNE's banking subsidiaries do not operate in Connecticut and CBT's banking subsidiary does not operate in Massachusetts, the proposed transaction would not eliminate any significant existing competition in any relevant banking market.

The Board also has considered the effects of this proposal on probable future competition in light of its proposed guidelines for assessing the competitive effects of market-extension mergers or acquisitions.[18] In evaluating the effects of a proposal on probable future competition, the Board considers market concentration, the number of probable future entrants into the market, the size of the bank to be acquired, and the attractiveness of the market for entry on a de novo or foothold basis absent approval of the acquisition.

With respect to the ten banking markets in Connecticut in which CBT operates, the record shows that either the markets are not highly concentrated or there are numerous other probable future entrants into the markets. Connecticut permits the acquisition of banks in Connecticut by bank holding companies located in other New England states, and there are a number of commercial banking organizations, including five in Massachusetts (other than BNE) and three in Rhode Island, with assets over $1 billion each that can be identified as probable future entrants into the Connecticut banking markets. Moreover, the Board notes that market concentration ratios and CBT's rank and market share drop significantly in each Connecticut market when deposits of thrift institutions are considered. In view of these considerations and other facts of record, the Board concludes that elimination of BNE as a probable future entrant into markets served by CBT would not have a substantial anticompetitive effect in those markets.

With respect to the nine Massachusetts[19] banking markets in which BNE operates, the record shows that there are a number of commercial banking organizations, including three commercial banking organizations in Connecticut (other than CBT) and three in Rhode Island with assets over $1 billion each, that can be identified as probable future entrants into each of the nine relevant markets. The markets with the fewest number of potential entrants, Boston and Cape Cod, are also not concentrated. Moreover, BNE is not a market leader in several markets, particularly when the deposits of thrift institutions are considered. On the basis of these and other facts of record, the Board concludes that the elimination of CBT as a probable future entrant would not have a substantial anticompetitive effect in the nine markets served by BNE.

The financial and managerial resources of BNE, CBT, and their subsidiaries are considered satisfactory and their prospects appear favorable. This finding is based, in part, on the fact that BNE has committed to a program to raise additional capital through a common stock offering and, in particular, to improve the capital position of its lead bank, Bank of New England, N.A., Boston, Massachusetts.

15. The staff analysis of the constitutional issues raised by Protestants is contained in an appendix to this Order and is made a part of the Board's findings in this case.

16. These Massachusetts banking markets include Boston, Springfield, Cape Cod, Fall River, New Bedford, Amherst-Northhampton, Greenfield, North Adams-Williamstown and Athol. BNE also operates in the Massachusetts portion of the Providence, Rhode Island, banking market.

17. These Connecticut banking markets include Hartford, New Haven, Bridgeport, Waterbury, New London, Danbury, Torrington, Danielson, Willimantic and Old Saybrook. CBT also operates in the Connecticut portion of the New York market.

18. "Proposed Policy Statement of the Board of Governors of the Federal Reserve System for Assessing Competitive Factors under the Bank Merger Act and the Bank Holding Company Act," 47 *Federal Register* 9017 (March 3, 1982). Although the proposed policy statement has not been adopted by the Board, the Board is using the policy guidelines in its analysis of the effects of a proposal on probable future competition.

19. BNE has less than a one percent market share in the Providence, Rhode Island, banking market and CBT has less than a one percent market share in the New York, New York, banking market. As a result, only Massachusetts and Connecticut markets are discussed in this Order.

The Board has considered the convenience and needs of the communities to be served. Although both BNE and CBT offer a complete range of banking services, consummation of this merger would provide more favorable access to the capital markets and thereby permit BNE to provide expanded access to consumer banking services in Connecticut and Massachusetts, additional credit capacity for growing commercial customers and the presence of a substantial New England based competitor to meet growing competition from nonbanking financial conglomerates in the financial services industry.

In considering the convenience and needs of the communities to be served, the Board has also examined the record of BNE and CBT and their banking subsidiaries in meeting the credit needs of their communities, as provided in the Community Reinvestment Act of 1977 (12 U.S.C. §§ 2901–05)("CRA") and the Board's Regulation BB (12 CFR § 228). The CRA and Regulation BB require the Board to assess the record of the banking subsidiaries of any applicant in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. Although the Board does not ordinarily consider the CRA record of the acquiree, the Board, for purposes of this case, has considered the CRA records not only of BNE's banking subsidiaries but also that of CBT because this merger involves two bank holding companies of approximately equal size.

Three Hartford, Connecticut, neighborhood citizens associations, Frog Hollow Residents Coalition, Concerned Citizens of Southwest and Behind the Rocks Neighborhood Association, have protested this application on the basis of an alleged failure of CBT to meet the housing financing needs of the low- and moderate-income neighborhoods of Hartford.[20] In addition, the Frog Hollow Residents Coalition alleged that CBT has failed to honor a commitment made in July 1982 to provide a special fund for mortgage, home improvement and housing rehabilitation loans to owner-occupants of the Frog Hollow community.

The community group Protestants have failed to present any substantial evidence to support their position. Nevertheless, the Board has considered the issues raised by Protestants and the extensive response CBT has provided with respect to its lending history and practices in Protestants' neighborhoods. The record demonstrates that, pursuant to a July 1982 commitment, CBT has established a special housing-related lending program for the Frog Hollow community and has made a significant commitment of funds at favorable rates and without ancillary costs. CBT has also documented its commitment to meet the housing needs of low- and moderate-income neighborhoods through housing ventures with other companies and neighborhood groups.

In the neighborhoods of the other two Protestants, Behind the Rocks and Southwest, CBT has a strong record of home improvement loans and it ranks among the leading lending institutions in those areas in terms of the number of home improvement loans. CBT has also documented a low demand for first mortgages in these two areas. CBT has made a commitment to increase its efforts to make residents of Protestants' communities aware of its loan programs. Based on the foregoing and other facts in the record, the Board concludes that CBT and BNE have satisfactory records of compliance with the CRA. The considerations relating to the convenience and needs of the communities to be served weigh in favor of approval.

Section 4(c)(8) Considerations. BNE has also applied under section 4(c)(8) of the BHC Act to acquire the nonbanking subsidiaries of CBT, including Lazere, BCC, Factors, GDC and Realty, which are all organized as subsidiaries of CBT Financial.[21] BNE has only one active nonbanking subsidiary operating pursuant to section 4(c)(8).[22] CBT's only nonbanking subsidiary that operates in Massachusetts is GDC, which is engaged in leasing and lending activities. GDC derives approximately $14 million in commercial loans and leasing activities from the entire state of Massachusetts.

This proposal would have only minimal impact on actual competition among nonbanking subsidiaries of BNE and CBT. Moreover, this proposal will have no significant impact on existing competition between BNE's subsidiary banks and GDC. Given the size of CBT's equipment financing subsidiary and the limited

20. The Small Business Association of New England requested a hearing on the application to explore a concern that the merger of major New England banks would result in larger institutions that might not be responsive to the credit needs of small business enterprises. After a meeting with officials of CBT and BNE, the Small Business Association of New England was satisfied and it withdrew its request for a hearing.

21. CBT's nonbanking subsidiaries will represent less than two percent of the consolidated assets of the merged corporation.

22. BNE received approval after the filing of this application to acquire de novo a subsidiary to engage in leasing activities. That subsidiary, BNE Capital Corporation, Boston, Massachusetts, began operations on December 28, 1983

scope of its activities in Massachusetts, the Board does not believe this transaction will result in any significant decreased competition.

There is no evidence in the record that this transaction will result in any undue concentration of resources, unfair competition, unsound banking practices, conflicts of interest or other adverse effects. Based upon these and other considerations reflected in the record, the Board has determined that the balance of public interest factors that it is required to consider under section 4(c)(8) of the Act is favorable.

Based on the foregoing and other facts of record, the Board has determined that the applications under section 3 and 4 of the Act should be and hereby are approved for the reasons set forth above.

In approving this application the Board does not intend to express any conclusion concerning the desirability, as a matter of national policy, of the regional arrangements provided for by CIBA. The Board recognizes that interstate banking is a highly complex issue that unavoidably involves the balancing of a number of different considerations. However, if the New England regional approach to interstate banking is emulated in other parts of the country, there is a potential danger that the result could be to divide the country into a number of banking regions. The Board believes that the public policy issues that are raised by the regional approach are inherently national and would be best resolved by Congressional action.

The acquisition of CBT's banking subsidiaries pursuant to section 3 of the Act shall not be made 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 Boston, pursuant to delegated authority. The approval of BNE's proposal to acquire CBT's nonbank subsidiaries and to engage in equipment financing, leasing, real estate lending, factoring, and accounts receivable financing is subject to all the conditions set forth in Regulation Y, including section 225.4(d) and section 225.23(b), and to the Board's authority to require modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and Board's regulations and orders issued thereunder, or to prevent evasion thereof.

By order of the Board of Governors, effective March 26, 1984.

Voting for this action: Chairman Volcker and Governors Martin, Wallich, Partee, Teeters, Rice, and Gramley.

JAMES MCAFEE,
Associate Secretary of the Board

[SEAL]

Appendix to the Order Approving the Application of Bank of New England Corporation, Boston, Massachusetts, to Merge with CBT Corporation, Hartford, Connecticut

Citicorp, New York, New York, and Northeast Bancorp, Inc., New Haven, Connecticut, have protested the application of Bank of New England Corporation, Boston, Massachusetts, to merge with CBT Corporation, Hartford, Connecticut. Citicorp and Northeast argue that the application should be denied because the Connecticut Interstate Banking Act ("CIBA") is unconstitutional and therefore insufficient to authorize the proposed merger. Protestants challenge the provisions of CIBA that allow only New England bank holding companies[1] to acquire banks or bank holding companies located in Connecticut. The Protestants assert that such discriminatory legislation is unconstitutional under the provisions of the Compact Clause,[2] the Equal Protection Clause[3] and the Commerce Clause[4] of the United States Constitution.

CIBA (and the similar statute enacted in Massachusetts) raises unique constitutional issues. There are many decided cases defining the permissible scope of state regulations favoring their own residents against those of all other states, but apparently no judicial decisions testing the constitutionality of state regulatory arrangements which discriminate in favor of residents of selected regional groupings of states and exclude residents of all other states from the benefits provided to the regional groups.[5]

1. New England bank holding companies include those with their principal place of business in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. The Connecticut statute further restricts the definition of "New England bank holding company" to exclude bank holding companies directly or indirectly controlled by bank holding companies outside of New England. CIBA thus prohibits non-New England bank holding companies from "leapfrogging" into the Connecticut market through Maine or other New England states that may enact interstate banking statutes without regional restrictions.

2. U.S. Const., Article I, section 10, clause 3

3. U.S Const., Amendment XIV, section 1

4. U.S. Const., Article I, section 8, clause 3

5. While there are judicial decisions upholding interstate agreements, these agreements have not had the objective of discrimination but rather that of cooperation on a subject matter of exclusive interest to the states that are parties to these agreements See, e.g , *Washington Metropolitan Area Transit Authority* v *One Parcel of Land*, 706 F.2d 1312, 1314 (4th Cir), cert. denied, 104 S Ct 238 (1983); *Jacobson* v. *Tahoe Regional Planning Agency*, 566 F.2d 1353, 1357 (9th Cir. 1977), aff'd in part and rev'd in part sub nom. *Lake Country Estates, Inc* v *Tahoe Regional Planning Agency*, 440 U S. 391 (1979)

Considerations Under the Compact Clause

The Compact Clause of the United States Constitution states that "[n]o State shall, without the Consent of Congress . . . enter into any Agreement or Compact with another State, or with a foreign Power. . . ."[6] The Supreme Court has indicated that an interstate agreement is within the parameters of the Compact Clause and thus subject to the requirement of congressional consent only when: (1) an interstate compact or agreement exists, (2) that tends to increase the power of the compacting states in such a manner as to interfere with federal supremacy.[7]

CIBA, when considered in light of its legislative history and the actions of other New England states, is part of an effort to create a regional banking zone. The regional banking acts of Connecticut, Massachusetts and Rhode Island contain very similar provisions, and they were enacted within a six-month period between December, 1982, and June, 1983. Passage of the acts was preceded during a four-month period by a formal meeting of representatives of the New England states to discuss regional interstate banking, by the formation of a New England Committee to Study and Promote Regional Interstate Banking, by testimony of legislators at hearings on the issue before legislative committees in other New England states, and by apparent review and comments on the proposed Connecticut legislation by the Massachusetts Banking Department. The debate on the Connecticut bill refers to an "agreement" or "compact" on regional interstate banking.[8]

The Supreme Court in *Virginia* v. *Tennessee,* 148 U.S. 503, 517–518 (1893), stated that the terms "agreement" and "compact" as used in the Compact Clause are "sufficiently comprehensive to embrace all forms of stipulation, written or verbal, and relating to all kinds of subjects." In *United States Steel Corp.* v. *Multistate Tax Commission,* 434 U.S. 452, 470 (1978), the Court specifically addressed the issue of reciprocal statutes and stated that "agreements effected through reciprocal legislation may present opportunities for enhancement of state power at the expense of the federal supremacy similar to the threats inherent in a more formalized 'compact'. . . ." The Court emphasized that the federal impact rather than the form of the agreement is the critical inquiry under the Compact Clause. Accordingly, while in form CIBA can be considered to be part of an implicit compact or agreement that has never been approved or authorized by Congress, as the cases cited above indicate, CIBA would violate the Compact Clause only if it constitutes an enhancement of state powers at the expense of federal supremacy.

No such claim of infringement upon federal supremacy could be maintained, however, if CIBA has been authorized by Congress in the Douglas Amendment. The compatibility of CIBA with the Compact Clause turns on whether Congress in the Douglas Amendment granted the states plenary power to regulate entry of out-of-state bank holding companies, thereby renouncing a federal interest in such regulation for purposes of the Compact Clause. The intent of Congress in enacting the Douglas Amendment is more fully discussed below, *infra* at 15–27, and, for reasons stated therein, the Douglas Amendment should be read as a renunciation of federal interest in regulating the interstate acquisition of banks by bank holding companies. As a result CIBA does not appear to violate the Compact Clause.

Considerations Under the Equal Protection Clause

Protestants also challenge the constitutionality of CIBA as a violation of the Equal Protection Clause of the Fourteenth Amendment, which provides "[n]o State shall . . . deny to any person within its jurisdiction the equal protection of the laws." Protestants argue that CIBA's exclusion of non-New England bank holding companies is an arbitrary restriction unrelated to any legitimate state purpose.

The Supreme Court in *New Orleans* v. *Dukes,* 427 U.S. 297, 303 (1976) (per curiam), articulated the following, frequently cited standard of judicial scrutiny under the Equal Protection Clause:[9]

> Unless a classification trammels fundamental personal rights or is drawn upon inherently suspect distinctions such as race, religion, or alienage, our decisions presume the constitutionality of the statutory distinctions and require only that the classification challenged be rationally related to a legitimate state purpose.

6. Art. I, § 10, cl. 3. This clause has been invoked infrequently, particularly in recent years when expanded interpretation of what constitutes interstate commerce has meant that agreements among states more frequently might be invalidated as burdening interstate commerce in violation of the Commerce Clause.

7. See *United States Steel Corporation* v. *Multistate Tax Commission,* 434 U.S. 452 (1978); *Virginia* v. *Tennessee,* 148 U.S. 503 (1893).

8. See Transcripts of Connecticut Senate Debate, May 18, 1983 ("Conn Sen. Debate") at 61, 96 (Sen. Sullivan); Transcripts of Connecticut House of Representatives Debate, May 26, 1983 ("Conn House Debate") at 224, 234, 236 (Rep. Onorato) and 276, 277 (Rep. Jaekle).

9. See also *Dandridge* v. *Williams,* 397 U.S. 471, 484–486 (1971), *Iowa Independent Bankers Association* v. *Board of Governors,* supra.

Application of the test of whether economic legislation is "rationally related to a legitimate state purpose" involves two inquiries: (1) whether the challenged statute has a legitimate purpose, and (2) whether it was reasonable for the legislature to believe the challenged classification would promote that purpose.[10]

In answering these inquiries, the Supreme Court has afforded great deference to a state's statements of legislative purpose and its statutory classifications to achieve those purposes. The Supreme Court has ordinarily been willing to uphold any classification based "upon a state of facts that reasonably can be conceived to constitute a distinction, or difference in state policy. . . " *Allied Stores of Ohio, Inc.* v. *Bowers,* 358 U.S. 522, 530 (1959). The court will sustain economic legislation "if any set of facts reasonably may be conceived to justify it." *McGowan* v. *Maryland,* 366 U.S. 420, 426 (1961).

For the purpose of analysis under the Equal Protection Clause, CIBA appears to be rationally related to an attempt to maintain a banking system responsive to local needs in New England. The Hebb Report, a report prepared by a Commission appointed by the Connecticut legislature to study interstate banking, indicates that the purposes of CIBA include avoiding undue concentration of resources, maintaining the responsiveness of the banking system to local credit needs and providing an opportunity for a limited interstate banking experiment.[11] A finding of a rational basis for CIBA is consistent with the decision of the Court of Appeals for the District of Columbia Circuit in *Iowa Independent Bankers,* supra, upholding an Iowa statute against an Equal Protection Clause argument although that statute permitted only one out-of-state bank holding company to operate in Iowa. This case held that state statutes, such as CIBA, governing admission of out-of-state bank holding companies into a particular state, such as Connecticut, involve essentially economic legislation and do not raise issues of fundamental rights or draw upon suspect classifications. Since CIBA does not impinge those rights found to be fundamental by the Supreme Court or employ inherently suspect classifications, it will not be closely scrutinized by the courts under the Equal Protection Clause.

Thus, Connecticut can advance a sufficiently rational purpose in enacting CIBA to meet the less stringent scrutiny of the courts under the "rational purpose" test. On this basis, CIBA does not appear to violate the Equal Protection Clause of the Fourteenth Amendment.

Considerations Under the Commerce Clause

BNE and CBT assert that Congress, in the Douglas Amendment, conferred upon each state complete authority to permit, regulate or condition the entry into the state by out-of-state bank holding companies for the purpose of engaging in banking activities. BNE and CBT argue that Congress authorized the states not only to determine whether to permit acquisitions of banks across state lines but also to determine the extent to which to permit such acquisitions. Protestants, on the other hand, assert that the Douglas Amendment does not authorize states to place discriminatory restrictions on the admission of out-of-state bank holding companies, particularly on a state-by-state basis.

1. *CIBA Under the Commerce Clause.* Absent congressional authorization of CIBA in the Douglas Amendment, it appears that CIBA would be inconsistent with the standards for state action under the Commerce Clause as established by the Supreme Court. The central concern behind the Commerce Clause, according to the Court, is a desire "to avoid the tendencies toward economic Balkanization that had plagued relations between the Colonies and later among the States under the Articles of Confederation," *Hughes* v. *Oklahoma,* 441 U.S. 322, 325–326 (1978), and to create a "federal free trade unit" based on a principle that "our economic unit is the Nation" and that "the states are not separable economic units." *H. P. Hood & Sons, Inc.* v. *DuMond,* 336 U.S. 525, 537–538 (1947).

The Court has applied the Commerce Clause as granting Congress the power "[to] regulate commerce . . . among the several states,"[12] and also as a limitation on the power of the states to impose barriers to or burdens on interstate commerce.[13] The basic rationale for this interpretation is both economic and political, and these concerns are particularly applicable to state statutes that selectively confer benefits on one or more other states and deny these same benefits to still other states. The Court has forcefully stated these core concerns:

10. See *Minnesota* v. *Clover Leaf Creamery Co.,* 449 U.S 456, 461–463 (1981); *Western and Southern Life Insurance Co.,* 451 U.S. at 668.

11. "The Report to the General Assembly of the State of Connecticut of The Commission to Study Legislation to Limit the Conduct of Business in Connecticut by Subsidiaries of Bank Holding Companies," January 5, 1983 ("The Hebb Report"), pp. 10, 12–13.

12. U. S. Const., Art. I, § 8, cl. 3

13. *Great Atlantic and Pacific Tea Company* v. *Cottrell,* 424 U S. 366, 370–71 (1976).

This Court has not only recognized this disability of the state to isolate its own economy as a basis for striking down parochial legislative policies designed to do so, but it has recognized the incapacity of the state to protect its own inhabitants from competition as a reason for sustaining particular exercises of the commerce power of Congress to reach matters in which states were so disabled.

The material success that has come to inhabitants of the states which make up this federal free trade unit has been the most impressive in the history of commerce, but the established interdependence of the states only emphasizes the necessity of protecting interstate movement of goods against local burdens and repressions. We need only consider the consequences if each of the few states that produce copper, lead, high-grade iron ore, timber, cotton, oil or gas should decree that industries located in that state shall have priority. What fantastic rivalries and dislocations and reprisals would ensue if such practices were begun!

Our system, fostered by the Commerce Clause, is that every farmer and every craftsman shall be encouraged to produce by the certainty that he will have free access to every market in the Nation, that no home embargoes will withhold his exports, and no foreign state will by customs, duties or regulations exclude them. Likewise, every consumer may look to the free competition from every producing area in the Nation to protect him from exploitation by any. Such was the vision of the Founders; such has been the doctrine of this Court which has given it reality.

H. P. Hood & Sons, 336 U.S. at 538–39 (citations omitted)

The states retain the authority, particularly pursuant to their powers to safeguard the health and safety of their residents, to regulate matters of legitimate local concern in such a way as may impose incidental burdens on interstate commerce. However, the states may not regulate in a manner that imposes more than an incidental burden on interstate commerce[14] or that discriminates against articles of commerce from outside a given state unless there is some reason apart from their origin to treat them differently.[15]

In those instances where the states have acted to effect purposes of simple economic protectionism or in a manner that is patently discriminatory, the Supreme Court has held such state statutes to be per se unconstitutional.[16] In those cases where the states credibly advance a legitimate state purpose other than protection of local business, the Court has applied a balancing test, weighing whether the statute in question serves a legitimate state purpose and whether it could accomplish that purpose in a manner less burdensome to interstate commerce.[17]

14. *Philadelphia* v. *New Jersey*, 437 U.S. 617, 624 (1978).

15. *Lewis* v. *BT Investment Managers, Inc.*, 447 U.S. at 27, (1980). See also *Philadelphia* v. *New Jersey*, supra, at 626–627.

16. *Philadelphia* v. *New Jersey*, supra, at 624.

17. *Hughes* v. *Oklahoma*, 441 U.S. 322, 336 (1979), *Pike* v. *Bruce Church, Inc.*, 397 U.S. 137, 142 (1970).

Absent authorization by the Douglas Amendment, it would appear that, under the standards applied by the Court,[18] CIBA imposes a burden on interstate commerce of the type that would be found by the courts to violate the Commerce Clause. CIBA permits only bank holding companies located in New England to engage in banking activities in Connecticut while denying that right to bank holding companies located elsewhere. The discriminatory nature of CIBA is apparent from its legislative history, which demonstrates the intention of the Connecticut legislature to permit Connecticut banks and bank holding companies to develop and consolidate on a regional basis before having to compete with banks outside the region.[19]

BNE and CBT contend that CIBA does not conflict with the Commerce Clause decisions of the Supreme Court because CIBA relieves the ban or burden on interstate commerce imposed by Congress to the extent that it would replace six different banking zones in the individual New England states with a single barrier-free New England zone. They argue that Congress has imposed a restriction on interstate banking in the Douglas Amendment and that it has permitted the states to lift that ban by a specific statutory enactment.

In support of this position, BNE and CBT cite *Hughes* v. *Alexandria Scrap Corp.*, 426 U.S. 794, 815–816 (Stevens, J. concurring)(1976). In *Alexandria Scrap*, the Supreme Court upheld a Maryland statute that paid a bounty for destruction of any junked car formerly titled in Maryland despite a challenge that the statute made it easier for Maryland scrap processors to prove that a vehicle had been titled in Maryland than it did for out-of-state processors. The Court held that where a state acted as a market participant the Commerce Clause did not apply.[20] The Connecticut regional banking zone at issue in this case is clearly an

18. See *Dean Milk Co.* v. *Madison*, 340 U.S. 349 (1951) (ordinance of the City of Madison, Wisconsin, requiring all milk sold in Madison to be processed and bottled at a plant within five miles of the city); *Pennsylvania* v. *West Virginia*, 262 U.S. 553 (1923) (West Virginia requirement that all local needs for natural gas be met before natural gas could be shipped out of the state); *H. P. Hood & Sons* v. *DuMond*, 336 U.S. 525 (1949) (denial of a milk receiving plant in New York to a Massachusetts distributor because it would injure local competition), *Philadelphia* v. *New Jersey*, 437 U.S. 617 (1978) (New Jersey law prohibiting the import of liquid or solid waste which originated or was collected outside the State of New Jersey); *Lewis* v. *BT Investment Managers, Inc.*, 447 U.S. 27 (1980) (Florida law prohibiting out-of-state bank holding companies from engaging in investment advisory activities)

19. The Hebb Report, supra, at 12. See also Conn. Sen. Debate, supra, at 60, 64, 70 (Statement of Senator Sullivan) and Conn House Debate at 241, 258 (Statement of Representative Onorato).

20. In his concurring opinion, Justice Stevens suggested that the decision in effect held that, since Maryland "created a market that did not previously exist," it could not be found to burden commerce. 426 U.S. at 815–816.

example of the regulatory rather than proprietary function of the State of Connecticut, and Connecticut is not itself creating commerce by its own direct intervention in the marketplace. The reliance of BNE and CBT on the *Alexandria Scrap* rationale thus appears to be misplaced and, in fact, succeeding Supreme Court decisions seem to limit the *Alexandria Scrap* reasoning to those situations where the states are "market participants" rather than "market regulators." See *Reeves, Inc.* v. *Stake*, 447 U.S. 429, 436 (1980).[21]

Even if CIBA were not to be considered a per se unconstitutional burden on interstate commerce, the disparate treatment of non-New England bank holding companies does not appear to be justified "as an incidental burden necessitated by legitimate local concerns." *Lewis* v. *BT Investment Managers*, supra, 447 U.S. at 42. The Supreme Court suggested in the *Lewis* case that with respect to banking there are legitimate state interests in "discouraging undue economic concentration," "maximizing local control" and "regulating financial practices presumably to protect local residents from fraud." Id. at 43. The Court, however, found in that case that a complete ban on out-of-state entry into the trust business in Florida could not be justified as an incidental burden necessitated by legitimate local concerns. The Court noted that there were other regulatory techniques available to deal with local concerns that non-resident bank holding companies were more likely to be sources of monopoly power or fraud than local companies.

Similarly, in this case, there are less restrictive means than a discriminatory geographic restriction to accomplish the objectives of the Connecticut legislature. There is no indication that all New York or New Jersey companies, for example, raise greater problems with respect to local control and economic concentration than those of Massachusetts and Rhode Island. To accomplish the objective of avoiding concentration of resources in a non-discriminatory manner limitations could be placed on total banking assets or total deposits that a bank holding company may hold in order to qualify for additional acquisitions within Connecticut. These and other less discriminatory alternatives suggest that CIBA would not be viewed as an incidental burden on interstate commerce necessitated by legitimate local concerns. This conclusion is consistent with the Supreme Court's finding in the *Lewis* case that Florida's interest in local control did not justify a prohibition on entry of non-resident trust companies because of the discriminatory burden which the limitation imposed on interstate commerce. Thus, CIBA does not appear to be consistent with the prohibition in the Commerce Clause on discrimination against interstate commerce by the states.[22]

2. *Discrimination Authorized by the Douglas Amendment.* BNE and CBT, however, contend that the Douglas Amendment authorizes the discrimination provided for by CIBA. The Douglas Amendment provides:

> Notwithstanding any other provision of this section, no application shall be approved under this section which will permit any bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any additional bank located outside of the State in which the operations of such bank holding company's banking subsidiaries were principally conducted on July 1, 1966, or the date on which such company became a bank holding company, whichever is later, unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication. For the purposes of this section, the State in which the operations of a bank holding company's subsidiaries are principally conducted is that State in which total deposits of all such banking subsidiaries are largest.

12 U.S.C. § 1842(d)(1).

The Supreme Court in *Lewis*, supra, 447 U.S. at 47, described this language as establishing a general federal prohibition on acquisition or expansion of banking subsidiaries across state lines and as conferring on the states only "authority to create exceptions to this general prohibition."

It is clear that if Congress, in the Douglas Amendment, authorized discriminatory state action, CIBA would not be unconstitutional under the Commerce Clause. In the specific context of the Douglas Amendment, the Supreme Court has stated that Congress may prohibit as well as promote commerce[23] and may

21. "[T]he Commerce Clause responds principally to state taxes and regulatory measures impeding private trade in the national marketplace. . . There is no indication of a constitutional plan to limit the ability of the States themselves to operate freely in the free market." Id. at 436–437 (citations omitted). See also *White* v. *Massachusetts Council of Construction Employers*, 103 S. Ct. 1042 (1983), *United Building & Construction Trades Council* v. *Mayor & Council of Camden*, 52 U.S.L.W. 4187 (U.S. Feb. 21, 1984).

22. In *Northeast Bancorp* v. *Wolf*, (Civil Action H-83-654), the U.S. District Court for the District of Connecticut in an opinion issued December 16, 1983, dismissed a challenge to the Connecticut Act on standing grounds but it described the Act as ". . . statutory provisions that discriminate between New England and non-New England banks . . ."

23. See *Prudential Insurance Company* v. *Benjamin*, 328 U.S. 408, 434 (1946).

exercise its plenary power under the Commerce Clause "by conferring upon the States an ability to restrict the flow of interstate commerce that they would not otherwise enjoy." *Lewis* v. *BT Investment Managers, Inc.*, 447 U.S. 27, 44 (1980).[24] The issue presented by CIBA is the extent of a state's powers when it decides to lift the Douglas Amendment prohibition. Does the Douglas Amendment, which establishes a total prohibition on acquisitions by out-of-state bank holding companies, authorize a state to discriminate among the states when it permits entry? Does the Douglas Amendment permit Connecticut to admit bank holding companies from neighboring Massachusetts and other New England States meeting certain qualifications regarding reciprocity but not from other states even if they were to meet the reciprocity qualifications?

It is, therefore, necessary to determine the scope of authorization, if any, for states to discriminate among other states in lifting the Douglas Amendment's ban against interstate acquisition of banks by bank holding companies. This task is more difficult because, as noted above, this case involves an unusual form of discrimination. There is a long history of decisions of the Supreme Court and lower federal courts involving the application of the Commerce Clause to state laws that provide a preference for their own residents as against those of *all* other states. No case has been found under the Commerce Clause or generally in the literature on this Clause, in which a state has provided for preferential treatment of its own citizens and those of selected other states, while excluding the residents of all other states from this favored treatment.

In deciding cases where the differential treatment is applied against all other states equally, the Supreme Court requires, in order to find an authorization for discrimination in federal statutes, that such authorization be "expressly"[25] or "explicitly"[26] or "specifically"[27] stated in federal law. In *Sporhase* v. *Nebraska*, 458 U.S. 941, 960 (1982), defendants challenged a Nebraska law restricting the export of ground water as an impermissible burden on interstate commerce. Nebraska argued in defense of its statute that the congressional intent to authorize otherwise impermissible burdens on interstate commerce was demonstrated by 37 federal statutes in which Congress had indicated its intent not to preempt state water laws and by congressional authorization of certain interstate surface water compacts. The Court rejected this argument, holding that these federal statutes did not show an "expressly stated" intention to remove Commerce Clause restraints on state water laws. Similarly, in *New England Power Company* v. *New Hampshire*, 455 U.S. 331, 341 (1982), and in *Lewis*, supra, the Court held that federal statutes reserving to the states residual authority over export of electricity or over bank holding companies were in no sense affirmative grants of power to the states to impose undue burdens on interstate commerce. The Court may have relaxed this high standard somewhat in *White* v. *Massachusetts Council of Construction Employers*, 103 S. Ct. 1042 (1983), where it approved geographic restrictions on the hiring of non-resident workers for city-funded construction projects, relying upon the explicit regulations of the Department of Housing and Urban Development and a general, unspecific authorization in federal statute for such regulations.

Based on these requirements for specificity, the Douglas Amendment does not appear *on its face* to authorize discrimination by Connecticut in favor of its own residents and those of Massachusetts and other New England states having reciprocal laws, but against all other states. The Douglas Amendment's general authorization to the Board of Governors to permit interstate acquisitions if they are ". . . specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication," does not appear to meet the stringent test of explicitness laid down by the Supreme Court.

BNE and CBT argue, however, that the legislative history of the Douglas Amendment indicates the intention of the Congress to give the states complete discretion in setting the terms of entry of out-of-state bank holding companies without the limitations imposed by the Commerce Clause. While reliance on the legislative history is a valid method of determining that Congress authorized the lifting of Commerce Clause restrictions with respect to a particular state enactment, the Supreme Court has expressed reluctance to place undue weight on this type of inquiry in an attempt to find authority from Congress for states to discriminate against the residents of other states. The Court has stated:

> Reliance on . . . isolated fragments of legislative history in divining the intent of Congress is an exercise fraught with hazards, and "a step to be taken cautiously."

24. See also *Prudential Insurance Company* at 423–24

25. *New England Power Co.* v. *New Hampshire*, 455 U.S. 331, 340–41 (1982).

26. *Western and Southern Life Insurance Co.* v. *State Board of Equalization*, 451 U.S. 648, 653–654 (1981).

27. *White* v. *Massachusetts Council of Construction Employers*, 103 S. Ct. 1042 (1983).

New England Power, 455 U.S. at 341, quoting *Piper* v. *Chris-Craft Industries, Inc.*, 430 U.S. 1, 26 (1976).

When Congress has not expressly stated an intent to permit state legislation otherwise inconsistent with the Commerce Clause, the Court has no authority to rewrite the legislation "based on mere speculation of what Congress probably had in mind." Id. at 343.[28]

The Douglas Amendment was proposed during the debate on the Senate floor and there is no committee report or other significant legislative history to clarify its meaning.[29] There was very little discussion of the power of the states to override the interstate banking ban imposed by the Douglas Amendment and no discussion of the power of the states to discriminate among potential out-of-state entrants.[30] Congress was clearly more concerned with the federal prohibition on interstate acquisitions than on terms under which the states could lift this ban.

In his remarks during the Senate debate, Senator Douglas, sponsor of the Amendment, referred to the ability of the states to permit the entry of out-of-state bank holding companies "only to the degree that state laws expressly permit them."[31] He also stated that the Amendment paralleled the McFadden Act restrictions on the power of national banks to branch intrastate and interstate "in a way contrary to State policy."[32] Thus it can be persuasively argued that Senator Douglas construed his amendment as granting plenary power to the states to set their own policies and to permit entry of out-of-state bank holding companies to the degree that they chose. However, there is also an argument that the excerpts from the Senate debate are too fragmentary and unspecific to show congressional intent to authorize discrimination otherwise contrary to the Commerce Clause, especially where the Supreme Court has required such explicit and clear authorization of discrimination by the Congress because of the fundamental implications of such discrimination for the federal union.

The Board has a limited amount of judicial guidance on this issue. The only court to consider the legislative history of the Douglas Amendment has been the U.S. Court of Appeals for the District of Columbia Circuit in *Iowa Independent Bankers Association* v. *Board of Governors*, 511 F.2d 1288, 1293 (1975). The case involved, in part, a challenge under the Equal Protection Clause of the Fourteenth Amendment to the Iowa statute that permitted, on the basis of their location in the state prior to the enactment of the Bank Holding Company Act Amendments of 1970, out-of-state bank holding companies operating two or more banks in Iowa to continue to expand and to acquire new banks in Iowa on the same basis as a local bank holding company.

A less stringent standard applies to state action under the Equal Protection Clause than under the Commerce Clause. Under the former provision a state need only show that its economic legislation, presuming it does not affect fundamental rights or create a suspect classification, bears a rational relationship to a legitimate state purpose. Under the Commerce Clause, however, discrimination is disabling per se, and even when a statute only imposes an incidental burden on interstate commerce it will be struck down if such burden is clearly excessive in relation to expected local benefits. The Court upheld the constitutionality of the Iowa statute under the Equal Protection Clause on the basis that it was actually a statute that conferred grandfather rights on the only out-of-state bank holding company operating in Iowa.

The Court then turned to petitioners argument that the Iowa statute conflicted with federal law, specifically with the Douglas Amendment. Petitioners in *Iowa Independent Bankers* advanced the argument that the Iowa statute conflicted with "implicit . . . prohibition against discrimination between out-of-state bank holding companies,"[33] which, they asserted, was intended by Congress in the Douglas Amendment. They argued that under the Douglas Amendment states may only decide "whether to extend the right to acquire in-state banks to all out-of-state bank holding companies or to prohibit such acquisitions entirely."[34] The Court then reviewed the limited legislative history of the Douglas Amendment and these arguments, finding that Congress did not intend to bar discrimination like that

28. The Court has allowed discrimination against other states generally based upon a clear statement of congressional intent contained in the legislative history of a federal statute. Relying on the clearly expressed intention of Congress, derived from the legislative history, to leave insurance regulation exclusively to the states, the Court has found the McCarran-Ferguson Act, 15 U.S.C. § 1011 et seq., to authorize discriminatory state statutes that would otherwise offend the Commerce Clause. *Prudential Insurance Company* v. *Benjamin*, 328 U.S. 408, 427–432 (1946), and *Western and Southern Life Insurance Co.*, supra, 451 U.S. at 465.

29. The pertinent debates are found at 102 Cong. Record 6750–58 and 6854–62 (1956).

30. See *Iowa Independent Bankers* v. *Board of Governors of the Federal Reserve System*, 511 F.2d 1288 (D.C. Cir.), cert. denied 423 U.S. 875 (1975).

31. "[W]hat our amendment aims to do is to carry over into the field of holding companies the same provisions which already apply for branch banking under the McFadden Act—namely, our amendment will permit out-of-State holding companies to acquire banks in other States only to the degree that State laws expressly permit them; and that is the provision of the McFadden Act " 102 Cong. Record 6858 (1956).

32. "[The amendment] is a logical continuation of the principles of the McFadden Act, which tried to prevent the Federal power from being used to permit national banks to expand across State lines in a way contrary to State policy and, of course, under the McFadden Act, even to expand within a State." 102 Cong Record 6860 (1956)

33. *Iowa Independent Bankers*, supra, 511 F.2d at 1296.

34. Ibid.

embodied in the Iowa statute. The Court also stated that the Douglas Amendment conferred on the states a right to control the expansion of interstate banking "so that such expansion would not contravene state policy."[35]

The Court's review of the legislative history of the Douglas Amendment in *Iowa Independent Bankers* was not conducted for purposes of determining the validity of the Iowa statute under the Commerce Clause. Therefore, the Court did not focus on the Supreme Court's standard of review under the Clause and did not consider whether the alleged legislative authorization by the Douglas Amendment is express and unambiguous so as to sanction discrimination against interstate commerce that would otherwise run afoul of the Commerce Clause.

The actions of the states and the Board in interpreting and applying the Douglas Amendment also lend some support to the position that the Amendment authorizes the states to permit restricted or conditional entry of out-of-state bank holding companies such as sanctioned by CIBA. As early as 1972, Iowa enacted a statute that accorded certain grandfather rights to expand and to make additional acquisitions to out-of-state bank holding companies already controlling two or more banks in Iowa[36]—establishing, in fact, a preference for a particular out-of-state bank holding company against all other non-resident companies. Recently, Nebraska enacted a similar statute.[37] In addition, Delaware,[38] Maryland,[39] Virginia[40] and Nebraska[41] have permitted out-of-state bank holding companies to acquire local banks under certain conditions, including limitations on activities, number of offices and home office location, which are not imposed on in-state bank holding companies. One of the major purposes of such legislation is to gain employment for local residents and tax revenues for the state without seriously affecting competing local banking businesses; the statutes accomplish this by permitting out-of-state bank holding companies to export their credit card operations to states with less restrictive usury laws. Similarly, South Dakota has recently permitted the entry of out-of-state bank holding companies on a limited basis to acquire a state bank with a broad range of insurance powers.[42] The Board has approved a number of applications by out-of-state bank holding companies to acquire local banks under the credit card or grandfather statutes[43] and, as noted above, the U.S. Court of Appeals for the District of Columbia has upheld a Board order under the Iowa statute.[44]

These statutes obviously result in some burdens on interstate commerce and appear to assume that the states have full discretion to set the terms of entry of out-of-state bank holding companies.[45] Nothing in the history of the Douglas Amendment suggests that the states were to be permitted only to choose between not allowing out-of-state bank holding companies to enter, and allowing completely free entry.[46] In approving applications under these statutes, the Board appears to have accepted at least some measure of discretion rather than requiring a simple "on and off switch." A contrary conclusion would seem to raise some questions about the validity of the state statutes cited above, although it would appear that such statutes might be viewed as imposing substantially less of a burden on commerce in the furtherance of legitimate state objectives than CIBA imposes.

Home Bancshares, Inc.
Erie, Kansas

Order Approving Formation of a Bank Holding Company and Application to Engage in Credit-Related Insurance Activities

Home Bancshares, Inc., Erie, Kansas, has applied for the Board's approval under section 3(a)(1) of the Bank Holding Company Act (12 U.S.C. § 1842(a)(1)) to

35. Id. at 1297. In *Conference of State Bank Supervisors* v. *Conover*, 715 F.2d 604, 615 (1983). The Court of Appeals for the D.C. Circuit restated its conclusion that the legislative history of the Douglas Amendment allowed a state "to discriminate in admitting bank holding companies."

36. Iowa Code Ann. § 524.1805.

37. Neb. Rev. Stat. § 8-903 (Supp. 1983)

38. Del. Code Ann., title 5, § 803.

39. Md. Fin. Inst. Code Ann § 5-901.

40. Va Code § 6.1-390 to 6.1-397.

41. Neb. Rev. Stat. §§ 8-905, 8-906 (Supp. 1983).

42. S.D. Codified Laws Ann. §§ 51-16-40 to 51-16-44 (supp 1984)

43. See, e g., *Citicorp*, 67 FEDERAL RESERVE BULLETIN 181 (1981); *J.P. Morgan & Company, Inc.*, 67 FEDERAL RESERVE BULLETIN 917 (1981); *Northwest Bancorporation*, 38 *Federal Register* 21530 (1973).

44 *Iowa Independent Bankers Association*, supra

45 To a lesser degree state statutes that permit limited out-of-state acquisition only in the case of a troubled bank in need of financial assistance also allow the states to condition entry. See, for example, Wash. Rev. Code Ann. § 30.04.230.

46. Senator Robertson, Chairman of the Senate Committee on Banking and Currency, suggested by his comments in the 1956 debate on the Bank Holding Company Act that Congress may have intended to give the states more authority than merely to allow unrestricted entry of out-of-state bank holding companies. Senator Robertson suggested that states should be permitted to retain the authority to permit acquisitions by out-of-state bank holding companies in the limited case where a troubled bank might require financial assistance. 102 Cong. Record 6572 (1956).

become a bank holding company by acquiring 80 percent of the voting shares of Erie Bancshares, Erie, Kansas ("Erie"), and, indirectly, its subsidiary, Home State Bank, Erie, Kansas ("Bank").

Applicant has also applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.4(b)(2) of the Board's Regulation Y (now codified in the revised Regulation Y at 12 CFR § 225.23(a)(2)) to engage, through Erie, in the sale of life, health and accident insurance related to credit extended by Bank. This activity has been determined by the Board to be closely related to banking under section 225.25(b)(8)(i) of Regulation Y (12 CFR § 225.25(b)(8)(i)).

Notice of these applications, affording an opportunity for interested persons to submit comments and views has been given in accordance with sections 3 and 4 of the Act (48 *Federal Register* 56851 (1983)). The time for filing comments and views has expired and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act.

Applicant, a non-operating corporation with no subsidiaries, was organized for the purpose of acquiring Erie, and thereby, indirectly acquiring Bank. Upon acquisition of Bank (total deposits of $17.3 million), Applicant would control the 285th largest of 620 banking organizations in Kansas, and would hold 0.1 percent of total deposits in commercial banks in the state.[1] Consummation of the transaction would not have any significant adverse effects upon the concentration of banking resources in the state.

Bank is the third largest of six banks in the Neosho County banking market, controlling 10.2 percent of deposits in commercial banks in the market.[2] Neither Applicant nor any of its principals is a principal of any other banking organization in the market. Thus, consummation of the proposal would have no adverse effects upon competition or increase the concentration of banking resources in any relevant area.

The financial and managerial resources of Applicant, Erie and Bank are considered generally satisfactory and the future prospects for each appear favorable. Although Applicant proposes to incur debt in connection with its proposal, it appears that Applicant will be able to service its debt while maintaining required capital within the Board's guidelines.[3] Although consummation of the proposal would effect no anticipated changes in the services offered by Bank, considerations relating to the convenience and needs of the community to be served are consistent with approval. Accordingly, the Board has determined that consummation of the transaction would be in the public interest and the application to acquire Bank should be approved.

Applicant has also applied, pursuant to section 4(c)(8) of the Act, to engage, through Erie, in the sale of life, health and accident insurance related to extensions of credit by Bank. There is no evidence in the record to indicate that approval of this proposal would result in undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices or other adverse effects 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 this application.

Based on the foregoing and other facts of record, the Board has determined that the applications under sections 3(a)(1) and 4(c)(8) of the Act should be and hereby are approved. The transaction shall not be made before the thirtieth calendar day following the effective date of this Order or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Kansas City acting pursuant to delegated authority.

By order of the Board of Governors, effective March 5, 1984.

Voting for this action: Chairman Volcker and Governors Martin, Partee, Rice, and Gramley. Absent and not voting: Governor Teeters. Governor Wallich abstains from voting on the application to engage in credit-related insurance activities.

WILLIAM W. WILES,
[SEAL] *Secretary of the Board*

1. All deposit data are as of December 31, 1982, unless otherwise noted

2 The Neosho County banking market is approximated by Neosho County, Kansas.

3. The Board has analyzed the financial factors of this proposal under the Board's "Policy Statement for Assessing Financial Factors in the Formation of Small One-Bank Holding Companies," 66 FEDERAL RESERVE BULLETIN 320 (1980), as amended by the Board, "Capital Adequacy Guidelines," 68 FEDERAL RESERVE BULLETIN 33 (1982). The guidelines in the policy statement were developed in order to facilitate the transfer of ownership of small, community banks, thereby promoting service to the convenience and needs of the community. The Board has determined that these guidelines are appropriately applied in this instance because this application involves a restructuring of ownership and control from Erie's principal to his four adult children, who together will acquire all of the shares of Applicant and will be involved in the management of Applicant, Erie, and Bank, through their positions as directors and/or officers of these entities.

Society Corporation
Cleveland, Ohio

Order Approving Merger of Bank Holding Companies, Acquisition of Companies Engaged in Data Processing and Insurance Activities, and Operation of a Savings and Loan Association

Society Corporation, Cleveland, Ohio, a bank holding company within the meaning of the Bank Holding Company Act ("Act"), has applied for the Board's approval under section 3(a)(5) of the Act (12 U.S.C. § 1842) to acquire Interstate Financial Corporation, Dayton, Ohio ("Interstate"). As a result of the acquisition, Applicant would acquire indirectly Interstate's two subsidiary banks.

Applicant also has applied for the Board's approval under section 4(c)(8) of the Act (12 U.S.C. § 1843(c)(8)) and section 225.23 of the Board's Regulation Y (12 CFR § 225.23) to acquire Interstate's nonbanking subsidiaries, which include Scioto Savings Association, Columbus, Ohio ("Scioto"), a savings and loan association controlled by Interstate as a result of a supervisory acquisition.[1] The operation of a savings and loan association has previously been found by Board order to be closely related to banking.[2]

Applicant also has applied under section 4(c)(8) to acquire shares of the Green Machine Network Corporation, Dayton, Ohio, a joint venture engaged in the operation of an automated teller machine ("ATM") network interchange and related data processing activities. Finally, Applicant has applied under section 4(c)(8) to acquire Interstate's subsidiary which engages in the reinsurance of credit life and credit accident and health insurance with respect to extensions of credit by its affiliates. These data processing and reinsurance activities have been determined by the Board to be closely related to banking and permissible for bank holding companies.[3]

Notice of the applications, affording opportunity for interested persons to submit comments and views, has been given in accordance with sections 3 and 4 of the Act (49 *Federal Register* 3529 (Jan. 27, 1984)). The time for filing comments and views has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the Act (12 U.S.C. § 1842(c)) and the considerations specified in section 4(c)(8) of the Act.

Applicant is the sixth largest banking organization in Ohio, with 11 subsidiary banks that control deposits of $3.2 billion, representing 6.5 percent of total deposits in commercial banks in the state.[4] Interstate, with two banking subsidiaries and total deposits of $775 million, ranks as Ohio's thirteenth largest banking organization, representing 1.6 percent of total commercial bank deposits in the state. Upon consummation of the proposed acquisition and all planned divestitures, Applicant's share of total deposits in commercial banks in the state would increase only to 8.1 percent, and it would become Ohio's fifth largest banking organization. Accordingly, this merger would have little effect on Ohio's banking structure, and it is the Board's view that consummation of the acquisition would not have any significantly adverse effects on the concentration of commercial banking resources in Ohio.

Subsidiary banks of both Applicant and Interstate compete directly in the Dayton, Ohio, banking market.[5] Interstate's lead bank, Third National Bank and Trust Company, is the market's second largest organization, controlling $530 million of the market's commercial bank deposits, representing a market share of 21.3 percent. Offices of Applicant's Springfield, Ohio, affiliate, Society National Bank of Miami Valley ("Springfield Bank"), hold combined market deposits of $40.1 million, representing 1.6 percent of total commercial bank deposits in the market. Consummation of this proposal would result in a single banking organization controlling 22.9 percent of total deposits in commercial banks in the market and an increase in the market's Herfindahl-Hirschman Index ("HHI") by 68 points to 1925.[6]

Applicant, however, has committed to divest two of its three offices in the market prior to, or contemporaneously with, consummation of the proposed merger.[7] Applicant will retain one office in the market (with

1. See *Interstate Financial Corporation* (Scioto Savings Association), 68 FEDERAL RESERVE BULLETIN 316 (1982) ("Interstate/Scioto Order").

2. See e.g., *Old Stone Corporation*, 69 FEDERAL RESERVE BULLETIN 812 (1983) ("Old Stone Order"), *Interstate/Scioto Order*, supra; *Citicorp* (Fidelity Federal Savings and Loan Association), 68 FEDERAL RESERVE BULLETIN 656 (1982)("Citicorp Order").

3. See 12 CFR §§ 225.25(b)(7) and (9); *Interstate Financial Corporation* (Green Machine Network Corporation), 69 FEDERAL RESERVE BULLETIN 560 (1983) ("Interstate/Green Machine Order").

4. Unless otherwise indicated, deposit data are as of June 30, 1983.

5. The Dayton banking market comprises Montgomery, Greene, and Miami Counties; the townships of Bethel and Mad River in western Clark County; and the townships of Clear Creek and Massie in northern Warren County.

6. Under the Department of Justice's Merger Guidelines, in a market where the post-merger HHI is 1800 or more, the Department more likely than not would challenge a merger that produces an increase in the HHI of more than 50 points.

7. The Board's policy with regard to competitive divestitures requires that divestitures intended to cure the anticompetitive effects resulting from a merger or acquisition occur on or before the date of consummation of the merger, to avoid the existence of anticompetitive effects. *Barnett Banks of Florida, Inc.* (First Marine Banks, Inc.), 68 FEDERAL RESERVE BULLETIN 190 (1982). See also *InterFirst Corporation*, 68 FEDERAL RESERVE BULLETIN 243 (1982).

deposits of $1 million), which functions as an operations center for its southwestern Ohio affiliates. Accordingly, Applicant's presence in the Dayton banking market will be de minimis. The combination of Interstate and Applicant's remaining office in the Dayton market would increase commercial bank deposit concentration by only 0.04 percent, and would raise the post-merger HHI by only two points to 1859. Based upon the foregoing, the Board concludes that consummation of the proposal, with the attendant divestitures, will not have any substantial adverse effects on existing competition.

Scioto, Interstate's thrift subsidiary, and one of Applicant's commercial banking subsidiaries operate in the Columbus, Ohio, banking market.[8] Neither institution is a significant competitor in this market. Although Applicant's affiliate bank is the sixth largest bank in this market (deposits of $124.9 million), it controls only 2.4 percent of total commercial bank deposits in the market. Scioto is the 19th largest of 21 thrifts in the Columbus market, holding 2.8 percent of total thrift deposits. Thrifts as a whole control 44 percent of combined thrift and commercial bank deposits in this market. In view of these facts, the Board concludes that consummation of this proposal would have no significant effects on the Columbus, Ohio, market's competitive structure.

There are 23 markets in Ohio in which either Applicant or Interstate, but not both, competes.[9] The Board has considered the effects of the proposal on probable future competition in these markets and has also examined the proposal in light of the Board's proposed guidelines for assessing the competitive effects of market-extension mergers and acquisitions.[10]

In view of Applicant's size and Interstate's operational history, both may be considered likely entrants into the other's markets. None of the 23 markets in which Applicant and Interstate separately compete meets all four of the proposed guidelines and thus intensive investigation of the proposal in any of these markets is not called for. Interstate operates in three markets in which Applicant does not operate. The Dayton banking market is not highly concentrated; and the other two markets have numerous other potential entrants.

Applicant operates in twenty markets in which Interstate does not compete. Twelve are rural non-SMSA markets into which there are numerous probable future entrants other than Interstate. Moreover, five of these twelve markets are not highly concentrated. Six of Applicant's eight SMSA markets are not highly concentrated and thus the doctrine of potential competition is not applicable;[11] in the seventh market, Applicant possesses an insignificant market share; and in the remaining market, there are numerous potential entrants. Based on the foregoing and other facts of record, the Board concludes that consummation of the proposal would not have any significant adverse effects on probable future competition in any relevant market.

The financial and managerial resources of Applicant and its subsidiaries are regarded as generally satisfactory, and their prospects appear favorable. Moreover, acquisition of Interstate will not have any adverse effect on Applicant's financial resources. Financial and managerial considerations are, therefore, consistent with approval of the application. Consummation of the proposed transaction would provide an expanded range of consumer and corporate banking services to the public in Interstate's markets. Considerations relating to the convenience and needs of the communities to be served, therefore, lend weight toward approval of the application.

Applicant has applied, pursuant to section 4(c)(8) of the Act, to acquire Scioto, Interstate's thrift subsidiary. Section 4(c)(8) authorizes a bank holding company to acquire a nonbank company if the activities of the nonbank company are determined by the Board to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto." The Board has determined previously that the operation of a thrift institution is "closely related" to banking.[12] Although the Board has determined, as a

8. The Columbus market is situated in central Ohio and is comprised of all of Franklin, Fairfield, Delaware, and Licking Counties, all Pickaway County except Perry and Salt Creek Townships, the southern two-thirds of Madison County, and Thorn Township in northwestern Perry County.

9. The 8 SMSA markets in which only Applicant operates are, the Akron, Canton, Cincinnati, Cleveland, Columbus, Springfield, Toledo, and Youngstown/Warren SMSA's. Applicant also competes in the following 12 non-SMSA banking markets: Ashtabula, Carrollton, Crawford, Findlay, Fremont, Huron, Mt. Gilead, Oxford, Port Clinton, Salem, Sandusky, and Seneca. The three markets in which only Interstate competes are the Dayton, Mercer County, and Wapakoneta banking markets Applicant has been analyzed as if it were a potential entrant in the Dayton market, in view of its proposed divestitures in that market.

10. "Proposed Policy Statement of the Board of Governors of the Federal Reserve System for Assessing Competitive Factors Under the Bank Merger Act and the Bank Holding Company Act," 47 *Federal Register* 9017 (March 3, 1982) ("Guidelines"). While the proposed policy statement has not been approved by the Board, the Board is using the Guidelines in its analysis of the effects of a proposal on probable future competition.

11. *United States* v. *Marine Bancorp, Inc.* 418 U.S 602, 630 (1974).

12. *Newport Savings and Loan Ass'n*, 58 FEDERAL RESERVE BULLETIN 313 (1972); *Old Colony Cooperative Bank*, 58 FEDERAL RESERVE BULLETIN 417 (1972); *American Fletcher Corp* , 60 FEDERAL RESERVE BULLETIN 868 (1974); *Profile Bancshares, Inc.*, FEDERAL RESERVE BULLETIN 901 (1975); *D. H. Baldwin & Co.*, 63, 61 FEDERAL RESERVE BULLETIN 280 (1977); *Heritage Banks, Inc.*, 66 FEDERAL RESERVE BULLETIN 590 (1980); *First Financial Group*, 66 FEDERAL RESERVE BULLETIN 594 (1980); and *BankEast Corporation*, 68 FEDERAL RESERVE BULLETIN 116 (1982).

general matter, that operating a thrift institution is not a proper incident to banking, the Board has determined in several instances involving failing thrift institutions that such activities are a proper incident to banking.[13]

On April 4, 1982, the Board approved Interstate's acquisition of Scioto,[14] then a failing institution, after determining that the operation of Scioto by Interstate was a "proper incident" to banking. That determination was based on the Board's finding in that case that the substantial benefits to the public associated with saving Scioto as a thrift competitor were sufficient to outweigh the generalized adverse effects of thrift acquisitions previously found by the Board.[15]

This proposal involves a merger of bank holding companies, as a result of which Applicant will acquire all of the assets and succeed to all of the rights and obligations of Interstate. Under these circumstances, the Board believes that Applicant should be entitled to retain and operate Scioto to the same extent and in the same manner as Interstate. In that regard, Applicant has agreed to abide by commitments made by Interstate in connection with its acquisition of Scioto concerning the separation of its thrift and banking operations. Accordingly, the Board does not believe that it would be appropriate or consistent with its policy regarding bank/thrift affiliation to require divestiture of Scioto.

It does not appear that Applicant's acquisition of Scioto would have any significant adverse effects upon existing or potential competition. Furthermore, 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.

Applicant also has applied pursuant to section 4(c)(8) of the Act to acquire Interstate's shares of the Green Machine Network Corporation, Dayton, Ohio ("Green Machine"), a joint venture which operates an ATM network interchange and related data processing services in Ohio. Applicant has agreed to abide by the terms governing the Board's approval of Interstate's acquisition of an interest in Green Machine. See *Interstate/Green Machine Order*, supra. Finally, Applicant has applied under section 4(c)(8) to acquire Interstate's subsidiary which engages in the reinsurance of credit life and credit accident and health insurance with respect to extensions of credit by its affiliates. It does not appear that Applicant's acquisition of these subsidiaries would have any significant adverse effects upon existing or potential competition. Furthermore, there is no evidence in the record to indicate that approval of this proposal would result in undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, or other adverse effects on the public interest. Accordingly, the Board has determined that the balance of the public interest factors it must consider under section 4(c)(8) of the Act is favorable and consistent with approval of the applications to acquire Scioto, Green Machine, and Interstate's reinsurance subsidiary.

Based on the foregoing and other facts of record, the Board has determined that the applications under sections 3(a)(5) and 4(c)(8) of the Act should be and hereby are approved, subject to the conditions that: complete divestiture of Applicant's two Xenia, Ohio, branch offices of its Springfield Bank subsidiary take place on or before the date of consummation of the merger; that Applicant abide by commitments made by Interstate in connection with its acquisition of Scioto; that the merger shall not be consummated before the thirtieth calendar day following the effective date of this Order; and that neither the merger nor the acquisition of the nonbanking subsidiaries shall occur 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. The determinations as to Applicant's nonbanking activities are subject to all of the conditions set forth in Regulation Y, including sections 225.4(d) and 225.23(b), and 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 March 28, 1984.

Voting for this action: Chairman Volcker and Governors Martin, Wallich, Partee, Teeters, Rice, and Gramley. Governors Wallich and Gramley abstain from voting on the application to engage in the activities of Green Machine Network Corporation. Governor Wallich also abstains from voting on the application to engage in insurance activities.

JAMES MCAFEE,
Associate Secretary of the Board

[SEAL]

13. See e g , *Old Stone Order*, supra; *Citicorp Order*, supra.
14. *Interstate/Scioto Order*, supra.
15. *D. H. Baldwin & Co.*, supra

ORDERS APPROVED UNDER BANK HOLDING COMPANY ACT

By the Board of Governors

During March 1984 the Board of Governors approved the applications listed below. Copies are available upon request to Publications Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 3

Applicant	Bank(s)	Board action (effective date)
Concord Bancshares, Inc., Overland Park, Kansas	College Boulevard National Bank, Overland Park, Kansas	March 8, 1984
Independent Financial, Inc., Lubbock, Texas	Whisperwood National Bank, Lubbock, Texas	March 21, 1984
McKeesport National Corporation, McKeesport, Pennsylvania	McKeesport National Bank, McKeesport, Pennsylvania	March 16, 1984
Med Center Bancshares, Inc., Houston, Texas	Medical Center Bank, Houston, Texas	March 26, 1984
Midland Bancorp, Inc., Chicago, Illinois	Hawthorne Bank of Wheaton, Wheaton, Illinois	March 7, 1984
NBD Bancorp, Inc., Detroit, Michigan	National Bank and Trust Company of Traverse City, Traverse City, Michigan	March 9, 1984
Texas Commerce Bancshares, Inc., Houston, Texas	Texas Commerce Bank-Richardson, N.A., Richardson, Texas Texas Commerce-Brookhollow, N.A., Dallas, Texas	March 6, 1984

By Federal Reserve Banks

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

Section 3

Applicant	Bank(s)	Reserve Bank	Effective date
Amboy-Madison Bancorporation, Old Bridge, New Jersey	Amboy-Madison National Bank, Old Bridge, New Jersey	New York	March 16, 1984
American Bank Corporation, Denver, Colorado	First State Bank of Afton, Afton, Wyoming	Kansas City	March 16, 1984
American Bank Shares, Inc., Great Bend, Kansas	American State Bank & Trust Company, Great Bend, Kansas American Shares, Inc., Great Bend, Kansas	Kansas City	March 12, 1984
American National Agency, Inc., Nashwauk, Minnesota	American National Bank, Nashwauk, Minnesota	Minneapolis	February 29, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Arrow Bank Corp., Glens Falls, New York	The Essex County-Champlain National Bank, Willsboro, New York	New York	March 16, 1984
Bath County Banking Company, Owingsville, Kentucky	Owingsville Banking Company, Owingsville, Kentucky	Cleveland	March 8, 1984
BOJ Bancshares, Inc., Jackson, Louisiana	Bank of Jackson, Jackson, Louisiana	Atlanta	February 24, 1984
BSB Financial Corporation, Trenton, New Jersey	The Broad Street National Bank of Trenton, Trenton, New Jersey	Philadelphia	March 13, 1984
Bonner Springs Bancshares, Inc., Bonner Springs, Kansas	Commercial State Bank of Bonner Springs, Bonner Springs, Kansas	Kansas City	February 23, 1984
Brazosport Corporation, Freeport, Texas	Mercantile National Bank of Corpus Christi, Corpus Christi, Texas	Dallas	February 24, 1984
Bunkie Bancshares, Inc., Bunkie, Louisiana	Bunkie Bank and Trust Company, Bunkie, Louisiana	Atlanta	February 27, 1984
Burlingame Bancorp, Burlingame, California	Burlingame Bank and Trust Co., Burlingame, California	San Francisco	March 6, 1984
Chester County Bancshares, Inc., Henderson, Tennessee	Chester County Bank, Henderson, Tennessee	St. Louis	March 8, 1984
Citizens Dimension Bancorp, Inc., Muskogee, Oklahoma	Charter Bancshares, Inc., Oklahoma City, Oklahoma	Kansas City	March 13, 1984
City National Bancshares, Inc., Carrollton, Texas	Trinity Mills National Bank, Carrollton, Texas	Dallas	February 27, 1984
Commercial Grayson Bancshares, Inc., Grayson, Kentucky	The Commercial Bank of Grayson, Grayson, Kentucky	Cleveland	March 30, 1984
Commonwealth Trust Bancorp, Inc., Covington, Kentucky	Covington Trust & Banking Company, Covington, Kentucky	Cleveland	March 7, 1984
CNB Bancshares, Inc., Sevierville, Tennessee	Citizens National Bank, Sevierville, Tennessee	Atlanta	March 9, 1984
CNBO Bancorp, Inc., Pryor, Oklahoma	Century National Bank of Oklahoma, Pryor, Oklahoma	Kansas City	March 28, 1984
Decatur Financial, Inc., Decatur, Indiana	Decatur Bank and Trust Company, Decatur, Indiana	Chicago	March 1, 1984
Del Rio Bancshares, Inc., Del Rio, Texas	Plaza National Bank, Del Rio, Texas	Dallas	March 15, 1984
Delta Bancshares Company, St. Louis, Missouri	Eureka Bank, Eureka, Missouri	St. Louis	March 19, 1984
Downstate Bancshares, Inc., Murphysboro, Illinois	The First National Bank of Altamont, Altamont, Illinois	St. Louis	February 24, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Elkton Bancshares, Inc., Elkton, Minnesota	Farmers State Bank of Elkton, Elkton, Minnesota	Minneapolis	February 27, 1984
F&M Bank Corp., Timberville, Virginia	Farmers and Merchants Bank of Rockingham, Timberville, Virginia	Richmond	March 1, 1984
FCB Corp., Collinsville, Illinois	First County Bank, Maryville, Illinois First State Bank of Morrisonville, Morrisonville, Illinois	St. Louis	March 16, 1984
FSB Bancshares, Inc., Waco, Texas	First State Bank, Coolidge, Texas First State Bank, Mount Calm, Texas First State Bank, Italy, Texas	Dallas	March 13, 1984
Farmers Bancorp of Nicholasville, Inc., Nicholasville, Kentucky	The Farmers Bank of Nicholasville, Nicholasville, Kentucky	Cleveland	March 16, 1984
Farmers Bancshares of Georgetown, Inc., Georgetown, Kentucky	Farmers Bank & Trust Company, Georgetown, Kentucky	Cleveland	March 14, 1984
Financial Holdings, Inc., Boulder, Colorado	OMNIBANK Louisville, Louisville, Colorado	Kansas City	March 5, 1984
First Arkansas Bankstock Corporation, Little Rock, Arkansas	First National Bank, Batesville, Arkansas Bank of Newark, Newark, Arkansas	St. Louis	March 7, 1984
First Colonial Bankshares Corporation, Chicago, Illinois	Northwest American Bankshares Corporation, Chicago, Illinois	Chicago	February 23, 1984
First Grayson Bancshares, Inc., Dallas, Texas	Security National Bank of Whitesboro, Whitesboro, Texas Collinsville State Bank, Collinsville, Texas	Dallas	March 27, 1984
First Jersey National Corporation, Jersey City, New Jersey	The Peoples National Bank of Central Jersey, Piscataway, New Jersey	New York	March 28, 1984
First Latimer Corporation, Wilburton, Oklahoma	Latimer State Bank, Wilburton, Oklahoma	Kansas City	March 5, 1984
First Laurel Security Co., Laurel, Nebraska	Security State Bank, Allen, Nebraska	Kansas City	February 15, 1984
First National Ban Corp of Versailles, Versailles, Kentucky	First National Bank of Versailles, Versailles, Kentucky	Cleveland	March 16, 1984
First National Bank of the South, Inc., Opp, Alabama	First National Bank of Andalusia, Andalusia, Alabama	Atlanta	March 14, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
First Place Financial Corporation, Farmington, New Mexico	The First National Bank of Farmington, Farmington, New Mexico Farmington Interim National Bank, Farmington, New Mexico	Kansas City	March 5, 1984
First United Bancshares, Inc., Houston, Texas	United National Bank of Houston, Houston, Texas	Dallas	March 7, 1984
Franklin National Bankshares, Inc., Mount Vernon, Texas	Franklin National Bank, Mount Vernon, Texas	Dallas	March 7, 1984
Fresnos Bancshares, Inc., Los Fresnos, Texas	Sunrise Bank, Brownsville, Texas	Dallas	February 29, 1984
FSC Bancshares, Inc., Cameron, Missouri	Farmers State Bank, Cameron, Missouri	Kansas City	March 6, 1984
Gary-Wheaton Corporation, Wheaton, Illinois	First Security Bank of Fox Valley, Aurora, Illinois	Chicago	March 12, 1984
General Bancshares Corporation of Indiana, Fort Wayne, Indiana	Anthony Wayne Bank, Fort Wayne, Indiana	Chicago	March 5, 1984
Georgia Bancshares, Inc., Macon, Georgia	The First State Bank of Fitzgerald, Fitzgerald, Georgia	Atlanta	February 24, 1984
Greencastle Bancorp, Inc., Greencastle, Indiana	Greencastle Investment Corporation, Greencastle, Indiana First Citizens Bank and Trust Company, Greencastle, Indiana	Chicago	February 29, 1984
Greenville Bancshares, Inc., Greenville, Missouri	State Bank of Greenville, Greenville, Missouri	St. Louis	March 29, 1984
Gulf Southwest Bancorp, Inc., Houston, Texas	Atascocita State Bank, Atascocita, Texas	Dallas	March 29, 1984
Hanover Financial Corporation, Plantation, Florida	Hanover Bank of Florida, Plantation, Florida	Atlanta	March 28, 1984
Harvest Bancshares, Inc., Footville, Wisconsin	The Footville State Bank, Footville, Wisconsin	Chicago	March 9, 1984
Hastings State Company, Hastings, Nebraska	First Savings Company of Hastings, Inc., Hastings, Nebraska	Kansas City	March 9, 1984
Independent Bancorp, Inc., Channelview, Texas	Channelview Bank, Channelview, Texas	Dallas	March 7, 1984
Iowa First Bancshares Corp., Muscatine, Iowa	First National Bank of Muscatine, Muscatine, Iowa First National Bank in Fairfield, Fairfield, Iowa	Chicago	March 1, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Kiamichi Bancshares, Inc., Hugo, Oklahoma	The Citizens State Bank, Hugo, Oklahoma	Dallas	March 9, 1984
Kimball Bancorp, Inc., Kimball, Nebraska	American National Bank of Kimball, Kimball, Nebraska	Kansas City	March 28, 1984
Kirbyville Bancshares, Inc., Beaumont, Texas	Allied Kirbyville Bank, Kirbyville, Texas	Dallas	March 15, 1984
Landmark Banking Corporation of Florida, Fort Lauderdale, Florida Preferred Equity Investors of Florida, Knoxville, Tennessee	Landmark Bank of Palm Beach County, Boca Raton, Florida	Atlanta	February 23, 1984
LCB Corporation, Inc., Fayetteville, Tennessee	Lincoln County Bank, Fayetteville, Tennessee	Atlanta	February 24, 1984
Liberty Bancorp, Inc., Charleston, South Carolina	Liberty National Bank, Charleston, South Carolina	Richmond	February 28, 1984
Maple Lake Bancorporation, Minneapolis, Minnesota	Maple Lake Bancshares, Inc., Maple Lake, Minnesota Security State Bank of Maple Lake, Maple Lake, Minnesota	Minneapolis	March 13, 1984
Mercantile Bancorporation, Inc., St. Louis, Missouri	First County Bank, Bloomfield, Missouri	St. Louis	February 23, 1984
Mercantile Texas Corporation, Dallas, Texas	Corpus Christi National Bank-South, Corpus Christi, Texas	Dallas	March 16, 1984
Midlantic Banks, Inc., Edison, New Jersey	Union Trust Company of Wildwood, Wildwood, New Jersey	New York	March 28, 1984
Midwest Banco Corporation, Cozad, Nebraska	Wilber State Company, Wilber, Nebraska	Kansas City	March 9, 1984
Nebraska Bancorporation, Inc., Alliance, Nebraska	Alliance National Bank and Trust Company, Alliance, Nebraska	Kansas City	February 22, 1984
Newton Bancshares, Inc., Beaumont, Texas	Allied First National Bank, Newton, Texas	Dallas	March 15, 1984
Northwest American Bankshares Corporation, Chicago, Illinois	All American Bank of Chicago, Chicago, Illinois Northwest Commerce Bank, Rosemont, Illinois	Chicago	February 23, 1984
Pioneer Bancorp, Fullerton, California	Pioneer Bank, Fullerton, California	San Francisco	March 19, 1984
Plaquemine Bancshares Corporation, Plaquemine, Louisiana	Plaquemine Bank & Trust Company, Plaquemine, Louisiana	Atlanta	March 29, 1984
Prosperity Bancshares, Inc., Edna, Texas	Allied First Bank, Edna, Texas	Dallas	February 29, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Provident Bancorp, Inc., Dallas, Texas	Celina Bancorp Inc., Dallas, Texas First State Bank, Wylie, Texas The Security State Bank of Commerce, Commerce, Texas Provident Bank-Dallas, Dallas, Texas DeSoto State Bank, DeSoto, Texas	Dallas	March 9, 1984
Rake Bancorporation, Rake, Iowa	State Savings Bank, Rake, Iowa	Chicago	February 23, 1984
Rio Salado Bancorp, Tempe, Arizona	Rio Salado Bank, Tempe, Arizona	San Francisco	March 16, 1984
S.B. Corporation, Wisconsin Rapids, Wisconsin	WCN Bancorp, Inc., Wisconsin Rapids, Wisconsin The Bank of Fort Atkinson, Fort Atkinson, Wisconsin The Wood County National Bank of Wisconsin Rapids, Wisconsin Rapids, Wisconsin	Chicago	February 28, 1984
S.B.T. Bancshares, Inc., Arab, Alabama	Security Bank & Trust Company, Arab, Alabama	Atlanta	March 5, 1984
Security Corporation, Duncan, Oklahoma	Cache Road National Bank of Lawton, Lawton, Oklahoma	Kansas City	March 1, 1984
Security Financial Services, Inc., Hibbing, Minnesota	Security State Bank of Hibbing, Hibbing, Minnesota	Minneapolis	March 6, 1984
South Louisiana Financial Corporation, Houma, Louisiana	South Louisiana Bank, Houma, Louisiana	Atlanta	March 9, 1984
Southern Minnesota Bancshares, Inc., Wells, Minnesota	Security State Bank of Wells, Wells, Minnesota	Minneapolis	February 24, 1984
Southland Bank Corp., Butler, Georgia	Citizens State Bank, Butler, Georgia Coffee County Bank, Douglas, Georgia	Atlanta	March 5, 1984
Spectrum Financial Corporation, Wheeling, West Virginia	Security National Bank & Trust Co., Wheeling, West Virginia	Cleveland	March 8, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
St. Anthony Bancorporation, Inc., Omaha, Nebraska	St. Anthony National Bank, St. Anthony, Minnesota	Minneapolis	February 24, 1984
State Financial Bankshares, Inc., Richmond, Kentucky	State Bank and Trust Company of Richmond, Richmond, Kentucky	Cleveland	March 30, 1984
Sterling Bancorp, Inc., Eleanor, West Virginia	Peoples Bank of Richwood, Inc., Richwood, West Virginia	Richmond	March 16, 1984
Summit Bancshares, Inc., Fort Worth, Texas	Camp Bowie National Bank, Fort Worth, Texas	Dallas	March 28, 1984
Tascosa Financial Corporation, Amarillo, Texas	Tascosa National Bank South, Amarillo, Texas	Dallas	March 9, 1984
TCBankshares, Inc., North Little Rock, Arkansas	Peoples Bancshares, Inc., Van Buren, Arkansas	St. Louis	March 29, 1984
Terre Du Lac Bancshares, Inc., Chesterfield, Missouri	The Bank of Steele, Steele, Missouri	St. Louis	March 14, 1984
The First Freeman Corporation, Freeman, South Dakota	The First National Bank of Freeman, Freeman, South Dakota	Minneapolis	March 12, 1984
Third National Corporation, Nashville, Tennessee	First National Bank of Rutherford County, Smyrna, Tennessee	Atlanta	March 13, 1984
Thunderbird Bank, Phoenix, Arizona	Thunderbird Equities, Inc., Phoenix, Arizona	San Francisco	March 29, 1984
Two Rivers Bancorp, Inc., Prophetstown, Illinois	The Farmers National Bank of Prophetstown, Prophetstown, Illinois The First National Bank of Manlius, Manlius, Illinois Tampico National Bank, Tampico, Illinois	Chicago	March 19, 1984
Unicorp Bancshares, Inc., Houston, Texas	Unicorp Bancshares-Houston, Inc., Houston, Texas	Dallas	March 6, 1984
United City Corporation, Plano, Texas	First State Bank of McKinney, McKinney, Texas	Dallas	March 9, 1984
United Security Bancshares, Inc., Canton, Georgia	United Security Bank, Sparta, Georgia	Atlanta	February 29, 1984
United Security Bancshares, Inc., Thomasville, Alabama	Bank of Thomasville, Thomasville, Alabama	Atlanta	February 23, 1984
United Vermont Bancorporation, Rutland, Vermont	First Twin-State Bank, White River Junction, Vermont	Boston	March 9, 1984
Upper Valley Bancorp, Inc., Olyphant, Pennsylvania	The National Bank of Olyphant, Olyphant, Pennsylvania	Philadelphia	February 28, 1984

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Victory Bancorp, Inc., Nowata, Oklahoma	Victory Bancshares, Inc., Nowata, Oklahoma	Kansas City	March 14, 1984
WCN Bancorp, Inc., Wisconsin Rapids, Wisconsin	The Wood County National Bank of Wisconsin Rapids, Wisconsin Rapids, Wisconsin	Chicago	February 28, 1984
Woburn National Corporation, Woburn, Massachusetts	Woburn National Bank, Woburn, Massachusetts	Boston	February 27, 1984

Section 4

Applicant	Nonbanking company	Reserve Bank	Effective date
Fifth Third Bancorp, Cincinnati, Ohio	Money Station, Inc., Cincinnati, Ohio	Cleveland	March 6, 1984
Hawarden Bancshares, Inc., Hawarden, Iowa	Gearhart Insurance Agency, Hawarden, Iowa Williams Insurance Agency, Hawarden, Iowa	Chicago	March 6, 1984
Security Pacific Corporation, Los Angeles, California	Security Pacific Brokers, Inc., Los Angeles, California	San Francisco	February 22, 1984
Northern Trust Corporation, Chicago, Illinois	Jerome Hickey Associates, Inc., Chicago, Illinois	Chicago	March 7, 1984
Northern Wisconsin Bank Holding Company, Laona, Wisconsin	Laona Agency, Inc., Laona, Wisconsin	Minneapolis	February 24, 1984

Sections 3 and 4

Applicant	Bank(s)/Nonbanking Company	Reserve Bank	Effective date
Pacific Inland Bancorp, Anaheim, California	Pacific Inland Bank, Anaheim, California Pacific Inland Management, Inc., Anaheim, California	San Francisco	February 22, 1984

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.

Colorado Industrial Bankers Association v. *Board of Governors*, filed January 1984, U.S.C.A. for the Tenth Circuit.

Financial Institutions Assurance Corp. v. *Board of Governors*, filed January 1984, U.S.C.A. for the Fourth Circuit.

First Bancorporation v. *Board of Governors*, filed January 1984, U.S.C.A. for the Tenth Circuit.

Thomas H. Huston v. *Board of Governors*, filed January 1984, U.S.C.A. for the Eighth Circuit.

Ohio Deposit Guarantee Fund v. *Board of Governors*, filed January 1984, U.S.C.A. for the Tenth Circuit.

State of Ohio, et al. v. *Board of Governors*, filed January 1984, for the Tenth Circuit.

Dimension Financial Corporation, et al. v. *Board of Governors*, filed December 1983, U.S.C.A. for the Tenth Circuit.

Oklahoma Bankers Association v. *Federal Reserve Board*, filed December 1983, U.S.C.A. for the Tenth Circuit.

Independent Insurance Agents of America, Inc. and *Independent Insurance Agents of Missouri, Inc.* v. *Board of Governors*, filed June 1983, U.S.C.A. for the Eighth Circuit (two cases).

The Committee for Monetary Reform, et al., v. *Board of Governors*, filed June 1983, U.S.D.C. for the District of Columbia Circuit.

Securities Industry Association v. *Board of Governors, et al.*, filed February 1983, Supreme Court.

Association of Data Processing Service Organizations, et al. v. *Board of Governors*, filed August 1982, U.S.C.A. for the District of Columbia Circuit.

Wyoming Bancorporation v. *Board of Governors*, filed May 1982, U.S.C.A. for the Tenth Circuit.

Edwin F. Gordon v. *Board of Governors, et al.*, filed October 1981, U.S.C.A. for the Eleventh Circuit (two consolidated cases).

Edwin F. Gordon v. *John Heimann, et al.*, filed September 1981, U.S.C.A. for the Eleventh Circuit.

Allen Wolfson v. *Board of Governors*, filed September 1981, U.S.D.C. for the Middle District of Florida.

Public Interest Bounty Hunters v. *Board of Governors, et al.*, filed June 1981, U.S.C.A. for the Eleventh Circuit.

First Bank & Trust Company v. *Board of Governors*, filed February 1981, U.S.D.C. for the Eastern District of Kentucky.

9 to 5 Organization for Women Office Workers v. *Board of Governors*, filed December 1980, U.S.C.A. for the First Circuit.

A. G. Becker, Inc. v. *Board of Governors, et al.*, filed October 1980, U.S.C.A. for the District of Columbia.

A. G. Becker, Inc. v. *Board of Governors, et al.*, filed August 1980, Supreme Court.

Financial and Business Statistics

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FEDERAL FINANCE

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

Item	Monetary and credit aggregates (annual rates of change, seasonally adjusted in percent)[1]								
	1983				1983			1984	
	Q1	Q2	Q3	Q4	Oct	Nov	Dec	Jan	Feb
Reserves of depository institutions[2]									
1 Total	5.5	11.8	6.0	.5	.3	-2.4	1.2	7.6	19.1
2 Required	5.1	12.0	5.9	-.1	.1	3.3	.1	5.9	8.1
3 Nonborrowed	4.9	5.2	2.9	8.0	21.5	-4.6	5.8	9.8	24.6
4 Monetary base[3]	9.3	10.2	8.2	7.8	7.1	7.2	6.7	12.8	10.6
Concepts of money, liquid assets, and debt[4]									
5 M1	12.8	11.6	9.5	4.8	6.2	3.2	5.3	10.7	6.6
6 M2	20.5	10.6	6.9	8.5	10.8	8.3	7.7	5.5	8.6
7 M3	10.8	9.3	7.4	9.9	9.4	14.4	8.0	6.0	10.0
8 L	10.7	10.3	9.6	8.9	6.5	12.7	10.7	n.a.	n.a.
9 Debt	8.8	12.1	10.1	10.6	9.8	9.6	12.3	12.3	n.a.
Nontransaction components									
10 In M2[5]	23.0	10.2	6.1	9.6	12.2	9.9	8.4	3.9	9.2
11 In M3 only[6]	27.1	3.8	9.8	16.3	2.9	41.4	9.5	8.5	16.1
Time and savings deposits									
Commercial banks									
12 Savings[7]	-47.4	-14.8	-6.3	-6.4	-3.5	-7.9	13.2	-22.3	-18.2
13 Small-denomination time[8]	-48.7	-21.2	13.7	19.3	23.4	18.1	10.6	.7	-.3
14 Large-denomination time[9,10]	-48.8	-14.6	-4.6	-.4	-11.3	13.5	7.0	5.9	5.8
Thrift institutions									
15 Savings[7]	-28.6	-1.3	-2.2	-4.4	-2.0	-6.7	6.7	-3.4	-8.8
16 Small-denomination time	-51.5	-17.0	12.3	18.8	21.4	20.5	12.4	11.2	11.3
17 Large-denomination time[9]	.6	51.2	63.5	57.6	60.4	34.5	46.0	69.4	63.3
Debt components[4]									
18 Federal	19.4	25.9	15.2	10.1	14.6	7.0	8.4	27.4	n.a.
19 Nonfederal	5.9	8.2	8.7	10.8	8.4	10.3	13.4	8.0	n.a.

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

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

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

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

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

M1. (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float, and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities.

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

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

L. M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

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

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

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

7. Excludes MMDAs.

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

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

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

1.11 RESERVE BALANCES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1984			1984						
	Jan	Feb	Mar p	Feb. 15	Feb 22	Feb. 29	Mar. 7	Mar 14	Mar 21p	Mar. 28p
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit**	**172,027**	**166,904**	**168,738**	**167,033**	**166,805**	**166,408**	**167,085**	**169,028**	**169,316**	**168,956**
2 U.S government securities[1]	152,481	148,137	149,546	147,720	148,641	147,673	149,196	149,174	149,897	149,620
3 Bought outright	151,482	148,137	149,128	147,720	148,641	147,673	149,196	148,318	149,897	148,623
4 Held under repurchase agreements	999	0	418	0	0	0	0	856	0	997
5 Federal agency obligations	8,709	8,573	8,604	8,570	8,568	8,568	8,568	8,610	8,558	8,698
6 Bought outright	8,630	8,573	8,562	8,570	8,568	8,568	8,568	8,564	8,558	8,558
7 Held under repurchase agreements	79	0	42	0	0	0	0	46	0	140
8 Acceptances	76	0	14	0	0	0	0	1	0	59
9 Loans	726	588	905	753	634	507	493	886	1,077	1,195
10 Float	1,282	1,100	1,002	1,071	1,002	1,537	459	1,775	1,091	481
11 Other Federal Reserve assets	8,753	8,506	8,667	8,918	7,961	8,124	8,369	8,581	8,692	8,902
12 Gold stock	11,120	11,118	11,115	11,119	11,117	11,116	11,116	11,116	11,114	11,114
13 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
14 Treasury currency outstanding	15,757	15,813	15,863	15,808	15,822	15,835	15,843	15,855	15,867	15,879
ABSORBING RESERVE FUNDS										
15 Currency in circulation	168,976	167,179	168,317	167,435	167,427	166,996	167,578	168,598	168,634	168,263
16 Treasury cash holdings	478	485	488	482	489	485	482	481	485	494
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	4,479	4,669	4,012	4,398	4,864	4,415	3,557	2,825	5,327	4,358
18 Foreign	216	214	229	218	215	220	258	224	225	210
19 Service-related balances and adjustments	1,941	1,452	1,940	1,574	1,311	1,372	1,457	1,553	1,596	1,548
20 Other	489	549	579	630	566	599	605	525	667	537
21 Other Federal Reserve liabilities and capital	5,617	5,492	5,705	5,497	5,420	537	5,719	5,634	5,570	5,832
22 Reserve balances with Federal Reserve Banks[2]	21,325	18,414	19,066	18,344	18,070	18,353	19,004	20,776	18,411	19,325
	End-of-month figures			Wednesday figures						
	1984			1984						
	Jan.	Feb.	Mar p	Feb. 15	Feb 22	Feb 29	Mar. 7	Mar. 14	Mar. 21p	Mar. 28p
SUPPLYING RESERVE FUNDS										
23 **Reserve Bank credit**	**169,225**	**161,971**	**170,168**	**168,462**	**167,459**	**161,971**	**165,964**	**174,644**	**170,957**	**165,262**
24 U.S. government securities[1]	150,254	140,847	150,814	147,571	148,903	140,847	148,280	151,465	150,968	145,670
25 Bought outright	150,254	140,847	150,814	147,571	148,903	140,847	148,280	148,570	150,968	145,670
26 Held under repurchase agreements	0	0	0	0	0	0	0	2,895	0	0
27 Federal agency obligations	8,605	8,568	8,558	8,568	8,568	8,568	8,568	8,713	8,558	8,558
28 Bought outright	8,605	8,568	8,558	8,568	8,568	8,568	8,568	8,558	8,558	8,558
29 Held under repurchase agreements	0	0	0	0	0	0	0	155	0	0
30 Acceptances	0	0	0	0	0	0	0	5	0	0
31 Loans	418	1,020	896	2,218	376	1,020	414	2,449	935	718
32 Float	846	3,193	787	2,087	1,527	3,193	−1,181	3,108	1,655	1,240
33 Other Federal Reserve assets	9,102	8,343	9,113	8,018	8,085	8,343	8,883	8,904	8,841	9,076
34 Gold stock	11,120	11,116	11,111	11,118	11,117	11,116	11,116	11,116	11,114	11,114
35 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
36 Treasury currency outstanding	15,782	15,841	15,889	15,814	15,827	15,841	15,853	15,865	15,877	15,889
ABSORBING RESERVE FUNDS										
37 Currency in circulation	166,501	167,206	168,737	167,725	167,633	167,206	168,206	168,863	168,528	168,488
38 Treasury cash holdings	492	484	503	489	486	484	482	484	493	503
Deposits, other than reserve balances with Federal Reserve Banks										
39 Treasury	7,153	3,226	3,684	4,877	5,693	3,226	3,564	2,575	5,545	3,838
40 Foreign	252	247	221	260	195	247	294	283	241	187
41 Service-related balances and adjustments	1,047	1,070	1,103	1,072	1,073	1,070	1,091	1,093	1,104	1,103
42 Other	410	498	562	607	524	498	519	502	550	506
43 Other Federal Reserve liabilities and capital	5,625	5,555	5,912	5,289	5,280	5,555	5,430	5,625	5,409	5,595
44 Reserve balances with Federal Reserve Banks[2]	19,263	15,260	21,064	19,694	18,136	15,260	17,966	26,819	20,696	16,663

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

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

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

1.12 RESERVES AND BORROWINGS Depository Institutions

Millions of dollars

Reserve classification	Monthly averages of daily figures									
	1981	1982	1983						1984	
	Dec.	Dec	July	Aug	Sept.	Oct	Nov	Dec	Jan	Feb p
1 Reserve balances with Reserve Banks[1]	26,163	24,804	22,139	21,965	20,585	21,059	20,943	20,986	21,325	18,414
2 Total vault cash[2]	19,538	20,392	20,413	20,035	20,798	20,471	20,558	20,755	22,578	22,269
3 Vault cash used to satisfy reserve requirements[3]	15,755	17,049	16,808	16,695	17,331	17,078	17,201	17,908	18,795	17,951
4 Surplus vault cash[4]	3,783	3,343	3,605	3,340	3,467	3,393	3,357	2,847	3,782	4,318
5 Total reserves[5]	41,918	41,853	38,947	38,660	37,916	38,137	38,144	38,894	40,120	36,365
6 Required reserves	41,606	41,353	38,440	38,214	37,418	37,632	37,615	38,333	39,507	35,423
7 Excess reserve balances at Reserve Banks[6]	312	500	507	446	498	505	529	561	613	942
8 Total borrowings at Reserve Banks	642	697	1,382	1,573	1,441	837	912	745	715	567
9 Seasonal borrowings at Reserve Banks	53	33	172	198	191	142	119	96	86	103
10 Extended credit at Reserve Banks[7]	149	187	572	490	515	255	6	2	4	5
	Weekly and biweekly averages of daily figures for week ending[8]									
	1983	1984								
	Dec. 28	Jan 4	Jan 11	Jan. 18	Jan. 25	Feb. 1	Feb. 15p	Feb 29p	Mar. 14p	Mar. 28p
11 Reserve balances with Reserve Banks[1]	20,854	22,305	21,443	21,466	20,956	20,798	18,445	18,212	19,874	18,879
12 Total vault cash[2]	21,292	20,912	21,508	24,027	23,238	22,475	22,774	21,750	19,981	20,935
13 Vault cash used to satisfy reserve requirements[3]	18,149	17,835	18,219	19,617	19,294	18,567	18,406	17,452	16,460	17,091
14 Surplus vault cash[4]	3,143	3,077	3,289	4,410	3,944	3,908	4,368	4,298	3,521	3,844
15 Total reserves[5]	39,003	40,140	39,662	41,083	40,250	39,365	36,851	35,664	36,334	35,970
16 Required reserves	38,567	39,182	38,980	40,608	39,670	38,862	35,656	34,943	35,640	35,297
17 Excess reserve balances at Reserve Banks[6]	436	958	682	475	580	503	1,195	721	694	672
18 Total borrowings at Reserve Banks	753	1,291	563	781	505	677	556	571	690	1,136
19 Seasonal borrowings at Reserve Banks	115	75	69	79	96	109	90	116	118	149
20 Extended credit at Reserve Banks[7]	3	5	2	4	6	3	3	7	22	31

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 Biweekly averages beginning Feb 15, 1984

1.13 FEDERAL FUNDS AND REPURCHASE AGREEMENTS Large Member Banks[1]

Averages of daily figures, in millions of dollars

By maturity and source	1984 week ending Monday								
	Feb. 1	Feb. 6	Feb. 13	Feb 20	Feb. 27r	Mar. 5	Mar 12	Mar. 19	Mar. 26
One day and continuing contract									
1 Commercial banks in United States	53,310	57,860	59,207r	58,037	53,719	57,784	58,444	55,056	53,253
2 Other depository institutions, foreign banks and foreign official institutions, and U.S government agencies	23,324	23,998	26,065	25,325	24,739	24,028	24,534	24,542	24,458
3 Nonbank securities dealers	5,231	5,228	5,318	6,278	5,746	5,334	5,596	5,383	6,223
4 All other	27,630	26,411	26,569	28,316	27,196	26,400	26,646	26,538	25,928
All other maturities									
5 Commercial banks in United States	6,522	6,163	6,821	6,273	6,889	7,236	7,787	7,732	7,454
6 Other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies	9,303	9,097	9,614	9,065	9,367	9,476	10,010	10,710	10,670
7 Nonbank securities dealers	7,603	7,464r	8,059r	7,115r	7,637	8,097	8,021	8,035	8,209
8 All other	9,830	9,811	10,314	9,182	9,535	9,080	9,169	8,991	9,303
MEMO: Federal funds and resale agreement loans in maturities of one day or continuing contract									
9 Commercial banks in United States	23,819	25,799	26,397	27,598	23,646	24,918	24,067	23,013	23,285
10 Nonbank securities dealers	4,784	5,057	5,254	6,798	5,871	6,230	5,371	5,293	4,404

1. Banks with assets of $1 billion or more as of Dec. 31, 1977.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per annum

Current and previous levels

Federal Reserve Bank	Short-term adjustment credit and seasonal credit			Extended credit[1]						Effective date for current rates
				First 60 days of borrowing		Next 90 days of borrowing		After 150 days		
	Rate on 3/31/84	Effective date	Previous rate	Rate on 3/31/84	Previous rate	Rate on 3/31/84	Previous rate	Rate on 3/31/84	Previous rate	
Boston	8½	12/14/82	9	8½	9	9½	10	10½	11	12/14/82
New York		12/15/82								12/15/82
Philadelphia		12/17/82								12/17/82
Cleveland		12/15/82								12/15/82
Richmond		12/15/82								12/15/82
Atlanta		12/14/82								12/14/82
Chicago		12/14/82								12/14/82
St. Louis		12/14/82								12/14/82
Minneapolis		12/14/82								12/14/82
Kansas City		12/15/82								12/15/82
Dallas		12/14/82								12/14/82
San Francisco	8½	12/14/82	9	8½	9	9½	10	10½	11	12/14/82

Range of rates in recent years[2]

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1973	7½	7½
1974— Apr 25	7½–8	8
30	8	8
Dec. 9	7¾–8	7¾
16	7¾	7¾
1975— Jan. 6	7¼–7¾	7¾
10	7¼–7¾	7¼
24	7¼	7¼
Feb. 5	6¾–7¼	6¾
7	6¾	6¾
Mar 10	6¼–6¾	6¼
14	6¼	6¼
May 16	6–6¼	6
23	6	6
1976— Jan 19	5½–6	5½
23	5½	5½
Nov 22	5¼–5½	5¼
26	5¼	5¼
1977— Aug. 30	5¼–5¾	5¼
31	5¼–5¾	5¾
Sept 2	5¾	5¾
Oct 26	6	6
1978— Jan. 9	6–6½	6½
20	6½	6½
May 11	6½–7	7
12	7	7

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1978— July 3	7–7¼	7¼
10	7¼	7¼
Aug 21	7¾	7¾
Sept. 22	8	8
Oct. 16	8–8½	8½
20	8½	8½
Nov 1	8½–9½	9½
3	9½	9½
1979— July 20	10	10
Aug 17	10–10½	10½
20	10½	10½
Sept. 19	10½–11	11
21	11	11
Oct. 8	11–12	12
10	12	12
1980— Feb. 15	12–13	13
19	13	13
May 29	12–13	13
30	12	12
June 13	11–12	11
16	11	11
July 28	10–11	10
29	10	10
Sept 26	11	11
Nov 17	12	12
Dec 5	12–13	13
8	13	13

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1981— May 5	13–14	14
8	14	14
Nov 2	13–14	13
6	13	13
Dec 4	12	12
1982— July 20	11½–12	11½
23	11½	11½
Aug. 2	11–11½	11
3	11	11
16	10½	10½
27	10–10½	10
30	10	10
Oct. 12	9½–10	9½
13	9½	9½
Nov. 22	9–9½	9
26	9	9
Dec 14	8½–9	9
15	8½–9	8½
17	8½	8½
In effect Mar 31, 1984	8½	8½

1 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 See section 201 3(b)(2) of Regulation A

2. Rates for short-term adjustment credit. For description and earlier data see the following publications of the Board of Governors *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*, *Annual Statistical Digest, 1970–1979, 1980, 1981*, and *1982*

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than 4 weeks in a calendar quarter A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980 There was no surcharge until Nov. 17, 1980, when a 2 percent surcharge was adopted; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981 The surcharge was reduced to 3 percent effective Sept 22, 1981, and to 2 percent effective Oct 12. As of Oct 1, the formula for applying the surcharge was changed from a calendar quarter to a moving 13-week period. The surcharge was eliminated on Nov. 17, 1981

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

Percent of deposits

Type of deposit, and deposit interval	Member bank requirements before implementation of the Monetary Control Act		Type of deposit, and deposit interval[5]	Depository institution requirements after implementation of the Monetary Control Act[6]	
	Percent	Effective date		Percent	Effective date
Net demand[2]			*Net transaction accounts*[7,8]		
$0 million–$2 million	7	12/30/76	$0–$28.9 million	3	12/29/83
$2 million–$10 million	9½	12/30/76	Over $28.9 million	12	12/29/83
$10 million–$100 million	11¾	12/30/76			
$100 million–$400 million	12¾	12/30/76	*Nonpersonal time deposits*[9]		
Over $400 million	16¼	12/30/76	By original maturity		
			Less than 1½ years	3	10/6/83
Time and savings[2,3]			1½ years or more	0	10/6/83
Savings	3	3/16/67			
			Eurocurrency liabilities		
Time[4]			All types	3	11/13/80
$0 million–$5 million, by maturity					
30–179 days	3	3/16/67			
180 days to 4 years	2½	1/8/76			
4 years or more	1	10/30/75			
Over $5 million, by maturity					
30–179 days	6	12/12/74			
180 days to 4 years	2½	1/8/76			
4 years or more	1	10/30/75			

1 For changes in reserve requirements beginning 1963, see Board's *Annual Statistical Digest, 1971–1975*, and for prior changes, see Board's *Annual Report* for 1976, table 13. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge Act corporations.

2 Requirement schedules are graduated, and each deposit interval applies to that part of the deposits of each bank. Demand deposits subject to reserve requirements were gross demand deposits minus cash items in process of collection and demand balances due from domestic banks.

The Federal Reserve Act as amended through 1978 specified different ranges of requirements for reserve city banks and for other banks. Reserve cities were designated under a criterion adopted effective Nov. 9, 1972, by which a bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank. The presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any banks having net demand deposits of $400 million or less were considered to have the character of business of banks outside of reserve cities and were permitted to maintain reserves at ratios set for banks not in reserve cities.

Effective Aug. 24, 1978, the Regulation M reserve requirements on net balances due from domestic banks to their foreign branches and on deposits that foreign branches lend to U.S. residents were reduced to zero from 4 percent and 1 percent respectively. The Regulation D reserve requirement of borrowings from unrelated banks abroad was also reduced to zero from 4 percent.

Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

3 Negotiable order of withdrawal (NOW) accounts and time deposits such as Christmas and vacation club accounts were subject to the same requirements as savings deposits.

The average reserve requirement on savings and other time deposits before implementation of the Monetary Control Act had to be at least 3 percent, the minimum specified by law.

4. Effective Nov. 2, 1978, a supplementary reserve requirement of 2 percent was imposed on large time deposits of $100,000 or more, obligations of affiliates, and ineligible acceptances. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was eliminated beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two reserve computation periods ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13–26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased by 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14–21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

5 The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) provides that $2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the next succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. Effective Dec. 9, 1982, the amount of the exemption was established at $2.1 million. Effective with the reserve maintenance period beginning Jan. 12, 1984, the amount of the exemption is $2.2 million. In determining the reserve requirements of a depository institution, the exemption shall apply in the following order: (1) nonpersonal money market deposit accounts (MMDAs) authorized under 12 CFR section 1204.122; (2) net NOW accounts (NOW accounts less allowable deductions); (3) net other transaction accounts; and (4) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

6 For nonmember banks and thrift institutions that were not members of the Federal Reserve System on or after July 1, 1979, a phase-in period ends Sept. 3, 1987. For banks that were members on or after July 1, 1979, but withdrew on or before Mar. 31, 1980, the phase-in period established by Public Law 97–320 ends on Oct. 24, 1985. For existing member banks the phase-in period of about three years was completed on Feb. 2, 1984. All new institutions will have a two-year phase-in beginning with the date that they open for business, except for those institutions that have total reservable liabilities of $50 million or more.

7 Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others. However, MMDAs and similar accounts offered by institutions not subject to the rules of the Depository Institutions Deregulation Committee (DIDC) that permit no more than six preauthorized, automatic, or other transfers per month of which no more than three can be checks—are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements.)

8 The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage increase in transaction accounts held by all depository institutions determined as of June 30 each year. Effective Dec. 31, 1981, the amount was increased accordingly from $25 million to $26 million, and effective Dec. 30, 1982, to $26.3 million, and effective Dec. 29, 1983 to $28.9 million.

9 In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons, and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

NOTE. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmembers may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions.

1.16 MAXIMUM INTEREST RATES PAYABLE on Time and Savings Deposits at Federally Insured Institutions[1]

Percent per annum

Type of deposit	Commercial banks		Savings and loan associations and mutual savings banks (thrift institutions)[1]	
	In effect Mar. 31, 1984		In effect Mar. 31, 1984	
	Percent	Effective date	Percent	Effective date
1 Savings	5½	1/1/84	5½	7/1/79
2 Negotiable order of withdrawal accounts	5¼	12/31/80	5¼	12/31/80
3 Negotiable order of withdrawal accounts of $2,500 or more[2]	...	1/5/83	...	1/5/83
4 Money market deposit account[2]	...[3]	12/14/82	...[3]	12/14/82
Time accounts by maturity				
5 7–31 days of less than $2,500[4]	5½	1/1/84	5½	9/1/82
6 7–31 days of $2,500 or more[2]	...	1/5/83	...	1/5/83
7 More than 31 days	...	10/1/83	...	10/1/83

1. Effective Oct. 1, 1983, restrictions on the maximum rates of interest payable by commercial banks and thrift institutions on various categories of deposits were removed. For information regarding previous interest rate ceilings on all categories of accounts see earlier issues of the FEDERAL RESERVE BULLETIN, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation* before November 1983.

2. Effective Dec. 1, 1983, IRA/Keogh (HR10) Plan accounts are not subject to minimum deposit requirements.

3. Effective Dec. 14, 1982, depository institutions are authorized to offer a new account with a required initial balance of $2,500 and an average maintenance balance of $2,500 not subject to interest rate restrictions. No minimum maturity period is required for this account, but depository institutions must reserve the right to require seven days notice before withdrawals. When the average balance is less than $2,500, the account is subject to the maximum ceiling rate of interest for NOW accounts, compliance with the average balance requirement may be determined over a period of one month. Depository institutions may not guarantee a rate of interest for this account for a period longer than one month or condition the payment of a rate on a requirement that the funds remain on deposit for longer than one month.

4. Deposits of less than $2,500 issued to governmental units continue to be subject to an interest rate ceiling of 8 percent.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS

Millions of dollars

Type of transaction	1981	1982	1983	1983					1984	
				Aug.	Sept	Oct.	Nov	Dec	Jan.	Feb
U.S. GOVERNMENT SECURITIES										
Outright transactions (excluding matched transactions)										
Treasury bills										
1 Gross purchases	13,899	17,067	18,888	1,768	3,184	309	1,435	3,695	0	368
2 Gross sales	6,746	8,369	3,420	289	214	0	0	0	1,967	828
3 Exchange	0	0	0	0	0	0	0	0	0	0
4 Redemptions	1,816	3,000	2,400	0	500	0	700	0	1,300	600
Others within 1 year										
5 Gross purchases	317	312	484	0	0	0	155	0	0	0
6 Gross sales	23	0	0	0	0	0	0	0	0	0
7 Maturity shift	13,794	17,295	18,887	2,212	902	529	2,828	915	573	-2,488
8 Exchange	-12,869	-14,164	-16,553	-5,344	-753	-636	-2,930	0	1,530	-4,574
9 Redemptions	0	0	87	0	0	0	0	0	0	0
1 to 5 years										
10 Gross purchases	1,702	1,797	1,896	0	0	0	820	0	0	0
11 Gross sales	0	0	0	0	0	0	0	0	0	0
12 Maturity shift	-10,299	-14,524	-15,533	-2,212	-902	-256	-1,684	-915	-487	2,488
13 Exchange	10,117	11,804	11,641	3,130	753	636	1,796	0	1,530	2,861
5 to 10 years										
14 Gross purchases	393	388	890	0	0	0	349	0	0	0
15 Gross sales	0	0	0	0	0	0	0	0	300	0
16 Maturity shift	-3,495	-2,172	-2,450	516	0	-273	-250	0	-86	97
17 Exchange	1,500	2,128	2,950	1,300	0	0	700	0	0	1,000
Over 10 years										
18 Gross purchases	379	307	383	0	0	0	151	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	0	-601	-904	-516	0	0	-894	0	0	-97
21 Exchange	1,253	234	1,962	914	0	0	434	0	0	713
All maturities										
22 Gross purchases	16,690	19,870	22,540	1,768	3,184	309	2,909	3,695	0	368
23 Gross sales	6,769	8,369	3,420	289	214	0	0	0	2,267	828
24 Redemptions	1,816	3,000	2,487	0	500	0	700	0	1,300	600
Matched transactions										
25 Gross sales	589,312	543,804	578,591	45,989	48,193	53,751	56,858	58,979	54,833	55,656
26 Gross purchases	589,647	543,173	576,908	44,480	47,667	53,367	57,991	56,404	58,096	47,310
Repurchase agreements										
27 Gross purchases	79,920	130,774	105,971	2,263	37,211	19,247	3,257	3,644	14,245	0
28 Gross sales	78,733	130,286	108,291	0	30,223	28,499	3,257	2,260	15,629	0
29 Net change in U.S. government securities	9,626	8,358	12,631	2,234	8,933	-9,326	3,342	2,504	-1,688	-9,407
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
30 Gross purchases	494	0	0	0	0	0	0	0	0	0
31 Gross sales	0	0	0	0	0	0	0	0	0	0
32 Redemptions	108	189	292	138	5	6	84	2	40	38
Repurchase agreements										
33 Gross purchases	13,320	18,957	8,833	189	2,871	1,960	497	634	931	0
34 Gross sales	13,576	18,638	9,213	0	2,510	2,510	497	426	1,139	0
35 Net change in federal agency obligations	130	130	-672	51	356	-557	-84	206	-248	-38
BANKERS ACCEPTANCES										
36 Repurchase agreements, net	-582	1,285	-1,062	209	913	-1,122	0	418	-418	0
37 Total net change in System Open Market Account	**9,175**	**9,773**	**10,897**	**2,493**	**10,203**	**-11,005**	**3,258**	**3,128**	**-2,354**	**-9,444**

NOTE: *Sales, redemptions, and negative figures reduce holdings of the System* Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements

Millions of dollars

Account	Wednesday 1984 Feb. 29	Mar. 7	Mar. 14	Mar. 21	Mar. 28	End of month 1984 Jan.	Feb.	Mar.
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,116	11,116	11,116	11,114	11,114	11,120	11,116	11,111
2 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
3 Coin	534	533	529	521	515	498	534	520
Loans								
4 To depository institutions	1,020	414	2,449	935	718	418	1,020	896
5 Other	0	0	0	0	0	0	0	0
Acceptances—Bought outright								
6 Held under repurchase agreements	0	0	5	0	0	0	0	0
Federal agency obligations								
7 Bought outright	8,568	8,568	8,558	8,558	8,558	8,605	8,568	8,558
8 Held under repurchase agreements	0	0	155	0	0	0	0	0
U.S. government securities								
Bought outright								
9 Bills	56,399	64,832	64,122	66,520	61,222	65,806	56,399	66,366
10 Notes	62,921	62,921	62,921	62,921	62,921	63,634	62,921	62,921
11 Bonds	21,527	21,527	21,527	21,527	21,527	20,814	21,527	21,527
12 Total bought outright[1]	140,847	149,280	148,570	150,968	145,670	150,254	140,847	150,814
13 Held under repurchase agreements	0	0	2,895	0	0	0	0	0
14 Total U.S. government securities	140,847	149,280	151,465	150,968	145,670	150,254	140,847	150,814
15 **Total loans and securities**	**150,435**	**158,262**	**162,632**	**160,461**	**154,946**	**159,277**	**150,435**	**160,268**
16 Cash items in process of collection	11,193	5,943	10,180	8,838	8,181	10,383	11,193	7,698
17 Bank premises	549	549	549	549	549	548	549	549
Other assets								
18 Denominated in foreign currencies[2]	3,915	3,918	3,936	3,937	3,942	3,700	3,915	4,011
19 All other[3]	3,879	4,416	4,419	4,355	4,585	4,854	3,879	4,553
20 **Total assets**	**186,239**	**189,355**	**197,979**	**194,393**	**188,450**	**194,998**	**186,239**	**193,328**
LIABILITIES								
21 Federal Reserve notes	152,383	153,367	154,010	153,665	153,617	151,711	152,383	153,871
Deposits								
22 To depository institutions	16,330	19,057	27,912	21,800	17,766	20,361	16,330	22,167
23 U.S. Treasury—General account	3,226	3,564	2,575	5,545	3,838	7,153	3,226	3,684
24 Foreign—Official accounts	247	294	283	241	187	252	247	221
25 Other	498	519	502	550	506	359	498	562
26 **Total deposits**	**20,301**	**23,434**	**31,272**	**28,136**	**22,297**	**28,125**	**20,301**	**26,634**
27 Deferred availability cash items	8,000	7,124	7,072	7,183	6,941	9,537	8,000	6,911
28 Other liabilities and accrued dividends[4]	2,099	2,159	2,335	2,124	2,301	2,188	2,099	2,427
29 **Total liabilities**	**182,783**	**186,084**	**194,689**	**191,108**	**185,156**	**191,561**	**182,783**	**189,843**
CAPITAL ACCOUNTS								
30 Capital paid in	1,482	1,493	1,495	1,496	1,498	1,468	1,482	1,499
31 Surplus	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465
32 Other capital accounts	509	313	330	324	331	504	509	521
33 **Total liabilities and capital accounts**	**186,239**	**189,355**	**197,979**	**194,393**	**188,450**	**194,998**	**186,239**	**193,328**
34 MEMO: Marketable U.S. government securities held in custody for foreign and international account	119,391	117,970	116,645	114,867	117,565	112,311	119,391	113,547
	Federal Reserve note statement							
35 Federal Reserve notes outstanding	182,185	182,499	182,742	183,088	183,081	180,570	182,185	183,132
36 LESS: Held by bank[5]	29,838	29,132	28,732	29,423	29,464	28,859	29,838	29,261
37 Federal Reserve notes, net	152,347	153,367	154,010	153,665	153,617	151,711	152,347	153,871
Collateral held against notes net:								
38 Gold certificate account	11,116	11,116	11,116	11,114	11,114	11,120	11,116	11,111
39 Special drawing rights certificate account	4,618	4,618	4,618	4,618	4,618	4,618	4,618	4,618
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. government and agency securities	136,613	137,633	138,276	137,933	137,885	135,973	136,613	138,142
42 **Total collateral**	**152,347**	**153,367**	**154,010**	**153,665**	**153,617**	**151,711**	**152,347**	**153,871**

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.
5. Beginning September 1980, Federal Reserve notes held by the Reserve Bank are exempt from the collateral requirement.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holdings

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1984					1984		
	Feb 29	Mar 7	Mar 14	Mar 21	Mar 28	Jan 31	Feb 29	Mar 30
1 Loans—Total	1,020	414	2,449	935	718	418	1,020	896
2 Within 15 days	941	365	2,394	910	678	387	941	864
3 16 days to 90 days	79	49	55	25	40	31	79	32
4 91 days to 1 year	0	0	0	0	0	0	0	0
5 Acceptances—Total	0	0	5	0	0	0	0	0
6 Within 15 days	0	0	5	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	140,847	149,280	151,465	150,968	145,670	150,254	140,847	150,814
10 Within 15 days[1]	4,499	9,284	10,195	10,251	5,045	6,295	4,499	3,424
11 16 days to 90 days	25,076	29,061	30,285	31,510	29,318	35,451	25,076	35,062
12 91 days to 1 year	43,925	43,587	43,637	41,859	43,959	43,246	43,925	44,980
13 Over 1 year to 5 years	34,521	34,522	34,522	34,522	34,522	34,149	34,521	34,522
14 Over 5 years to 10 years	14,196	14,196	14,196	14,196	14,196	13,099	14,196	14,196
15 Over 10 years	18,630	18,630	18,630	18,630	18,630	18,014	18,630	18,630
16 Federal agency obligations—Total	8,568	8,568	8,713	8,558	8,558	8,605	8,568	8,558
17 Within 15 days[1]	162	61	159	155	188	212	162	188
18 16 days to 90 days	688	761	844	693	763	685	688	763
19 91 days to 1 year	1,587	1,627	1,701	1,701	1,668	1,696	1,587	1,668
20 Over 1 year to 5 years	4,378	4,356	4,246	4,246	4,176	4,290	4,378	4,176
21 Over 5 years to 10 years	1,350	1,360	1,360	1,360	1,360	1,319	1,350	1,360
22 Over 10 years	403	403	403	403	403	403	403	403

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	1980 Dec	1981 Dec.	1982 Dec	1983 Dec.	1983 July	Aug	Sept.	Oct	Nov	Dec.	1984 Jan	Feb.
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[1]	Seasonally adjusted											
1 **Total reserves**[2]	**30.64**	**31.51**	**33.63**	**35.28**	**35.19**	**35.22**	**35.31**	**35.32**	**35.25**	**35.28**	**35.50**	**36.07**
2 Nonborrowed reserves	28.95	30.88	33.00	34 51	33.74	33.67	33.87	34.47	34.34	34.51	34.79	35.50
3 Nonborrowed reserves plus extended credit[3]	28.95	31 03	33.18	34.51	34 32	34.16	34 38	34.73	34 35	34.51	34.79	35 50
4 Required reserves	30.13	31 20	33.13	34 72	34 69	34.77	34.81	34 81	34.72	34 72	34.89	35 12
5 Monetary base[4]	150 11	157 82	169.81	184 97	179 31	180 13	181.78	182 85	183.95	184 97	186.94	188.58
	Not seasonally adjusted											
6 **Total reserves**[2]	**31.34**	**32.23**	**34.35**	**36.00**	**34.98**	**34.71**	**35.01**	**35.31**	**35.35**	**36.00**	**37.30**	**35.65**
7 Nonborrowed reserves	29 65	31.59	33.71	35.22	33.53	33.17	33.57	34 47	34 45	35.22	36 59	35.09
8 Nonborrowed reserves plus extended credit[3]	29 65	31.74	33 90	35 23	34.10	33 66	34.08	34 73	34.45	35 23	36.59	35 09
9 Required reserves	30.82	31.91	33.85	35 44	34.47	34 27	34.51	34 81	34.82	35.44	36.69	34 71
10 Monetary base[4]	152 80	160.65	172 83	188.23	180.18	180.14	181 24	182.67	185 04	188.23	188 10	185.93
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[5]												
11 **Total reserves**[2]	**40.66**	**41.93**	**41.85**	**38.89**	**38.95**	**38.66**	**37.92**	**38.14**	**38.14**	**38.89**	**40.12**	**36.37**
12 Nonborrowed reserves	38 97	41 29	41.22	38.12	37.50	37 11	36.48	37 29	37.24	38 12	39.41	35.80
13 Nonborrowed reserves plus extended credit[3]	38.97	41.44	41.41	38.12	38.07	37.61	36.99	37 55	37.25	38.12	39.41	35.80
14 Required reserves	40 15	41.61	41 35	38 33	38.44	38 21	37.42	37 63	37.62	38.33	39.41	35 42
15 Monetary base[4]	163.00	170 47	180.52	192.36	185 30	185.40	185 11	186.60	188.97	192.36	192 30	186.67

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]	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec.	1983 Nov.	1983 Dec	1984 Jan.	1984 Feb
				Seasonally adjusted				
1 M1	414 9	441 9	480 5	525.3	523.0	525 3	523.0	532.9
2 M2	1,632.6	1,796.6	1,965.3	2,196.1	2,182.1	2,196 1	2,206.2	2,222.0
3 M3	1,989.8	2,236.7	2,460.3	2,706.8	2,688.9	2,706.8	2,720.5	2,743 2
4 L	2,326 0	2,598.4	2,868.7	3,175.5	3,147.4	3,175.5	n a.	n a
5 Debt[2]	3,946 9	4,323.8	4,710.1	5,219.0	5,166 1	5,219.0	5,271 9	n.a
M1 components								
6 Currency[2]	116.7	124.0	134.1	148.0	147 2	148 0	149.9	150 2
7 Travelers checks[3]	4.2	4.3	4.3	4.9	4 9	4 9	4.9	5 0
8 Demand deposits[4]	266 5	236 2	239.7	243.7	242 8	243 7	244.5	243 8
9 Other checkable deposits[5]	27.6	77.4	102.4	128.8	128.2	128 8	130.7	133 9
Nontransactions components								
10 In M2[6]	1,217.7	1,354.6	1,484.8	1,670.8	1,659 2	1,670 8	1,676.2	1,689 1
11 In M3 only[7]	357.2	440.2	495.0	510.7	506.7	510 7	514 3	521.2
Savings deposits[9]								
12 Commercial Banks	185.9	159.7	164 9	134.6	136 1	134 6	132.1	130 1
13 Thrift Institutions	215.6	186.1	197.2	178.2	179.2	178 2	177 7	176 4
Small denomination time deposits[9]								
14 Commerical Banks	287.5	349.6	382.2	353.1	350.0	353 1	352.9	352.8
15 Thrift Institutions	443 9	477.7	474.7	440 0	435 5	440 0	444 1	448 3
Money market mutual funds								
16 General purpose and broker/dealer	61.6	150.6	185.2	138.2	138 8	138 2	137.9	142 2
17 Institution-only	15.0	36.2	48.4	40.3	40.6	40.3	40 6	41 6
Large denomination time deposits[10]								
18 Commercial Banks[11]	213.9	247.3	261.8	225 5	224.2	225 5	227.7	227 7
19 Thrift Institutions	44.6	54.3	66.1	100.3	96.6	100.3	106.1	111 7
Debt components								
20 Federal debt	742 8	830 1	991.4	1,177.9	1,169.7	1,177 9	1204.8	n a
21 Non-federal debt	3,204.1	3,493.7	3,718 7	4,041 0	3,996.4	4,041 0	4067.1	n a
				Not seasonally adjusted				
22 M1	424.8	452.3	491 9	537.8	526.7	537 8	534 8	521 9
23 M2	1,635.4	1,798.7	1,967.4	2,198.0	2,181.2	2,198.0	2,210.0	2,211 8
24 M3	1,996.1	2,242.7	2,466.6	2,712.9	2,689.9	2,712.9	2,726 3	2,735.9
25 L	2,332 8	2,605.6	2,876.5	3,183 3	3,148 6	3,183 3	n a	n a
26 Debt[2]	3,946.9	4,323.8	4,710.1	5,219.0	5,153 7	5,219.0	5,259 9	n a
M1 components								
27 Currency[2]	118.8	126.1	136.4	150.5	147.9	150 5	148 4	148 3
28 Travelers checks[3]	3.9	4 1	4 1	4 6	4.6	4.6	4.6	4 7
29 Demand deposits[4]	274.7	243 6	247 3	251.6	245.2	251 6	249.4	237 9
30 Other checkable deposits[5]	27.4	78.5	104 1	131.2	128.9	131.2	132.5	130 9
Nontransactions components								
31 M2[6]	1,210.6	1,346.3	1,475.5	1,660 1	1,654.5	1,660 1	1,675 1	1,689.9
32 M3 only[7]	360.7	444.1	499.2	515.0	508.8	515.0	516 4	524 1
Money market deposit accounts								
33 Commercial banks	n.a.	n.a.	26.3	230.1	227.1	230.1	234 2	238 3
34 Thrift institutions	n.a	n.a	16 6	146.0	145.8	146 0	146 3	147 9
Savings deposits[8]								
35 Commercial Banks	183 8	157 5	162 1	132 0	133.7	132 0	131 3	129.9
36 Thrift Institutions	214 4	184.7	195.5	176 5	178 3	176.5	176 1	175 2
Small denomination time deposits[9]								
37 Commercial Banks	286.0	347 7	380.1	351 0	348.9	351 0	353.7	355 3
38 Thrift Institutions	442.3	475.6	472 4	437 6	434 2	437 6	445 7	450 2
Money market mutual funds								
39 General purpose and broker/dealer	61.6	150.6	185 2	138.2	138.8	138 2	137 9	142 2
40 Institution-only	15 0	36 2	48.4	40.3	40.6	40 3	40.6	41.6
Large denomination time deposits[10]								
41 Commercial Banks[11]	218.5	252.1	266 2	228 9	225 5	228 9	228 8	229.1
42 Thrift Institutions	44 3	54.3	66.2	100.7	98.3	100 7	105 5	110 9
Debt components								
43 Federal debt	742.8	830 1	991 4	1,177 9	1,169 7	1,177.9	1,204 8	n.a.
44 Non-federal debt	3,204 1	3,943.7	3,718 7	4,041.0	3,996.4	4,041 0	4,067.1	n.a.

For notes see bottom of next page

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	1981[1]	1982[1]	1983[1]	1983					1984
				Aug	Sept	Oct.	Nov	Dec r	Jan
	Seasonally adjusted								
DEBITS TO									
Demand deposits[2]									
1 All insured banks	80,858.7	90,914.4	109,642.5	111,538.1	110,700.7	118,407.2	114,466.6	115,381.5	120,954.6
2 Major New York City banks	33,891.9	37,932.9	47,769.4	48,373.3	46,903.7	52,639.9	49,715.8	48,255.7	51,952.5
3 Other banks	46,966.9	52,981.6	61,873.1	63,164.9	63,796.9	65,767.3	64,750.8	67,125.8	69,002.2
4 ATS-NOW accounts[3]	743.4	1,036.2	1,405.5	1,679.5	1,495.9	1,392.8	1,447.4	1,499.6	1,345.1
5 Savings deposits[4]	672.7	721.4	741.4	706.3	712.7	643.7	674.9	661.4	620.8
DEPOSIT TURNOVER									
Demand deposits[2]									
6 All insured banks	285.8	324.2	380.5	385.7	384.7	409.6	398.3	395.7	414.2
7 Major New York City banks	1,105.1	1,287.6	1,528.0	1,526.7	1,508.8	1,703.8	1,645.6	1,541.4	1,650.9
8 Other banks	186.2	211.1	240.9	245.3	248.6	254.7	251.8	257.9	264.9
9 ATS-NOW accounts[3]	14.0	14.5	15.6	17.9	15.9	14.9	15.5	15.9	13.8
10 Savings deposits[4]	4.1	4.5	5.4	5.2	5.3	4.9	5.1	5.0	4.7
	Not seasonally adjusted								
DEBITS TO									
Demand deposits[2]									
11 All insured banks	81,197.9	91,031.9	109,517.7	115,776.6	111,741.3	114,191.9	110,963.9	122,558.3	123,567.2
12 Major New York City banks	34,032.0	38,001.0	47,707.4	49,788.2	48,276.1	49,910.9	47,508.1	52,418.5	52,895.2
13 Other banks	47,165.9	53,030.9	61,810.3	65,988.3	63,465.2	64,280.9	63,455.8	70,139.7	70,672.0
14 ATS-NOW accounts[3]	737.6	1,027.1	1,397.8	1,468.9	1,388.3	1,373.2	1,327.2	1,465.4	1,601.5
15 MMDA[5]	0	0	573.5	655.5	641.4	700.3	639.1	745.8	793.4
16 Savings deposits[4]	672.9	720.0	742.0	694.3	688.9	672.9	635.3	647.1	672.5
DEPOSIT TURNOVER									
Demand deposits[2]									
17 All insured banks	286.1	325.0	379.9	406.7	387.2	391.1	381.7	407.0	412.3
18 Major New York City banks	1,114.2	1,295.7	1,526.6	1,621.6	1,574.5	1,595.5	1,553.4	1,613.6	1,581.5
19 Other banks	186.2	211.5	240.5	259.8	246.1	246.6	244.0	261.1	265.4
20 ATS-NOW accounts[3]	14.0	14.3	15.5	16.0	15.0	14.6	14.0	15.1	16.2
21 MMDA[5]	0	0	2.8	3.0	2.9	3.2	2.8	3.3	3.4
22 Savings deposits[4]	4.1	4.5	5.4	5.1	5.2	5.1	4.8	4.9	5.2

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

NOTES TO TABLE 1 21

1 Composition of the money stock measures and debt is as follows
M1 (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of commercial banks, (2) travelers checks of nonbank issuers, (3) demand deposits at all commercial banks other than those due to domestic banks, the U S government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float, and (4) other checkable deposits (OCD) consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions The currency and demand deposit components exclude the estimated amount of vault cash and demand deposits respectively held by thrift institutions to service their OCD liabilities
M2 M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all commercial banks and overnight Eurodollars issued to U S residents by foreign branches of U S banks worldwide, MMDAs, savings and small-denomination time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and balances in both taxable and tax-exempt general purpose and broker/dealer money market mutual funds Excludes individual retirement accounts (IRA) and Keogh balances at depository institutions and money market funds Also excludes all balances held by U S. commercial banks, money market funds (general purpose and broker/dealer), foreign governments and commercial banks, and the U S government Also subtracted is a consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits
M3. M2 plus large-denomination time deposits and term RP liabilities (in amounts of $100,000 or more) issued by commercial banks and thrift institutions, term Eurodollars held by U S residents at foreign branches of U S banks worldwide and at all banking offices in the United Kingdom and Canada, and balances in both taxable and tax-exempt, institution-only money market mutual funds Excludes amounts held by depository institutions, the U S government, money market funds, and foreign banks and official institutions Also subtracted is a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.
L M3 plus the nonbank public holdings of U S savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets
Debt Debt of domestic nonfinancial sectors consists of outstanding credit market debt of the U S government, state and local governments, and private nonfinancial sectors Private debt consists of corporate bonds, mortgages, consumer credit (including bank loans), other bank loans, commercial paper, bankers acceptances, and other debt instruments The source of data on domestic nonfinancial debt is the Federal Reserve Board's flow of funds accounts Debt data are on an end-of-month basis

2 Currency outside the U S Treasury, Federal Reserve Banks, and vaults of commercial banks Excludes the estimated amount of vault cash held by thrift institutions to service their OCD liabilities.
3 Outstanding amount of U.S dollar-denominated travelers checks of nonbank issuers Travelers checks issued by depository institutions are included in demand deposits
4 Demand deposits at commercial banks and foreign-related institutions other than those due to domestic banks, the U S government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float Excludes the estimated amount of demand deposits held at commercial banks by thrift institutions to service their OCD liabilities.
5 Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions Other checkable deposits seasonally adjusted equals the difference between the seasonally adjusted sum of demand deposits plus OCD and seasonally adjusted demand deposits Included are all ceiling free "Super NOWs," authorized by the Depository Institutions Deregulation committee to be offered beginning Jan 5, 1983
6. Sum of overnight RPs and overnight Eurodollars, money market fund balances (general purpose and broker/dealer), MMDAs, and savings and small time deposits, less the consolidation adjustment that represents the estimated amount of demand deposits and vault cash held by thrift institutions to service their time and savings deposits liabilities
7 Sum of large time deposits, term RPs and term Eurodollars of U S residents, money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds
8. Savings deposits exclude MMDAs
9 Small-denomination time deposits—including retail RPs— are those issued in amounts of less than $100,000 All individual retirement accounts (IRA) and Keogh accounts at commercial banks and thrifts are subtracted from small time deposits
10 Large-denomination time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities
11 Large-denomination time deposits at commercial banks less those held by money market mutual funds, depository institutions, and foreign banks and official institutions

NOTE. Latest monthly and weekly figures are available from the Board's H 6 (508) release Historical data are available from the Banking Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D C. 20551

1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars; averages of Wednesday figures

Category	1981 Dec [2]	1982 Dec	1983 Oct	1983 Nov.	1983 Dec [r]	1984 Jan.	1981 Dec. [2]	1982 Dec	1983 Oct [r]	1983 Nov [r]	1983 Dec [r]	1984 Jan
	Seasonally adjusted						Not seasonally adjusted					
1 **Total loans and securities[3]**	**1,316.3**	**1,412.1**	**1,532.9**	**1,548.9**	**1,567.6**	**1,582.8**	**1,326.1**	**1,422.5**	**1,538.0**	**1,556.1**	**1,579.0**	**1,585.1**
2 U.S. Treasury securities	111.0	130.9	182.3	186.2	188.0	189.2	111.4	131.5	180.9	185.0	188.8	188.4
3 Other securities	231.4	239.1	246.5	247.1	247.5	251.2	232.8	240.6	246.8	247.6	249.0	251.4
4 Total loans and leases[3]	973.9	1,042.0	1,104.1	1,115.7	1,132.1	1,142.4	981.8	1,050.4	1,110.3	1,123.5	1,141.1	1,145.2
5 Commercial and industrial loans	358.0	392.4	404.7	407.8	413.0	417.6	360.1	394.7	405.4	409.7	415.4	416.2
6 Real estate loans	285.7	303.2	329.2	332.1	335.6	340.5	286.8	304.1	330.5	333.4	336.6	341.2
7 Loans to individuals	185.1	191.8	212.0	215.4	219.7	224.3	186.4	193.1	213.7	216.7	221.2	225.0
8 Security loans	21.9	24.7	25.2	26.2	27.3	27.5	22.7	25.5	25.0	26.7	28.2	27.6
9 Loans to nonbank financial institutions	30.2	31.1	30.4	29.8	29.7	30.8	31.2	32.1	30.6	30.2	30.6	30.9
10 Agricultural loans	33.0	36.1	39.1	39.3	39.6	39.8	33.0	36.1	39.6	39.6	39.6	39.6
11 Lease financing receivables	12.7	13.1	13.0	13.0	13.1	13.4	12.7	13.1	13.0	13.0	13.1	13.4
12 All other loans	47.2	49.5	50.6	52.1	54.1	48.4	49.2	51.5	52.6	54.1	56.4	51.2
MEMO												
13 **Total loans and securities plus loans sold[3,4]**	**1,319.1**	**1,415.0**	**1,535.5**	**1,551.4**	**1,570.0**	**1,585.2**	**1,328.9**	**1,425.4**	**1,540.5**	**1,558.6**	**1,581.4**	**1,587.5**
14 Total loans plus loans sold[3,4]	976.7	1,045.0	1,106.7	1,118.2	1,134.5	1,144.9	984.7	1,053.3	1,112.9	1,126.0	1,143.5	1,147.7
15 Total loans sold to affiliates[3,4]	2.8	2.9	2.6	2.5	2.4	2.4	2.8	2.9	2.6	2.5	2.4	2.4
16 Commercial and industrial loans plus loans sold[4]	360.2	394.6	406.7	409.7	414.9	419.4	362.3	396.9	407.4	411.6	417.3	418.1
17 Commercial and industrial loans sold[4]	2.2	2.3	2.0	1.9	1.8	1.9	2.2	2.3	2.0	1.9	1.8	1.9
18 Acceptances held	8.9	8.5	8.9	8.6	8.3	8.2	9.8	9.5	8.8	8.9	9.1	8.6
19 Other commercial and industrial loans	349.1	383.8	395.8	399.2	404.8	409.4	350.3	385.2	396.6	400.8	406.4	407.7
20 To U.S. addressees[5]	334.9	373.5	383.2	386.9	394.7	397.0	334.3	372.7	383.9	388.0	393.9	395.5
21 To non-U.S. addressees	14.2	10.3	12.7	12.3	10.1	12.4	16.1	12.4	12.8	12.7	12.5	12.2
22 Loans to foreign banks	19.0	13.5	14.7	14.5	12.7	12.4	20.0	14.5	14.8	14.5	13.6	12.9

1. Includes domestically chartered banks, U.S. branches and agencies of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

2. Beginning December 1981, shifts of foreign loans and securities from U.S. banking offices to international banking facilities (IBFs) reduced the levels of several items. Seasonally adjusted data that include adjustments for the amounts shifted from domestic offices to IBFs are available in the Board's G.7 (407) statistical release (available from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551).

3. Excludes loans to commercial banks in the United States.

4. 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.

5. United States includes the 50 states and the District of Columbia.

NOTE. Data are prorated averages of Wednesday estimates for domestically chartered banks, based on weekly reports of a sample of domestically chartered banks and quarterly reports of all domestically chartered banks. For foreign-related institutions, data are averages of month-end estimates based on weekly reports from large agencies and branches and quarterly reports from all agencies, branches, investment companies, and Edge Act corporations engaged in banking.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Monthly averages, billions of dollars

Source	1981	1982	1983									1984	
	Dec.	Dec	Apr.	May	June	July	Aug.	Sept.	Oct	Nov.	Dec.	Jan.	Feb.
Total nondeposit funds													
1 Seasonally adjusted[2]	96.3	83.3	80.3	90.9	88.4	76.5	82.6	83.4	80.2	97.1	100.9r	97.4r	100.4
2 Not seasonally adjusted	98.1	84.9	79.0	90.5	90.1	78.6	87.0	86.1	82.8	99.4	102.4r	99.1r	101.4
Federal funds, RPs, and other borrowings from nonbanks[3]													
3 Seasonally adjusted	111.8	128.1	139.9	146.0	140.9	132.8	130.9	132.3	133.5	141.6	141.2r	138.6r	139.2
4 Not seasonally adjusted	113.5	129.7	138.5	145.6	142.6	134.9	135.3	135.1	136.0	143.9	142.7	140.3r	140.2
5 Net balances due to foreign-related institutions, not seasonally adjusted	-18.1	-47.7	-62.5	-57.8	-55.2	-59.9	-50.9	-51.5	-55.8	-47.0	-42.7r	-43.4r	-41.3
6 Loans sold to affiliates, not seasonally adjusted[4]	2.8	2.9	3.0	2.8	2.7	2.7	2.6	2.6	2.6	2.5	2.4	2.4	2.5
MEMO													
7 Domestically chartered banks' net positions with own foreign branches, not seasonally adjusted[5]	-22.4	-39.6	-52.7	-48.7	-49.2	-50.9	-45.3	-46.3	-48.5	-42.9	-39.7	-38.6	-37.4
8 Gross due from balances	54.9	72.2	80.3	76.3	75.8	77.4	73.6	74.7	76.4	76.5	75.2	73.0	71.9
9 Gross due to balances	32.4	32.6	27.6	27.6	26.6	26.5	28.3	28.3	27.9	33.6	35.5	34.5	34.5
10 Foreign-related institutions' net positions with directly related institutions, not seasonally adjusted[6]	4.3	-8.1	-9.8	-9.1	-6.0	-8.0	-6.6	-5.1	-7.3	-4.1	-3.0	-4.8	-3.9
11 Gross due from balances	48.1	54.7	55.9	55.8	53.9	55.2	53.5	53.5	55.4	53.1	53.5	52.9	50.6
12 Gross due to balances	52.4	46.6	46.1	46.7	47.9	47.2	47.0	48.3	48.0	49.0	50.6	48.0	46.7
Security RP borrowings													
13 Seasonally adjusted[7]	59.0	71.2	79.3	84.7	81.4	75.7	74.3	76.1	78.2	84.0	85.2	84.6	87.3
14 Not seasonally adjusted	59.2	71.2	76.3	82.7	81.5	76.2	77.0	77.3	79.1	84.6	85.1	84.6	86.6
U.S. Treasury demand balances[8]													
15 Seasonally adjusted	12.2	11.9	13.5	11.3	13.0	24.0	20.6	16.5	21.7	9.9	11.9	18.9	19.4
16 Not seasonally adjusted	11.1	10.8	14.2	12.5	13.2	21.8	16.4	17.9	24.7	7.5	10.8	19.6	22.3
Time deposits, $100,000 or more[9]													
17 Seasonally adjusted	325.4	350.3	293.3	287.7	287.4	285.1	284.7	283.9	279.0	281.8	285.1	283.6	281.9
18 Not seasonally adjusted	330.4	354.6	296.9	285.5	284.0	281.5	284.4	284.7	280.3	283.0	288.1	287.1	285.0

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 and loans to affiliates. 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. Includes averages of daily figures for member banks and averages of current and previous month-end data for foreign-related institutions.
4. Loans initially booked by the bank and later sold to affiliates that are still held by affiliates. Averages of Wednesday data
5. Averages of daily figures for member and nonmember banks.
6. Averages of daily data.
7. Based on daily average data reported by 122 large banks.
8. Includes U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.
9. Averages of Wednesday figures

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series

Billions of dollars except for number of banks

Account	1982 Dec	1983 Mar	Apr.	May	June	July	Aug	Sept.	Oct	Nov	Dec.
DOMESTICALLY CHARTERED COMMERCIAL BANKS[1]											
1 Loans and securities, excluding interbank	1,370.3	1,392.2	1,403.8	1,411.9	1,435.1	1,437.4	1,457.0	1,466.1	1,483.0	1,502.3	1,525.2
2 Loans, excluding interbank	1,000.7	1,001.7	1,005.1	1,007.5	1,025.6	1,029.1	1,043.4	1,049.7	1,060.3	1,075.5	1,095.1
3 Commercial and industrial	356.7	358.0	357.9	356.7	360.1	361.1	363.0	364.0	367.0	372.8	380.8
4 Other	644.0	643.7	647.2	650.8	665.6	668.0	680.4	685.7	693.3	702.7	714.4
5 U.S. Treasury securities	129.0	150.6	155.5	160.9	166.0	165.1	167.5	171.2	176.8	180.4	181.4
6 Other securities	240.5	239.9	243.3	243.5	243.5	243.3	246.1	245.2	245.9	246.4	248.7
7 Cash assets, total	184.4	168.9	170.1	164.5	176.9	168.7	176.9	160.0	164.0	179.0	190.5
8 Currency and coin	23.0	19.9	20.4	20.3	21.3	20.7	21.0	20.8	20.5	22.3	23.3
9 Reserves with Federal Reserve Banks	25.4	20.5	23.9	22.4	18.8	20.6	22.5	15.4	19.7	17.6	18.6
10 Balances with depository institutions	67.6	67.1	66.1	65.6	69.7	67.1	69.0	66.7	67.1	70.9	75.6
11 Cash items in process of collection	68.4	61.5	59.6	56.3	67.1	60.3	64.4	56.9	56.6	69.0	73.0
12 Other assets[2]	265.3	257.9	252.4	248.3	253.2	254.5	257.2	252.3	253.0	261.9	253.8
13 Total assets/total liabilities and capital	**1,820.0**	**1,818.9**	**1,826.3**	**1,824.8**	**1,865.2**	**1,860.6**	**1,891.0**	**1,878.4**	**1,900.0**	**1,943.9**	**1,969.5**
14 Deposits	1,361.8	1,374.2	1,368.0	1,370.8	1,402.7	1,396.5	1,420.1	1,408.1	1,419.5	1,459.2	1,482.6
15 Demand	363.9	333.4	329.2	324.5	344.4	334.2	344.7	328.1	331.3	358.1	371.0
16 Savings	296.4	419.2	426.9	440.2	445.3	447.5	449.0	448.8	451.5	458.3	460.7
17 Time	701.5	621.6	611.9	606.1	613.1	614.8	626.4	631.2	636.8	642.8	650.8
18 Borrowings	215.1	211.3	224.0	214.1	221.2	217.5	217.2	217.8	226.8	219.7	216.3
19 Other liabilities	109.2	103.5	102.3	104.7	104.3	105.5	107.6	107.1	106.5	112.6	117.9
20 Residual (assets less liabilities)	133.8	130.0	132.0	135.1	137.0	141.0	146.1	145.4	147.2	152.4	152.8
MEMO											
21 U.S. Treasury note balances included in borrowing	10.7	9.6	17.8	2.7	19.3	19.3	14.8	20.8	22.5	2.8	8.8
22 Number of banks	14,787	14,819	14,823	14,817	14,826	14,785	14,795	14,804	14,800	14,799	14,796
ALL COMMERCIAL BANKING INSTITUTIONS[3]											
23 Loans and securities, excluding interbank	1,429.7	1,451.3	1,460.8	1,467.6	1,491.5	1,494.1	1,515.4	1,525.4	1,541.8	1,563.2	1,586.8
24 Loans, excluding interbank	1,054.8	1,054.5	1,055.7	1,056.4	1,075.2	1,078.8	1,094.9	1,102.5	1,112.2	1,129.2	1,149.3
25 Commercial and industrial	395.3	395.9	393.5	391.7	395.3	397.7	400.6	402.7	405.3	412.0	420.1
26 Other	659.5	658.6	662.2	664.7	679.9	681.2	694.3	699.8	706.8	717.2	729.2
27 U.S. Treasury securities	132.8	155.3	160.2	166.1	171.3	170.3	172.7	176.1	182.0	185.9	186.9
28 Other securities	242.1	241.5	244.9	245.2	245.1	245.0	247.8	246.9	247.7	248.1	250.6
29 Cash assets, total	200.7	185.5	186.3	180.3	193.5	185.2	193.3	174.7	178.4	195.0	205.0
30 Currency and coin	23.0	19.9	20.4	20.3	21.3	20.7	21.1	20.9	20.5	22.3	23.4
31 Reserves with Federal Reserve Banks	26.8	22.0	25.4	23.8	20.0	21.9	24.0	16.6	20.8	19.1	19.7
32 Balances with depository institutions	81.4	81.0	79.8	78.9	84.0	81.2	82.8	79.3	79.5	83.6	88.0
33 Cash items in process of collection	69.4	62.6	60.7	57.3	68.2	61.4	65.4	58.0	57.6	70.0	74.0
34 Other assets[2]	341.7	325.4	317.8	309.5	318.1	318.7	324.6	320.9	318.8	329.7	321.3
35 Total assets/total liabilities and capital	***1,972.1***	***1,962.2***	***1,964.9***	***1,957.4***	***2,003.2***	***1,998.0***	***2,033.3***	***2,021.0***	***2,039.1***	***2,088.0***	***2,113.1***
36 Deposits	1,409.7	1,419.5	1,411.0	1,413.1	1,443.8	1,438.1	1,461.4	1,448.9	1,459.0	1,499.4	1,524.8
37 Demand	376.2	345.7	341.1	336.4	356.4	346.4	356.6	340.0	343.2	369.9	383.2
38 Savings	296.7	419.7	427.3	440.7	445.7	448.0	449.5	449.3	452.0	458.8	461.3
39 Time	736.7	654.1	642.6	636.0	641.6	643.8	655.3	659.5	663.8	670.6	680.4
40 Borrowings	278.3	269.9	281.3	269.5	278.2	277.9	280.5	282.6	289.6	282.5	275.1
41 Other liabilities	148.4	141.1	138.6	137.9	142.3	139.1	143.4	142.3	141.5	151.9	158.6
42 Residual (assets less liabilities)	135.7	131.9	133.9	137.0	138.9	142.9	148.0	147.3	149.1	154.2	154.7
MEMO											
43 U.S. Treasury note balances included in borrowing	10.7	9.6	17.8	2.7	19.3	19.3	14.8	20.8	22.5	2.8	8.8
44 Number of banks	15,329	15,376	15,390	15,385	15,396	15,359	15,370	15,382	15,383	15,382	15,380

1. Domestically chartered commercial banks include all commercial banks in the United States except branches of foreign banks, included are member and nonmember banks, stock savings banks, and nondeposit trust companies.
2. Other assets include loans to U.S. commercial banks.
3. Commercial banking institutions include domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

NOTE. Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Data for domestically chartered commercial banks are for the last Wednesday of the month. Data for other banking institutions are estimates made on the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition report data.

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	1984								
	Jan 4	Jan 11	Jan 18	Jan 25	Feb 1	Feb. 8	Feb. 15	Feb. 22	Feb. 29
1 Cash and balances due from depository institutions	116,438	99,215	99,369	89,700	93,576	81,813	92,277	92,602	86,729
2 Total loans, leases and securities, net	**740,333**	**730,856**	**730,922**	**722,645**	**736,777**	**731,002**	**743,989**	**733,411**	**742,720**
Securities									
3 U S Treasury and govt. agency	79,837	79,302	78,872	78,127	80,238	79,633	81,381	77,388	80,176
4 Trading account	8,895	9,538	10,346	10,196	11,860	10,534	12,358	8,894	10,951
5 Investment account, by maturity	70,942	69,763	68,525	67,931	68,378	69,099	69,022	68,494	69,224
6 One year or less	19,679	19,371	18,418	17,868	18,202	18,659	18,376	18,089	18,121
7 Over one through five years	38,040	37,450	37,326	37,194	37,303	37,428	37,727	37,878	38,705
8 Over five years	13,222	12,942	12,781	12,870	12,872	13,012	12,919	12,527	12,399
9 Other securities	51,222	50,691	50,257	49,972	49,770	49,218	49,376	49,332	49,343
10 Trading account	4,372	3,834	3,410	3,226	3,208	2,778	3,001	3,045	3,214
11 Investment account	46,850	46,858	46,847	46,746	46,562	46,440	46,375	46,288	46,129
12 States & political subdivisions, by maturity	42,628	42,728	42,676	42,602	42,386	42,214	42,164	42,107	41,950
13 One year or less	5,488	5,426	5,365	5,321	5,356	5,218	5,173	5,202	5,088
14 Over one year	37,140	37,302	37,311	37,281	37,030	36,996	36,991	36,905	36,862
15 Other bonds, corporate stocks and securities	4,222	4,130	4,170	4,144	4,176	4,226	4,211	4,181	4,179
16 Other trading account assets	2,118	2,043	2,439	2,484	2,318	2,137	1,955	1,861	1,853
Loans and leases									
17 Federal funds sold[1]	46,638	43,957	44,258	39,683	46,687	43,191	50,005	42,896	46,880
18 To commercial banks	34,208	31,752	32,663	27,670	32,826	30,620	36,476	29,150	31,653
19 To nonbank brokers and dealers in securities	8,684	7,960	7,813	8,151	8,911	8,657	9,689	9,722	9,409
20 To others	3,747	4,244	3,782	3,862	4,950	3,913	3,840	4,024	5,818
21 *Other loans and leases, gross*	574,821	569,211	569,434	566,740	572,277	571,508	575,933	576,647	579,239
22 Other loans, gross	563,379	557,748	557,988	555,324	560,826	560,036	564,402	565,174	567,753
23 Commercial and industrial	223,874	221,358	220,955	220,014	221,218	222,717	222,555	223,861	226,991
24 Bankers' acceptances and commercial paper	3,492	2,932	3,112	2,932	3,137	3,330	3,200	3,369	3,517
25 All other	220,382	218,426	217,842	217,082	218,081	219,387	219,355	220,492	223,473
26 U S addressees	213,147	211,185	210,662	210,018	211,061	212,382	212,314	213,477	216,579
27 Non-U S. addressees	7,235	7,242	7,180	7,065	7,020	7,005	7,041	7,016	6,894
28 Real estate loans	143,536	143,916	144,177	144,341	144,608	144,796	145,162	145,314	145,438
29 To individuals for personal expenditures	92,390	92,207	92,361	92,570	92,563	92,602	92,762	92,963	93,454
30 To depository and financial institutions	42,608	41,038	41,198	39,948	41,304	40,069	40,871	41,354	40,704
31 Commercial banks in the U S	8,912	8,612	9,137	8,658	8,434	8,317	8,399	8,788	8,616
32 Banks in foreign countries	7,858	7,049	7,163	6,731	7,054	6,602	7,256	7,743	7,316
33 Nonbank depository and other financial institutions	25,838	25,378	24,898	24,559	25,816	25,150	25,216	24,824	24,771
34 For purchasing and carrying securities	14,644	14,653	14,352	14,165	15,298	15,190	16,752	15,406	15,699
35 To finance agricultural production	7,540	7,379	7,314	7,318	7,310	7,312	7,338	7,355	7,367
36 To states and political subdivisions	20,010	20,205	20,371	20,282	20,575	20,559	20,624	21,063	20,869
37 To foreign governments and official institutions	4,548	4,533	4,527	4,637	4,678	4,644	4,655	4,644	4,499
38 All other	14,229	12,457	12,732	12,048	13,271	12,146	13,682	13,216	12,732
39 Lease financing receivables	11,441	11,463	11,446	11,417	11,450	11,472	11,531	11,472	11,486
40 LESS Unearned income	5,178	5,184	5,197	5,185	5,147	5,163	5,167	5,182	5,197
41 Loan and lease reserve	9,125	9,163	9,140	9,176	9,366	9,522	9,493	9,531	9,575
42 Other loans and leases, net	560,517	554,864	555,097	552,379	557,763	556,823	561,273	561,933	564,468
43 All other assets	148,079	139,260	138,176	132,033	136,816	136,472	135,295	132,322	138,080
44 Total assets	**1,004,851**	**969,332**	**968,467**	**944,378**	**967,169**	**949,287**	**971,561**	**958,336**	**967,529**
Deposits									
45 Demand deposits	213,775	187,113	184,334	172,377	186,119	170,397	188,776	180,736	185,689
46 Individuals, partnerships, and corporations	160,892	143,320	138,862	131,903	139,128	130,562	142,646	136,129	140,468
47 States and political subdivisions	5,642	4,900	5,107	4,916	5,453	4,542	4,968	5,077	5,448
48 U S government	1,630	2,248	3,647	1,730	1,106	2,207	2,730	1,295	2,446
49 Depository institutions in U S	27,983	21,151	21,583	20,360	23,980	19,193	22,131	23,363	22,622
50 Banks in foreign countries	7,320	6,322	5,992	5,421	6,536	5,620	6,689	6,922	6,376
51 Foreign governments and official institutions	906	942	789	858	877	788	880	998	969
52 Certified and officers' checks	9,402	8,227	8,354	7,189	9,040	7,485	8,732	6,951	7,360
53 Transaction balances other than demand deposits (ATS, NOW, Super NOW, telephone transfers)	35,133	34,403	33,476	31,944	32,910	33,080	32,755	32,435	32,754
54 Nontransaction balances	412,001	412,206	408,723	408,336	408,916	408,684	409,277	409,387	411,118
55 Individuals, partnerships and corporations	382,576	382,474	380,350	379,935	380,501	380,142	380,568	380,582	382,536
56 States & political subdivisions	17,020	17,500	17,296	17,562	17,554	17,822	18,157	18,321	18,245
57 U S government	339	353	348	389	392	395	394	418	409
58 Depository institutions in U S	8,986	8,903	7,803	7,583	7,662	7,515	7,352	7,252	7,145
59 Foreign governments, official institutions and banks	3,081	2,974	2,927	2,866	2,807	2,811	2,806	2,814	2,784
60 Liabilities for borrowed money	184,367	179,039	188,072	180,937	186,142	183,721	186,209	183,480	181,489
61 Borrowings from federal reserve banks	769	1,925	2,954	48	983	40	959	12	486
62 Treasury tax-and-loan notes	10,222	8,473	11,781	16,182	16,254	10,629	13,279	16,436	16,207
63 All other liabilities for borrowed money[2]	173,376	168,641	173,337	164,707	168,904	173,052	171,970	167,031	164,796
64 Other liabilities and subordinated note and debentures	94,544	91,395	88,991	86,045	87,929	88,415	89,499	87,340	91,073
65 Total liabilities	**939,819**	**904,155**	**903,598**	**879,640**	**902,017**	**884,298**	**906,515**	**893,378**	**902,123**
66 Residual (total assets minus total liabilities)[3]	65,031	65,177	64,869	64,738	65,152	64,990	65,046	64,958	65,406

1. Includes securities purchased under agreements to resell
2. 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
3. This is not a measure of equity capital for use in capital adequacy analysis or for other analytic uses

1.27 LARGE WEEKLY REPORTING COMMERCIAL BANKS with Domestic Assets of $1 Billion or More on December 31, 1977, Assets and Liabilities▲

▲Series Discontinued.

1.28 LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1984								
	Jan 4	Jan 11	Jan 18	Jan 25	Feb 1	Feb 8	Feb 15	Feb 22	Feb 29
1 Cash and balances due from depository institutions	29,659	29,059	27,457	22,425	25,048	20,218	24,624	20,189	19,057
2 **Total loans, leases and securities, net**[1]	**155,041**	**152,527**	**153,043**	**150,166**	**155,528**	**152,719**	**158,072**	**156,430**	**156,706**
Securities									
3 U.S Treasury and govt agency[2]									
4 Trading account[2]									
5 Investment account, by maturity	11,376	10,718	10,713	10,541	10,463	10,749	10,601	10,430	10,868
6 One year or less	2,611	2,440	2,289	2,103	2,121	2,512	2,142	1,964	1,885
7 Over one through five years	7,230	6,778	6,968	6,973	6,886	6,777	7,079	7,324	7,796
8 Over five years	1,535	1,500	1,456	1,465	1,456	1,460	1,379	1,142	1,186
9 Other securities[2]									
10 Trading account[2]									
11 Investment account	9,600	9,643	9,628	9,577	9,542	9,521	9,566	9,560	9,543
12 States and political subdivisions, by maturity	8,864	8,905	8,881	8,828	8,759	8,725	8,748	8,741	8,718
13 One year or less	1,457	1,487	1,486	1,441	1,394	1,346	1,318	1,318	1,292
14 Over one year	7,406	7,418	7,396	7,388	7,365	7,379	7,430	7,423	7,425
15 Other bonds, corporate stocks and securities	736	738	746	748	783	796	818	819	826
16 Other trading account assets[2]									
Loans and leases									
17 Federal funds sold[3]	10,830	10,821	11,321	10,041	13,422	11 312	14,137	13,513	12,902
18 To commercial banks	4,696	5,057	5,504	4,172	6,296	5,152	7,115	5,987	6,206
19 *To nonbank brokers and dealers in securities*	4,114	3,280	3,696	3,608	4,139	4,176	4,990	5,372	4,208
20 To others	2,021	2,484	2,121	2,261	2,986	1.984	2,032	2,153	2,489
21 Other loans and leases, gross	127,364	125,508	125,544	124,183	126,289	125,394	128,010	127,198	127,684
22 Other loans, gross	125,283	123,416	123,451	122,092	124,191	123,314	125,929	125,174	125,665
23 Commercial and industrial	58,752	57,771	57,583	57,337	57,464	58,236	57,762	58,006	59,544
24 Bankers' acceptances and commercial paper	1,046	683	870	811	1,019	1,066	870	908	876
25 All other	57,706	57,087	56,713	56,526	56,445	57,169	56,892	57,098	58,668
26 U S addressees	55,833	55,285	54,954	54,718	54,684	55,432	55,261	55,510	57,124
27 Non-U S addressees	1,873	1,803	1,759	1,808	1,760	1 737	1,630	1,588	1,544
28 Real estate loans	20,640	20,671	20,704	20,749	20,754	20.881	20,931	21,054	21,065
29 To individuals for personal expenditures	13,312	13,270	13,222	13,217	13,189	13,260	13,283	13,285	13,337
30 To depository and financial institutions	13,663	13,144	13,203	12,500	13,275	12,522	13,222	13,402	12,746
31 Commercial banks in the United States	2,365	2,278	2,406	2,205	2,010	1 833	1,848	1,748	1,524
32 Banks in foreign countries	2,821	2,626	2,729	2,351	2,698	2 418	3,015	3,360	2,897
33 Nonbank depository and other financial institutions	8,477	8,240	8,068	7,944	8,567	8 270	8,358	8,295	8,325
34 For purchasing and carrying securities	7,258	7,679	7,678	7,445	8,192	7 729	9,119	7,670	8,045
35 To finance agricultural production	605	602	603	628	598	602	612	624	621
36 To states and political subdivisions	6,017	6,032	6,060	6,052	6,114	6,091	6,133	6,303	6,148
37 To foreign governments and official institutions	935	911	870	910	870	889	902	920	735
38 All other	4,101	3,336	3,528	3,253	3,735	3,104	3,965	3,910	3,424
39 Lease financing receivables	2,081	2,092	2,092	2,091	2,099	2,080	2,080	2,025	2,019
40 LESS: Unearned income	1,453	1,442	1,450	1,448	1,428	1,434	1,439	1,446	1,441
41 Loan and lease reserve	2,677	2,722	2,712	2,728	2,760	2,823	2,803	2,825	2,849
42 Other loans and leases, net	123,234	121,344	121,382	120,007	122,101	121,137	123,768	122,928	123,393
43 All other assets[4]	63,224	60,847	60,517	57,571	62,004	60,375	61,912	56,181	61,843
44 **Total assets**	**247,924**	**239,433**	**241,017**	**230,163**	**242,579**	**233,312**	**244,608**	**232,800**	**237,607**
Deposits									
45 Demand deposits	55,768	48,607	49,498	45,778	50,489	42,976	51,326	46,401	48,254
46 Individuals, partnerships, and corporations	38,560	32,973	33,021	31,871	33,078	29,701	34,346	31,400	32,850
47 States and political subdivisions	725	691	823	782	755	596	785	637	764
48 U.S government	366	584	934	408	161	502	466	303	632
49 Depository institutions in the United States	6,056	5,114	5,434	4,751	6,586	4,188	5,498	4,962	5,362
50 Banks in foreign countries	5,624	4,877	4,688	4,113	5,217	4,288	5,311	5,428	5,048
51 Foreign governments and official institutions	697	762	595	669	683	596	684	795	800
52 Certified and officers' checks	3,740	3,605	4,004	3,184	4,008	3,104	4,236	2,876	2,796
53 Transaction balances other than demand deposits ATS, NOW, Super NOW, telephone transfers)	3,926	3,906	3,744	3,605	3,675	3,700	3,670	3,623	3,651
54 Nontransaction balances	71,493	71,879	70,352	69,839	70,144	70,032	70,630	70,114	71,268
55 Individuals, partnerships and corporations	65,606	65,907	64,541	64,052	64,370	64,126	64,734	64,244	65,526
56 States and political subdivisions	1,889	1,832	1,766	1,850	1,844	1,908	2,090	2,199	2,194
57 U.S Government	24	15	16	15	18	21	22	20	18
58 Depository institutions in United States	2,819	2,975	2,905	2,803	2,830	2,901	2,722	2,596	2,482
59 Foreign governments, official institutions and banks	1,155	1,151	1,124	1,118	1,082	1,076	1,063	1,056	1,048
60 Liabilities for borrowed money	59,683	59,263	63,147	58,083	64,026	61,389	62,637	57,486	57,207
61 Borrowings from federal reserve banks		1,225	1,696		800		600		
62 Treasury tax-and-loan notes	2,615	2,245	3,082	3,984	3,984	2,673	3,287	3,985	3,984
63 All other liabilities for borrowed money[5]	57,068	55,793	58,369	54,099	59,242	58,716	58,749	53,502	53,223
64 Other liabilities and subordinated note and debentures	36,108	34,799	33,308	31,934	33,107	34,282	35,261	34,089	36,074
65 **Total liabilities**	**226,978**	**218,454**	**220,050**	**209,240**	**221,441**	**212,380**	**223,524**	**211,715**	**216,455**
66 Residual (total assets minus total liabilities)[6]	20,946	20,979	20,968	20,923	21,138	20,932	21,083	21,086	21,153

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

1.29 LARGE WEEKLY REPORTING COMMERCIAL BANKS Balance Sheet Memoranda

Millions of dollars, Wednesday figures

Account	1984								
	Jan 4	Jan. 11	Jan 18	Jan 25	Feb 1	Feb 8	Feb 15	Feb. 22	Feb. 29
BANKS WITH ASSETS OF $1 4 BILLION OR MORE									
1 Total loans and leases (gross) and investments adjusted[1]	711,517	704,840	703,460	700,678	710,030	706,750	713,774	710,186	717,222
2 Total loans and leases (gross) adjusted[1]	578,339	572,804	571,892	570,095	577,703	575,762	581,063	581,604	585,850
3 Time deposits in amounts of $100,000 or more	147,435	146,811	143,526	142,589	142,080	140,779	140,617	141,352	141,545
4 Loans sold outright to affiliates—total[2]	2,390	2,530	2,457	2,418	2,417	2,425	2,478	2,531	2,538
5 Commercial and industrial	1,783	1,931	1,861	1,827	1,839	1,825	1,869	1,900	1,912
6 Other	607	599	595	592	577	600	610	631	626
7 Nontransaction savings deposits (including MMDA)	150,691	150,796	150,263	150,199	151,114	151,680	152,414	152,495	153,206
BANKS IN NEW YORK CITY									
8 Total loans and leases (gross) and investments adjusted[1,3]	152,110	149,354	149,295	147,965	151,409	149,991	153,351	152,966	153,268
9 Total loans and leases (gross) adjusted[1]	131,133	128,993	128,954	127,847	131,405	129,721	133,183	132,976	132,857
10 Time deposits in amounts of $100,000 or more	30,785	30,779	29,242	28,617	28,360	28,345	28,599	28,361	28,717

1 Exclusive of loans and federal funds transactions with domestic commercial banks

2 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

3 Excludes trading account securities

1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS WITH ASSETS OF $1.4 BILLION OR MORE ON JUNE 30, 1980 Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1984								
	Jan 4	Jan 11	Jan 18	Jan 25	Feb 1	Feb 8	Feb 15	Feb 22	Feb 29
1 Cash and due from depository institutions	6,185	6,300	6,392	6,165	5,812	5,730	6,296	6,243	6,662
2 Total loans and securities	43,985	41,600	41,215	43,230	41,873	41,646	43,640	43,631	44,619
3 U S Treasury and govt. agency securities[1]	5,186	4,786	4,545	4,456	4,592	4,495	4,664	4,544	4,666
4 Other securities[1]	657	626	617	613	605	616	610	621	741
5 Federal funds sold[2]	4,243	2,003	2,547	4,398	3,020	2,401	2,369	3,094	3,933
6 To commercial banks in the United States	4,179	1,754	2,416	4,203	2,752	2,191	2,126	2,918	3,488
7 To others	64	248	131	194	269	210	242	176	445
8 Other loans, gross	33,900	34,185	33,506	33,764	33,656	34,134	35,996	35,373	35,278
9 Commercial and industrial	19,153	18,979	18,459	17,950	17,724	18,289	20,544	19,995	20,212
10 Bankers acceptances and commercial paper	3,398	3,216	3,002	2,869	2,738	2,842	2,970	2,948	2,966
11 All other	15,755	15,763	15,456	15,080	14,986	15,447	17,574	17,047	17,245
12 U S addressees	14,016	14,064	13,901	13,529	13,404	13,845	15,964	15,390	15,488
13 Non-U S addressees	1,739	1,699	1,555	1,551	1,582	1,602	1,610	1,657	1,757
14 To financial institutions	10,254	10,498	10,372	10,693	10,256	10,146	9,687	9,746	10,069
15 Commercial banks in the United States	7,956	8,179	8,084	8,279	8,048	7,904	7,454	7,659	7,791
16 Banks in foreign countries	1,591	1,656	1,640	1,628	1,521	1,571	1,561	1,528	1,592
17 Nonbank financial institutions	707	663	648	786	687	671	672	559	685
18 To foreign govts and official institutions[3]	753	859	764	751	730	763	779	729	744
19 For purchasing and carrying securities	790	904	887	1,090	1,535	1,693	1,675	1,609	924
20 All other[3]	2,950	2,944	3,024	3,280	3,410	3,243	3,311	3,294	3,330
21 Other assets (claims on nonrelated parties)	12,388	12,664	13,001	13,306	13,409	13,423	13,513	13,731	13,863
22 Net due from related institutions	10,816	11,419	11,478	10,338	11,590	10,943	11,049	8,826	8,713
23 Total assets	73,374	71,982	72,086	73,039	72,685	71,743	74,498	72,431	73,856
24 Deposits or credit balances due to other than directly related institutions	20,972	19,857	19,479	19,060	18,832	18,656	19,030	19,278	19,678
25 Credit balances	176	139	153	159	117	126	167	155	192
26 Demand deposits	1,907	1,671	1,854	1,708	1,830	1,632	1,788	1,758	1,779
27 Individuals, partnerships, and corporations	936	810	828	824	829	855	844	804	896
28 Other	971	861	1,026	884	1,002	777	944	954	883
29 Time and savings deposits	18,889	18,047	17,472	17,194	16,884	16,898	17,076	17,364	17,707
30 Individuals, partnerships, and corporations	16,100	15,295	14,777	14,519	14,307	14,391	14,577	14,902	15,165
31 Other	2,789	2,751	2,695	2,675	2,577	2,507	2,499	2,462	2,541
32 Borrowings from other than directly related institutions	31,801	32,688	32,384	32,635	33,044	32,576	33,981	31,860	31,792
33 Federal funds purchased[4]	9,960	10,886	10,331	10,725	11,671	11,299	12,908	10,730	10,848
34 From commercial banks in the United States	7,926	8,978	8,570	8,248	9,142	8,936	10,304	8,053	9,159
35 From others	2,034	1,908	1,761	2,477	2,529	2,363	2,604	2,677	1,689
36 Other liabilities for borrowed money	21,841	21,801	22,053	21,909	21,373	21,277	21,073	21,130	20,943
37 To commercial banks in the United States	18,218	18,267	18,402	18,328	17,796	17,777	17,698	17,700	17,712
38 To others	3,623	3,534	3,650	3,582	3,576	3,500	3,375	3,431	3,231
39 Other liabilities to nonrelated parties	13,216	13,520	13,833	14,083	14,292	14,177	14,186	14,235	14,581
40 Net due to related institutions	7,385	5,918	6,389	7,260	6,517	6,333	7,300	7,058	7,806
41 Total liabilities	73,374	71,982	72,086	73,039	72,685	71,743	74,498	72,431	73,856
MEMO									
42 Total loans (gross) and securities adjusted[5]	31,850	31,666	30,715	30,748	31,074	31,551	34,059	33,053	33,339
43 Total loans (gross) adjusted[5]	26,008	26,254	25,553	25,679	25,877	26,441	28,784	27,889	27,932

1 Prior to Jan 4, 1984 U S Government Agency securities were included in other securities

2 Includes securities purchased under agreements to resell

3. As of Jan 4, 1984 loans to foreign governments and official institutions is reported as a separate item Before that date it was included in all other loans

4 Includes securities sold under agreements to repurchase.

5. Exclusive of loans to and federal funds sold to commercial banks in the United States

1.31 GROSS DEMAND DEPOSITS of Individuals, Partnerships, and Corporations[1]

Billions of dollars, estimated daily-average balances

Type of holder	Commercial banks									
	1978 Dec.	1979[2] Dec.	1980 Dec	1981 Dec	1982				1983	
					Mar	June	Sept	Dec	Mar	June
1 **All holders—Individuals, partnerships, and corporations**	**294.6**	**302.2**	**315.5**	**288.9**	**268.9**	**271.5**	**276.7**	**295.4**	**283.5**	**289.5**
2 Financial business	27.8	27.1	29.8	28.0	27.8	28.6	31.9	35.5	34.0	35.1
3 Nonfinancial business	152.7	157.7	162.8	154.8	138.7	141.4	142.9	151.7	144.4	147.7
4 Consumer	97.4	99.2	102.4	86.6	84.6	83.7	83.3	88.1	85.5	86.9
5 Foreign	2.7	3.1	3.3	2.9	3.1	2.9	2.9	3.0	3.2	3.0
6 Other	14.1	15.1	17.2	16.7	14.6	15.0	15.7	17.1	16.4	16.8
	Weekly reporting banks									
	1978 Dec	1979[4] Dec	1980 Dec	1981 Dec	1982				1983	
					Mar	June	Sept	Dec	Mar	June
7 **All holders—Individuals, partnerships, and corporations**	**147.0**	**139.3**	**147.4**	**137.5**	**126.8**	**127.9**	**132.1**	**144.0**	**140.7**	**141.9**
8 Financial business	19.8	20.1	21.8	21.0	20.2	20.2	23.4	26.7	25.2	26.3
9 Nonfinancial business	79.0	74.1	78.3	75.2	67.1	67.7	68.7	74.2	72.7	73.1
10 Consumer	38.2	34.3	35.6	30.4	29.2	29.7	29.6	31.9	31.2	30.4
11 Foreign	2.5	3.0	3.1	2.8	2.9	2.8	2.7	2.9	3.0	2.9
12 Other	7.5	7.8	8.6	8.0	7.3	7.5	7.7	8.4	8.6	9.3

1 Figures include cash items in process of collection Estimates of gross deposits are based on reports supplied by a sample of commercial banks Types of depositors in each category are described in the June 1971 BULLETIN, p 466

2. Beginning with the March 1979 survey, the demand deposit ownership survey sample was reduced to 232 banks from 349 banks, and the estimation procedure was modified slightly To aid in comparing estimates based on the old and new reporting sample, the following estimates in billions of dollars for December 1978 have been constructed using the new smaller sample; financial business, 27 0, nonfinancial business, 146 9, consumer, 98.3, foreign, 2 8, and other, 15 1.

3 After the end of 1978 the large weekly reporting bank panel was changed to 170 large commercial banks, each of which had total assets in domestic offices exceeding $750 million as of Dec 31, 1977 See "Announcements," p 408 in the May 1978 BULLETIN Beginning in March 1979, demand deposit ownership estimates for these large banks are constructed quarterly on the basis of 97 sample banks and are not comparable with earlier data The following estimates in billions of dollars for December 1978 have been constructed for the new large-bank panel, financial business, 18.2, nonfinancial business, 67 2, consumer, 32 8, foreign, 2 5, other, 6 8

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1978 Dec	1979[1] Dec.	1980 Dec.	1981 Dec	1982 Dec.[2]	1983 Sept	1983 Oct	1983 Nov	1983 Dec	1984 Jan.	1984 Feb
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**83,438**	**112,803**	**124,374**	**165,455**	**166,208**	**176,775**	**175,924**	**180,206**	**185,202^r**	**182,801^r**	**190,700**
Financial companies[3]											
Dealer-placed paper[4]											
2 Total	12,181	17,359	19,599	29,904	34,067	39,963	37,323	40,890	40,994	39,775	41,674
3 Bank-related (not seasonally adjusted)	3,521	2,784	3,561	6,045	2,516	2,303	2,195	2,341	2,441	2,087	1,765
Directly placed paper[5]											
4 Total	51,647	64,757	67,854	81,715	84,183	91,600	92,819	93,820	96,487^r	97,403^r	102,556
5 Bank-related (not seasonally adjusted)	12,314	17,598	22,382	26,914	32,034	34,856	34,622	35,001	35,566	37,560	36,975
6 Nonfinancial companies[6]	19,610	30,687	36,921	53,836	47,958	45,212	44,977	45,496	47,721	45,623^r	46,470
	Bankers dollar acceptances (not seasonally adjusted)										
7 **Total**	**33,700**	**45,321**	**54,744**	**69,226**	**79,543**	**73,569**	**72,902**	**77,919**	**78,309**	**73,450**	**74,367**
Holder											
8 Accepting banks	8,579	9,865	10,564	10,857	10,910	9,205	9,501	10,894	9,355	9,546	9,237
9 Own bills	7,653	8,327	8,963	9,743	9,471	7,986	8,212	9,558	8,125	7,814	7,897
10 Bills bought	927	1,538	1,601	1,115	1,439	1,219	1,289	1,337	1,230	1,732	1,340
Federal Reserve Banks											
11 Own account	587	704	776	195	1,480	0	0	0	418	0	0
12 Foreign correspondents	664	1,382	1,791	1,442	949	622	483	573	729	729	777
13 Others	24,456	33,370	41,614	56,731	66,204	64,942	62,917	66,452	68,225	63,174	64,353
Basis											
14 Imports into United States	8,574	10,270	11,776	14,765	17,683	14,653	14,829	14,906	15,649	15,028	15,495
15 Exports from United States	7,586	9,640	12,712	15,400	16,328	16,215	16,036	17,209	16,880	16,159	15,818
16 All other	17,541	25,411	30,257	39,060	45,531	42,701	42,036	45,806	45,781	42,262	43,055

1 A change in reporting instructions results in offsetting shifts in the dealer-placed and directly placed financial company paper in October 1979

2 Effective Dec 1, 1982, there was a break in the commercial paper series The key changes in the content of the data involved additions to the reporting panel, the exclusion of broker or dealer placed borrowings under any master note agreements from the reported data, and the reclassification of a large portion of bank-related paper from dealer-placed to directly placed

3 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

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
1981—Nov 24	16.00	1982—Oct 14	12.00	1982—Mar	16.50	1983—Mar.	10.50
Dec 1	15.75	Nov 22	11.50	Apr	16.50	Apr	10.50
				May.	16.50	May	10.50
				June	16.50	June	10.50
1982—Feb 18	17.00	1983—Jan. 11	11.00	July	16.26	July	10.50
23	16.50	Feb 28	10.50	Aug	14.39	Aug	10.89
July 20	16.00	Aug 8	11.00	Sept	13.50	Sept.	11.00
29	15.50			Oct	12.52	Oct	11.00
Aug. 2	15.00	1984—Mar 19	11.50	Nov	11.85	Nov	11.00
16	14.50	Apr 5	12.00	Dec	11.50	Dec	11.00
18	14.00			1983—Jan	11.16	1984—Jan	11.00
Aug 23	13.50	1982—Jan	15.75	Feb	10.98	Feb	11.00
Oct 7	13.00	Feb	16.56			Mar	11.21

1.34 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, February 6–10, 1984

Item	All sizes	Size of loan (in thousands of dollars)					
		1–24	25–49	50–99	100–499	500–999	1,000 and over
SHORT-TERM COMMERCIAL AND INDUSTRIAL LOANS							
1 Amount of loans (thousands of dollars)	38,330,316	991,513	549,652	709,274	2,247,241	972,939	32,859,696
2 Number of loans	171,352	125,356	16,856	10,749	12,402	1,483	4,507
3 Weighted-average maturity (months)	1.1	4.6	4.2	3.5	4.2	3.1	.7
4 With fixed rates	.7	4.0	3.8	2.0	2.5	1.5	.5
5 With floating rates	2.2	6.1	4.9	5.1	5.2	4.1	1.3
6 Weighted-average interest rate (percent per annum)	11.06	14.13	13.45	13.33	12.66	11.99	10.75
7 Interquartile range[1]	10.45–11.24	13.24–14.93	12.55–14.20	12.13–14.54	11.57–13.80	11.46–12.68	10.40–10.89
8 With fixed rates	10.93	14.44	13.70	13.89	13.03	11.45	10.68
9 With floating rates	11.35	13.53	13.13	12.76	12.49	12.20	10.91
Percentage of amount of loans							
10 With floating rate	32.6	33.9	44.7	49.6	69.3	72.4	28.3
11 Made under commitment	63.7	33.8	37.8	44.5	58.7	69.8	65.6
12 With no stated maturity	10.4	11.6	12.5	27.4	22.7	35.4	8.4
13 With one-day maturity	40.3	.1	.1	.2	.6	2.2	46.9
LONG-TERM COMMERCIAL AND INDUSTRIAL LOANS		1–99					
14 Amount of loans (thousands of dollars)	3,705,613	473,173			351,506	206,780	2,674,153
15 Number of loans	29,580	26,742			1,980	309	548
16 Weighted-average maturity (months)	48.0	40.4			39.6	42.2	50.9
17 With fixed rates	48.5	36.5			37.0	38.2	57.0
18 With floating rates	47.9	43.7			40.9	43.2	49.5
19 Weighted-average interest rate (percent per annum)	11.92	14.21			12.13	12.18	11.46
20 Interquartile range[1]	10.86–12.69	13.00–14.93			11.46–13.10	11.57–12.96	10.65–12.28
21 With fixed rates	12.33	15.24			11.29	12.15	11.33
22 With floating rates	11.78	13.31			12.53	12.18	11.49
Percentage of amount of loans							
23 With floating rate	76.0	53.5			68.1	80.5	80.7
24 Made under commitment	73.9	31.1			69.3	81.1	81.5
CONSTRUCTION AND LAND DEVELOPMENT LOANS		1–24	25–49	50–99		500 and over	
25 Amount of loans (thousands of dollars)	2,278,565	189,847	358,574	249,161	909,700	571,282	
26 Number of loans	43,012	23,372	10,406	3,977	4,978	279	
27 Weighted-average maturity (months)	8.9	5.3	9.9	5.8	11.2	7.2	
28 With fixed rates	4.3	5.4	7.6	5.0	3.2	2.2	
29 With floating rates	13.5	5.1	12.0	7.5	20.1	9.3	
30 Weighted-average interest rate (percent per annum)	13.34	14.03	13.38	13.80	13.77	12.22	
31 Interquartile range[1]	12.00–14.20	13.27–14.45	12.37–14.50	12.92–14.76	12.00–14.21	11.57–12.69	
32 With fixed rates	14.13	14.12	13.75	14.29	15.05	11.74	
33 With floating rates	12.60	13.79	13.05	12.73	12.42	12.41	
Percentage of amount of loans							
34 With floating rate	51.3	26.7	53.6	31.5	48.5	71.3	
35 Secured by real estate	91.3	80.8	99.5	96.2	97.8	77.1	
36 Made under commitment	61.6	36.7	76.5	65.2	46.1	83.8	
37 With no stated maturity	49.9	47.9	44.0	51.9	73.4	15.9	
38 With one-day maturity	6.0	10.6	.5	18.8	4.3	5.3	
Type of construction							
39 1- to 4-family	44.1	41.6	55.5	29.4	22.3	78.8	
40 Multifamily	2.3	2.7	1.5	1.5	2.8	2.2	
41 Nonresidential	0	0	0	0	0	0	
LOANS TO FARMERS	All sizes	1–9	10–24	25–49	50–99	100–249	250 and over
42 Amount of loans (thousands of dollars)	1,352,194	158,661	161,008	194,352	199,351	216,433	422,389
43 Number of loans	64,008	42,006	11,116	5,719	3,212	1,516	438
44 Weighted-average maturity (months)	8.5	8.6	9.5	8.9	8.6	10.6	6.7
45 Weighted-average interest rate (percent per annum)	13.50	14.12	14.22	14.12	13.90	14.00	12.27
46 Interquartile range[1]	12.63–14.45	13.50–14.75	13.66–14.76	13.51–14.93	13.24–14.38	13.08–14.45	11.53–12.75
By purpose of loan							
47 Feeder livestock	12.68	14.29	14.24	13.61	13.74	13.71	11.96
48 Other livestock	13.62	13.92	14.06	13.86	(2)	(2)	13.04
49 Other current operating expenses	13.81	14.09	14.19	14.15	13.91	14.05	11.94
50 Farm machinery and equipment	13.86	14.05	14.04	(2)	(2)	(2)	(2)
51 Other	13.47	14.42	14.56	14.42	14.05	14.13	12.69

1. Interest rate range that covers the middle 50 percent of the total dollar amount of loans made.
2. Fewer than 10 sample loans

NOTE. For more detail, see the Board's E.2 (111) statistical release

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	1981	1982	1983	1983	1984			1984, week ending				
				Dec.	Jan.	Feb.	Mar.	Mar. 2	Mar. 9	Mar. 16	Mar. 23	Mar. 30
MONEY MARKET RATES												
1 Federal funds[1,2]	16.38	12.26	9.09	9.47	9.56	9.59	9.91	9.62	9.74	9.79	10.04	9.97
2 Discount window borrowing[1,2,3]	13.42	11.02	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Commercial paper[4,5]												
3 1-month	15.69	11.83	8.87	9.56	9.23	9.35	9.81	9.42	9.54	9.73	10.06	10.04
4 3-month	15.32	11.89	8.88	9.53	9.20	9.32	9.83	9.43	9.56	9.77	10.07	10.09
5 6-month	14.76	11.89	8.89	9.50	9.18	9.31	9.86	9.44	9.58	9.82	10.09	10.11
Finance paper, directly placed[4,5]												
6 1-month	15.30	11.64	8.80	9.51	9.20	9.34	9.76	9.36	9.55	9.67	10.06	9.95
7 3-month	14.08	11.23	8.70	9.16	9.08	9.14	9.54	9.18	9.32	9.45	9.81	9.74
8 6-month	13.73	11.20	8.69	9.11	9.02	9.06	9.38	9.12	9.19	9.29	9.53	9.60
Bankers acceptances[5,6]												
9 3-month	15.32	11.89	8.90	9.52	9.23	9.38	9.88	9.51	9.63	9.79	10.11	10.12
10 6-month	14.66	11.83	8.91	9.45	9.19	9.35	9.91	9.52	9.63	9.88	10.15	10.15
Certificates of deposit, secondary market[7]												
11 1-month	15.91	12.04	8.96	9.67	9.33	9.43	9.91	9.57	9.67	9.80	10.11	10.18
12 3-month	15.91	12.27	9.07	9.69	9.42	9.54	10.08	9.69	9.84	9.99	10.31	10.34
13 6-month	15.77	12.57	9.27	9.85	9.56	9.73	10.37	9.95	10.08	10.35	10.62	10.59
14 Eurodollar deposits, 3-month[8]	16.79	13.12	9.56	10.08	9.78	9.91	10.40	10.09	10.18	10.31	10.61	10.61
U.S. Treasury bills[5]												
Secondary market[9]												
15 3-month	14.03	10.61	8.61	9.00	8.90	9.09	9.52	9.18	9.29	9.43	9.76	9.72
16 6-month	13.80	11.07	8.73	9.17	9.02	9.18	9.66	9.33	9.43	9.59	9.88	9.85
17 1-year	13.14	11.07	8.80	9.24	9.07	9.20	9.67	9.37	9.45	9.60	9.90	9.86
Auction average[10]												
18 3-month	14.029	10.686	8.63	8.96	8.93	9.03	9.44	9.20	9.24	9.37	9.65	9.76
19 6-month	13.776	11.084	8.75	9.14	9.06	9.13	9.58	9.33	9.37	9.52	9.79	9.88
20 1-year	13.159	11.099	8.86	9.16	9.04	9.24	9.68		....		9.68	....
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds[11]												
Constant maturities[12]												
21 1-year	14.78	12.27	9.57	10.11	9.90	10.04	10.59	10.24	10.33	10.53	10.85	10.79
22 2-year	14.56	12.80	10.21	10.84	10.64	10.79	11.31	11.00	11.09	11.24	11.52	11.54
23 2-½-year[13]	...	....	...	...	....		...	...	11.25	...	11.65	...
24 3-year	14.44	12.92	10.45	11.13	10.93	11.05	11.59	11.24	11.38	11.53	11.77	11.80
25 5-year	14.24	13.01	10.80	11.54	11.37	11.54	12.02	11.75	11.85	11.98	12.17	12.20
26 7-year	14.06	13.06	11.02	11.78	11.58	11.75	12.25	11.97	12.09	12.22	12.40	12.39
27 10-year	13.91	13.00	11.10	11.83	11.68	11.84	12.32	12.05	12.18	12.29	12.46	12.46
28 20-year	13.72	12.92	11.34	12.02	11.82	12.00	12.45	12.21	12.35	12.46	12.60	12.51
29 30-year	13.44	12.76	11.18	11.88	11.75	11.95	12.38	12.15	12.27	12.38	12.52	12.47
Composite[14]												
30 Over 10 years (long-term)	12.87	12.23	10.84	11.44	11.29	11.44	11.90	11.65	11.78	11.89	12.02	12.00
State and local notes and bonds												
Moody's series[15]												
31 Aaa	10.43	10.88	8.80	9.34	9.00	9.04	9.41	9.30	9.40	9.45	9.50	9.40
32 Baa	11.76	12.48	10.17	10.29	10.10	9.94	10.22	10.10	10.20	10.25	10.30	10.25
33 *Bond Buyer* series[16]	11.33	11.66	9.51	9.89	9.63	9.64	9.94	9.86	9.94	9.98	10.01	9.93
Corporate bonds												
Seasoned issues[17]												
34 All industries	15.06	14.94	12.78	13.07	12.92	12.88	13.33	13.09	13.19	13.32	13.44	13.48
35 Aaa	14.17	13.79	12.04	12.57	12.20	12.08	12.57	12.30	12.46	12.58	12.65	12.71
36 Aa	14.75	14.41	12.42	12.76	12.71	12.70	13.22	12.96	13.08	13.24	13.34	13.33
37 A	15.29	15.43	13.10	13.21	13.13	13.11	13.54	13.31	13.39	13.50	13.65	13.70
38 Baa	16.04	16.11	13.55	13.75	13.65	13.59	13.99	13.78	13.84	13.97	14.10	14.15
39 A-rated, recently-offered utility bond[18]	16.63	15.49	12.73	13.29	12.99	13.05	13.63	13.41	13.55	13.60	13.81	13.80
MEMO Dividend/price ratio[19]												
40 Preferred stocks	12.36	12.53	11.2p	11.49	11.35	11.16	11.39	11.19	11.30	11.32	11.40	11.52
41 Common stocks	5.20	5.81	4.40	4.32	4.27	4.59	4.63	4.62	4.70	4.64	4.63	4.57

1. Weekly and monthly figures are averages of all calendar days, where the rate for a weekend or holiday is taken to be the rate prevailing on the preceding business day. The daily rate is the average of the rates on a given day weighted by the volume of transactions at these rates.
2. Weekly figures are averages for statement week ending Wednesday.
3. Rate for the Federal Reserve Bank of New York.
4. Unweighted average of offering rates quoted by at least five dealers (in the case of commercial paper), or finance companies (in the case of finance paper). Before November 1979, maturities for data shown are 30–59 days, 90–119 days, and 120–179 days for commercial paper, and 30–59 days, 90–119 days, and 150–179 days for finance paper.
5. Yields are quoted on a bank-discount basis, rather than an investment yield basis (which would give a higher figure).
6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).
7. Unweighted average of offered rates quoted by at least five dealers early in the day.
8. Calendar week average. For indication purposes only.
9. Unweighted average of closing bid rates quoted by at least five dealers.
10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.
11. Yields are based on closing bid prices quoted by at least five dealers.
12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.
13. Each biweekly figure is the average of five business days ending on the Monday following the date indicated. Until Mar. 31, 1983, the biweekly rate determined the maximum interest rate payable in the following two-week period on 2-½-year small saver certificates. (See table 1.16.)
14. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including several very low yielding "flower" bonds.
15. General obligations based on Thursday figures, Moody's Investors Service.
16. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.
17. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
18. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations. The Federal Reserve previously published interest rate series on both newly-issued and recently-offered Aaa utility bonds, but discontinued these series in January 1984 owing to the lack of Aaa issues.
19. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

1.36 STOCK MARKET Selected Statistics

Indicator	1981	1982	1983	1983						1984		
				July	Aug	Sept.	Oct.	Nov	Dec	Jan	Feb	Mar
	Prices and trading (averages of daily figures)											
Common stock prices												
1 New York Stock Exchange (Dec 31, 1965 = 50)	74.02	68.93	92.63	96.74	93.96	96.70	96.78	95.36	94.92	96.16	90.60	90.66
2 Industrial	85.44	78.18	107.45	113.21	109.50	112.76	112.87	110.77	110.60	112.16	105.44	105.92
3 Transportation	72.61	60.41	89.36	92.91	88.06	94.56	95.41	97.68	98.79	97.98	86.33	86.10
4 Utility	38.90	39.75	47.00	46.61	46.94	48.16	48.73	48.50	47.00	47.43	45.67	44.83
5 Finance	73.52	71.99	95.34	99.60	95.76	97.00	94.79	94.48	94.25	95.79	89.95	89.50
6 Standard & Poor's Corporation (1941–43 = 10)[1]	128.05	119.71	160.41	166.96	162.42	167.16	167.65	165.23	164.36	166.39	157.70	157.44
7 American Stock Exchange[2] (Aug 31, 1973 = 100)	171.79	141.31	216.48	244.03	230.10	234.36	223.76	218.42	221.31	224.83	207.95	210.09
Volume of trading (thousands of shares)												
8 New York Stock Exchange	46,967	64,617	85,418	79,508	74,191	82,866	85,445	86,405	88,041	105,518	96,641	84,328
9 American Stock Exchange	5,346	5,283	8,215	8,199	6,329	6,629	7,751	6,160	6,939	7,167	6,431	5,382
	Customer financing (end-of-period balances, in millions of dollars)											
10 Regulated margin credit at brokers–dealers[3]	**14,411**	**13,325**	**23,000**	**19,218**	**19,437**	**20,124**	**21,030**	**22,075**	**23,000**	**23,132**	**22,557**	
11 Margin stock[4]	14,150	12,980	22,720	18,870	19,090	19,760	20,690	21,790	22,720	22,870	22,330	
12 Convertible bonds	259	344	279	347	346	363	339	285	279	261	226	n.a.
13 Subscription issues	2	1	1	1	1	1	1	1	1	1	1	
Free credit balances at brokers[5]												
14 Margin-account	3,515	5,735	6,620	6,275	6,350	6,550	6,630	6,512	6,620	6,510r	6,420	
15 Cash-account	7,150	8,390	8,430	8,145	8,035	7,930	7,695	7,599	8,430	8,230r	8,420	
	Margin-account debt at brokers (percentage distribution, end of period)											
16 Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	
By equity class (in percent)[6]												
17 Under 40	37.0	21.0	41.0	21.0	23.0	24.0	35.0	48.0	41.0	43.0	48.0	
18 40–49	24.0	24.0	22.0	28.0	28.0	27.0	24.0	22.0	22.0	21.0	20.0	
19 50–59	17.0	24.0	16.0	21.0	20.0	21.0	17.0	17.0	16.0	15.0	13.0	n.a.
20 60–69	10.0	14.0	9.0	14.0	13.0	12.0	10.0	10.0	9.0	9.0	8.0	
21 70–79	6.0	9.0	6.0	9.0	9.0	9.0	7.0	7.0	6.0	6.0	6.0	
22 80 or more	6.0	8.0	6.0	7.0	7.0	7.0	7.0	6.0	6.0	6.0	5.0	
	Special miscellaneous-account balances at brokers (end of period)											
23 Total balances (millions of dollars)[7]	**25,870**	**35,598**	**58,329**	**50,580**	**50,267**	**51,211**	**54,029**	**57,490**	**58,329**	**62,670**	**63,411**	
Distribution by equity status (percent)												
24 Net credit status	58.0	62.0	63.0	62.0	62.0	64.0	63.0	63.0	63.0	61.0	59.0	n.a.
Debt status, equity of												
25 60 percent or more	31.0	29.0	28.0	31.0	31.0	29.0	28.0	29.0	28.0	29.0	29.0	
26 Less than 60 percent	11.0	9.0	9.0	6.0	7.0	7.0	9.0	8.0	9.0	10.0	12.0	

Margin requirements (percent of market value and effective date)[8]

	Mar 11, 1968	June 8, 1968	May 6, 1970	Dec 6, 1971	Nov 24, 1972	Jan 3, 1974
27 Margin stocks	70	80	65	55	65	50
28 Convertible bonds	50	60	50	50	50	50
29 Short sales	70	80	65	55	65	50

1 Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.

2 Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.

3. Margin credit includes all credit extended to purchase or carry stocks or related equity instruments and secured at least in part by stock. Credit extended is end-of-month data for member firms of the New York Stock Exkhange.

Besides assigning a current loan value to margin stock generally, Regulations T and U permit special loan values for convertible bonds and stock acquired through exercise of subscription rights.

4 A distribution of this total by equity class is shown on lines 17–22.

5 Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.

6 Each customer's equity in his collateral (market value of collateral less net debit balance) is expressed as a percentage of current collateral values.

7. Balances that may be used by customers as the margin deposit required for additional purchases. Balances may arise as transfers based on loan values of other collateral in the customer's margin account or deposits of cash (usually sales proceeds) occur.

8 Regulations G, T, and U of the Federal Reserve Board of Governors, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended. Margin requirements are the difference between the market value (100 percent) and the maximum loan value. The term "margin stocks" is defined in the corresponding regulation.

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1981	1982	1983									1984	
			Apr	May	June	July	Aug	Sept	Oct	Nov.	Dec.	Jan.	Feb.p
	Savings and loan associations												
1 **Assets**	**664,167**	**707,646**	**730,211**	**729,920**	**733,074**	**741,416**	**746,998**	**748,491**	**756,953**	**763,365**	**771,705**	**772,723r**	**780,614**
2 Mortgages	518,547	483,614	477,593	473,481	474,510	479,322	483,178	482,305	485,366	489,720	493,432	494,682r	498,418
3 Cash and investment securities[1]	63,123	85,438	99,973	104,245	102,063	102,546	99,812	100,243	101,553	101,553	103,395	101,883r	103,859
4 Other	82,497	138,594	152,645	152,194	156,501	159,548	164,008	165,943	170,034	172,259	174,878	176,158r	178,337
5 **Liabilities and net worth**	**664,167**	**707,646**	**730,211**	**729,920**	**733,074**	**741,416**	**746,998**	**748,491**	**756,953**	**763,365**	**771,705**	**772,723r**	**780,614**
6 Savings capital	525,061	567,961	603,187	601,731	605,282	610,826	615,369	618,002	622,577	625,013	634,076	639,694r	645,026
7 Borrowed money	88,782	97,850	83,623	82,731	84,342	84,694	84,267	85,976	87,367	89,235	91,443	86,322r	86,493
8 FHLBB	62,794	63,861	55,933	54,392	54,234	53,579	52,182	52,179	52,678	51,735	52,626	50,880r	50,506
9 Other	25,988	33,989	27,690	28,339	30,108	31,115	32,085	33,797	34,689	37,500	38,817	35,442r	35,987
10 Loans in process[2]	6,385	9,934	13,478	14,548	15,998	17,094	17,967	18,812	19,209	19,728	21,117	21,498r	21,960
11 Other	15,544	15,602	15,853	17,936	15,140	17,527	18,615	15,496	17,458	19,179	15,275	15,777r	17,581
12 Net worth[3]	28,395	26,233	27,548	27,522	28,310	28,369	28,626	29,017	29,551	29,938	30,911	30,930r	31,514
13 MEMO: Mortgage loan commitments outstanding[4]	15,225	18,054	27,968	30,148	30,691	31,733	32,415	32,483	32,798	34,780	32,996	33,504r	36,120
	Mutual savings banks[5]												
14 **Assets**	**175,728**	**174,197**	**178,826**	**180,071**	**181,975**	**182,822**	**183,612**	**186,041**	**188,021**	**189,146**	**193,517**	**194,225**	
Loans													
15 Mortgage	99,997	94,091	93,311	93,587	94,000	93,998	93,941	94,831	95,181	95,600	97,368	97,699	
16 Other	14,753	16,957	18,353	17,893	17,438	18,134	17,929	17,830	18,860	19,674	19,120	20,467	
Securities													
17 U.S. government[6]	9,810	9,743	12,364	13,110	13,572	13,931	14,484	14,794	14,774	15,090	15,349	15,169	
18 State and local government	2,288	2,470	2,311	2,260	2,257	2,248	2,247	2,244	2,189	2,194	2,177	2,180	
19 Corporate and other[7]	37,791	36,161	38,342	39,142	40,206	40,667	41,045	41,889	41,907	42,625	43,589	43,547	
20 Cash	5,442	6,919	6,039	5,960	6,224	5,322	5,168	5,560	4,940	4,990	6,252	4,785	
21 Other assets	5,649	7,855	8,107	8,118	8,276	8,522	8,799	8,893	9,051	8,973	9,662	10,378	
22 **Liabilities**	**175,728**	**174,197**	**178,826**	**180,071**	**181,975**	**182,822**	**183,612**	**186,041**	**188,021**	**189,146**	**193,517**	**194,225**	n.a.
23 Deposits	155,110	155,196	161,262	162,287	163,990	164,848	165,087	165,887	166,260	169,334	172,639	171,603	
24 Regular[8]	153,003	152,777	158,760	159,840	161,573	162,271	162,600	162,998	163,782	166,984	170,105	171,109	
25 Ordinary savings	49,425	46,862	40,379	40,467	40,451	39,983	39,360	39,768	38,129	38,448	38,553	37,999	
26 Time	103,578	96,369	84,593	83,506	84,705	85,445	86,446	85,603	90,639	93,051	95,107	96,520	
27 Other	2,108	2,419	2,502	2,447	2,417	2,577	2,487	2,889	2,478	2,350	2,534	494	
28 Other liabilities	10,632	8,336	7,631	3,114	7,754	7,596	7,884	9,475	8,988	9,192	10,174	11,974	
29 General reserve accounts	9,986	9,235	9,352	9,377	9,575	9,684	9,932	9,879	12,245	10,314	18,759	10,333	
30 MEMO: Mortgage loan commitments outstanding[9]	1,293	1,285	1,882	1,860	1,884	1,969	2,046	2,023	2,210	2,418	2,387	n.a	
	Life insurance companies												
31 **Assets**	**525,803**	**588,163**	**609,298**	**620,572**	**628,224**	**633,569**	**638,826**	**644,295**	**647,149**	**652,904**	**658,979**	**663,013**	
Securities													
32 Government	25,209	36,499	39,210	42,523	43,348	44,751	45,700	46,109	47,767	47,170	49,417	49,690	
33 United States[10]	8,167	16,529	19,746	20,706	21,141	22,228	22,817	23,134	24,380	24,232	26,364	26,659	
34 State and local	7,151	8,664	8,524	10,053	10,355	10,504	10,695	10,739	10,791	10,686	10,796	10,673	
35 Foreign[11]	9,891	11,306	10,940	11,764	11,852	12,019	12,188	12,236	12,596	12,252	12,257	12,358	
36 Business	255,769	287,126	300,558	309,254	313,510	316,934	318,584	321,568	320,964	325,787	325,015	329,697	n.a
37 Bonds	208,099	231,406	238,689	245,833	248,248	252,397	253,977	256,131	256,332	260,432	259,591	264,430	
38 Stocks	47,670	55,720	61,869	63,421	65,262	64,537	64,607	65,437	64,632	65,355	65,424	65,267	
39 Mortgages	137,747	141,989	143,011	143,758	144,725	145,086	146,400	147,356	148,256	148,947	151,599	151,878	
40 Real estate	40,094	20,264	21,352	21,344	21,629	21,690	21,749	21,903	22,141	22,278	22,683	22,700	
41 Policy loans	48,706	52,961	53,715	53,804	53,914	53,972	54,063	54,165	54,255	54,362	54,518	54,559	
42 Other assets	35,815	48,571	51,452	48,889	51,098	51,136	52,330	53,194	53,765	54,360	55,747	54,474	
	Credit unions[12]												
43 **Total assets/liabilities and capital**	**60,611**	**69,572**	**74,896**	**76,851**	**78,467**	**79,084**	**79,595**	**80,678**	**81,033**	**81,845**	**82,854**	**83,182**	**84,801**
44 Federal	39,181	45,483	48,986	50,275	51,430	51,844	52,224	53,033	53,222	53,710	54,372	54,657	55,753
45 State	21,430	24,089	25,910	26,576	27,037	27,240	27,371	27,645	27,811	28,135	28,482	28,525	29,048
46 Loans outstanding	42,333	43,223	43,530	44,055	45,001	45,616	46,880	47,744	48,345	49,102	49,923	50,306	51,861
47 Federal	27,096	27,941	28,133	28,512	29,175	29,577	30,384	30,912	31,287	31,789	32,304	32,631	33,878
48 State	15,237	15,282	15,397	15,543	15,826	16,039	16,496	16,832	17,058	17,313	17,619	17,675	17,983
49 Savings	54,152	62,977	68,663	70,221	71,712	72,438	72,550	73,697	74,187	74,685	75,435	76,068	77,233
50 Federal (shares)	35,250	41,341	45,165	46,192	47,145	47,713	47,874	48,709	49,044	49,400	49,839	50,387	51,218
51 State (shares and deposits)	18,902	21,636	23,498	24,029	24,567	24,725	24,676	24,988	25,143	25,285	25,596	25,681	26,015

1.37 Continued

Account	1981	1982	1983 Apr	1983 May	1983 June	1983 July	1983 Aug	1983 Sept	1983 Oct	1983 Nov	1983 Dec	1984 Jan.	1984 Feb p
	FSLIC-insured federal savings banks												
52 **Assets**	....	**6,859**	**22,713**	**33,667**	**39,660**	**41,763**	**46,191**	**57,496**	**59,422**	**61,717**	**64,969**	**69,835**	n.a.
53 Mortgages		3,353	14,345	21,248	25,236	26,494	28,086	34,814	35,637	37,166	38,698	41,754	
54 Cash and investment securities[1]	...		4,310	5,901	6,675	6,890	7,514	9,245	9,587	9,653	10,436	11,243	
55 Other			4,058	6,518	7,749	8,379	10,591	13,437	14,198	14,898	15,835	16,838	
56 **Liabilities and net worth**	....	**6,859**	**22,713**	**33,667**	**39,660**	**41,763**	**46,191**	**57,496**	**59,422**	**61,717**	**64,969**	**69,835**	
57 Savings and capital		5,877	18,598	27,419	32,446	34,108	37,284	47,058	48,544	50,384	53,227	57,195	
58 Borrowed money			2,719	4,146	4,831	5,008	5,445	6,598	6,775	6,981	7,477	8,048	
59 FHLBB	..		1,979	2,755	3,094	3,131	3,572	4,192	4,323	4,381	4,640	4,751	
60 Other			740	1,391	1,737	1,877	1,873	2,406	2,452	2,600	2,837	3,297	
61 Other	.		453	759	755	919	1,142	1,089	1,293	1,428	1,157	1,347	
62 Net worth[3]	.		943	1,343	1,628	1,728	2,320	2 751	2,810	2,924	3,108	3,245	
MEMO													
63 Loans in process[2]	.	98	335	650	791	828	934	1,120	1,181	1,222	1,264	1,387	
64 Mortgage loan committments outstanding[4]		.	722	1,113	1,438	1,743	1,774	2,130	2,064	2,230	2,151	2,974	

1 Holdings of stock of the Federal Home Loan Banks are in "other assets."
2. Beginning in 1982, loans in process are classified as contra-assets and are not included in total liabilities and net worth. Total assets are net of loans in process.
3 Includes net undistributed income accrued by most associations.
4 Excludes figures for loans in process.
5 The National Council reports data on member mutual savings banks and on savings banks that have converted to stock institutions, and to federal savings banks.
6 Beginning April 1979, includes obligations of U.S. government agencies. Before that date, this item was included in "Corporate and other."
7. Includes securities of foreign governments and international organizations and, before April 1979, nonguaranteed issues of U.S. government agencies.
8 Excludes checking, club, and school accounts.
9. Commitments outstanding (including loans in process) of banks in New York State as reported to the Savings Banks Association of the State of New York.
10 Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.
11 Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.
12 As of June 1982, data include only federal or federally insured state credit unions serving natural persons.

NOTE. *Savings and loan associations* Estimates by the FHLBB for all associations in the United States. Data are based on monthly reports of federally insured associations and annual reports of other associations. Even when revised, data for current and preceding year are subject to further revision.
Mutual savings banks Estimates of National Council of Savings Institutions for all savings banks in the United States.
Life insurance companies Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."
Credit unions Estimates by the National Credit Union Administration for a group of federal and federally insured state credit unions serving natural persons. Figures are preliminary and revised annually to incorporate recent data.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1981	Fiscal year 1982	Fiscal year 1983	Calendar year 1982 H1	Calendar year 1982 H2	Calendar year 1983 H1	Calendar year 1983 Dec	Calendar year 1984 Jan	Calendar year 1984 Feb
U.S. budget									
1 Receipts[1]	599,272	617,766	600,562	322 478	286,338	306,331	58,041	62,537	47,886
2 Outlays[1]	657,204	728,375	795,917	348 678	390,846	396,477	74,702	68,052	68,267
3 Surplus, or deficit ( )	- 57,932	-110,609	195,355	-26,200	104,508	90,146	16,661	-5,515	20,381
4 Trust funds	6,817	5,456	23,056	17,690	--6,576	22,680	3,921	1,043	557
5 Federal funds[2,3]	64,749	- 116,065	−218,410	- 43,889	97,934	112,822	20,579	- 6,558	20,938
Off-budget entities (surplus, or deficit ( ))									
6 Federal Financing Bank outlays	20,769	14,142	−10,404	- 7,942	- 4,923	5,418	312	121	−8
7 Other[3,4]	--236	- 3,190	−1,953	227	2,267	528	400	-129	198
U.S. budget plus off-budget, including Federal Financing Bank									
8 Surplus, or deficit ( )	- 78,936	127,940	207,711	33,914	- 111,699	96,094	16,572	5,762	−20,588
Source or financing									
9 Borrowing from the public	79,329	134,993	212,425	41,728	119,609	102,538	15,501	23,686	18,172
10 Cash and monetary assets (decrease, or increase (−))[4]	- 1,878	11,911	−9,889	- 408	9,057	9,664	6,092	−21,127	8,722
11 Other[5]	1,485	4,858	5,176	7,405	1,146	3,222	7,164	3,202	- 6,306
MEMO									
12 Treasury operating balance (level, end of period)	18,670	29,164	37,057	10,999	19,773	100,243	11,817	28,544	23,758
13 Federal Reserve Banks	3,520	10,975	16,557	4,099	5,033	19,442	3,661	7,153	3,226
14 Tax and loan accounts	15,150	18,189	20,500	6,900	14,740	72,037	8,157	21,392	20,531

1. Effective Feb. 8, 1982, supplemental medical insurance premiums and voluntary hospital insurance premiums, previously included in other insurance receipts, have been reclassified as offsetting receipts in the health function.
2 Half-year figures are calculated as a residual (total surplus/deficit less trust fund surplus/deficit).
3 Other off-budget includes Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank; and petroleum acquisition and transportation and strategic petroleum reserve effective November 1981.
4 Includes U.S. Treasury operating cash accounts, SDRs, gold tranche drawing rights, loans to International Monetary Fund, and other cash and monetary assets.
5 Includes accrued interest payable to the public, allocations of special drawing rights, deposit funds, miscellaneous liability (including checks outstanding) and asset accounts, seigniorage, increment on gold, net gain/loss for U.S. currency valuation adjustment, net gain/loss for IMF valuation adjustment, and profit on the sale of gold.

SOURCE. "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government," *Treasury Bulletin*, and the *Budget of the United States Government, Fiscal Year 1985*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS

Millions of dollars

Source or type	Fiscal year 1981	Fiscal year 1982	Fiscal year 1983	Calendar year 1982 H1	1982 H2	1983 H1	1983 Dec	1984 Jan	1984 Feb.
RECEIPTS									
1 **All sources**	**599,272**	**617,766**	**600,563**	**322,478**	**286,338**	**306,331**	**58,041**	**62,537**	**47,886**
2 Individual income taxes, net	285,917	297,744	288,938	150,565	145,676	144,550	25,577	33,881	22,190
3 Withheld	256,332	267,513	266,010	133,575	131,567	135,531	24,482	21,070	23,523
4 Presidential Election Campaign Fund	41	39	36	34	5	30	0	0	4
5 Nonwithheld	76,844	84,691	83,586	66,174	20,040	63,014	1,948	12,728	1,501
6 Refunds	47,299	54,498	60,692	49,217	5,938	54,024	854	−82	2,838
Corporation income taxes									
7 Gross receipts	73,733	65,991	61,780	37,836	25,661	33,522	11,558	2,985	1,892
8 Refunds	12,596	16,784	24,758	8,028	11,467	13,809	636	1,366	1,833
9 Social insurance taxes and contributions, net	182,720	201,498	209,001	108,079	94,278	110,521	16,120	21,462	19,972
10 Payroll employment taxes and contributions[1]	156,932	172,744	179,010	88,795	85,063	90,912	15,435	19,446	16,774
11 Self-employment taxes and contributions[2]	6,041	7,941	6,756	7,357	177	6,427	0	478	523
12 Unemployment insurance	15,763	16,600	18,799	9,809	6,857	11,146	289	1,112	2,308
13 Other net receipts[3]	3,984	4,212	4,436	2,119	2,181	2,196	396	427	369
14 Excise taxes	40,839	36,311	35,300	17,525	16,556	16,904	3,011	3,148	2,693
15 Customs deposits	8,083	8,854	8,655	4,310	4,299	4,010	855	776	839
16 Estate and gift taxes	6,787	7,991	6,053	4,208	3,445	2,883	484	488	570
17 Miscellaneous receipts[4]	13,790	16,161	15,594	7,984	7,891	7,751	1,072	1,163	1,613
OUTLAYS									
18 **All types**	**657,204**	**728,424**	**795,917**	**348,683**	**390,847**	**396,477**	**74,702**	**68,052**	**68,267**
19 National defense	159,765	187,418	210,461	93,154	100,419	105,072	19,576	18,283	18,515
20 International affairs	11,130	9,982	8,927	5,183	4,406	4,705	2,647	709	780
21 General science, space, and technology	6,359	7,070	7,777	3,370	3,903	3,486	480	503	721
22 Energy	10,277	4,674	4,035	2,946	2,059	2,073	534	255	34
23 Natural resources and environment	13,525	12,934	12,676	5,636	6,940	5,892	1,221	963	790
24 Agriculture	5,572	14,875	22,173	7,087	13,260	10,154	1,452	1,835	1,737
25 Commerce and housing credit	3,946	3,865	4,721	1,408	2,244	2,164	565	709	−648
26 Transportation	23,381	20,560	21,231	9,915	10,686	9,918	2,030	1,953	1,517
27 Community and regional development	9,394	7,165	7,302	3,055	4,186	3,124	752	434	524
28 Education, training, employment, social services	31,402	26,300	25,726	12,607	12,187	12,801	2,214	2,476	2,305
29 Health	26,858	27,435	28,655						753
30 Social security and medicare	178,733	202,531	223,311	150,001[5]	172,852	184,207	31,189	30,456	21,101
31 Income security	85,514	92,084	106,211						8,585
32 Veterans benefits and services	22,988	23,955	24,845	112,782	13,241	11,334	3,336	1,202	2,108
33 Administration of justice	4,696	4,671	5,014	2,334	2,373	2,522	448	487	505
34 General government	4,614	4,726	4,991	2,400	2,322	2,434	364	88	495
35 General-purpose fiscal assistance	6,856	6,393	6,287	3,325	3,152	3,124	64	1,153	201
36 Net interest[6]	68,726	84,697	89,774	41,883	44,948	42,358	8,712	7,808	9,651
37 Undistributed offsetting receipts[7]	−16,509	−13,270	−21,424	−6,490	−8,333	−8,885	−889	−1,263	−1,407

1. Old-age, disability, and hospital insurance, and railroad retirement accounts
2. Old-age, disability, and hospital insurance.
3. Federal employee retirement contributions and civil service retirement and disability fund.
4. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts
5. In accordance with the Social Security Amendments Act of 1983, the Treasury now provides social security and medicare outlays as a separate function. Before February 1984, these outlays were included in the income security and health functions.
6. Net interest function includes interest received by trust funds
7. Consists of rents and royalties on the outer continental shelf and U.S. government contributions for employee retirement

SOURCE "Monthly Treasury Statement of Receipts and Outlays of the U.S. Government" and the *Budget of the U S Government, Fiscal Year 1985*

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1982				1983				1984
	Mar. 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31	Mar 31
1 **Federal debt outstanding**	**1,066.4**	**1,084.7**	**1,147.0**	**1,201.9**	**1,249.3**	**1,324.3**	**1,381.9**	**1415.3**	**n.a.**
2 Public debt securities	1,061.3	1,079.6	1,142.0	1,197.1	1,244.5	1,319.6	1,377.2	1,410.7	1,463.7
3 Held by public	858.9	867.9	925.6	987.7	1,043.3	1,090.3	1,138.2	1174.4	↑
4 Held by agencies	202.4	211.7	216.4	209.4	201.2	229.3	239.0	236.3	
5 Agency securities	5.1	5.0	5.0	4.8	4.8	4.7	4.7	4.6	n.a.
6 Held by public	3.9	3.9	3.7	3.7	3.7	3.6	3.6	3.5	
7 Held by agencies	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	↓
8 **Debt subject to statutory limit**	**1,062.2**	**1,080.5**	**1,142.9**	**1,197.9**	**1,245.3**	**1,320.4**	**1,378.0**	**1,411.4**	**1,464.5**
9 Public debt securities	1,060.7	1,079.0	1,141.4	1,196.5	1,243.9	1,319.0	1,376.6	1,410.1	1,463.1
10 *Other debt*[1]	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3
11 MEMO Statutory debt limit	1,079.8	1,143.1	1,143.1	1,290.2	1,290.2	1,389.0	1,389.0	1,490.0	1,490.0

1. Includes guaranteed debt of government agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds

NOTE. Data from *Treasury Bulletin* (U.S. Treasury Department)

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1979	1980	1981	1982	1983		1984		
					Nov	Dec	Jan	Feb	Mar
1 **Total gross public debt**	**845.1**	**930.2**	**1,028.7**	**1,197.1**	**1,389.2**	**1,410.7**	**1,437.4**	**1,457.5**	**1,463.7**
By type									
2 Interest-bearing debt	844.0	928.9	1,027.3	1,195.5	1,387.9	1,400.9	1,435.6	1,455.8	1,452.1
3 Marketable	530.7	623.2	720.3	881.5	1,044.3	1,050.9	1,081.9	1,100.1	1,097.7
4 Bills	172.6	216.1	245.0	311.8	335.3	343.8	346.9	349.5	350.2
5 Notes	283.4	321.6	375.3	465.0	575.3	573.4	597.6	608.0	604.9
6 Bonds	74.7	85.4	99.9	104.6	133.8	633.7	137.4	142.6	142.6
7 Nonmarketable[1]	313.2	305.7	307.0	314.0	343.5	350.0	353.7	355.7	354.4
8 Convertible bonds[2]	2.2	.				.	.		
9 State and local government series	24.6	23.8	23.0	25.7	35.7	36.1	36.7	37.5	38.1
10 Foreign issues[3]	28.8	24.0	19.0	14.7	10.5	10.4	10.8	9.8	9.9
11 *Government*	23.6	17.6	14.9	13.0	10.5	10.4	10.8	9.8	9.9
12 Public	5.3	6.4	4.1	1.7	0	0	0	.0	0
13 Savings bonds and notes	79.9	72.5	68.1	68.0	70.9	70.7	71.0	71.2	71.6
14 Government account series[4]	177.5	185.1	196.7	205.4	226.2	231.9	235.0	237.0	234.6
15 Non-interest-bearing debt	1.2	1.3	1.4	1.6	1.3	9.8	1.8	1.8	11.6
By holder[5]									
16 U.S. government agencies and trust funds	187.1	192.5	203.3	209.4	230.4	236.3	↑	↑	↑
17 Federal Reserve Banks	117.5	121.3	131.0	139.3	149.4	151.9			
18 Private investors	540.5	616.4	694.5	848.4	↑	1022.6			
19 Commercial banks	96.4	116.0	109.4	131.4		188.9			
20 Mutual savings banks	4.7	5.4	5.2	n.a.		n.a.			
21 Insurance companies	16.7	20.1	19.1	38.7		48.9			
22 Other companies	22.9	25.7	37.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
23 State and local governments	69.9	78.8	85.6	113.4		n.a.			
Individuals									
24 Savings bonds	79.9	72.5	68.0	68.3		71.5			
25 Other securities	36.2	56.7	75.6	48.2		61.9			
26 Foreign and international[6]	124.4	127.7	141.4	149.4		168.9			
27 Other miscellaneous investors[7]	90.1	106.9	152.3	233.2	↓	n.a.	↓	↓	↓

1. Includes (not shown separately): Securities issued to the Rural Electrification Administration, depository bonds, retirement plan bonds, and individual retirement bonds
2. These nonmarketable bonds, also known as Investment Series B Bonds, may be exchanged (or converted) at the owner's option for 1½ percent, 5-year marketable Treasury notes. Convertible bonds that have been so exchanged are removed from this category and recorded in the notes category (line 5)
3. Nonmarketable dollar-denominated and foreign currency-denominated series held by foreigners
4. Held almost entirely by U.S. government agencies and trust funds
5. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates
6. Consists of investments of foreign balances and international accounts in the United States.
7. Includes savings and loan associations, nonprofit institutions, corporate pension trust funds, dealers and brokers, certain government deposit accounts, and government sponsored agencies

NOTE. Gross public debt excludes guaranteed agency securities.

Data by type of security from *Monthly Statement of the Public Debt of the United States* (U.S. Treasury Department), data by holder from *Treasury Bulletin*

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions

Par value; averages of daily figures, in millions of dollars

	Item	1980	1981	1982	1984			1984 week ending Wednesday					
					Jan r	Feb. r	Mar.	Jan. 25	Feb. 1	Feb. 8	Feb 15	Feb 22	Feb. 29
	Immediate delivery[1]												
1	U.S government securities	18,331	24,728	32,271	45,623	52,445	50,344	38,623r	44,574r	50,989	55,197	51,037	55,040
	By maturity												
2	Bills	11,413	14,768	18,398	23,140	24,937	23,278	20,407r	21,978r	24,364	23,127	28,165	25,033
3	Other within 1 year	421	621	810	1,119	895	906	865	1,080	801	805	909	999
4	1–5 years	3,330	4,360	6,272	9,615	11,827	11,038	7,593	11,418r	13,163	11,602	10,053	12,653
5	5–10 years	1,464	2,451	3,557	5,647	8,052	7,798	5,118	5,052	6,767	10,186	6,262	9,714
6	Over 10 years	1,704	2,528	3,234	6,102	6,734	7,324	4,641	5,046	5,894	9,479	5,648	6,641
	By type of customer												
7	U S. government securities dealers	1,484	1,640	1,769	2,751	4,164	2,050	2,386	2,876	3,907	5,288	4,662	3,345
8	U S. government securities brokers	7,610	11,750	15,659	21,066	24,952	27,263	17,944r	20,002r	24,645	24,898	23,275	27,787
9	All others[2]	9,237	11,337	15,344	21,806	23,329	21,031	18,293	21,695r	22,437	25,011	23,100	23,907
10	Federal agency securities	3,258	3,306	4,142	6,541	7,577	7,097	6,187r	6,565	7,448	9,161	6,064	7,437
11	Certificates of deposit	2,472	4,477	5,001	4,886	5,324	4,572	3,765	4,338	4,678	5,346	5,870	5,780
12	Bankers acceptances		1,807	2,502	3,119	2,702	2,481	2,595	2,937	2,475	2,405	2,795	3,175
13	Commercial paper		6,128	7,595	8,891	8,114	8,124	7,333	8,397	7,697	8,671	8,327	7,883
	Futures transactions[3]												
14	Treasury bills		3,523	5,031	5,431	6,984	8,557	4,784	4,031	7,549	6,067	7,341	7,319
15	Treasury coupons	n.a.	1,330	1,490	2,625	3,561	4,630	2,491	1,964	3,402	3,369	2,986	4,733
16	Federal agency securities		234	259	157	302	437	159	140	208	296	232	398
	Forward transactions[4]												
17	U.S. government securities		365	835	713	1,616	1,373	772	842	2,178	1,748	1,020	1,484
18	Federal agency securities		1,370	982	2,147	2,595	2,586	1,584	1,962r	3,077	2,863	2,656	1,985

1 Before 1981, data for immediate transactions include forward transactions

2. Includes, among others, all other dealers and brokers in commodities and securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System

3. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.

4. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for government securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues

NOTE. Averages for transactions are based on number of trading days in the period

Transactions are market purchases and sales of U S. government securities dealers reporting to the Federal Reserve Bank of New York The figures exclude allotments of, and exchanges for, new U S government securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing

Averages of daily figures, in millions of dollars

	Item	1980	1981	1982	1984			1984 week ending Wednesday				
					Jan	Feb. r	Mar	Jan 18	Jan. 25	Feb 1	Feb 8	Feb. 15
		Positions										
	Net immediate[1]											
1	U.S. government securities	4,306	9,033	9,328	3,130	1,290	−4,215	4,060	4,943	6,504	4,113	1,434
2	Bills	4,103	6,485	4,837	2,730	3,226	−1,055	2,869	5,821	6,796	5,722	2,565
3	Other within 1 year	−1,062	−1,526	−199	−158	−227	−362	22	−182	−21	97	−235
4	1–5 years	434	1,488	2,932	1,552	−428	−1,959	1,611	729	1,725	1,159	181
5	5–10 years	166	292	−341	−705	−1,610	−326	−506	−1,246	−1,683	−2,270	−1,519
6	Over 10 years	665	2,294	2,001	−288	328	−514	64	−180	−313	−596	441
7	Federal agency securities	797	2,277	3,712	11,236	12,386	16,076	11,773	10,890	11,173	12,035	13,160
8	Certificates of deposit	3,115	3,435	5,531	6,528	7,323	6,913	6,588	6,417	6,747	7,029	6,983
9	Bankers acceptances		1,746	2,832	3,494	3,243	2,819	4,061	3,153	3,273	3,434	3,265
10	Commercial paper		2,658	3,317	2,754	2,771	3,012	2,900	2,110	2,708	3,331	2,722
	Futures positions											
11	Treasury bills		−8,934	−2,508	−10,286	−7,796	−1,128	−10,106	−11,852	−11,177	−11,163	−11,076
12	Treasury coupons	n.a	−2,733	−2,361	758	1,254	2,053	554	533	675	456	1,185
13	Federal agency securities		522	−224	38	−174	201	10	−92	−185	−383	−326
	Forward positions											
14	U S government securities		−603	−788	−1,454	−2,257	−714	−1,595	−1,818	−1,577	−3,383	−2,728
15	Federal agency securities		−451	−1,190	−7,506	−8,019	−9,747	−8,033	−7,282	−7,037	−7,828	−8,214
		Financing[2]										
	Reverse repurchase agreements[3]											
16	Overnight and continuing		14,568	26,754	37,309	39,798		37,467	34,989	37,919	38,052	41,957
17	Term agreements		32,048	48,247	60,280	60,666		60,245	60,250	61,547	62,529	57,976
	Repurchase agreements[4]	n.a					n.a					
18	Overnight and continuing		35,919	49,695	67,685	70,126		67,326	63,540	70,333	69,337	69,935
19	Term agreements		29,449	43,410	51,123	52,109		52,197	54,778	53,255	53,771	51,448

For notes see opposite page.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1980	1981	1982	1983				1984	
				Sept	Oct	Nov	Dec	Jan	Feb
1 **Federal and federally sponsored agencies**	**188,665**	**221,946**	**237,085**	**236,610**	**239,121**	**240,177**	**239,716**	**239,872**	**241,628**
2 Federal agencies	28,606	31,806	33,055	33,744	33,735	33,813	33,940	33,919	33,785
3 Defense Department[1]	610	484	354	264	258	253	243	234	215
4 Export-Import Bank[2,3]	11,250	13,339	14,218	14,740	14,740	14,740	14,853	14,852	14,846
5 Federal Housing Administration[4]	477	413	288	206	203	197	194	173	169
6 Government National Mortgage Association participation certificates[5]	2,817	2,715	2,165	2,165	2,165	2,165	2,165	2,165	2,165
7 Postal Service[6]	1,770	1,538	1,471	1,404	1,404	1,404	1,404	1,404	1,404
8 Tennessee Valley Authority	11,190	13,115	14,365	14,840	14,840	14,945	14,970	14,980	14,875
9 United States Railway Association[6]	492	202	194	125	125	109	111	111	111
10 Federally sponsored agencies[7]	160,059	190,140	204,030	202,866	205,386	206,364	205,776	205,953	207,843
11 Federal Home Loan Banks	37,268	54,131	55,967	49,283	49,956	49,285	48,930	48,344	48,224
12 Federal Home Loan Mortgage Corporation	4,686	5,480	4,524	6,134	6,950	7,024	6,793	6,679	7,556
13 Federal National Mortgage Association	55,182	58,749	70,052	71,258	71,965	73,531	74,594	74,676	75,865
14 Farm Credit Banks	62,923	71,359	71,896	73,046	73,465	73,474	72,409	73,023	72,856
15 Student Loan Marketing Association	(8)	421	1,591	3,145	3,050	3,050	3,050	3,231	3,342
MEMO									
16 **Federal Financing Bank debt**[9]	**87,460**	**110,698**	**126,424**	**136,081**	**134,799**	**135,361**	**135,791**	**135,940**	**135,859**
Lending to federal and federally sponsored agencies									
17 Export-Import Bank[3]	10,654	12,741	14,177	14,676	14,676	14,676	14,789	14,789	14,789
18 Postal Service[6]	1,520	1,288	1,221	1,154	1,154	1,154	1,154	1,154	1,154
19 Student Loan Marketing Association	2,720	5,400	5,000	5,000	5,000	5,000	5,000	5,000	5,000
20 Tennessee Valley Authority	9,465	11,390	12,640	13,115	13,175	13,220	13,245	13,255	13,150
21 United States Railway Association[6]	492	202	194	125	125	109	111	111	111
Other Lending[10]									
22 Farmers Home Administration	39,431	48,821	53,261	55,691	55,916	55,916	55,266	54,776	54,471
23 Rural Electrification Administration	9,196	13,516	17,157	18,936	19,093	19,216	19,766	19,927	19,982
24 Other	11,262	12,740	22,774	27,384	25,660	26,070	26,460	26,928	27,202

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs
2. Includes participation certificates reclassified as debt beginning Oct 1, 1976
3. Off-budget Aug 17, 1974, through Sept 30, 1976; on-budget thereafter
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims Once issued, these securities may be sold privately on the securities market
5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare, Department of Housing and Urban Development, Small Business Administration, and the Veterans Administration
6. Off-budget.
7. Includes outstanding noncontingent liabilities Notes, bonds, and debentures
8. Before late 1981, the Association obtained financing through the Federal Financing Bank.
9. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies Since FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting
10. Includes FFB purchases of agency assets and guaranteed loans; the latter contain loans guaranteed by numerous agencies with the guarantees of any particular agency being generally small The Farmers Home Administration item consists exclusively of agency assets, while the Rural Electrification Administration entry contains both agency assets and guaranteed loans

NOTES TO TABLE 1 43

1. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, including any such securities that have been sold under agreements to repurchase (RPs) The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Securities owned, and hence dealer positions, do not include securities to resell (reverse RPs) Before 1981, data for immediate positions include forward positions.
2. Figures cover financing involving U S. government and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper
3. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements
4. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

NOTE Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period Positions are shown net and are on a commitment basis Data for financing are based on Wednesday figures, in terms of actual money borrowed or lent

1.45 NEW SECURITY ISSUES of State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1981	1982	1983	1983 June	July	Aug	Sept.	Oct	Nov	Dec.	1984 Jan.
1 **All issues, new and refunding[1]**	**47,732**	**78,950**	**85,092**	**7,555**	**4,370**	**6,194**	**6,160**	**6,650**	**5,829**	**8,854**	**5,024**
Type of issue											
2 General obligation	12,394	21,088	21,470	1,550	860	1,614	1,266	1,935	1,679	1,134	1,109
3 U.S. government loans[2]	34	225	96	7	7	9	14	15	15	15	0
4 Revenue	35,338	57,862	63,622	6,005	3,510	4,580	4,894	4,715	4,150	7,720	3,915
5 U.S. government loans[2]	55	461	253	16	26	29	35	39	39	39	1
Type of issuer											
6 State	5,288	8,406	7,135	277	484	673	452	856	405	198	325
7 Special district and statutory authority	27,499	45,000	50,632	4,260	3,009	3,357	4,199	4,387	3,318	5,790	3,482
8 Municipalities, counties, townships, school districts	14,945	25,544	27,325	3,018	877	2,164	1,509	1,407	2,106	2,866	1,217
9 **Issues for new capital, total**	**46,530**	**74,613**	**71,120**	**6,049**	**3,884**	**4,612**	**5,512**	**5,187**	**5,333**	**8,438**	**4,037**
Use of proceeds											
10 Education	4,547	6,444	8,170	887	535	714	527	457	515	744	397
11 Transportation	3,447	6,256	4,353	229	274	261	195	250	336	421	125
12 Utilities and conservation	10,037	14,254	13,547	939	268	285	1,238	605	1,101	1,230	2,027
13 Social welfare	12,729	26,605	26,378	2,120	1,920	2,139	2,334	2,580	2,080	2,676	787
14 Industrial aid	7,651	8,256	7,088	669	393	254	494	323	516	2,317	125
15 Other purposes	8,119	12,797	11,584	1,205	494	959	724	972	785	1,050	576

1. Par amounts of long-term issues based on date of sale
2. Consists of tax-exempt issues guaranteed by the Farmers Home Administration.

SOURCE. Public Securities Association

1.46 NEW SECURITY ISSUES of Corporations

Millions of dollars

Type of issue or issuer, or use	1981	1982	1983	1983 June	July	Aug	Sept	Oct	Nov	Dec	1984 Jan.
1 **All issues[1,2]**	**70,441**	**84,198**	**98,845**	**8,165**	**6,474**	**5,941**	**6,568**	**6,592**	**8,103**	**6,812**	**7,691r**
2 **Bonds**	**45,092**	**53,636**	**47,266**	**2,244**	**2,550**	**2,547**	**2,865**	**3,055**	**4,075**	**3,173**	**5,648r**
Type of offering											
3 Public	38,103	43,838	47,266	2,244	2,550	2,547	2,865	3,055	4,075	3,173	5,648r
4 Private placement	6,989	9,798	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Industry group											
5 Manufacturing	12,325	13,123	8,133	706	60	200	282	367	22	423	179
6 Commercial and miscellaneous	5,229	5,681	5,374	425	228	458	353	114	23	201	976r
7 Transportation	2,052	1,474	1,086	115	148	0	0	0	111	105	10
8 Public utility	8,963	12,155	7,066	363	322	355	590	510	910	120	325
9 Communication	4,280	2,265	3,380	250	1,100	0	100	50	0	0	210r
10 Real estate and financial	12,243	18,938	22,227	385	692	1,534	1,540	2,014	3,009	2,324	3,948
11 **Stocks[3]**	**25,349**	**30,562**	**51,579**	**5,921**	**3,924**	**3,394**	**3,703**	**3,842**	**4,028**	**3,639**	**2,043**
Type											
12 Preferred	1,797	5,113	7,213	665	290	247	644	300	433	253	305
13 Common	23,552	25,449	44,366	5,256	3,634	3,147	3,059	3,542	3,595	3,386	1,738
Industry group											
14 Manufacturing	5,074	5,649	14,135	2,449	1,015	1,309	962	744	458	649	427
15 Commercial and miscellaneous	7,557	7,770	13,112	1,358	1,415	743	997	868	1,598	852	465
16 Transportation	779	709	2,729	109	337	145	165	305	192	413	54
17 Public utility	5,577	7,517	5,001	550	72	263	200	588	622	245	225
18 Communication	1,778	2,227	1,822	138	20	236	0	36	13	12	30
19 Real estate and financial	4,584	6,690	14,780	1,317	1,065	698	1,379	1,301	1,145	1,468	842

1. Figures, which represent gross proceeds of issues maturing in more than one year, sold for cash in the United States, are principal amount or number of units multiplied by offering price. Excludes offerings of less than $100,000, secondary offerings, undefined or exempted issues as defined in the Securities Act of 1933, employee stock plans, investment companies other than closed-end, intracorporate transactions, and sales to foreigners
2. Data for 1983 include only public offerings
3. Beginning in August 1981, gross stock offerings include new equity volume from swaps of debt for equity.

SOURCE. Securities and Exchange Commission and the Board of Governors of the Federal Reserve System.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1982	1983	1983						1984	
			July	Aug.	Sept.	Oct	Nov	Dec	Jan r	Feb.
INVESTMENT COMPANIES[1]										
1 Sales of own shares[2]	45,675	84,793	6,944	6,032	5,915	6,532	6,341	6,846	10,274	8,229
2 Redemptions of own shares[3]	30,078	57,120	4,500	4,885	4,412	4,264	3,920	5,946	5,544	5,161
3 Net sales	15,597	27,673	2,444	1,147	1,503	2,268	2,421	900	4,730	3,068
4 Assets[4]	76,841	113,599	104,279	104,494	109,455	107,314	113,052	113,599	114,839	111,040
5 Cash position[5]	6,040	8,343	8,815	8,045	8,868	8,256	9,395	8,343	8,963	9,264
6 Other	70,801	105,256	95,464	93,449	100,587	99,058	103,657	105,256	105,876	101,766

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	1981	1982	1983p	1982				1983			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4p
1 Corporate profits with inventory valuation and capital consumption adjustment	192.3	164.8	229.1	162.0	166.8	168.5	161.9	181.8	218.2	248.4	268.1
2 Profits before tax	227.0	174.2	207.6	173.2	178.8	177.3	167.5	169.7	203.3	229.1	228.1
3 *Profits tax liability*	82.8	59.1	76.9	60.3	61.4	60.8	54.0	61.5	76.0	84.9	85.3
4 Profits after tax	144.1	115.1	130.6	112.9	117.4	116.5	113.5	108.2	127.2	144.1	142.9
5 Dividends	64.7	68.7	73.2	67.7	67.8	68.8	70.4	71.4	72.0	73.7	75.9
6 Undistributed profits	79.4	46.4	57.3	45.2	49.5	47.7	43.1	36.7	55.2	70.4	67.0
7 Inventory valuation	−23.6	−8.3	−9.2	−5.5	−8.5	−9.0	−10.3	−1.7	−10.6	18.3	−6.3
8 Capital consumption adjustment	−11.0	−1.1	30.8	−5.6	−3.5	.1	4.7	13.9	25.6	37.6	46.2

SOURCE. *Survey of Current Business* (Department of Commerce).

1.49 NONFINANCIAL CORPORATIONS Current Assets and Liabilities

Billions of dollars, except for ratio

Account	1977	1978	1979	1980	1981	1982		1983		
						Q3	Q4	Q1	Q2	Q3
1 **Current assets**	**912.7**	**1,043.7**	**1,214.8**	**1,327.0**	**1,419.3**	**1,441.8**	**1,425.4**	**1,436.5**	**1,464.2**	**1,522.4**
2 Cash	97.2	105.5	118.0	126.9	131.8	126.9	144.0	139.7	145.7	148.4
3 U.S. government securities	18.2	17.2	16.7	18.7	17.4	18.9	22.4	25.8	27.5	26.3
4 Notes and accounts receivable	330.3	388.0	459.0	506.8	530.3	534.2	511.0	517.9	534.3	562.7
5 Inventories	376.9	431.8	505.1	542.8	585.1	596.5	575.2	573.2	570.5	591.1
6 Other	90.1	101.1	116.0	131.8	154.6	165.3	172.6	179.9	186.2	193.8
7 **Current liabilities**	**557.1**	**669.5**	**807.3**	**889.3**	**976.3**	**1,007.6**	**977.8**	**986.3**	**997.7**	**1,038.6**
8 Notes and accounts payable	317.6	383.0	460.8	513.6	558.8	562.7	552.8	543.2	551.6	578.8
9 Other	239.6	286.5	346.5	375.7	417.5	444.9	425.0	443.1	446.1	459.9
10 **Net working capital**	**355.5**	**374.3**	**407.5**	**437.8**	**442.9**	**434.2**	**447.6**	**450.2**	**466.5**	**483.7**
11 MEMO: Current ratio[1]	1.638	1.559	1.505	1.492	1.454	1.431	1.458	1.456	1.468	1.466

1. Ratio of total current assets to total current liabilities.

NOTE. For a description of this series, see "Working Capital of Nonfinancial Corporations" in the July 1978 BULLETIN, pp. 533–37.

All data in this table reflect the most current benchmarks. Complete data are available upon request from the Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SOURCE. Federal Trade Commission and Bureau of the Census.

1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry[1]	1982	1983	1984[1]	1982		1983				1984	
				Q3[r]	Q4	Q1	Q2	Q3	Q4	Q1[1]	Q2[1]
1 **Total nonfarm business**	**316.43**	**302.50**	**343.57**	**313.76**	**303.18**	**293.03**	**293.46**	**304.70**	**318.83**	**332.66**	**335.40**
Manufacturing											
2 Durable goods industries	56.44	51.78	62.78	56.61	50.51	50.74	48.48	53.06	54.85	59.21	59.01
3 Nondurable goods industries	63.23	59.75	66.93	61.65	59.72	59.12	60.31	58.06	61.50	65.49	67.25
Nonmanufacturing											
4 Mining	15.45	11.83	14.34	14.57	13.41	12.03	10.91	11.93	12.43	13.57	13.87
Transportation											
5 Railroad	4.38	3.92	4.73	4.01	4.35	3.35	3.64	4.07	4.63	4.09	4.85
6 Air	3.93	3.77	2.78	4.07	4.76	4.09	4.10	3.57	3.32	2.42	2.82
7 Other	3.64	3.50	4.49	3.21	3.22	3.60	3.14	3.36	3.91	4.57	4.31
Public utilities											
8 Electric	33.40	34.99	35.54	34.73	35.15	33.97	34.86	35.84	35.31	35.51	35.72
9 Gas and other	8.55	7.00	9.24	8.29	7.85	7.64	6.62	6.38	7.37	8.21	8.95
10 Trade and services	86.95	87.94	100.25	86.88	84.36	82.38	85.85	91.06	92.44	98.56	97.93
11 Communication and other[2]	40.46	38.02	42.47	39.75	39.84	36.11	35.54	37.38	43.05	41.03	40.68

1. Anticipated by business.
2. "Other" consists of construction; social services and membership organizations; and forestry, fisheries, and agricultural services.

SOURCE. *Survey of Current Business* (Department of Commerce).

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities

Billions of dollars, end of period

Account	1977	1978	1979	1980	1981	1982	1983			
							Q1	Q2	Q3	Q4
ASSETS										
Accounts receivable, gross										
1 Consumer	44.0	52.6	65.7	73.6	85.5	89.5	89.9	91.3	92.3	92.8
2 Business	55.2	63.3	70.3	72.3	80.6	81.0	82.2	84.9	86.8	95.2
3 Total	99.2	116.0	136.0	145.9	166.1	170.4	172.1	176.2	179.0	188.0
4 LESS Reserves for unearned income and losses	12.7	15.6	20.0	23.3	28.9	30.5	29.7	30.4	30.1	30.6
5 Accounts receivable, net	86.5	100.4	116.0	122.6	137.2	139.8	142.4	145.8	148.9	157.4
6 Cash and bank deposits	2.6	3.5								
7 Securities	.9	1.3	24.9[1]	27.5	34.2	39.7	42.8	44.3	45.0	45.3
8 All other	14.3	17.3								
9 **Total assets**	**104.3**	**122.4**	**140.9**	**150.1**	**171.4**	**179.5**	**185.2**	**190.2**	**193.9**	**202.7**
LIABILITIES										
10 Bank loans	5.9	6.5	8.5	13.2	15.4	18.6	16.6	16.3	17.0	19.1
11 Commercial paper	29.6	34.5	43.3	43.4	51.2	45.8	45.2	49.0	49.7	53.6
Debt										
12 Short-term, n.e.c.	6.2	8.1	8.2	7.5	9.6	8.7	9.8	9.6	8.7	11.3
13 Long-term, n.e.c.	36.0	43.6	46.7	52.4	54.8	63.5	64.7	64.5	66.2	65.4
14 Other	11.5	12.6	14.2	14.3	17.8	18.7	22.8	24.0	24.4	27.1
15 Capital, surplus, and undivided profits	15.1	17.2	19.9	19.4	22.8	24.2	26.0	26.7	27.9	26.2
16 **Total liabilities and capital**	**104.3**	**122.4**	**140.9**	**150.1**	**171.4**	**179.5**	**185.2**	**190.2**	**193.9**	**202.7**

1. Beginning Q1 1979, asset items on lines 6, 7, and 8 are combined

NOTE. Components may not add to totals due to rounding.

1.52 DOMESTIC FINANCE COMPANIES Business Credit

Millions of dollars, seasonally adjusted except as noted

Type	Accounts receivable outstanding Jan. 31, 1984[1]	Changes in accounts receivable			Extensions			Repayments		
		1983		1984	1983		1984	1983		1984
		Nov.	Dec.	Jan.	Nov.	Dec.	Jan.	Nov.	Dec.	Jan.
1 **Total**	**96,728**	**1,793**	**2,721**	**2,973**	**29,988**	**27,338**	**30,660**	**28,195**	**24,617**	**27,687**
2 Retail automotive (commercial vehicles)	22,030	1,320	485	959	2,592	1,836	2,347	1,272	1,351	1,388
3 Wholesale automotive	15,331	662	583	625	8,516	7,690	9,392	7,854	7,107	8,767
4 Retail paper on business, industrial, and farm equipment	28,946	-198	602	449	1,504	1,610	1,525	1,702	1,008	1,076
5 Loans on commercial accounts receivable and factored commercial accounts receivable	10,656	17	121	1,037	15,344	13,441	14,787	15,327	13,320	13,750
6 All other business credit	19,765	-8	930	-97	2,032	2,761	2,609	2,040	1,831	2,706

1. Not seasonally adjusted.

1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1981	1982	1983	1983					1984	
				Aug.	Sept.	Oct.	Nov.	Dec	Jan.	Feb.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms[1]										
1 Purchase price (thousands of dollars)	90.4	94.6	92.8r	94.4	100.7	95.8	98.0	94.8	92.9r	101.6
2 Amount of loan (thousands of dollars)	65.3	69.8	69.6r	67.3	76.5	72.5	76.7	73.3	71.7r	75.3
3 Loan/price ratio (percent)	74.8	76.6	77.1r	73.3	78.5	78.4	80.5	79.1	79.2	77.4
4 Maturity (years)	27.7	27.6	26.7	25.7	27.2	26.9	26.5	27.3	27.8r	27.7
5 Fees and charges (percent of loan amount)[2]	2.67	2.95	2.40	1.96	2.45	2.33	2.54	2.56	2.61r	2.49
6 Contract rate (percent per annum)	14.16	14.47	12.20	12.01	12.08	11.80	11.82	11.94	11.80r	11.87
Yield (percent per annum)										
7 FHLBB series[3]	14.74	15.12	12.66	12.38	12.54	12.25	12.34	12.42	12.29r	12.28
8 HUD series[4]	16.52	15.79	13.43	13.90	13.60	13.52	13.48	13.41	13.28	13.31
SECONDARY MARKETS										
Yield (percent per annum)										
9 FHA mortgages (HUD series)[5]	16.31	15.31	13.11	13.78	13.55	13.23	13.23	13.25	13.08	13.20
10 GNMA securities[6]	15.29	14.68	12.26	13.01	12.73	12.42	12.51	12.49	12.35	12.31
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	58,675	66,031	74,847	75,057	75,174	75,665	76,714	78,256	79,049	79,350
12 FHA/VA-insured	39,341	39,718	37,393	36,894	36,670	36,455	36,349	36,211	40,873	35,420
13 Conventional	19,334	26,312	37,454	38,163	38,505	39,210	40,365	42,045	38,177	43,930
Mortgage transactions (during period)										
14 Purchases	6,112	15,116	17,554	1,213	1,203	1,244	1,348	2,204	1,285	1,507
15 Sales	2	2	3,528	121	464	257	0	250	20	723
Mortgage commitments[7]										
16 Contracted (during period)	9,331	22,105	18,607	1,282	2,739	1,882	997	1,471	1,772	1,930
17 Outstanding (end of period)	3,717	7,606	5,461	5,165	6,684	7,182	6,493	5,461	5,470	5,872
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
18 Total	5,231r	5,131r	5,996	6,149	6,857	6,971r	7,093	7,633	8,049	n.a.
19 FHA/VA	1,065r	1,027r	974	964	961	955r	940	941	940	n.a.
20 Conventional	4,166r	4,102r	5,022	5,185	5,896	6,016	6,153	6,691	7,109	n.a.
Mortgage transactions (during period)										
21 Purchases	3,800r	23,673r	23,089	1,621	2,263	2,886	1,287	1,685	1,419	n.a.
22 Sales	3,531	24,170r	19,686	1,588	1,556	2,750	1,143	1,115	984	n.a.
Mortgage commitments[9]										
23 Contracted (during period)	6,896r	28,179r	32,852	6,367	3,283	2,598	2,093	1,704	1,470	n.a.
24 Outstanding (end of period)	3,518	7,549	16,964	15,519	16,512	16,198	16,994	16,964	16,994	n.a.

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.
4. Average contract rates on new commitments for conventional first mortgages, from Department of Housing and Urban Development.
5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Any gaps in data are due to periods of adjustment to changes in maximum permissible contract rates.
6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are unweighted averages of Monday quotations for the month.
7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.
8. Includes participation as well as whole loans.
9. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING

Millions of dollars, end of period

Type of holder, and type of property	1981	1982	1983	1982	1983			
				Q4	Q1	Q2	Q3	Q4
1 **All holders**	**1,583,264**	**1,655,013r**	**1,824,071r**	**1,655,013r**	**1,681,630r**	**1,723,052r**	**1,775,117r**	**1,824,071r**
2 1- to 4-family	1,065,294	1,105,756r	1,214,249r	1,105,756r	1,122,111r	1,146,926r	1,182,356r	1,214,249r
3 Multifamily	136,354	140,542r	150,822r	140,542r	141,500r	144,731r	147,052r	150,822r
4 Commercial	279,889	302,009r	349,539r	302,009r	311,107r	323,427r	336,697r	349,539r
5 Farm	101,727	106,706r	109,461r	106,706r	106,912	107,968	109,012	109,461r
6 Major financial institutions	1,040,827	1,023,541r	1,108,101r	1,023,541r	1,028,802r	1,048,688r	1,079,605r	1,108,101r
7 Commercial banks[1]	284,536	300,203	329,745	300,203	303,371	310,217	320,299	329,745
8 1- to 4-family	170,013	173,157	182,679	173,157	172,346	174,032	178,054	182,679
9 Multifamily	15,132	16,421	17,971	16,421	16,230	16,876	17,424	17,971
10 Commercial	91,026	102,219	119,862	102,219	106,301	110,437	115,692	119,862
11 Farm	8,365	8,406	9,233	8,406	8,494	8,872	9,129	9,233
12 Mutual savings banks	99,997	97,805	133,325	97,805	105,378	119,236	129,645	133,325
13 1- to 4-family	68,187	66,777	95,249	66,777	73,240	84,349	92,467	95,249
14 Multifamily	15,960	15,305	17,964	15,305	15,587	16,667	17,588	17,964
15 Commercial	15,810	15,694	20,083	15,694	16,522	18,192	19,562	20,083
16 Farm	40	29	29	29	29	28	28	29
17 Savings and loan associations	518,547	483,614r	493,432r	483,614r	477,022r	474,510r	482,305r	493,432r
18 1- to 4-family	433,142	393,323r	389,811r	393,323r	384,718r	377,947r	381,744r	389,811r
19 Multifamily	37,699	38,979r	42,435r	38,979r	39,259r	39,954r	41,334r	42,435r
20 Commercial	47,706	51,312r	61,186r	51,312r	53,045r	56,609r	59,227r	61,186r
21 Life insurance companies	137,747	141,919	151,599r	141,919	143,031	144,725	147 356	151,599r
22 1- to 4-family	17,201	16,743	15,385r	16,743	16,388	15,860	15,534	15,385r
23 Multifamily	19,283	18,847	19,189r	18,847	18,825	18,778	18,857	19,189r
24 Commercial	88,163	93,501	104,279r	93,501	95,158	97,416	100,209	104,279r
25 Farm	13,100	12,828	12,746r	12,828	12,660	12,671	12,756	12,746r
26 Federal and related agencies	126,094	138,185	147,269r	138,185	140,028	142,094	142,224	147,269r
27 *Government National Mortgage Association*	4,765	4,227	3,395	4,227	3,753	3,643	3,475	3,395
28 1- to 4-family	693	676	630	676	665	651	639	630
29 Multifamily	4,072	3,551	2,765	3,551	3,088	2,992	2,836	2,765
30 Farmers Home Administration	2,235	1,786	2,141	1,786	2,077	1,605	600	2,141
31 1- to 4-family	914	783	1,159	783	707	381	211	1,159
32 Multifamily	473	218	173	218	380	555	32	173
33 Commercial	506	377	409	377	337	248	113	409
34 Farm	342	408	400	408	653	421	244	400
35 Federal Housing and Veterans Administration	5,999	5,228	4,792	5,228	5,138	5,084	5,050	4,792
36 1- to 4-family	2,289	1,980	1,863	1,980	1,867	1,911	2,061	1,863
37 Multifamily	3,710	3,248	2,929	3,248	3,271	3,173	2,989	2,929
38 Federal National Mortgage Association	61,412	71,814	78,256	71,814	73,666	74,669	75,174	78,256
39 1- to 4-family	55,986	66,500	73,045	66,500	68,370	69,396	69,938	73,045
40 Multifamily	5,426	5,314	5,211	5,314	5,296	5,273	5,236	5,211
41 Federal Land Banks	46,446	50,350	51,052r	50,350	50,544	50,858	51,069	51,052r
42 1- to 4-family	2,788	3,068	3,000r	3,068	3,059	3,030	3,008	3,000r
43 Farm	43,658	47,282	48,052r	47,282	47,485	47,828	48,061	48,052r
44 Federal Home Loan Mortgage Corporation	5,237	4,780	7,633r	4,780	4,850	6,235	6,856	7,633r
45 1- to 4-family	5,181	4,733	7,576r	4,733	4,795	6,119	6,799	7,576r
46 Multifamily	56	47	57r	47	55	116	57	57r
47 Mortgage pools or trusts[2]	163,000	216,654	285,021r	216,654	234,596	252,665	272,611	285,021r
48 Government National Mortgage Association	105,790	118,940	159,850r	118,940	127,939	139,276	151,597	159,850r
49 1- to 4-family	103,007	115,831	155,801r	115,831	124,482	135,628	147,761	155,801r
50 Multifamily	2,783	3,109	4,049	3,109	3,457	3,648	3,836	4,049r
51 Federal Home Loan Mortgage Corporation	19,853	42,964	57,843r	42,964	48,008	50,934	54,152	57,843r
52 1- to 4-family	19,501	42,560	57,206r	42,560	47,575	50,446	53,539	57,206r
53 Multifamily	352	404	637r	404	433	488	613	637r
54 Federal National Mortgage Association[3]	717	14,450	25,121	14,450	18,157	20,933	23,819	25,121
55 1- to 4-family	717	14,450	25,121	14,450	18,157	20,933	23,819	25,121
56 Farmers Home Administration	36,640	40,300	42,207	40,300	40,492	41,522	43,043	42,207
57 1- to 4-family	18,378	20,005	20,404	20,005	20,263	20,728	21,083	20,404
58 *Multifamily*	3,426	4,344	5,090	4,344	4,344	4,343	5,042	5,090
59 Commercial	6,161	7,011	7,351	7,011	7,115	7,303	7,542	7,351
60 Farm	8,675	8,940	9,362	8,940	8,770	9,148	9,376	9,362
61 Individual and others[4]	253,343	276,633	283,680	276,633	278,204	279,605	280,677	283,680
62 1- to 4-family[5]	167,297	185,170	185,320	185,170	185,479	185,515	185,699	185,320
63 Multifamily	27,982	30,755	32,352	30,755	31,275	31,868	31,208	32,352
64 Commercial	30,517	31,895	36,369	31,895	32,629	33,222	34,352	36,369
65 Farm	27,547	28,813	29,639	28,813	28,821	29,000	29,418	29,639

1 Includes loans held by nondeposit trust companies but not bank trust *departments*

2 Outstanding principal balances of mortgages backing securities insured or guaranteed by the agency indicated

3 *Outstanding balances on* FNMA's issues of securities backed by pools of conventional mortgages held in trust. The program was implemented by FNMA in October 1981

4 Other holders *include mortgage companies*, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and U S agencies for which amounts are small or for which separate data are not readily available.

5 Includes a new estimate of residential mortgage credit provided by individuals

NOTE Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve in conjunction with the Federal Home Loan Bank Board and the Department of Commerce Separation of nonfarm mortgage debt by type of property, if not reported directly, and interpolations and extrapolations when required, are estimated mainly by the Federal Reserve Multifamily debt refers to loans on structures of five or more units

1.55 CONSUMER INSTALLMENT CREDIT[1] Total Outstanding, and Net Change▲

Millions of dollars

Holder, and type of credit	1980	1981	1982r	1983 June	July	Aug.	Sept.	Oct.	Nov	Dec	1984 Jan
	Amounts outstanding (end of period)										
1 **Total**	**313,472**	**331,697**	**344,798**	**353,012**	**358,020**	**363,662**	**367,604**	**371,561**	**376,390**	**387,927**	**386,448**
By major holder											
2 Commercial banks	147,013	147,622	152,069	156,603	159,666	163,313	165,971	168,352	170,823	177,252	177,641
3 Finance companies	76,756	89,818	94,322	96,349	97,319	97,708	97,274	97,370	97,522	97,688	96,471
4 Credit unions	44,041	45,954	47,253	48,652	49,139	50,121	51,123	51,767	52,578	53,471	53,882
5 Retailers[2]	28,448	29,551	30,202	27,804	27,900	28,067	28,319	28,713	29,668	33,183	31,859
6 Savings and loans	9,911	11,598	13,891	16,207	16,369	16,615	17,130	17,624	18,080	18,568	18,646
7 Gasoline companies	4,468	4,403	4,063	4,159	4,356	4,457	4,338	4,243	4,157	4,131	4,300
8 Mutual savings banks	2,835	2,751	2,998	3,238	3,271	3,381	3,449	3,492	3,562	3,634	3,649
By major type of credit											
9 Automobile	116,838	125,331	130,227	136,183	138,689	141,677	142,477	143,621	144,663	146,078	146,842
10 Commercial banks	61,536	58,081	58,851	61,870	63,425	66,065	67,413	68,828	70,034	71,778	73,042
11 Indirect paper	35,233	34,375	35,178	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
12 Direct loans	26,303	23,706	23,673	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
13 Credit unions	21,060	21,975	22,596	23,269	23,502	23,972	24,451	24,759	25,147	25,574	48,029
14 Finance companies	34,242	45,275	48,780	51,044	51,762	51,640	50,613	50,034	49,482	48,726	25,771
15 Revolving	58,352	62,819	67,184	64,899	65,856	66,913	67,904	68,921	70,742	77,467	75,652
16 Commercial banks	29,765	32,880	36,688	36,515	37,173	37,973	38,848	39,576	40,573	43,965	43,262
17 Retailers	24,119	25,536	26,433	24,225	24,327	24,483	24,718	25,102	26,012	29,371	28,090
18 Gasoline companies	4,468	4,403	4,063	4,159	4,356	4,457	4,338	4,243	4,157	4,131	4,300
19 Mobile home	17,322	18,373	18,988	19,647	19,750	19,882	20,087	20,256	20,366	20,471	20,468
20 Commercial banks	10,371	10,187	9,684	9,651	9,717	9,741	9,766	9,767	9,761	9,732	9,718
21 Finance companies	3,745	4,494	4,965	4,995	4,982	5,012	5,038	5,062	5,043	5,033	5,018
22 Savings and loans	2,737	3,203	3,836	4,485	4,530	4,598	4,741	4,878	5,004	5,139	5,161
23 Credit unions	469	489	503	516	521	531	542	549	558	567	571
24 Other	120,960	125,174	128,399	132,283	133,725	135,190	137,136	138,763	140,619	143,911	143,486
25 Commercial banks	45,341	46,474	46,846	48,567	49,351	49,534	49,944	50,181	50,455	51,777	51,619
26 Finance companies	38,769	40,049	40,577	40,310	40,575	41,056	41,623	42,274	42,997	43,929	43,424
27 Credit unions	22,512	23,490	24,154	24,867	25,116	25,618	26,130	26,459	26,873	27,330	27,540
28 Retailers	4,329	4,015	3,769	3,579	3,573	3,584	3,601	3,611	3,656	3,812	3,769
29 Savings and loans	7,174	8,395	10,055	11,722	11,839	12,017	12,389	12,746	13,076	13,429	13,485
30 Mutual savings banks	2,835	2,751	2,998	3,238	3,271	3,381	3,449	3,492	3,562	3,634	3,649
	Net change (during period)[4]										
31 **Total**	**1,448**	**18,217**	**13,096**	**4,406**	**4,840**	**3,388**	**2,375**	**4,885**	**4,671**	**6,614**	**4,343**
By major holder											
32 Commercial banks	−7,163	607	4,442	2,422	2,766	2,317	1,829	2,629	2,749	4,688	2,656
33 Finance companies	8,438	13,062	4,504	470	909	239	−721	620	205	−24	89
34 Credit unions	−2,475	1,913	1,298	573	662	510	646	942	912	731	916
35 Retailers[2]	329	1,103	651	368	272	5	245	150	251	659	338
36 Savings and loans	1,485	1,682	2,290	456	188	147	507	376	438	513	217
37 Gasoline companies	739	−65	−340	77	5	65	−167	131	58	−31	72
38 Mutual savings banks	95	−85	251	40	38	105	36	37	58	78	55
By major type of credit											
39 Automobile	477	8,495	4,898	1,973	2,421	2,521	285	1,772	1,238	2,019	2,555
40 Commercial banks	−5,830	−3,455	770	1,284	1,482	2,359	1,243	1,499	1,302	2,131	2,042
41 Indirect paper	−3,104	−858	803	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
42 Direct loans	−2,726	−2,597	−33	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
43 Credit unions	−1,184	914	622	275	328	232	309	451	436	349	85
44 Finance companies	7,491	11,033	3,505	414	611	−70	−1,267	−178	−500	−461	428
45 Revolving	1,415	4,467	4,365	1,210	821	313	479	1,145	1,300	1,723	487
46 Commercial banks	−97	3,115	3,808	806	556	217	404	856	999	1,148	100
47 Retailers	773	1,417	897	327	260	31	242	158	243	606	315
48 Gasoline companies	739	65	−340	77	5	65	−167	131	58	−31	72
49 Mobile home	483	1,049	609	151	141	70	150	102	107	136	166
50 Commercial banks	−276	−186	−508	28	68	−14	8	−10	0	18	49
51 Finance companies	355	749	471	−6	7	15	1	−16	−14	−25	50
52 Savings and loans	430	466	633	123	59	64	134	118	111	135	58
53 Credit unions	−25	20	14	6	7	5	7	10	10	8	9
54 Other	−927	4,206	3,224	1,072	1,457	484	1,461	1,866	2,026	2,736	1,135
55 Commercial banks	−960	1,133	372	304	660	−245	174	284	448	1,391	465
56 Finance companies	592	1,280	528	62	291	294	545	814	719	462	−46
57 Credit unions	−1,266	975	662	292	327	273	330	481	466	374	479
58 Retailers	−444	−314	−246	41	12	−26	3	−8	8	53	23
59 Savings and loans	1,056	1,217	1,657	333	129	83	373	258	327	378	159
60 Mutual savings banks	95	−85	251	40	38	105	36	37	58	78	55

▲ These data have been revised from December 1980 through February 1983.

1. The Board's series cover most short- and intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repayment) in two or more installments

2. Includes auto dealers and excludes 30-day charge credit held by travel and entertainment companies

3 Not reported after December 1982

4. For 1982 and earlier, net change equals extensions, seasonally adjusted less liquidations, seasonally adjusted. Beginning 1983, net change equals outstandings, seasonally adjusted less outstandings of the previous period, seasonally adjusted.

NOTE. Total consumer noninstallment credit outstanding—credit scheduled to be repaid in a lump sum, including single-payment loans, charge accounts, and service credit—amounted to, not seasonally adjusted, $80.7 billion at the end of 1981, $85 9 billion at the end of 1982, and $96 9 billion at the end of 1983

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT

Percent unless noted otherwise

Item	1981	1982	1983	1983 Aug	1983 Sept	1983 Oct	1983 Nov	1983 Dec	1984 Jan	1984 Feb
INTEREST RATES										
Commercial banks[1]										
1 48-month new car[2]	16.54	16.83	13.92	13.50	...	...	13.46		...	13.32
2 24-month personal	18.09	18.65	16.68	16.28	...		16.39	...		16.16
3 120-month mobile home[2]	17.45	18.05	15.91	15.58	...	...	15.47	...		15.45
4 Credit card	17.78	18.51	18.73	18.75	...		18.75			18.73
Auto finance companies										
5 New car	16.17	16.15	12.58	12.77	13.62	13.54	13.50	13.92	14.18	...
6 Used car	20.00	20.75	18.74	18.25	18.21	18.15	18.16	18.06	17.54	
OTHER TERMS[3]										
Maturity (months)										
7 New car	45.4	46.0	45.9	45.9	46.2	46.2	46.3	46.3	46.3	
8 Used car	35.8	34.0	37.9	38.0	38.0	38.0	38.0	37.9	39.5	
Loan-to-value ratio										
9 New car	86.1	85.3	86.0	87	87	86	86	87	88	...
10 Used car	91.8	90.3	92.0	93	93	93	93	92	92	
Amount financed (dollars)										
11 New car	7,339	8,178	8,787	8,724	8,792	8,982	9,118	9,167	9,099	
12 Used car	4,343	4,746	5,033	5,103	5,144	5,213	5,316	5,401	5,392	...

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

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; half-yearly data are at seasonally adjusted annual rates.

Transaction category, sector	1978	1979	1980	1981	1982	1983	1981 H1	1981 H2	1982 H1	1982 H2	1983 H1r	1983 H2
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**369.8**	**386.0**	**343.2**	**377.2**	**395.3**	**509.5**	**392.4**	**362.0**	**356.8**	**434.8**	**497.3**	**521.7**
By sector and instrument												
2 U.S. government	53.7	37.4	79.2	87.4	161.3	186.6	87.8	86.9	106.9	215.5	231.1	142.1
3 Treasury securities	55.1	38.8	79.8	87.8	162.1	186.7	88.3	87.3	108.3	215.9	231.2	142.2
4 Agency issues and mortgages	-1.4	-1.4	-.6	-.5	-.9	-.1	-.5	-.4	1.4	-.4	-.1	-.1
5 Private domestic nonfinancial sectors	316.2	348.6	264.0	289.8	234.1	322.9	304.6	275.1	249.9	219.3	266.2	379.7
6 Debt capital instruments	199.7	211.2	192.0	158.4	152.4	227.9	179.3	137.5	139.7	166.1	221.1	234.7
7 Tax-exempt obligations	28.4	30.3	30.3	21.9	50.5	44.3	21.1	22.6	41.7	59.4	59.8	28.8
8 Corporate bonds	21.1	17.3	26.7	22.1	18.8	15.0	26.1	18.0	10.8	26.9	21.1	9.0
9 Mortgages	150.2	163.6	135.1	114.5	83.0	168.6	132.0	96.9	87.3	79.9	140.2	196.9
10 Home mortgages	112.2	120.0	96.7	75.9	56.6	111.4	92.6	59.2	55.8	58.6	92.9	129.8
11 Multifamily residential	9.2	7.8	8.8	4.3	1.3	9.2	4.9	3.7	4.2	1.7	6.2	12.1
12 Commercial	21.7	23.9	20.2	24.6	20.0	45.2	25.2	23.9	21.4	18.6	40.1	50.3
13 Farm	7.2	11.8	9.3	9.7	5.2	2.9	9.3	10.1	5.9	4.4	1.0	4.7
14 Other debt instruments	116.5	137.5	72.0	131.5	81.6	95.0	125.3	137.6	110.1	53.2	45.1	145.0
15 Consumer credit	48.8	45.4	4.9	24.1	18.3	54.2	28.9	19.3	19.3	17.4	39.8	68.6
16 Bank loans n.e.c.	37.4	51.2	36.7	54.7	54.4	19.1	45.5	63.9	70.1	38.8	6.6	31.6
17 Open market paper	5.2	11.1	5.7	19.2	-3.3	-1.2	12.0	26.3	6.5	-13.0	-16.3	14.0
18 Other	25.1	29.7	24.8	33.4	12.2	23.0	38.9	28.0	14.3	10.2	15.0	30.9
19 By borrowing sector	316.2	348.6	264.0	289.8	234.1	322.9	304.6	275.1	249.9	219.3	266.2	379.7
20 State and local governments	19.1	20.5	20.3	9.7	36.3	35.9	9.1	10.2	29.3	43.3	50.3	21.6
21 Households	169.4	176.4	117.5	120.6	86.3	163.6	139.8	101.3	87.6	86.1	128.5	198.7
22 Farm	14.6	21.4	14.4	16.3	9.0	3.9	20.1	12.5	9.0	9.1	-.4	8.2
23 Nonfarm noncorporate	32.4	34.4	33.7	39.6	29.8	62.0	39.8	39.5	34.6	24.9	51.3	72.7
24 Corporate	80.6	96.0	78.1	103.7	72.7	57.4	95.8	111.5	89.3	56.0	36.5	78.4
25 Foreign net borrowing in United States	33.8	20.2	27.2	27.2	15.7	19.2	31.9	22.5	12.8	18.6	18.5	19.9
26 Bonds	4.2	3.9	8	5.4	6.6	3.3	3.3	7.6	2.4	10.8	4.4	2.2
27 Bank loans n.e.c.	19.1	2.3	11.5	3.7	-6.2	5.9	3.1	4.2	-5.1	-7.2	14.7	-2.8
28 Open market paper	6.6	11.2	10.1	13.9	10.7	6.0	20.6	7.1	12.5	9.0	-4.6	16.5
29 U.S. government loans	3.9	2.9	4.7	4.2	4.5	4.0	4.9	3.5	3.0	6.0	4.0	4.0
30 **Total domestic plus foreign**	**403.6**	**406.2**	**370.4**	**404.4**	**411.0**	**528.7**	**424.4**	**384.5**	**369.6**	**453.4**	**515.7**	**541.6**
	Financial sectors											
31 **Total net borrowing by financial sectors**	**74.6**	**82.5**	**63.3**	**85.4**	**69.3**	**88.6**	**87.4**	**83.4**	**89.8**	**48.7**	**74.1**	**103.2**
By instrument												
32 U.S. government related	37.1	47.9	44.8	47.4	64.9	68.1	45.2	49.6	61.3	68.4	68.0	68.3
33 Sponsored credit agency securities	23.1	24.3	24.4	30.5	14.9	1.6	28.9	32.1	23.6	6.3	-2.4	5.7
34 Mortgage pool securities	13.6	23.1	19.2	15.0	49.5	66.5	14.9	15.1	37.0	62.1	70.4	62.5
35 Loans from U.S. government	4	6	1.2	1.9	4	..	1.4	2.4	8			.
36 Private financial sectors	37.5	34.6	18.5	38.0	4.4	20.5	42.2	33.8	28.5	-19.7	6.1	35.0
37 Corporate bonds	7.5	7.8	7.1	-.8	2.3	17.2	-.3	-1.4	-1.2	5.8	15.3	19.2
38 Mortgages	.1	*	-.1	-.5	.1	.1	-.8	-.2	.1	1	1	.1
39 Bank loans n.e.c.	2.8	-.4	-.4	2.2	3.2	2.9	3.2	1.1	5.2	1.2	-5.2	-.7
40 Open market paper	14.6	18.0	4.8	20.9	-2.0	13.2	23.5	18.4	14.0	-18.0	8.8	17.6
41 Loans from Federal Home Loan Banks	12.5	9.2	7.1	16.2	8	-7.0	16.7	15.8	10.4	-8.8	-12.9	-1.2
By sector												
42 Sponsored credit agencies	23.5	24.8	25.6	32.4	15.3	1.6	30.3	34.5	24.4	6.3	-2.4	5.7
43 Mortgage pools	13.6	23.1	19.2	15.0	49.5	66.5	14.9	15.1	37.0	62.1	70.4	62.5
44 Private financial sectors	37.5	34.6	18.5	38.0	4.4	20.5	42.2	33.8	28.5	-19.7	6.1	35.0
45 Commercial banks	1.3	1.6	.5	4	1.2	6	2	.5	7	1.7	.8	.5
46 Bank affiliates	7.2	6.5	6.9	8.3	1.9	8.6	6.9	9.7	9.7	-5.8	6.1	11.1
47 Savings and loan associations	13.5	12.6	7.4	15.5	-3.0	-5.2	16.8	14.1	9.1	-15.2	-10.8	.3
48 Finance companies	18.1	16.6	6.3	14.1	4.9	17.2	18.5	9.7	9.5	2	10.7	23.7
49 REITs	-1.4	-1.3	-2.2	.2	1	1	2	2	1	1	1	1
	All sectors											
50 **Total net borrowing**	**478.2**	**488.7**	**433.7**	**489.8**	**480.3**	**617.3**	**511.8**	**467.9**	**459.4**	**502.1**	**589.8**	**644.8**
51 U.S. government securities	90.5	84.8	122.9	133.0	225.9	254.7	131.8	134.3	167.6	284.0	299.1	210.4
52 State and local obligations	28.4	30.3	30.3	21.9	50.5	44.3	21.1	22.6	41.7	59.4	59.8	28.8
53 Corporate and foreign bonds	32.8	29.0	34.6	26.7	27.7	35.5	29.1	24.2	12.0	43.5	40.7	30.3
54 Mortgages	150.2	163.5	134.9	113.9	83.0	168.6	131.1	96.6	87.3	79.8	140.2	197.0
55 Consumer credit	48.8	45.4	4.9	24.1	18.3	54.2	28.9	19.3	19.3	17.4	39.8	68.6
56 Bank loans n.e.c.	59.3	53.0	47.8	60.6	51.4	22.1	51.8	69.3	70.2	32.8	16.1	28.0
57 Open market paper	26.4	40.3	20.6	54.0	5.4	18.0	56.1	51.9	33.0	-22.1	-12.1	48.0
58 Other loans	41.9	42.4	37.8	55.8	17.9	19.9	61.8	49.7	28.4	7.4	6.1	33.7
	External corporate equity funds raised in United States											
59 **Total new share issues**	**1.9**	**-3.8**	**22.2**	**-3.7**	**35.4**	**69.2**	**10.2**	**-17.7**	**23.7**	**47.0**	**87.1**	**51.3**
60 Mutual funds	-.1	1	5.2	6.8	18.6	32.6	8.1	5.6	13.2	24.0	38.7	26.4
61 All other	1.9	-3.9	17.1	-10.6	16.8	36.6	2.1	-23.2	10.6	23.0	48.3	24.9
62 Nonfinancial corporations	-.1	-7.8	12.9	-11.5	11.4	28.3	.9	-23.8	7.0	15.8	38.2	18.4
63 Financial corporations	2.5	3.2	2.1	9	4.1	4.4	.5	1.2	3.8	4.4	4.4	4.5
64 Foreign shares purchased in United States	-.5	8	2.1	*	1.3	3.9	.7	-.7	-.2	2.9	5.7	2.0

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	1978	1979	1980	1981	1982	1983	1981		1982		1983	
							H1	H2	H1	H2	H1	H2
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**369.8**	**386.0**	**343.2**	**377.2**	**395.3**	**509.5**	**392.4**	**362.0**	**356.8**	**434.8**	**497.3**	**521.7**
By public agencies and foreign												
2 Total net advances	102.3	75.2	97.0	97.4	109.3	114.8	113.8	81.0	107.9	110.8	129.5	100.0
3 U.S. government securities	36.1	−6.3	15.7	17.2	17.9	27.7	31.2	3.1	17.7	18.2	51.2	4.2
4 Residential mortgages	25.7	35.8	31.7	23.4	61.1	75.9	21.9	25.0	48.1	74.0	80.7	71.0
5 FHLB advances to savings and loans	12.5	9.2	7.1	16.2	8	−7.0	16.7	15.8	10.4	−8.8	−12.9	−1.2
6 Other loans and securities	28.0	36.5	42.4	40.6	29.5	18.3	44.1	37.1	31.7	27.4	10.4	26.1
Total advanced, by sector												
7 U.S. government	17.1	19.0	23.7	24.1	16.7	9.8	27.9	20.3	14.2	19.1	8.2	11.3
8 Sponsored credit agencies	40.3	53.0	45.6	48.2	65.3	68.9	47.2	49.2	62.5	68.1	69.1	68.7
9 Monetary authorities	7.0	7.7	4.5	9.2	9.8	10.9	2.4	16.0	.1	19.5	12.1	9.7
10 Foreign	38.0	−4.6	23.2	16.0	17.6	25.2	36.4	−4.4	31.1	4.1	40.1	10.3
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	37.1	47.9	44.8	47.4	64.9	68.1	45.2	49.6	61.3	68.4	68.0	68.3
12 Foreign	33.8	20.2	27.2	27.2	15.7	19.2	31.9	22.5	12.8	18.6	18.5	19.9
Private domestic funds advanced												
13 Total net advances	338.4	379.0	318.2	354.4	366.6	482.0	355.7	353.1	323.0	411.0	454.2	509.8
14 U.S. government securities	54.3	91.1	107.2	115.9	207.9	227.0	100.6	131.1	149.9	265.8	247.9	206.2
15 State and local obligations	28.4	30.3	30.3	21.9	50.5	44.3	21.1	22.6	41.7	59.4	59.8	28.8
16 Corporate and foreign bonds	23.4	18.5	19.3	19.4	15.4	12.1	20.9	17.9	−1.7	32.4	19.9	4.4
17 Residential mortgages	95.6	91.9	73.7	56.7	−3.3	44.6	75.5	37.9	11.7	−17.2	18.3	70.9
18 Other mortgages and loans	149.3	156.3	94.8	156.9	96.8	146.9	154.3	159.5	131.7	62.0	95.3	198.4
19 Less: Federal Home Loan Bank advances	12.5	9.2	7.1	16.2	8	−7.0	16.7	15.8	10.4	−8.8	−12.9	−1.2
Private financial intermediation												
20 Credit market funds advanced by private financial institutions	302.3	294.7	262.3	305.2	271.2	368.5	317.3	293.1	272.8	268.9	347.5	389.5
21 Commercial banking	129.0	123.1	101.1	103.6	108.5	135.3	99.6	107.6	109.7	107.1	127.6	143.0
22 Savings institutions	72.8	56.7	54.9	27.2	30.6	128.6	41.5	12.8	29.5	31.0	130.6	126.6
23 Insurance and pension funds	75.0	66.4	74.4	79.3	94.2	102.1	75.3	83.4	95.4	93.0	107.4	96.8
24 Other finance	25.5	48.5	32.0	95.2	37.9	2.6	101.0	89.4	38.1	37.8	−18.0	23.1
25 Sources of funds	302.3	294.7	262.3	305.2	271.2	368.5	317.3	293.1	272.8	268.9	347.5	389.5
26 Private domestic deposits and RPs	141.0	142.0	168.6	211.7	173.4	200.3	213.8	209.6	163.4	182.7	211.6	189.0
27 Credit market borrowing	37.5	34.6	18.5	38.0	4.4	20.5	42.2	33.8	28.5	−19.7	6.1	35.0
28 Other sources	123.8	118.1	75.2	55.5	93.5	147.7	61.3	49.8	80.8	105.9	129.8	165.5
29 Foreign funds	6.5	27.6	−21.7	−8.7	−27.7	17.2	−8.7	−8.7	−30.1	−25.4	−18.9	53.4
30 Treasury balances	6.8	4	−2.6	−1.1	6.1	−6.0	6.5	−8.7	−2.1	14.1	8.4	−20.4
31 Insurance and pension reserves	62.2	49.1	65.4	73.2	85.9	88.0	62.7	83.8	85.4	86.4	93.1	82.9
32 Other, net	48.4	41.0	34.0	−7.9	29.2	48.4	8	−16.7	27.6	30.7	47.2	49.6
Private domestic nonfinancial investors												
33 Direct lending in credit markets	73.6	118.9	74.4	87.2	99.7	134.0	80.6	93.8	78.7	122.4	112.8	155.3
34 U.S. government securities	36.3	61.4	38.3	47.4	58.1	89.8	37.2	57.6	43.1	72.7	88.0	91.5
35 State and local obligations	3.6	9.9	7.0	9.6	30.9	31.9	9.5	9.7	28.4	33.4	47.7	16.1
36 Corporate and foreign bonds	1.8	5.7	.6	−8.9	−9.4	−6.1	−5.5	−12.4	26.3	7.4	−19.1	6.8
37 Open market paper	15.6	12.1	−4.3	3.7	−2.0	7.7	−3.3	10.7	6.7	−10.7	−11.2	26.6
38 Other	19.9	29.8	32.9	35.4	22.1	10.8	42.7	28.2	26.8	19.6	7.4	14.2
39 Deposits and currency	152.2	151.4	180.0	221.7	179.4	217.5	222.6	220.7	166.2	192.1	231.9	203.2
40 Currency	9.3	7.9	10.3	9.5	8.4	13.9	8.0	11.0	4.5	12.3	14.1	13.8
41 Checkable deposits	16.2	18.7	5.0	18.1	13.0	22.5	29.8	6.5	6.7	19.1	53.1	8.0
42 Small time and savings accounts	65.9	59.2	83.1	47.2	137.0	216.6	30.7	63.6	95.1	178.6	295.8	137.4
43 Money market fund shares	6.9	34.4	29.2	107.5	24.7	−44.1	104.1	110.8	39.4	10.0	−84.0	−4.2
44 Large time deposits	44.4	23.0	44.7	36.4	−5.2	−2.3	41.6	31.2	21.2	−31.6	−64.4	59.8
45 Security RPs	7.5	6.6	6.5	2.5	3.8	7.5	7.7	−2.6	1.1	6.6	11.0	4.0
46 Deposits in foreign countries	2.0	1.5	1.1	5	−2.4	3.3	8	2	−1.8	−2.9	6.1	4
47 **Total of credit market instruments, deposits and currency**	**225.8**	**270.3**	**254.4**	**308.9**	**279.1**	**351.6**	**303.3**	**314.5**	**244.9**	**314.5**	**344.7**	**358.5**
48 Public holdings as percent of total	25.3	18.5	26.2	24.1	26.6	21.7	26.8	21.1	29.2	24.4	25.1	18.5
49 Private financial intermediation (in percent)	89.3	77.7	82.4	86.1	74.0	76.5	89.2	83.0	84.4	65.4	76.5	76.4
50 Total foreign funds	44.6	23.0	1.5	7.3	10.2	42.5	27.8	−13.1	1.0	−21.3	21.2	63.7
MEMO: Corporate equities not included above												
51 **Total net issues**	**1.9**	**−3.8**	**22.2**	**−3.7**	**35.4**	**69.2**	**10.2**	**−17.7**	**23.7**	**47.0**	**87.1**	**51.3**
52 Mutual fund shares	−1	1	5.2	6.8	18.6	32.6	8.1	5.6	13.2	24.0	38.7	26.4
53 Other equities	1.9	3.9	17.1	10.6	16.8	36.6	2.1	−23.2	10.6	23.0	48.3	24.9
54 Acquisitions by financial institutions	4.5	9.7	16.8	22.1	27.9	54.4	25.3	18.9	19.3	36.4	68.4	40.3
55 Other net purchases	−2.7	−13.5	5.4	−25.9	7.5	14.8	−15.1	−36.6	4.4	10.6	18.6	11.0

NOTES BY LINE NUMBER.
1. Line 1 of table 1.58.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.
13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.
18. Includes farm and commercial mortgages.
26. Line 39 less lines 40 and 46.
27. Excludes equity issues and investment company shares. Includes line 19.
29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates.
30. Demand deposits at commercial banks.
31. Excludes net investment of these reserves in corporate equities.
32. Mainly retained earnings and net miscellaneous liabilities.
33. Line 12 less line 20 plus line 27.
34–38. Lines 14–18 less amounts acquired by private finance. Line 38 includes mortgages.
40. Mainly an offset to line 9.
47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.
48. Line 2/line 1.
49. Line 20/line 13.
50. Sum of lines 10 and 29.
51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

1967 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1981	1982	1983	1983 July	1983 Aug.	1983 Sept	1983 Oct	1983 Nov	1983 Dec	1984 Jan.r	1984 Feb.r	1984 Mar
1 **Industrial production**[1]	**151.0**	**138.6**	**147.6**	**149.7**	**151.8**	**153.8**	**155.0**	**155.3**	**156.2r**	**158.4**	**160.0**	**160.7**
Market groupings												
2 Products, total	150 6	141 8	149.2r	150 9	153 2	154 9	155 6	155.8	157 4r	159 7	160.7	161 2
3 Final, total	149 5	141.5	147 1	149.0	150 7	152 1	152.7	153 2	155.2r	157 5	158.4	159.0
4 Consumer goods	147 9	142.6	151 7	154 8	156.3	157 3	156.9	156 1	157.7r	159 5	159.9	160 3
5 Equipment	151 5	139.8	140 8	141.0	143 1	144 9	147.0	149 1	151.8r	154.7	156 3	157 1
6 Intermediate	154.4	143 3	156 6	158 1	162 2	165 4	166.5	165 5	165.4r	167 8	169 3	169 6
7 Materials	151 6	133 7	145 2	147 8	149 7	152 2	154.0	154.5	154.5r	156 5	158 9	159 8
Industry groupings												
8 Manufacturing	150.4	137 6	148.2r	150 6	152 8	155 1	156 2	156.4	156 8r	159.3	161 4	162.1
Capacity utilization (percent)[1,2]												
9 Manufacturing	79 4	71 1	75 2	76 4	77.3	78 4	78 9	78 8	78 9r	80 0	80.9	81 1
10 Industrial materials industries	80 7	70.1	75 2	76 5	77 4	78 6	79.5	79 6	79.6r	80 5	81.6	81 9
11 Construction contracts (1977 = 100)[3]	111.0	111 0	138 0	137.0	154.0	143.0	139 0	145.0	134 0	150.0	150 0	n a
12 Nonagricultural employment, total[4]	138.5	136 2	136.8	137.0	136 4	138.1	138 4	138.8	139 2	139.7	140 3	140.6
13 Goods-producing, total	109.4	102 6	101.5	101.8	102 2	102 7	103 7	104.3	104 7	105 6	106 3	106.3
14 Manufacturing, total	103 7	96 9	96 0	96 3	96.6	97 0	98.0	98.6	99.1	99 7	100.2	100 5
15 Manufacturing, production-worker	98.0	89 4	88 7	89 2	89 5	89.9	91 2	91.9	92 5	93.1	93 7	94 0
16 Service-producing	154 4	154 6	156 1	156 3	155.1	157 5	157.5	157 8	158.1	158 4	159.0	159.3
17 Personal income, total	386.5	409.3	453 3	436.1	437.5	441.5	446 5	450.0	453 7	460.6	463 9	n a.
18 Wages and salary disbursements	349 7	367 2	389 8	391 9	393.6	396 2	400 6	401 7	404 1	409 4	411.5	n a.
19 Manufacturing	287.3	286 2	300.4	302.6	304 6	308.2	310 2	312.8	314 3	320 1	323 4	n a.
20 Disposable personal income[5]	373.7	397.3	426 3	429.0	430 1	434.1	438 8r	442.1r	446 2	453.2r	456.5r	n a.
21 Retail sales[6]	330 6	326.0	372 9	380.3	373.7	379.1	385 3	389.8	390 3	399.0		n a.
Prices[7]												
22 Consumer	272 4	289 1	298.4	299 3	300.3	301.8	302.6	303.1	303.5	305.2	306 6	n a.
23 Producer finished goods	269 8	280 7	285.2	285 7	286.1	285 1	287.9	286 8	287.1	289 4	290.6	n a.

1. The capacity utilization series has been revised back to January 1967
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 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION

Seasonally adjusted

Series	Output (1967 = 100) 1983 Q2	1983 Q3	1983 Q4r	1984 Q1	Capacity (percent of 1967 output) 1983 Q2	1983 Q3	1983 Q4r	1984 Q1	Utilization rate (percent) 1983 Q2	1983 Q3	1983 Q4	1984 Q1
1 **Total industry**	**144.5**	**151.8**	**155.5**	**159.7**	**195.5**	**196.4**	**197.3**	**198.3**	**73.9**	**77.3**	**78.8**	**80.5**
2 Mining	112 3	116 1	121 0	124 4	165 3	165 4	165 5	165 7	67 9	70 2	73 1	75 1
3 Utilities	169 6	178.2	178 4	178.9	209 8	211 1	212.4	213 8	80.8	84.4	84 0r	83.7
4 **Manufacturing**	**145.2**	**152.8**	**156.5**	**160.9**	**196.6**	**197.5**	**198.4**	**199.5**	**73.8**	**77.4**	**78.9**	**80.7**
5 Primary processing	145 2	152.8	156 4	159 9	194 8	195 3	195 8	196 4	74 6	78 3	79.9	81 4
6 Advanced processing	145.1	152 8	156 1	161.8	197 6	198 6	199.7	201 0	73 5	76.9	78.2	80.5
7 **Materials**	**141.7**	**149.9**	**154.3**	**158.4**	**192.9**	**193.4**	**194.0**	**194.7**	**73.5**	**77.5**	**79.6**	**81.3**
8 Durable goods	134.7	144 2	150.3	157.3	195.6	196.0	196 5	197.1	68 9	73.6	76.5	79 8
9 Metal materials	84.9	89 3	93 8	97 0	139 9	139 8	139 6	139.1	60 7	63.9	67 2	69.7
10 Nondurable goods	171.7	179 1	183.5	182 3	218.8	219.6	220.6	221.8	78 5	81.5	83.2r	82 2
11 Textile, paper, and chemical	179.6	188 0	193.2	191.8	230 7	231.6	232 7	234.2	77.9	81 2	83.0r	81 9
12 Paper	153.4	162 8	167.4	167 1	166 1	166.9	167 7	168.5	92 3	97 5	99.8r	99 1
13 Chemical	219 4	227 8	235 0	233 3	296.6	298 3	300.1	302 3	74 0	76 4	78.3r	77 1
14 Energy materials	121.5	127 4	127.8	131 5	154.3	154 7	155 3	155.8	78 7	82.3	82 3r	84.4

2.11 Continued

Series	Previous cycle[1]		Latest cycle[2]		1983	1983						1984		
	High	Low	High	Low	Mar	July	Aug.	Sept	Oct	Nov	Dec r	Jan r	Feb r	Mar
	Capacity utilization rate (percent)													
15 **Total industry**	**88.4**	**71.1**	**87.3**	**76.5**	**71.8**	**76.3**	**77.3**	**78.2**	**78.7**	**78.7**	**79.1**	**80.0**	**80.7**	**80.9**
16 Mining	91.8	86.0	88.5	84.0	68.1	69.5	70.2	70.8	71.5	73.2	74.7	75.2	75.2	74.7
17 Utilities	94.9	82.0	86.7	83.8	79.4	83.5	85.0	84.8	83.3	83.0	85.7	84.8	82.8	83.4
18 **Manufacturing**	**87.9**	**69.0**	**87.5**	**75.5**	**71.6**	**76.4**	**77.3**	**78.4**	**78.9**	**78.8**	**78.9**	**80.0**	**80.9**	**81.1**
19 Primary processing	93.7	68.2	91.4	72.6	72.1	77.1	78.1	79.7	80.4	80.0	79.2	80.4	81.6	81.7
20 Advanced processing	85.5	69.4	85.9	77.0	71.5	76.0	76.9	77.8	77.9	78.0	78.6	79.8	80.5	80.8
21 **Materials**	**92.6**	**69.3**	**88.9**	**74.2**	**71.5**	**76.5**	**77.4**	**78.6**	**79.5**	**79.6**	**79.6**	**80.5**	**81.6**	**81.9**
22 Durable goods	91.4	63.5	88.4	68.4	66.0	72.1	73.6	75.2	76.1	76.5	77.0	78.5	80.2	80.7
23 Metal materials	97.8	68.0	95.4	59.4	58.8	62.3	64.0	65.5	68.0	66.8	66.8	67.3	70.6	71.3
24 Nondurable goods	94.4	67.4	91.7	77.5	76.8	80.7	81.1	82.9	84.1	83.8	81.6	81.8	82.4	82.4
25 Textile, paper, and chemical	95.1	65.4	92.3	75.5	75.8	80.4	80.5	82.6	84.1	83.7	81.2	81.4	82.0	82.1
26 Paper	99.4	72.4	97.9	89.8	90.3	96.7	96.9	99.0	99.4	101.3	98.8	99.3	99.1	n.a.
27 Chemical	95.5	64.2	91.3	70.7	71.9	75.9	75.5	77.8	79.7	79.0	76.2	76.5	77.4	n.a.
28 Energy materials	94.5	84.4	88.7	84.4	79.2	82.6	82.8	81.6	81.4	81.8	83.6	84.2	84.4	84.6

1. Monthly high 1973, monthly low 1975.

2. Preliminary, monthly highs December 1978 through January 1980, monthly lows July through October 1980.

2.12 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted

Category	1981	1982	1983	1983					1984		
				Aug	Sept	Oct.	Nov	Dec.	Jan. r	Feb	Mar
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population**[1]	**172,272**	**174,450**	**176,414**	**176,648**	**176,811**	**176,990**	**177,151**	**177,325**	**177,733**	**177,882**	**178,033**
2 Labor force (including Armed Forces)[1]	110,812	112,383	113,749	114,325	114,438	114,077	114,235	114,340	114,415	114,896	115,121
3 Civilian labor force	108,670	110,204	111,550	112,117	112,229	111,866	112,035	112,136	112,215	112,693	112,912
Employment											
4 Nonagricultural industries[2]	97,030	96,125	97,450	98,035	98,568	98,730	99,349	99,585	99,918	100,496	100,859
5 Agriculture	3,368	3,401	3,383	3,449	3,308	3,240	3,257	3,356	3,271	3,395	3,281
Unemployment											
6 Number	8,273	10,678	10,717	10,633	10,353	9,896	9,429	9,195	9,026	8,801	8,772
7 Rate (percent of civilian labor force)	7.6	9.7	9.6	9.5	9.2	8.8	8.4	8.2	8.0	7.8	7.8
8 Not in labor force	61,460	62,067	62,665	62,323	62,373	62,913	62,916	62,985	63,318	62,986	62,912
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment**[3]	**91,156**	**89,596**	**89,986**	**89,748**	**90,851**	**91,084**	**91,355**	**91,599**	**91,930**	**92,347**	**92,490**
10 Manufacturing	20,170	18,853	18,678	18,793	18,871	19,064	19,172	19,280	19,389	19,491	19,551
11 Mining	1,132	1,143	1,021	1,023	1,026	1,044	1,045	1,047	1,051	1,053	1,053
12 Contract construction	4,176	3,911	3,949	4,014	4,038	4,060	4,094	4,088	4,177	4,228	4,178
13 Transportation and public utilities	5,157	5,081	4,943	4,341	5,031	5,019	5,019	5,015	5,057	5,067	5,069
14 Trade	20,551	20,401	20,508	20,580	20,612	20,666	20,718	20,781	20,860	20,925	20,941
15 Finance	5,301	5,340	5,456	5,488	5,499	5,503	5,515	5,525	5,553	5,566	5,571
16 Service	20,547	19,064	19,685	19,835	19,913	19,956	20,016	20,093	20,101	20,241	20,365
17 Government	16,024	15,803	15,747	15,674	15,861	15,775	15,776	15,770	15,742	15,776	15,762

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2. Includes self-employed, unpaid family, and domestic service workers.

3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1983 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value

Monthly data are seasonally adjusted

Grouping	1967 proportion	1983 avg r	1983 Mar	1983 Apr	1983 May	1983 June	1983 July	1983 Aug	1983 Sept.	1983 Oct	1983 Nov	1983 Dec r	1984 Jan.	1984 Feb p	1984 Mar e
			Index (1967 = 100)												
MAJOR MARKET															
1 **Total index**	**100.00**	**147.6**	**140.0**	**142.6**	**144.4**	**146.4**	**149.7**	**151.8**	**153.8**	**155.0**	**155.3**	**156.2**	**158.4**	**160.0**	**160.7**
2 Products	60.71	149.2	141.6	144.5	146.2	148.1	150.9	153.2	154.9	155.6	155.8	157.4	159.7	160.7	161.2
3 Final products	47.82	147.1	139.9	142.8	144.5	146.4	149.0	150.7	152.1	152.7	153.2	155.2	157.5	158.4	159.0
4 Consumer goods	27.68	151.7	144.3	147.7	150.4	152.4	154.8	156.3	157.4	156.9	156.1	157.7	159.5	159.9	160.3
5 Equipment	20.14	140.8	133.8	136.2	136.5	138.2	141.0	143.1	144.9	147.0	149.1	151.8	154.7	156.3	157.1
6 Intermediate products	12.89	156.6	147.8	150.8	152.2	154.5	158.1	162.2	165.3	166.5	165.5	165.4	167.8	169.3	169.6
7 Materials	39.29	145.2	137.6	139.7	141.7	143.7	147.8	149.7	152.3	154.0	154.5	154.5	156.5	158.9	159.8
Consumer goods															
8 Durable consumer goods	7.89	147.5	136.3	140.5	145.5	149.2	152.9	154.2	157.4	156.7	155.9	158.6	163.3	163.2	163.8
9 Automotive products	2.83	158.2	142.6	144.9	152.2	160.0	167.0	168.1	172.9	171.3	171.5	178.4	184.3	183.1	185.1
10 Autos and utility vehicles	2.03	134.0	116.4	117.8	124.9	135.4	145.4	147.0	153.1	149.2	149.2	157.8	163.3	162.9	165.0
11 Autos	1.90	117.4	99.9	102.7	107.4	118.3	129.8	132.0	135.0	129.6	129.4	137.4	140.7	141.2	143.1
12 Auto parts and allied goods	.80	219.6	209.3	213.6	221.5	222.6	221.9	221.8	223.1	227.4	228.2	230.7	237.4	234.4	235.9
13 Home goods	5.06	141.4	132.8	138.1	141.8	143.2	144.9	146.4	148.7	148.4	147.2	147.5	151.6	152.1	151.9
14 Appliances, A/C, and TV	1.40	116.4	105.0	106.1	112.8	114.4	116.2	121.2	125.2	129.2	127.0	126.3	136.4	137.1	135.3
15 Appliances and TV	1.33	120.1	108.5	109.7	116.1	118.4	119.7	125.0	129.7	133.3	131.3	130.2	140.0	140.6	..
16 Carpeting and furniture	1.07	178.1	168.3	180.5	181.9	185.6	187.3	187.5	186.3	185.5	182.7	184.0	183.6	179.6	
17 Miscellaneous home goods	2.59	139.9	133.3	137.9	140.9	141.3	143.0	143.2	145.9	143.6	143.4	143.9	146.7	148.9	149.5
18 Nondurable consumer goods	19.79	153.4	147.5	150.5	152.3	153.6	155.6	157.1	157.5	157.1	156.1	157.3	158.0	158.6	158.9
19 Clothing	4.29														
20 Consumer staples	15.50	163.7	158.1	161.1	162.8	164.3	166.1	168.0	168.0	167.2	165.4	166.0	166.5	167.1	167.7
21 Consumer foods and tobacco	8.33	153.5	148.4	150.9	153.2	155.9	156.6	156.3	154.9	156.0	154.5	155.4	156.5	.	....
22 Nonfood staples	7.17	175.4	169.4	172.9	174.0	174.1	177.2	181.6	183.2	180.3	178.1	178.3	178.2	178.6	179.6
23 Consumer chemical products	2.63	231.0	225.6	225.5	227.8	229.0	233.8	239.7	241.5	238.7	232.4	229.9	231.6	233.7	
24 Consumer paper products	1.92	132.7	128.1	129.2	128.6	130.1	132.6	137.4	138.2	137.6	136.6	137.2	138.8	139.5	...
25 Consumer energy products	2.62	150.9	143.3	152.2	153.4	151.2	153.2	155.7	157.7	153.0	154.1	156.5	153.3	151.9	.
26 Residential utilities	1.45	173.4	166.1	175.5	174.3	170.5	173.2	179.9	182.8	174.5	175.8	185.2	180.0	.	....
Equipment															
27 Business	12.63	153.3	143.7	146.9	147.7	150.2	153.3	156.6	158.8	161.3	164.1	167.3	170.9	172.5	173.3
28 Industrial	6.77	120.4	113.1	113.5	114.5	116.3	119.9	124.3	125.6	126.6	128.6	130.8	133.4	134.3	134.3
29 Building and mining	1.44	159.3	145.3	141.8	146.2	148.7	154.4	159.2	160.8	166.9	175.8	185.3	185.6	181.1	175.0
30 Manufacturing	3.85	107.1	99.7	101.7	102.5	105.0	108.9	113.3	115.0	114.6	114.3	115.1	118.9	121.5	123.3
31 Power	1.47	117.1	116.2	116.6	115.0	114.1	114.6	119.0	118.8	118.5	119.4	118.4	120.0	121.9	123.3
32 Commercial transit, farm	5.86	191.3	179.2	185.4	186.1	189.5	191.9	194.0	196.7	201.3	205.1	209.6	214.2	216.7	218.4
33 Commercial	3.26	273.2	255.7	264.3	265.0	270.9	276.0	277.4	281.2	288.1	292.5	298.9	304.1	308.0	311.4
34 Transit	1.93	95.2	90.1	92.0	92.6	93.2	92.0	95.9	97.6	100.0	103.2	106.0	111.1	111.4	110.0
35 Farm	.67	69.5	63.4	70.2	71.3	70.4	70.8	70.8	71.0	70.9	73.5	73.5	73.6	75.7	
36 Defense and space	7.51	119.9	117.0	118.2	117.6	118.0	120.4	120.2	121.8	122.9	124.0	125.7	127.6	129.0	129.9
Intermediate products															
37 Construction supplies	6.42	142.5	133.1	136.4	138.4	142.1	145.8	149.0	151.1	152.3	151.6	151.5	155.5	157.6	158.0
38 Business supplies	6.47	170.7	162.3	165.2	166.0	166.8	170.4	175.3	179.3	180.6	179.4	179.3	180.0	180.8	.
39 Commercial energy products	1.14	184.3	180.3	183.3	183.1	181.4	185.2	186.9	190.2	187.0	187.6	188.0	192.1	190.9	
Materials															
40 Durable goods materials	20.35	138.6	128.7	132.4	134.7	137.0	141.1	144.2	147.2	149.4	150.3	151.3	154.5	158.1	159.3
41 Durable consumer parts	4.58	113.6	104.0	106.5	108.5	109.5	115.6	119.9	123.1	124.9	125.0	127.9	131.4	132.9	133.7
42 Equipment parts	5.44	176.4	162.5	167.2	170.6	175.8	180.8	183.6	186.0	188.3	192.5	193.4	198.2	203.8	206.4
43 Durable materials n.e.c.	10.34	129.9	121.9	125.4	127.5	128.7	131.5	134.2	137.4	139.8	139.3	139.5	141.7	145.2	145.9
44 Basic metal materials	5.57	90.2	86.0	87.8	89.3	89.6	90.8	93.1	94.5	98.0	97.1	96.9	97.7	102.1	.
45 Nondurable goods materials	10.47	174.5	167.5	168.7	172.1	174.3	177.0	178.0	183.4	185.3	184.8	180.3	181.0	182.7	183.3
46 Textile, paper, and chemical materials	7.62	182.6	174.3	175.9	180.2	182.8	186.1	186.4	192.0	195.4	194.7	189.6	190.3	192.2	192.9
47 Textile materials	1.85	116.2	110.6	110.6	114.6	116.0	119.0	121.5	123.1	124.0	121.9	121.3	119.9	120.6	
48 Paper materials	1.62	158.2	149.5	150.8	154.4	155.0	161.1	161.8	165.4	166.3	169.8	166.0	166.9	166.9	....
49 Chemical materials	4.15	221.7	212.5	214.9	219.6	223.6	225.9	225.1	233.1	238.7	237.0	229.3	230.8	234.0	...
50 Containers, nondurable	1.70	167.9	163.8	163.2	164.3	166.1	166.5	170.6	179.1	175.9	176.6	173.0	173.4	173.1	.
51 Nondurable materials n.e.c.	1.14	130.5	127.7	129.1	129.7	129.9	131.3	133.0	132.6	131.9	130.6	129.5	130.0	134.0	
52 Energy materials	8.48	124.8	121.9	121.6	121.1	121.8	127.7	128.0	126.4	126.3	127.1	130.0	131.1	131.5	132.0
53 Primary energy	4.65	114.7	114.4	113.9	113.8	112.6	115.4	113.9	112.8	114.1	115.5	117.6	119.1	119.8	..
54 Converted fuel materials	3.82	137.0	131.1	131.0	129.9	132.9	142.7	145.2	142.8	141.2	141.1	145.1	145.7	145.7	
Supplementary groups															
55 Home goods and clothing	9.35	129.9	122.0	126.3	129.2	130.2	132.3	133.3	135.2	135.5	135.9	137.6	140.4	141.0	140.6
56 Energy, total	12.23	135.9	131.9	133.9	133.8	133.6	138.5	139.4	139.0	137.7	138.5	141.1	141.5	141.4	142.1
57 Products	3.76	161.0	154.5	161.7	162.4	160.4	162.9	165.2	167.5	163.3	164.3	166.0	165.1	163.7	
58 Materials	8.48	124.8	121.9	121.6	121.1	121.8	127.7	128.0	126.4	126.3	127.1	130.0	131.1	131.5	132.0

2.13 Continued

Grouping	SIC code	1967 pro-por-tion	1983 avg.[1]	1983										1984		
				Mar	Apr	May	June	July	Aug.	Sept	Oct	Nov	Dec[r]	Jan	Feb[p]	Mar[e]
				Index (1967 = 100)												
MAJOR INDUSTRY																
1 Mining and utilities		12 05	142.9	137 7	138 9	139 7	139 6	143 8	146.0	146 5	145 8	147 2	151 5	151 3	149 3	149 8
2 Mining	. .	6 36	116.6	112.6	111 6	112.8	112 6	115.0	116 1	117 1	118 3	121 1	123 7	124 6	124 6	123 9
3 Utilities		5 69	172 4	165.8	169 3	169.7	169 8	176 0	179 3	179.3	176 5	176 3	182 5	181 0	177 0	178 8
4 Electric	. .	3.88	196 0	188.2	192.7	192.9	192.0	200 9	205 4	204.5	200 7	200.2	208 0	206 8	200 6	202 9
5 Manufacturing	.	87.95	148.2	140 4	143.1	145 1	147.4	150 6	152.8	155 1	156 2	156.4	156 8	159.3	161 4	162 1
6 Nondurable		35 97	168.1	160 7	163.3	165.4	167.8	170.6	172.9	174 6	175.6	174 8	173 9	175.3	177 0	177 3
7 Durable		51 98	134 5	126 3	129 1	131.0	133 2	136.8	138 8	141.6	142 8	143 6	145 0	148 2	150 7	151 5
Mining																
8 Metal	10	51	80.9	75 2	79 8	84 4	82 9	82 5	80 9	78 7	81 0	84 6	82 3	89 4	101 7	
9 Coal	11.12	69	136.3	127 3	125.3	125 6	124.6	139 9	141 2	140 5	142 7	144.8	145 2	151 5	163 2	164 2
10 Oil and gas extraction	13	4 40	116 6	114 4	112.2	112 5	112.6	113 9	114 7	116 3	117 3	119.8	123 4	122 8	119 4	117 8
11 Stone and earth minerals	14	.75	122 8	114 0	117 7	122.5	121 7	121.2	125.0	126 5	127 4	132 2	133 9	135.0	135 2	
Nondurable manufactures																
12 Foods	20	8 75	156 4	152.0	153 7	155 6	157 7	159.9	159 3	158 2	157 6	157 1	157 7	159 9		
13 Tobacco products	21	67	112 1	113.4	114 8	112 9	120 0	112 9	117 1	112.7	109 1	109 5	112 3	116 4		
14 Textile mill products	22	2 68	140.8	131 9	136.6	139 6	141 8	146.7	147.4	148 7	148.7	145 8	145 0	143.9	144 0	
15 Apparel products	23	3 31														
16 Paper and products	26	3 21	164.3	156 3	157 0	161 5	163 0	165 1	168.6	170 4	171.5	172 1	170 1	172.1	175 0	176 0
17 Printing and publishing	27	4 72	152 5	145 9	145 7	145 2	147.4	152 0	157 8	161.7	162.7	162.0	161 7	163 4	163.9	164 7
18 Chemicals and products	28	7 74	215 0	205 7	208 5	211 0	214.7	218 3	220 3	224 1	228 4	225 6	221 1	221 8	224.2	
19 Petroleum products	29	1.79	120 3	114 8	120 6	123 8	123.0	124 3	123 2	125 1	123 6	125.4	114 4	118 8	126 5	127 9
20 Rubber and plastic products	30	2 24	291 9	272.0	283 0	288 0	293 8	296 1	306.9	310 9	310 8	309.1	314 4	315 0	318 5	
21 Leather and products	31	86	61.9	59.4	58 7	59 6	60 1	62.3	64.4	64 2	64 0	63 2	66 0	63 6	65 5	
Durable manufactures																
22 Ordnance, private and government	19.91	3.64	95 4	91 9	93.2	92.6	93.3	95 2	96.8	98 0	98.8	99.3	99 8	99 7	99 9	100 0
23 Lumber and products	24	1 64	137 2	128 7	132 1	135 8	137 4	141 3	141 6	142 3	141 7	141 0	143 8	146 4	148 2	
24 Furniture and fixtures	25	1.37	170.5	161 0	167.7	169.6	173.1	175 2	179.0	180 7	181 0	177 5	177 9	181.8	183 4	
25 Clay, glass, stone products	32	2 74	143 4	135.6	138 3	139.2	141 7	145 8	147 9	151.7	151 9	152 7	153.8	157 0	160 1	
26 Primary metals	33	6 57	85 4	81 2	83 1	84 9	84 8	85 5	87 5	90 6	95 3	92 2	90 4	93 2	97 5	97 3
27 Iron and steel	331 2	4.21	71 5	66 9	68 5	69.5	69 7	71.8	75 1	78 2	84 3	79 2	74 1	80 7	86 1	
28 Fabricated metal products	34	5 93	120 2	113 9	115 3	115 5	118.5	122 7	126.0	127 4	26 9	128.5	129 2	131 7	133 5	134 1
29 Nonelectrical machinery	35	9.15	150.6	138.6	143 1	146.1	149 5	154.2	157 3	158 3	159 2	161 8	164 3	168 8	172 2	173 7
30 Electrical machinery	36	8 05	185 5	173 8	177 2	180.1	182 4	188 3	189 2	195.8	198 4	200 1	201 5	206 2	210 0	212 5
31 Transportation equipment	37	9 27	117 8	110.1	111 4	113.8	116 6	119.7	121 1	124 7	125 5	127 3	130 8	134 2	135 1	135 8
32 Motor vehicles and parts	371	4 50	137 1	123 2	125 5	130 4	136 2	142.3	144 3	150.9	150 9	152 9	158 9	164 9	165 2	166 7
33 Aerospace and miscellaneous transportation equipment	372–9	4 77	99 6	97 7	98 1	98 1	98 1	98 5	99 2	100 0	101.6	103 2	104 3	105 3	106 7	106 7
34 Instruments	38	2 11	158 7	154.0	155 1	156 0	156 1	159.3	161 6	163 6	163 0	163 0	164 6	167 0	168 4	168 7
35 Miscellaneous manufactures	39	1 51	146 2	136 9	145 0	149 0	151 0	153 7	153.1	151 7	149 1	148.9	149 3	150 1	152 5	151 9
		Gross value (billions of 1972 dollars, annual rates)														
MAJOR MARKET																
36 **Products, total**	. .	**507.4**	**612.6**	**584.1**	**592.6**	**601.8**	**610.5**	**620.5**	**626.6**	**637.0**	**637.8**	**638.4**	**645.4**	**654.0**	**658.6**	**659.9**
37 Final	.	390 9	472.6	451.3	457 7	465.6	471 8	478.2	481 8	489.9	490.7	490 8	497 8	504 3	507 7	508.6
38 Consumer goods	. .	277.5	328 7	313 8	318 8	325 6	330.4	333 7	336.7	341 6	340.2	338.3	341 9	344.8	346 6	347 2
39 Equipment		113 4	144.0	137 5	138.9	140 0	141.4	144.5	145.1	148 4	150.5	152.5	155 9	159.4	161 1	161 4
40 Intermediate	. .	116.6	140 0	132 8	134.9	136 2	138.7	142 3	144.8	147 1	147 1	147 6	147 6	149 8	150 9	151 4

1 1972 dollar value

2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1981	1982	1983[r]	1983 May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	1984 Jan.[r]	Feb.
	Private residential real estate activity (thousands of units)												
NEW UNITS													
1 Permits authorized	986	1,001	1,590	1,635	1,761	1,782	1,652	1,506	1,630	1,642	1,549	1,817	1,941
2 1-family	564	546	891	940	1,013	920	874	837	880	911	898	1,001	1,111
3 2-or-more-family	421	454	699	695	748	862	778	669	750	731	651	816	830
4 Started	1,084	1,062	1,703	1,779	1,743	1,793	1,873	1,679	1,672	1,730	1,694	1,976	2,197
5 1-family	705	663	1,068	1,150	1,124	1,048	1,124	1,038	1,017	1,074	1,021	1,307	1,360
6 2-or-more-family	379	400	636	629	619	745	749	641	655	656	673	669	837
7 Under construction, end of period[1]	682	720	1,006	900	933	963	977	988	987	1,011	1,023	1,044	
8 1-family	382	400	525	518	532	537	542	542	536	543	543	557	
9 2-or-more-family	301	320	482	382	400	425	435	446	450	468	479	487	
10 Completed	1,266	1,006	1,390	1,353	1,386	1,432	1,729	1,476	1,567[r]	1,445	1,479	1,560	n.a.
11 1-family	818	631	924	851	959	1,000	1,050	966	1,028[r]	994	986	985	
12 2-or-more-family	447	374	466	502	427	432	679	510	539[r]	451	493	575	
13 Mobile homes shipped	241	239	295	289	299	296	307	305	308	313	310	314	
Merchant builder activity in 1-family units													
14 Number sold	436	413	622	654	655	606	558	597	624	636	748	669	721
15 Number for sale, end of period[1]	278	255	303	273	283	289	296	299	301	304	303	303	301
Price (thousands of dollars)[2]													
Median													
16 Units sold	68.8	69.3	75.5	74.5	75.8	75.2	76.8	81.0	75.9	75.9	76.3	76.5	79.0
Average													
17 Units sold	83.1	83.8	89.9	88.8	90.9	89.2	91.3	97.8	89.5	91.4	92.4	92.4	94.1
EXISTING UNITS (1-family)													
18 Number sold	2,418	1,991	2,719	2,840	2,820	2,780	2,760	2,770	2,720	2,700	2,850	2,890	2,870
Price of units sold (thousands of dollars)[2]													
19 Median	66.1	67.7	69.8	69.2	71.4	71.8	71.5	69.9	69.8	70.4	69.9	71.3	71.0
20 Average	78.0	80.4	82.5	81.7	84.7	84.2	84.7	82.8	83.0	83.4	82.9	84.8	84.3
	Value of new construction[3] (millions of dollars)												
CONSTRUCTION													
21 Total put in place	**239,418**	**232,048**	**262,668**	**254,763**	**264,321**	**274,205**	**281,997**	**285,384**	**265,626[r]**	**265,780**	**265,319**	**276,033**	**295,013**
22 Private	186,069	180,979	212,287	206,029	214,729	222,759	228,529	232,561	216,976[r]	214,920	215,497	225,320	242,770
23 Residential	86,567	74,809	110,708	107,494	113,524	122,297	127,136	129,142	116,478[r]	110,385	107,973	116,963	128,495
24 Nonresidential, total	99,502	106,170	101,579	98,535	101,205	100,462	101,393	103,419	100,498[r]	104,535	107,524	108,357	114,275
Buildings													
25 Industrial	17,031	17,346	13,143	13,047	13,136	12,227	14,227	13,166	10,532	12,280	12,921	13,091	14,857
26 Commercial	34,243	37,281	36,267	33,291	35,898	35,871	36,277	36,901	36,118	38,081	38,955	40,874	44,790
27 Other	9,543	10,507	11,705	11,237	10,974	11,250	12,038	12,564	12,279	12,001	12,121	13,062	136,311
28 Public utilities and other	38,685	41,036	40,464	40,960	41,197	41,114	38,851	40,788	41,569[r]	42,173	43,527	41,330	40,997
29 Public	53,346	51,068	50,380	48,734	49,592	51,446	53,469	52,823	48,649[r]	50,860	49,821	50,713	52,243
30 Military	1,966	2,205	2,536	2,255	1,894	2,655	2,258	2,705	2,458[r]	3,192	2,977	2,821	2,716
31 Highway	13,599	13,521	14,178	13,044	12,925	14,091	15,906	15,896	14,644	14,360	14,780	13,738	15,439
32 Conservation and development	5,300	5,029	4,823	4,548	4,853	5,608	5,210	5,048	4,253[r]	3,902	4,896	4,259	4,653
33 Other	32,481	30,313	28,843	28,887	29,920	29,092	30,095	29,174	27,294[r]	29,406	27,168	29,895	29,435

1. Not at annual rates
2. Not seasonally adjusted
3. Value of new construction data in recent periods may not be strictly comparable with data in prior periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C-30-76-5), issued by the Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (a) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (b) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from originating agency. Permit authorizations are those reported to the Census Bureau from 16,000 jurisdictions beginning with 1978.

2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data, except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (at annual rate)				Change from 1 month earlier					Index level Feb. 1984 (1967 = 100)[1]
	1983 Feb	1984 Feb.	1983				1983			1984		
			Mar	June	Sept	Dec.	Oct	Nov	Dec	Jan	Feb.	
CONSUMER PRICES[2]												
1 **All items**	**3.5**	**4.6**	**1.2**	**5.4**	**4.5**	**4.0**	**.4**	**.4**	**.2**	**.6**	**.4**	**306.6**
2 Food	2.0	4.5	3.2	1.7	1.1	4.3	4	2	4	1.6	7	302.1
3 Energy items	-1.5	3.3	−23.3	19.1	3.4	-1.7	−2	1	−3	-4	2	420.2
4 All items less food and energy	4.6	4.8	4.2	4.2	5.9	4.9	4	.5	3	5	3	295.5
5 Commodities	6.0	4.5	5.7	3.2	6.8	4.6	4	.4	.3	2	2	248.5
6 Services	3.4	5.0	4.3	4.8	5.2	5.3	5	5	3	7	.4	349.5
PRODUCER PRICES												
7 Finished goods	2.2	2.3	−3.2	2.6	2.0	1.0	2	−1	.1	6	.4	290.6
8 Consumer foods	1.1	5.2	2.3	−9	2.5	5.4	1.0	-4	7	2.7	7	274.7
9 Consumer energy	-5.4	-3.6	−32.3	12.9	−1.3	−9.5	−5	−1.0	−1.0	-1.2	4	759.3
10 Other consumer goods	4.1	2.3	1.0	2.2	2.7	1.2	-1	2	.2	2	2	244.0
11 Capital equipment	3.9	2.4	2.1	1.7	2.1	2.1	0	.2	2	1	5	292.5
12 Intermediate materials[3]	−4	2.2	−3.4	2.8	4.0	2.7	.3	2	.2r	0	2	322.1
13 Excluding energy	8	2.8	1.5	2.8	3.6	3.3	3	2	3	2	2	300.7
Crude materials												
14 Foods	.4	4.6	13.3	−5.8	15.6	12.4	8	.6	1.5	2.2	−3.1	260.7
15 Energy	.4	−1.6	−9.2	-5.1	−1.7	−2.1	-1.0	3	2	4	0	786.8
16 Other	-4.8	14.0	−1.5	49.1	16.6	3.4	−2	0	6	−3.6	8	271.1

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	1981	1982	1983r	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 Q4r
GROSS NATIONAL PRODUCT								
1 **Total**	**2,954.1**	**3,073.0**	**3,310.5**	**3,109.6**	**3,171.5**	**3,272.0**	**3,362.2**	**3,436.2**
By source								
2 Personal consumption expenditures	1,857.2	1,991.9	2,158.0	2,046.9	2,073.0	2,147.0	2,181.1	2,230.9
3 Durable goods	236.1	244.5	279.4	252.1	258.5	277.7	282.8	298.6
4 Nondurable goods	733.9	761.0	804.1	773.0	777.1	799.6	814.8	825.0
5 Services	887.1	986.4	1,074.5	1,021.8	1,037.4	1,069.7	1,083.5	1,107.3
6 Gross private domestic investment	474.9	414.5	471.9	377.4	404.1	450.1	501.1	532.5
7 Fixed investment	456.5	439.1	478.4	433.8	443.5	464.6	492.5	512.8
8 Nonresidential	352.2	348.3	348.4	337.0	332.1	336.3	351.0	374.0
9 Structures	133.4	141.9	131.1	138.6	132.9	127.4	130.9	133.3
10 Producers' durable equipment	218.8	206.4	217.2	198.4	199.3	208.8	220.2	240.7
11 Residential structures	104.3	90.8	130.0	96.8	111.3	128.4	141.5	138.8
12 Nonfarm	99.8	86.0	124.9	91.2	106.7	123.3	136.3	133.5
13 Change in business inventories	18.4	−24.5	−6.4	−56.4	−39.4	−14.5	8.5	19.6
14 Nonfarm	10.9	−23.1	−2.8	−53.7	−39.0	−10.3	18.4	19.7
15 Net exports of goods and services	26.3	17.4	−9.0	5.6	17.0	−8.5	−18.3	−26.1
16 Exports	368.8	347.6	335.4	321.6	326.9	327.1	341.1	346.5
17 Imports	342.5	330.2	344.4	316.1	309.9	335.6	359.4	372.6
18 Government purchases of goods and services	595.7	649.2	689.5	679.7	677.4	683.4	698.3	699.0
19 Federal	229.2	258.7	274.8	279.2	273.5	273.7	278.1	274.1
20 State and local	366.5	390.5	414.7	400.5	404.0	409.7	420.2	424.9
By major type of product								
21 Final sales, total	2,935.6	3,097.5	3,316.9	3,165.9	3,210.9	3,286.6	3,353.7	3,416.6
22 Goods	1,291.8	1,280.8	1,366.5	1,264.8	1,292.2	1,346.8	1,388.9	1,438.2
23 Durable	528.0	500.8	548.7	474.0	482.7	536.8	568.9	606.4
24 Nondurable	763.9	780.1	817.8	790.8	809.5	810.0	820.0	831.8
25 Services	1,374.2	1,511.2	1,635.6	1,560.5	1,588.4	1,623.4	1,651.0	1,679.6
26 Structures	288.0	281.0	308.4	284.3	290.9	301.9	322.3	318.5
27 Change in business inventories	18.4	−24.5	−6.4	−56.4	−39.4	−14.5	8.5	19.6
28 Durable goods	3.6	−15.5	−3.9	−45.0	−38.2	−8.9	13.1	18.3
29 Nondurable goods	14.8	−9.1	−2.5	−11.4	−1.2	−5.7	−4.5	1.4
30 MEMO: **Total GNP in 1972 dollars**	**1,513.8**	**1,485.4**	**1,535.3**	**1,480.7**	**1,490.1**	**1,525.1**	**1,553.4**	**1,572.5**
NATIONAL INCOME								
31 **Total**	**2,373.0**	**2,450.4**	**2,650.1**	**2,474.0**	**2,528.5**	**2,612.8**	**2,686.9**	**2,772.3**
32 Compensation of employees	1,769.2	1,865.7	1,990.2	1,889.0	1,923.7	1,968.7	2,011.8	2,056.6
33 Wages and salaries	1,493.2	1,568.1	1,664.1	1,586.0	1,610.6	1,647.1	1,681.5	1,717.3
34 Government and government enterprises	284.4	306.0	326.2	314.5	319.2	323.3	328.4	332.1
35 Other	1,208.8	1,262.1	1,338.4	1,271.5	1,291.5	1,323.8	1,353.1	1,385.2
36 Supplement to wages and salaries	276.0	297.6	326.1	302.9	313.1	321.6	330.3	339.4
37 Employer contributions for social insurance	132.5	140.9	152.7	142.5	148.8	151.5	153.9	156.7
38 Other labor income	143.5	156.6	173.4	160.4	164.3	170.1	176.4	182.7
39 Proprietors' income[1]	120.2	109.0	128.5	116.2	120.6	127.2	126.7	139.4
40 Business and professional[1]	89.7	87.4	107.6	90.2	98.4	106.2	111.2	114.5
41 Farm[1]	30.5	21.5	20.9	26.0	22.2	21.0	15.5	25.0
42 Rental income of persons[2]	41.4	49.9	54.8	52.3	54.1	54.8	53.9	56.2
43 Corporate profits[1]	192.3	164.8	229.1	161.9	181.8	218.2	248.4	268.1
44 Profits before tax[3]	227.0	174.2	207.5	167.5	169.7	203.3	229.1	228.1
45 Inventory valuation adjustment	−23.6	−8.4	−9.2	−10.3	−1.7	−10.6	−18.3	−6.3
46 Capital consumption adjustment	−11.0	−1.1	30.8	4.7	13.9	25.6	37.6	46.2
47 Net interest	249.9	261.1	247.5	254.7	248.3	243.8	246.1	251.9

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	1981	1982	1983r	1982	1983			
				Q4	Q1	Q2	Q3	Q4r
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**2,435.0**	**2,578.6**	**2,742.1**	**2,632.0**	**2,657.7**	**2,713.6**	**2,761.9**	**2,835.2**
2 Wage and salary disbursements	1,493.2	1,568.1	1,664.6	1,586.0	1,610.7	1,648.4	1,681.9	1,717.3
3 Commodity-producing industries	509.5	509.2	529.7	499.5	508.6	522.2	537.8	550.0
4 Manufacturing	385.3	383.8	402.8	377.4	385.4	397.4	409.2	419.0
5 Distributive industries	361.6	378.8	397.2	383.5	386.4	394.3	398.9	409.3
6 Service industries	337.7	374.1	411.5	388.5	396.4	407.3	416.4	425.8
7 Government and government enterprises	284.4	306.0	326.2	314.5	319.2	324.6	328.8	332.1
8 Other labor income	143.5	156.6	173.4	160.4	164.3	170.1	176.4	182.7
9 Proprietors' income[1]	120.2	109.0	128.5	116.2	120.6	127.2	126.7	139.4
10 Business and professional[1]	89.7	87.4	107.6	90.2	98.4	106.2	111.2	114.5
11 Farm[1]	30.5	21.5	20.9	26.0	22.2	21.0	15.5	25.0
12 Rental income of persons[2]	41.4	49.9	54.8	52.3	54.1	54.8	53.9	56.2
13 Dividends	62.8	66.4	70.5	67.9	68.8	69.3	70.9	72.9
14 Personal interest income	341.3	366.2	366.3	363.1	357.2	357.1	369.9	381.1
15 Transfer payments	337.2	374.6	403.6	399.0	398.5	405.3	402.6	408.1
16 *Old-age survivors, disability, and health insurance benefits*	182.0	204.5	222.8	216.5	217.4	221.1	223.8	228.8
17 LESS: Personal contributions for social insurance	104.6	112.0	119.5	112.9	116.5	118.6	120.5	122.5
18 EQUALS: Personal income	2,435.0	2,578.6	2,742.1	2,632.0	2,657.7	2,713.6	2,761.9	2,835.2
19 LESS: Personal tax and nontax payments	387.4	402.1	406.5	404.1	401.8	412.6	400.1	411.4
20 EQUALS: Disposable personal income	2,047.6	2,176.5	2,335.6	2,227.8	2,255.9	2,301.0	2,361.7	2,423.9
21 LESS: Personal outlays	1,912.4	2,051.1	2,222.0	2,107.0	2,134.2	2,209.5	2,245.9	2,298.3
22 EQUALS: Personal saving	135.3	125.4	113.6	120.8	121.7	91.5	115.8	125.6
MEMO								
Per capita (1972 dollars)								
23 Gross national product	6,584.1	6,399.3	6,552.8	6,355.2	6,381.5	6,518.0	6,622.5	6,687.5
24 Personal consumption expenditures	4,161.5	4,179.8	4,316.7	4,204.5	4,225.7	4,319.1	4,331.4	4,389.8
25 Disposable personal income	4,587.0	4,567.0	4,672.0	4,576.0	4,599.0	4,629.0	4,690.0	4,769.0
26 Saving rate (percent)	6.6	5.8	4.9	5.4	5.4	4.0	4.9	5.2
GROSS SAVING								
27 **Gross saving**	**483.8**	**405.8**	**439.6**	**351.3**	**398.5**	**420.6**	**455.4**	**483.8**
28 Gross private saving	509.6	521.6	569.8	526.6	541.5	535.0	587.2	615.7
29 Personal saving	135.3	125.4	113.6	120.8	121.7	91.5	115.8	125.6
30 Undistributed corporate profits[1]	44.8	37.0	78.9	37.5	48.9	70.1	89.7	106.9
31 Corporate inventory valuation adjustment	23.6	8.4	9.2	10.3	1.7	10.6	18.3	-6.3
Capital consumption allowances								
32 Corporate	202.9	222.0	231.6	227.7	228.3	229.8	233.1	235.2
33 Noncorporate	126.6	137.2	145.7	140.5	142.6	143.5	148.6	148.0
34 Wage accruals less disbursements	0	0	0	0	0	0	0	0
35 Government surplus, or deficit (-), national income and product accounts	26.9	115.8	130.2	175.3	142.9	114.4	-131.8	-131.8
36 Federal	62.2	147.1	181.6	208.2	183.3	166.1	187.3	189.9
37 State and local	35.3	31.3	51.4	32.9	40.4	51.7	55.5	58.1
38 Capital grants received by the United States, net	1.1	0	0	0	0	0	0	0
39 **Gross investment**	**478.9**	**406.2**	**437.4**	**355.5**	**397.4**	**417.1**	**457.9**	**477.1**
40 Gross private domestic	474.9	414.5	471.9	377.4	404.1	450.1	501.1	532.5
41 Net foreign	4.0	8.3	34.6	-21.9	-6.7	33.0	-43.2	55.3
42 **Statistical discrepancy**	**−4.9**	**.5**	**−2.2**	**4.2**	**−1.2**	**−3.5**	**2.5**	**−6.7**

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	1981	1982	1983p	1982	1983			
				Q4	Q1r	Q2r	Q3	Q4p
1 Balance on current account	4,592	-11,211	-40,776	-6,621	3,665	-9,747	-12,074	-15,291
2 Not seasonally adjusted				-5,546	-3,395	-8,898	-14,101	-14,382
3 Merchandise trade balance[2]	-28,067	-36,389	-60,550	-11,354	-8,856	-14,705	-18,178	-18,811
4 Merchandise exports	237,019	211,217	200,203	48,344	49,350	48,757	50,429	51,667
5 Merchandise imports	-265,086	-247,606	-260,753	-59,698	-58,206	-63,462	-68,607	-70,478
6 Military transactions, net	-1,355	179	483	-26	516	117	-132	-17
7 Investment income, net[3]	33,484	27,304	23,581	6,008	5,036	5,630	6,881	6,032
8 Other service transactions, net	7,462	5,729	4,309	1,182	1,200	1,034	1,470	604
9 Remittances, pensions, and other transfers	-2,382	-2,621	-2,631	-661	-608	-636	-662	-724
10 U.S. government grants (excluding military)	-4,549	-5,413	-5,967	-1,770	-953	-1,187	-1,453	-2,375
11 Change in U.S. government assets, other than official reserve assets, net (increase, −)	5,078	-5,732	-4,897	934	1,053	-1,162	-1,206	-1,476
12 Change in U.S. official reserve assets (increase, −)	-5,175	-4,965	-1,196	-1,949	-787	16	529	-953
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	-1,823	-1,371	-66	-297	-98	-303	-209	545
15 Reserve position in International Monetary Fund	-2,491	-2,552	-4,434	-732	-2,139	-212	-88	-1,996
16 *Foreign currencies*	-861	-1,041	3,304	-920	1,450	531	826	498
17 Change in U.S. private assets abroad (increase, −)[3]	-100,348	-107,348	-43,204	-16,670	-19,793	570	-8,449	-15,532
18 Bank-reported claims	-83,851	-109,346	-24,966	-17,511	-15,935	5,166	-2,025	-12,172
19 Nonbank-reported claims	-1,181	6,976	-3,146	2,337	2,374	440	-332	n.a.
20 U.S. purchase of foreign securities, net	-5,636	-7,986	-7,484	-3,527	-1,808	-3,222	-1,543	-912
21 U.S. direct investments abroad, net[3]	9,680	3,008	-7,608	2,031	324	-934	-4,549	-2,448
22 Change in foreign official assets in the United States (increase, +)	5,430	3,172	6,083	1,661	49	1,973	-2,581	6,642
23 U.S. Treasury securities	4,983	5,759	7,140	4,346	3,008	1,955	-538	2,715
24 Other U.S. government obligations	1,289	-670	-464	-556	-371	-170	-363	440
25 Other U.S. government liabilities[4]	-28	504	318	130	-270	403	207	-22
26 Other U.S. liabilities reported by U.S. banks	-3,479	-2,054	877	-1,717	-1,939	611	-1,425	3,630
27 Other foreign official assets[5]	2,665	-367	-1,788	-542	-379	-826	-462	-121
28 Change in foreign private assets in the United States (increase, +)[3]	75,248	84,693	76,935	9,856	16,404	8,984	22,028	29,521
29 U.S. bank-reported liabilities	42,154	64,263	51,295	2,823	10,588	919	15,068	24,720
30 U.S. nonbank-reported liabilities	942	-3,104	-1,060	20	-2,136	134	942	n.a.
31 Foreign private purchases of U.S. Treasury securities, net	2,982	7,004	8,599	2,257	2,912	3,072	1,011	1,604
32 Foreign purchases of other U.S. securities, net	7,171	6,141	8,587	1,975	2,986	2,628	1,842	1,132
33 Foreign direct investments in the United States, net[3]	21,998	10,390	9,514	2,781	2,054	2,231	3,165	2,065
34 Allocation of SDRs	1,093	0	0	0	0	0	0	0
35 Discrepancy	24,238	41,390	7,054	14,657	8,845	-634	1,753	-2,911
36 Owing to seasonal adjustments	. . .			1,042	-200	802	-1,361	758
37 Statistical discrepancy in recorded data before seasonal adjustment	24,238	41,390	7,054	13,615	9,045	-1,436	3,114	-3,669
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	-5,175	-4,965	-1,196	-1,949	-787	16	529	-953
39 Foreign official assets in the United States (increase, +)	5,458	2,668	5,765	1,531	319	1,570	-2,788	6,664
40 Change in Organization of Petroleum Exporting Countries official assets in the United States (part of line 22 above)	13,581	7,420	-8,591	-1,162	-1,397	-3,433	-2,104	-1,657
41 Transfers under military grant programs (excluded from lines 4, 6, and 10 above)	680	644	209	158	42	30	49	88

1. Seasonal factors are no longer calculated for lines 12 through 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 of incorporated affiliates.
4. Primarily associated with military sales contracts and other transactions arranged with or through foreign official agencies.
5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

NOTE. Data are from Bureau of Economic Analysis, *Survey of Current Business* (Department of Commerce).

3.11 U.S. FOREIGN TRADE

Millions of dollars; monthly data are seasonally adjusted.

Item	1981	1982	1983	1983					1984	
				Aug	Sept	Oct.	Nov	Dec.	Jan	Feb.
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments	233,677	212,193	200,486	16,582	17,257	17,033	17,063	17,298	18,326	17,212
2 GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses	261,305	243,952	258,048	22,714	22,451	24,333	23,115	22,976	26,586	26,147
3 **Trade balance**	**−27,628**	**−31,759**	**−57,562**	**−6,132**	**−5,195**	**−7,300**	**−6,052**	**−5,678**	**−8,260**	**−8,935**

NOTE. The data through 1981 in this table are reported by the Bureau of Census data of a *free-alongside-ship (f.a.s.)* value basis—that is, value at the port of export. Beginning in 1981, foreign trade of the U.S. Virgin Islands is included in the Census basis trade data, this adjustment has been made for all data shown in the table. Beginning with 1982 data, the value of imports are on a customs valuation basis.

The Census basis data differ from merchandise trade data shown in *table 3.10*, U.S. International Transactions Summary, for reasons of coverage and timing. On the *export side*, the largest adjustments are (1) the addition of exports to Canada not covered in Census statistics, and (2) the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions, military payments are excluded and shown separately as indicated above.

SOURCE. FT900 "Summary of U.S. Export and Import Merchandise Trade" (Department of Commerce, Bureau of the Census).

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Type	1980	1981	1982	1983				1984		
				Sept	Oct.	Nov	Dec	Jan	Feb	Mar
1 **Total**	**26,756**	**30,075**	**33,958**	**33,066**	**33,273**	**33,655**	**33,747**	**33,887**	**34,823**	**34,978**
2 Gold stock, including Exchange Stabilization Fund[1]	11,160	11,151	11,148	11,128	11,126	11,123	11,121	11,120	11,116	11,111
3 Special drawing rights[2,3]	2,610	4,095	5,250	5,628	5,641	5,735	5,025	5,050	5,320	5,341
4 Reserve position in International Monetary Fund[2]	2,852	5,055	7,348	9,399	9,554	9,883	11,312	11,422	11,710	11,709
5 Foreign currencies[4,5]	10,134	9,774	10,212	6,911	6,952	6,914	6,289	6,295[r]	6,677	6,817

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.

5. Includes U.S. government securities held under repurchase agreement against receipt of foreign currencies in 1979 and 1980.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS

Millions of dollars, end of period

Assets	1980	1981	1982	1983				1984		
				Sept	Oct.	Nov	Dec	Jan	Feb	Mar
1 Deposits	411	505	328	297	339	360	190	251	246	222
Assets held in custody										
2 U.S. Treasury securities[1]	102,417	104,680	112,544	113,498	116,327	116,398	117,670	117,076	119,499	116,768
3 Earmarked gold[2]	14,965	14,804	14,716	14,621	14,550	14,475	14,414	14,347	14,291	14,278

1. Marketable U.S. Treasury bills, notes, and bonds, and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.

2. Earmarked gold is valued at $42.22 per fine troy ounce.

NOTE. Excludes deposits and U.S. Treasury securities held for international and regional organizations. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data

Millions of dollars, end of period

Asset account	1980	1981	1982	1983						1984
				July	Aug	Sept	Oct	Nov.	Dec.	Jan p
	All foreign countries									
1 **Total, all currencies**	**401,135**	**462,847**	**469,432**	**455,850**	**452,596**	**460,261**	**458,894**	**463,467**	**475,683**	**453,900**
2 Claims on United States	28,460	63,743	91,768	96,963	99,484	101,356	102,497	109,511	114,902	110,969
3 Parent bank	20,202	43,267	61,629	67,731	67,137	65,561	69,655	75,521r	81,004	76,430
4 Other	8,258	20,476	30,139	29,232	32,347	35,795	32,842	33,990r	33,898	34,539
5 Claims on foreigners	354,960	378,954	358,258	340,994	335,036	340,413	337,848	335,518	342,162	323,890
6 Other branches of parent bank	77,019	87,821	91,143	84,872	84,572	89,304	87,543	89,447	92,682	86,662
7 Banks	146,448	150,763	133,640	123,536	119,288	120,177	117,631	114,495	117,538	106,885
8 Public borrowers	28,033	28,197	24,090	25,876	25,147	24,982	25,061	24,256	24,450	23,943
9 Nonbank foreigners	103,460	112,173	109,385	106,710	106,029	105,950	107,613	107,320	107,492	106,400
10 Other assets	17,715	20,150	19,406	17,893	18,076	18,492	18,549	18,438	18,619	19,041
11 **Total payable in U.S. dollars**	**291,798**	**350,735**	**361,712**	**350,507**	**348,330**	**354,595**	**351,483**	**358,204**	**370,557**	**348,380**
12 Claims on United States	27,191	62,142	90,048	94,549	96,995	98,510	99,938	107,015	112,748	108,866
13 Parent bank	19,896	42,721	60,973	66,303	65,711	63,716	68,126	73,999r	79,866	75,283
14 Other	7,295	19,421	29,075	28,246	31,284	34,794	31,812	33,016r	32,882	33,583
15 Claims on foreigners	255,391	276,937	259,646	245,188	241,063	245,541	241,221	240,768	247,224	228,845
16 Other branches of parent bank	58,541	69,398	73,512	67,163	66,609	71,273	69,324	71,451	75,153	68,802
17 Banks	117,342	122,110	106,338	97,194	93,806	95,113	92,048	90,143	93,236	82,561
18 Public borrowers	23,491	22,877	18,374	19,108	18,804	18,455	18,644	17,752	17,907	17,670
19 Nonbank foreigners	56,017	62,552	61,422	61,723	61,844	60,700	61,205	61,422	60,928	59,812
20 Other assets	9,216	11,656	12,018	10,770	10,272	10,544	10,324	10,421	10,585	10,669
	United Kingdom									
21 **Total, all currencies**	**144,717**	**157,229**	**161,067**	**153,209**	**154,865**	**156,048**	**156,803**	**155,964**	**158,807**	**155,016**
22 Claims on United States	7,509	11,823	27,354	26,012	29,722	28,947	30,853	32,352	34,405	35,634
23 Parent bank	5,275	7,885	23,017	20,849	22,169	20,816	25,507	26,872r	29,111	29,759
24 Other	2,234	3,938	4,337	5,163	7,553	8,131	5,346	5,480r	5,294	5,875
25 Claims on foreigners	131,142	138,888	127,734	121,757	119,672	121,518	120,660	118,275	119,398	114,083
26 Other branches of parent bank	34,760	41,367	37,000	35,632	35,555	36,382	36,556	35,642	36,565	34,638
27 Banks	58,741	56,315	50,767	46,643	44,303	45,451	43,888	42,683	43,362	40,126
28 Public borrowers	6,688	7,490	6,240	6,440	6,342	6,274	6,280	6,307	5,988	6,056
29 Nonbank foreigners	30,953	33,716	33,727	33,042	33,472	33,411	33,936	33,643	33,483	33,263
30 Other assets	6,066	6,518	5,979	5,440	5,471	5,583	5,290	5,337	5,004	5,299
31 **Total payable in U.S. dollars**	**99,699**	**115,188**	**123,740**	**116,526**	**119,377**	**121,238**	**121,817**	**121,744**	**126,087**	**121,115**
32 Claims on United States	7,116	11,246	26,761	25,180	28,905	27,837	30,095	31,671	33,728	34,917
33 Parent bank	5,229	7,721	22,756	20,434	21,720	20,036	25,084	26,537r	28,756	29,414
34 Other	1,887	3,525	4,005	4,746	7,185	7,801	5,011	5,134r	4,972	5,503
35 Claims on foreigners	89,723	99,850	92,228	87,450	86,868	89,530	88,253	86,614	89,035	82,957
36 Other branches of parent bank	28,268	35,439	31,648	30,122	30,053	31,409	31,414	30,371	31,838	29,537
37 Banks	42,073	40,703	36,717	33,159	31,718	33,237	31,796	31,158	32,198	28,756
38 Public borrowers	4,911	5,595	4,329	4,420	4,410	4,329	4,346	4,377	4,284	4,349
39 Nonbank foreigners	14,471	18,113	19,534	19,749	20,687	20,555	20,697	20,708	20,715	20,315
40 Other assets	2,860	4,092	4,751	3,896	3,604	3,871	3,469	3,459	3,324	3,241
	Bahamas and Caymans									
41 **Total, all currencies**	**123,837**	**149,108**	**145,156**	**142,432**	**139,699**	**143,148**	**141,311**	**147,257**	**151,463**	**141,293**
42 Claims on United States	17,751	46,546	59,403	66,032	63,923	66,547	66,253	71,363	74,702	70,459
43 Parent bank	12,631	31,643	34,653	42,946	40,308	40,152	40,105	44,414	47,703	43,174
44 Other	5,120	14,903	24,750	23,086	23,615	26,395	26,148	26,949	26,999	27,285
45 Claims on foreigners	101,926	98,057	81,450	72,683	72,021	72,826	71,268	71,995	72,814	66,916
46 Other branches of parent bank	13,342	12,951	18,720	15,568	15,354	16,789	15,817	17,993	17,343	15,989
47 Banks	54,861	55,151	42,699	37,381	37,350	36,609	35,964	35,353	36,764	32,451
48 Public borrowers	12,577	10,010	6,413	6,538	6,404	6,461	6,643	5,890	6,084	5,992
49 Nonbank foreigners	21,146	19,945	13,618	13,196	12,913	12,967	12,844	12,759	12,623	12,484
50 Other assets	4,160	4,505	4,303	3,717	3,755	3,775	3,790	3,899	3,947	3,918
51 **Total payable in U.S. dollars**	**117,654**	**143,743**	**139,605**	**136,301**	**133,233**	**136,851**	**134,684**	**140,841**	**144,969**	**134,881**

3.14 Continued

Liability account	1980	1981	1982	1983						1984
				July	Aug.	Sept	Oct	Nov	Dec	Jan p
	All foreign countries									
52 **Total, all currencies**	**401,135**	**462,847**	**469,432**	**455,850**	**452,596**	**460,261**	**458,894**	**463,467**	**475,683**	**453,900**
53 To United States	91,079	137,767	178,918	187,713	183,864	182,664	185,599	184,257	187,243	179,305
54 Parent bank	39,286	56,344	75,561	81,752	77,556	78,027	85,028[r]	79,574[r]	80,256	76,848
55 Other banks in United States	14,473	19,197	33,368	31,489	29,880	30,982	27,094[r]	26,264[r]	29,157	26,725
56 Nonbanks	37,275	62,226	69,989	74,472	76,428	73,655	73,477[r]	78,419[r]	77,830	75,732
57 To foreigners	295,411	305,630	270,678	249,823	250,563	259,449	254,634	260,280	269,293	255,728
58 Other branches of parent bank	75,773	86,396	90,148	83,911	82,871	88,055	85,566	88,346	90,860	81,983
59 Banks	132,116	124,906	96,739	84,649	85,433	86,550	84,533	88,023	92,903	86,436
60 Official institutions	32,473	25,997	19,614	18,287	17,830	20,513	19,403	18,377	18,801	19,507
61 Nonbank foreigners	55,049	68,331	64,177	62,976	64,429	64,331	65,132	65,534	66,729	67,802
62 Other liabilities	14,690	19,450	19,836	18,314	18,169	18,148	18,661	18,930	19,147	18,867
63 **Total payable in U.S. dollars**	**303,281**	**364,447**	**379,003**	**368,650**	**365,583**	**373,060**	**369,935**	**374,425**	**387,376**	**365,082**
64 To United States	88,157	134,700	175,431	184,215	180,173	178,889	181,692	180,260	183,516	175,486
65 Parent bank	37,528	54,492	73,235	79,496	75,244	75,742	82,660	77,126	78,042	74,503
66 Other banks in United States	14,203	18,883	33,003	31,115	29,334	30,415	26,538[r]	25,773[r]	28,623	26,224
67 Nonbanks	36,426	61,325	69,193	73,604	75,595	72,732	72,494[r]	77,361[r]	76,851	74,759
68 To foreigners	206,883	217,602	192,348	174,836	175,616	184,354	178,895	184,223	194,131	180,558
69 Other branches of parent bank	58,172	69,299	72,878	67,228	65,679	70,649	68,064	71,011	73,867	64,926
70 Banks	87,497	79,594	57,355	48,062	49,522	50,862	48,264	52,072	57,116	50,490
71 Official institutions	24,697	20,288	15,055	13,517	13,029	15,400	14,630	13,453	13,852	14,686
72 Nonbank foreigners	36,517	48,421	47,060	46,029	47,386	47,443	47,937	47,687	49,296	50,456
73 Other liabilities	8,241	12,145	11,224	9,599	9,794	9,817	9,348	9,942	9,729	9,038
	United Kingdom									
74 **Total, all currencies**	**144,717**	**157,229**	**161,067**	**153,209**	**154,865**	**156,048**	**156,803**	**155,964**	**158,807**	**155,016**
75 To United States	21,785	38,022	53,954	56,959	58,347	56,924	60,903	57,095	55,799	55,623
76 Parent bank	4,225	5,444	13,091	15,011	16,145	16,852	21,385	17,312	14,021	17,080
77 Other banks in United States	5,716	7,502	12,205	12,993	12,462	12,174	10,751	10,176	11,328	10,640
78 Nonbanks	11,844	25,076	28,658	28,955	29,740	27,898	28,767	29,607	30,450	27,903
79 To foreigners	117,438	112,255	99,567	89,198	89,458	92,122	88,727	91,714	95,944	92,268
80 Other branches of parent bank	15,384	16,545	18,361	17,544	17,595	19,365	18,288	18,841	19,045	18,526
81 Banks	56,262	51,336	44,020	37,192	37,571	37,122	35,847	38,888	41,714	38,812
82 Official institutions	21,412	16,517	11,504	10,146	9,588	11,448	10,611	10,071	10,151	10,530
83 Nonbank foreigners	24,380	27,857	25,682	24,316	24,704	24,187	23,981	23,914	25,034	24,400
84 Other liabilities	5,494	6,952	7,546	7,052	7,060	7,002	7,173	7,155	7,064	7,125
85 **Total payable in U.S. dollars**	**103,440**	**120,277**	**130,261**	**123,265**	**125,656**	**127,868**	**128,600**	**127,234**	**131,242**	**126,907**
86 To United States	21,080	37,332	53,029	56,081	57,359	55,931	59,824	55,907	54,691	54,540
87 Parent bank	4,078	5,350	12,814	14,812	15,829	16,673	21,145	17,094	13,839	16,843
88 Other banks in United States	5,626	7,249	12,026	12,833	12,223	11,886	10,523	9,880	11,044	10,406
89 Nonbanks	11,376	24,733	28,189	28,436	29,307	27,372	28,156	28,933	29,808	27,291
90 To foreigners	79,636	79,034	73,477	63,818	64,801	68,252	65,347	68,011	73,376	69,557
91 Other branches of parent bank	10,474	12,048	14,300	13,386	13,421	15,166	14,542	15,044	15,410	14,758
92 Banks	35,388	32,298	28,810	23,453	24,447	24,478	23,136	26,343	29,410	26,386
93 Official institutions	17,024	13,612	9,668	8,065	7,630	9,381	8,742	8,029	8,279	8,594
94 Nonbank foreigners	16,750	21,076	20,699	18,914	19,303	19,227	18,927	18,595	20,277	19,819
95 Other liabilities	2,724	3,911	3,755	3,366	3,496	3,685	3,429	3,316	3,175	2,850
	Bahamas and Caymans									
96 **Total, all currencies**	**123,837**	**149,108**	**145,156**	**142,432**	**139,699**	**143,148**	**141,311**	**147,257**	**151,463**	**141,293**
97 To United States	59,666	85,759	104,425	108,623	104,470	104,666	104,198	106,688	110,727	103,943
98 Parent bank	28,181	39,451	47,081	50,777	46,491	45,493	48,235[r]	46,676[r]	50,187	44,604
99 Other banks in United States	7,379	10,474	18,466	15,494	14,560	16,191	14,322[r]	14,117[r]	15,693	14,398
100 Nonbanks	24,106	35,834	38,878	42,352	43,419	42,982	41,641[r]	45,895[r]	44,847	44,941
101 To foreigners	61,218	60,012	38,274	31,560	32,875	36,163	34,734	38,109	38,397	35,110
102 Other branches of parent bank	17,040	20,641	15,796	12,262	12,778	14,698	14,196	17,075	15,123	12,253
103 Banks	29,895	23,202	10,166	8,012	8,737	9,506	9,059	9,618	11,882	9,877
104 Official institutions	4,361	3,498	1,967	2,101	2,170	2,237	1,976	1,624	1,916	2,309
105 Nonbank foreigners	9,922	12,671	10,345	9,185	9,190	9,722	9,503	9,792	9,476	10,671
106 Other liabilities	2,953	3,337	2,457	2,249	2,354	2,319	2,379	2,460	2,339	2,240
107 **Total payable in U.S. dollars**	**119,657**	**145,284**	**141,908**	**139,246**	**136,227**	**139,854**	**137,513**	**143,603**	**147,657**	**137,428**

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1981	1982	1983					1984	
			Aug.	Sept.	Oct.	Nov	Dec.[r]	Jan	Feb.[p]
1 **Total**[1]	**169,735**	**172,718**	**172,799**	**171,550**	**173,272**	**173,915**	**177,906**	**176,316**	**176,826**
By type									
2 Liabilities reported by banks in the United States[2]	26,737	24,989	22,239	21,914	22,057	22,816	25,422	22,829	23,133
3 U.S. Treasury bills and certificates[3]	52,389	46,658	50,965	50,374	51,618	52,558	54,341	55,327	56,084
U.S. Treasury bonds and notes									
4 Marketable	53,186	67,733	69,295	69,300	69,769	68,995	68,594	69,106	69,151
5 Nonmarketable[4]	11,791	8,750	7,950	7,950	7,950	7,250	7,250	7,250	6,600
6 U.S securities other than U.S Treasury securities[5]	25,632	24,588	22,350	22,012	21,878	22,296	22,299	21,804	21,858
By area									
7 Western Europe[1]	65,699	61,298	64,427	63,845	64,835	65,588	67,608	66,113	67,852
8 Canada	2,403	2,070	2,755	2,712	2,816	2,670	2,443	2,516	2,334
9 Latin America and Caribbean	6,953	6,057	5,676	5,501	5,629	6,468	6,217	6,504	7,600
10 Asia	91,607	96,034	93,183	92,876	92,415	91,566	92,589	92,286	90,626
11 Africa	1,829	1,350	1,173	1,196	1,023	798	958	1,051	1,013
12 Other countries[6]	1,244	5,909	5,585	5,420	6,554	6,825	8,092	7,846	7,401

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	1980	1981	1982	1983			
				Mar.	June	Sept.	Dec.
1 Banks' own liabilities	3,748	3,523	4,844	5,075	5,867	5,943	5,205
2 Banks' own claims	4,206	4,980	7,707	8,097	7,851	7,919	7,256
3 Deposits	2,507	3,398	4,251	3,725	3,911	3,063	2,838
4 Other claims	1,699	1,582	3,456	4,372	3,940	4,856	4,418
5 Claims of banks' domestic customers[1]	962	971	676	637	684	717	1,059

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	1980	1981▲	1982	1983					1984	
				Aug	Sept	Oct	Nov	Dec r	Jan	Feb p
1 **All foreigners**	**205,297**	**243,889**	**307,056**	**334,931**	**337,910**	**337,766**	**351,499**	**371,775**	**358,626**	**367,967**
2 Banks' own liabilities	124,791	163,817	227,089	248,250	251,421	248,888	262,343	281,193	264,621	270,990
3 Demand deposits	23,462	19,631	15,889	15,672	16,375	17,094	17,198	17,594	16,142	16,625
4 Time deposits[1]	15,076	29,039	68,035	77,888	81,091	80,468	84,308	90,090	87,644	91,036
5 Other[2]	17,583	17,647	23,946	23,905	24,956	22,565	23,149	26,100	23,178	23,964
6 Own foreign offices[3]	68,670	97,500	119,219	130,785	129,000	128,760	137,688	147,408	137,658	139,365
7 Banks' custody liabilities[4]	80,506	80,072	79,967	86,682	86,488	88,878	89,156	90,582	94,006	96,977
8 U.S. Treasury bills and certificates[5]	57,595	55,315	55,628	63,939	64,062	65,735	66,746	68,669	71,083	74,248
9 Other negotiable and readily transferable instruments[6]	20,079	18,788	20,636	17,977	17,292	17,182	17,721	17,529	18,061	17,843
10 Other	2,832	5,970	3,702	4,765	5,135	5,961	4,690	4,385	4,862	4,886
11 **Nonmonetary international and regional organizations**[7]	**2,344**	**2,721**	**4,922**	**5,555**	**5,308**	**4,619**	**6,321**	**5,957**	**4,759**	**6,781**
12 Banks' own liabilities	444	638	1,909	3,433	3,024	3,294	4,897	4,632	2,867	2,267
13 Demand deposits	146	262	106	325	252	452	437	297	271	347
14 Time deposits[1]	85	58	1,664	2,507	2,168	2,487	4,079	3,885	2,235	1,611
15 Other[2]	212	318	139	601	605	355	381	449	361	310
16 Banks' custody liabilities[4]	1,900	2,083	3,013	2,121	2,284	1,325	1,424	1,325	1,892	4,514
17 U.S. Treasury bills and certificates	254	541	1,621	1,294	1,442	441	484	463	1,045	3,416
18 Other negotiable and readily transferable instruments[6]	1,646	1,542	1,392	828	842	884	939	862	847	1,098
19 Other	0	0	0	0	0	0	0	0	0	0
20 **Official institutions**[8]	**86,624**	**79,126**	**71,647**	**73,205**	**72,289**	**73,675**	**75,374**	**79,764**	**78,156**	**79,217**
21 Banks' own liabilities	17,826	17,109	16,640	16,014	16,147	16,532	16,673	19,315	16,549	17,476
22 Demand deposits	3,771	2,564	1,899	1,685	1,930	1,818	2,023	1,837	1,777	1,663
23 Time deposits[1]	3,612	4,230	5,528	5,990	6,185	6,657	6,709	7,294	7,328	7,578
24 Other[2]	10,443	10,315	9,212	8,340	8,033	8,057	7,940	10,184	7,444	8,235
25 Banks' custody liabilities[4]	68,798	62,018	55,008	57,191	56,142	57,144	58,701	60,448	61,607	61,741
26 U.S. Treasury bills and certificates[5]	56,243	52,389	46,658	50,965	50,374	51,618	52,558	54,341	55,327	56,084
27 Other negotiable and readily transferable instruments[6]	12,501	9,581	8,321	6,186	5,735	5,489	6,115	6,082	6,257	5,623
28 Other	54	47	28	39	32	36	28	25	23	34
29 **Banks**[9]	**96,415**	**136,008**	**185,881**	**203,153**	**205,879**	**203,637**	**214,169**	**229,034**	**218,004**	**221,837**
30 Banks' own liabilities	90,456	124,312	169,449	182,700	184,811	181,696	192,731	207,494	195,429	199,324
31 *Unaffiliated foreign banks*	21,786	26,812	50,230	51,914	55,811	52,936	55,043	60,086	57,772	59,959
32 Demand deposits	14,188	11,614	8,675	8,302	8,618	9,102	8,770	8,756	8,150	8,384
33 Time deposits[1]	1,703	8,720	28,386	29,300	31,468	30,329	32,265	36,726	34,980	37,040
34 Other[2]	5,895	6,477	13,169	14,312	15,725	13,505	14,008	14,604	14,642	14,535
35 Own foreign offices[3]	68,670	97,500	119,219	130,785	129,000	128,760	137,688	147,408	137,658	139,365
36 Banks' custody liabilities[4]	5,959	11,696	16,432	20,454	21,069	21,941	21,438	21,540	22,575	22,513
37 U.S. Treasury bills and certificates	623	1,685	5,809	9,028	9,440	10,036	9,967	10,178	10,776	10,750
38 Other negotiable and readily transferable instruments[6]	2,748	4,400	7,857	7,581	7,553	7,542	7,251	7,485	7,414	7,395
39 Other	2,588	5,611	2,766	3,845	4,075	4,363	4,221	3,877	4,384	4,368
40 **Other foreigners**	**19,914**	**26,035**	**44,606**	**53,018**	**54,433**	**55,834**	**55,635**	**57,021**	**57,707**	**60,132**
41 Banks' own liabilities	16,065	21,759	39,092	46,103	47,439	47,366	48,042	49,751	49,775	51,923
42 Demand deposits	5,356	5,191	5,209	5,360	5,575	5,723	5,968	6,703	5,944	6,231
43 Time deposits	9,676	16,030	32,457	40,091	41,270	40,995	41,255	42,185	43,101	44,807
44 Other[2]	1,033	537	1,426	652	594	648	819	863	730	884
45 Banks' custody liabilities[4]	3,849	4,276	5,514	6,916	6,995	8,468	7,593	7,269	7,932	8,209
46 U.S. Treasury bills and certificates	474	699	1,540	2,652	2,805	3,640	3,737	3,686	3,935	3,998
47 Other negotiable and readily transferable instruments[6]	3,185	3,265	3,065	3,383	3,162	3,267	3,415	3,100	3,542	3,727
48 Other	190	312	908	881	1,028	1,562	441	483	455	484
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	10,745	10,747	14,307	10,720	10,336	9,995	10,385	10,407	10,307	9,380

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."

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

3.17 Continued

Area and country	1980	1981▲	1982	1983					1984	
				Aug	Sept	Oct	Nov.	Dec.	Jan	Feb p
1 **Total**	**205,297**	**243,889**	**307,056**	**334,931**	**337,910**	**337,766**	**351,499**	**371,775r**	**358,626**	**367,967**
2 **Foreign countries**	**202,953**	**241,168**	**302,134**	**329,377**	**332,601**	**333,147**	**345,178**	**365,818r**	**353,867**	**361,186**
3 Europe	90,897	91,275	117,756	123,607	125,850	126,694	130,091	138,006r	134,858	140,227
4 Austria	523	596	519	556	659	570	641	585	745	756
5 Belgium-Luxembourg	4,019	4,117	2,517	3,116	2,795	2,853	2,465	2,709	2,979	3,176
6 Denmark	497	333	509	573	593	544	538	466	372	385
7 Finland	455	296	748	459	373	372	375	531	298	400
8 France	12,125	8,486	8,171	8,488	8,827	8,638	8,083	9,441r	8,117	10,094
9 Germany	9,973	7,645	5,351	3,537	3,438	4,307	4,337	3,599r	3,820	4,582
10 Greece	670	463	537	636	604	595	544	520	513	512
11 Italy	7,572	7,267	5,626	7,277	6,931	7,703	7,819	8,459	7,622	7,640
12 Netherlands	2,441	2,823	3,362	3,633	3,892	3,735	3,701	4,290	4,008	4,200
13 Norway	1,344	1,457	1,567	1,044	1,457	1,072	1,531	1,673	1,481	1,452
14 Portugal	374	354	388	315	302	297	306	373	377	351
15 Spain	1,500	916	1,405	1,585	1,678	1,592	1,534	1,603r	1,645	1,663
16 Sweden	1,737	1,545	1,390	1,204	1,337	1,489	1,652	1,799	1,843	1,767
17 Switzerland	16,689	18,716	29,066	29,877	29,938	30,725	30,482	32,117r	32,008	32,220
18 Turkey	242	518	296	315	333	277	319	467	334	400
19 United Kingdom	22,680	28,286	48,172	53,768	55,602	54,746	58,007	60,658r	61,772	64,538
20 Yugoslavia	681	375	499	462	506	464	552	562	505	477
21 Other Western Europe[1]	6,939	6,541	7,006	6,347	6,038	6,102	6,660	7,493r	5,872	5,015
22 U.S.S.R	68	49	50	31	23	37	27	65	62	94
23 Other Eastern Europe[2]	370	493	576	384	525	576	518	596r	485	506
24 Canada	10,031	10,250	12,232	17,918	16,470	16,325	16,349	16,025	16,268	17,681
25 Latin America and Caribbean	53,170	85,223	114,163	126,631	127,077	127,237	135,056	142,583r	135,624	137,365
26 Argentina	2,132	2,445	3,578	4,249	4,148	4,018	4,377	4,011	4,303	4,537
27 Bahamas	16,381	34,856	44,744	51,992	49,859	51,180	53,551	55,870r	52,306	52,114
28 Bermuda	670	765	1,572	2,849	2,833	2,632	2,582	2,328r	2,745	3,163
29 Brazil	1,216	1,568	2,014	3,046	3,406	3,818	4,150	3,364	2,997	3,449
30 British West Indies	12,766	17,794	26,381	26,967	28,442	27,410	31,695	36,781r	32,489	32,211
31 Chile	460	664	1,626	1,472	1,613	1,697	1,783	1,842	1,811	1,934
32 Colombia	3,077	2,993	2,594	1,674	1,611	1,617	1,645	1,689	1,584	1,824
33 Cuba	6	9	9	12	10	10	10	8	9	16
34 Ecuador	371	434	455	601	670	825	1,003	1,047	828	825
35 Guatemala	367	479	670	718	758	750	766	788	800	816
36 Jamaica	97	87	126	106	109	105	234	109r	113	131
37 Mexico	4,547	7,235	8,377	9,445	9,697	9,449	9,463	10,389r	10,994	10,689
38 Netherlands Antilles	413	3,182	3,597	3,486	3,581	3,858	3,941	3,879r	3,773	4,501
39 Panama	4,718	4,857	4,805	5,934	6,079	5,902	5,944	5,924r	5,574	5,540
40 Peru	403	694	1,147	1,129	1,203	1,049	1,090	1,166	1,130	1,140
41 Uruguay	254	367	759	1,033	1,116	1,202	1,173	1,232r	1,278	1,317
42 Venezuela	3,170	4,245	8,417	8,587	8,382	8,202	8,024	8,603r	9,313	9,436
43 Other Latin America and Caribbean	2,123	2,548	3,291	3,331	3,561	3,513	3,626	3,551r	3,576	3,722
44 Asia	42,420	49,822	48,716	52,649	54,583	53,370	54,121	58,351r	56,221	55,391
China										
45 Mainland	49	158	203	176	190	216	183	249	249	168
46 Taiwan	1,662	2,082	2,761	4,086	3,852	3,992	4,063	3,997	4,264	4,294
47 Hong Kong	2,548	3,950	4,465	5,614	6,582	6,507	6,971	6,610	6,201	5,886
48 India	416	385	433	528	712	830	725	464	670	749
49 Indonesia	730	640	857	839	622	871	661	997	1,093	859
50 Israel	883	592	606	823	848	812	808	1,722	850	728
51 Japan	16,281	20,750	16,078	16,922	17,418	17,103	17,138	18,079r	17,250	17,613
52 Korea	1,528	2,013	1,692	1,553	1,478	1,353	1,591	1,648	1,614	1,542
53 Philippines	919	874	770	933	1,181	747	1,012	1,234	1,235	1,280
54 Thailand	464	534	629	531	581	522	569	716	776	622
55 Middle-East oil-exporting countries[3]	14,453	12,992	13,433	11,764	12,661	12,410	12,492	12,960r	12,491	11,667
56 Other Asia	2,487	4,853	6,789	8,877	8,458	8,007	7,907	9,676r	9,528	9,982
57 Africa	5,187	3,180	3,124	2,853	3,132	2,845	2,694	2,800r	2,917	3,070
58 Egypt	485	360	432	465	488	576	589	645	572	568
59 Morocco	33	32	81	48	84	73	96	84	109	138
60 South Africa	288	420	292	452	520	394	389	449	486	502
61 Zaire	57	26	23	29	34	43	32	87	61	66
62 Oil-exporting countries[4]	3,540	1,395	1,280	934	963	736	679	620	869	839
63 Other Africa	783	946	1,016	926	1,042	1,023	909	917r	821	957
64 Other countries	1,247	1,419	6,143	5,719	5,490	6,675	6,868	8,053r	7,979	7,452
65 Australia	950	1,223	5,904	5,512	5,284	6,461	6,666	7,857	7,742	7,197
66 All other	297	196	239	208	206	214	202	196r	237	255
67 Nonmonetary international and regional organizations	2,344	2,721	4,922	5,555	5,308	4,619	6,321	5,957r	4,759	6,781
68 International	1,157	1,661	4,049	4,861	4,674	3,944	5,556	5,273r	4,174	6,139
69 Latin American regional	890	710	517	441	445	437	415	419	433	457
70 Other regional[5]	296	350	357	252	189	238	350	265	152	186

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."

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

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	1980	1981▲	1982	1983					1984	
				Aug	Sept	Oct	Nov	Dec r	Jan	Feb p
1 **Total**	**172,592**	**251,589**	**355,705**	**372,387**	**375,536**	**372,790**	**374,597r**	**388,699**	**371,183**	**376,043**
2 **Foreign countries**	**172,514**	**251,533**	**355,636**	**372,068**	**374,939**	**372,730**	**374,527r**	**388,535**	**371,119**	**375,879**
3 Europe	32,108	49,262	85,584	87,996	90,522	88,718	89,976r	91,148	89,485	91,161
4 Austria	236	121	229	338	351	334	395	401	354	416
5 Belgium-Luxembourg	1,621	2,849	5,138	5,898	5,650	5,503	5,548	5,667	5,900	6,146
6 Denmark	127	187	554	1,124	1,131	1,103	1,272	1,295	1,296	1,240
7 Finland	460	546	990	637	697	789	822	1,044	945	972
8 France	2,958	4,127	7,251	8,589	7,869	7,390	7,885	8,769	7,979	8,333
9 Germany	948	940	1,876	1,168	1,428	1,095	1,256	1,294	1,058	1,009
10 Greece	256	333	452	375	408	369	412	476	508	549
11 Italy	3,364	5,240	7,560	7,412	7,038	7,686	8,432	9,256	7,864	7,826
12 Netherlands	575	682	1,425	1,048	1,189	1,071	1,390	1,302	1,407	1,324
13 Norway	227	384	572	634	550	575	590	690	652	648
14 Portugal	331	529	950	848	861	893	891	939	954	944
15 Spain	993	2,095	3,744	3,373	3,389	3,128	3,634	3,630	3,381	3,304
16 Sweden	783	1,205	3,038	2,836	3,081	3,059	3,249r	3,378	3,373	3,316
17 Switzerland	1,446	2,213	1,639	1,630	1,765	1,579	2,112	1,856	1,452	1,300
18 Turkey	145	424	560	594	616	660	693	812	795	880
19 United Kingdom	14,917	23,849	45,781	47,863	50,780	49,841	47,607r	46,372	47,621	49,040
20 Yugoslavia	853	1,225	1,430	1,351	1,369	1,468	1,582	1,694	1,718	1,704
21 Other Western Europe[1]	179	211	368	406	529	394	426r	477	493	547
22 U.S.S.R	281	377	263	232	215	206	176	192	163	169
23 Other Eastern Europe[2]	1,410	1,725	1,762	1,640	1,606	1,575	1,603r	1,603	1,573	1,494
24 Canada	4,810	9,193	13,678	17,501	16,525	15,885	16,379r	16,330	15,874	15,964
25 Latin America and Caribbean	92,992	138,347	187,969	195,281	194,391	195,109	197,629r	203,827	193,913	197,144
26 Argentina	5,689	7,527	10,974	11,334	11,444	11,618	11,899	11,854	11,747	11,753
27 Bahamas	29,419	43,542	56,649	54,687	55,009	56,220	56,071r	58,351	52,287	53,124
28 Bermuda	218	346	603	390	578	489	620r	566	941	450
29 Brazil	10,496	16,926	23,271	24,231	24,282	24,202	24,532r	24,593	24,821	24,928
30 British West Indies	15,663	21,981	29,101	32,266	30,877	30,796	32,180r	34,921	31,240	32,922
31 Chile	1,951	3,690	5,513	5,404	5,792	5,740	5,860	6,112	6,163	6,285
32 Colombia	1,752	2,018	3,211	3,592	3,665	3,648	3,734	3,785	3,652	3,534
33 Cuba	3	3	3	0	0	3	0	0	0	195
34 Ecuador	1,190	1,531	2,062	2,014	2,020	2,154	2,262	2,353	2,367	2,354
35 Guatemala[3]	137	124	124	100	112	115	122	129	189	127
36 Jamaica[3]	36	62	181	204	214	203	210	215	218	219
37 Mexico	12,595	22,439	29,552	33,689	33,740	33,521	33,722r	34,836	34,544	34,655
38 Netherlands Antilles	821	1,076	839	838	897	988	1,164	1,053	971	1,043
39 Panama	4,974	6,794	10,210	10,093	9,189	8,835	8,336	7,857	7,847	8,805
40 Peru	890	1,218	2,357	2,421	2,470	2,434	2,469	2,593	2,467	2,418
41 Uruguay	137	157	686	820	857	883	903	978	982	908
42 Venezuela	5,438	7,069	10,643	11,045	11,037	10,881	11,088	11,343	11,247	11,169
43 Other Latin America and Caribbean	1,583	1,844	1,991	2,152	2,209	2,379	2,457	2,290	2,230	2,255
44 Asia	39,078	49,851	60,952	62,585	64,751	63,772	61,212r	67,677	62,575	61,780
China										
45 Mainland	195	107	214	179	227	295	249	292	420	337
46 Taiwan	2,469	2,461	2,288	1,644	1,829	1,618	1,574r	1,908	1,812	1,700
47 Hong Kong	2,247	4,132	6,787	8,022	8,704	8,287	8,753r	8,429	8,211	7,391
48 India	142	123	222	275	259	324	305	330	344	253
49 Indonesia	245	352	348	635	688	697	711	805	853	899
50 Israel	1,172	1,567	2,029	1,648	1,726	1,780	1,817	1,795	1,557	1,478
51 Japan	21,361	26,797	28,379	27,438	28,563	28,239	25,783r	30,573	27,174	27,787
52 Korea	5,697	7,340	9,387	9,696	9,634	9,314	9,629r	9,909	9,489	9,439
53 Philippines	989	1,819	2,625	2,540	2,777	2,369	2,427	2,105	2,408	2,349
54 Thailand	876	565	643	735	806	831	867	1,021	1,016	1,035
55 Middle East oil-exporting countries[4]	1,432	1,581	3,087	4,654	4,142	4,630	4,255r	4,939	4,636	4,261
56 Other Asia	2,252	3,009	4,943	5,119	5,395	5,388	4,843r	5,571	4,656	4,850
57 Africa	2,377	3,503	5,346	6,527	6,482	6,889	6,808	6,649	6,571	7,153
58 Egypt	151	238	322	529	596	623	670	725	738	709
59 Morocco	223	284	353	444	444	462	461	440	435	481
60 South Africa	370	1,011	2,012	2,630	2,719	2,582	2,892	2,634	2,684	2,867
61 Zaire	94	112	57	40	38	38	37	33	29	16
62 Oil-exporting countries[5]	805	657	801	1,052	964	1,481	1,039	1,091	1,052	1,125
63 Other	734	1,201	1,802	1,832	1,722	1,703	1,709	1,727	1,631	1,955
64 Other countries	1,150	1,376	2,107	2,178	2,267	2,357	2,522	2,904	2,702	2,676
65 Australia	859	1,203	1,713	1,637	1,675	1,692	1,899	2,272	2,105	2,008
66 All other	290	172	394	542	593	664	624	632	597	669
67 Nonmonetary international and regional organizations[6]	78	56	68	319	598	60	70	164	64	164

1 Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.

2 Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.

3 Included in "Other Latin America and Caribbean" through March 1978.

4 Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

5 Comprises Algeria, Gabon, Libya, and Nigeria.

6 Excludes the Bank for International Settlements, which is included in "Other Western Europe."

NOTE. Data for period before April 1978 include claims of banks' domestic customers on foreigners.

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

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	1980	1981▲	1982	1983					1984	
				Aug.	Sept.	Oct	Nov.[r]	Dec.[r]	Jan	Feb[p]
1 **Total**	**198,698**	**287,557**	**396,015**	....	**411,639**	....	....	**422,642**	....	....
2 Banks' own claims on foreigners	172,592	251,589	355,705	372,387	375,536	372,790	374,597	388,699	371,183	376,043
3 Foreign public borrowers	20,882	31,260	45,422	52,009	53,699	54,770	56,026	57,830	57,941	58,530
4 Own foreign offices[1]	65,084	96,653	127,293	137,166	137,382	141,971	137,464	143,978	138,266	140,845
5 Unaffiliated foreign banks	50,168	74,704	121,377	120,732	121,900	114,390	118,150	123,080	114,447	115,690
6 Deposits	8,254	23,381	44,223	47,345	48,179	44,613	44,503	46,402	42,313	44,393
7 Other	41,914	51,322	77,153	73,386	73,721	69,777	73,647	76,678	72,134	71,297
8 All other foreigners	36,459	48,972	61,614	62,480	62,556	61,658	62,956	63,811	60,529	60,978
9 Claims of banks' domestic customers[2]	26,106	35,968	40,310	...	36,102	...	...	33,943	...	...
10 Deposits	885	1,378	2,491	...	2,654	...	...	2,969	...	...
11 Negotiable and readily transferable instruments[3]	15,574	26,352	30,763	...	27,550	...	...	25,104	...	...
12 Outstanding collections and other claims	9,648	8,238	7,056	...	5,898	...	...	5,870	...	...
13 MEMO: Customer liability on acceptances	22,714	29,952	38,153	...	34,585	...	...	37,324	...	...
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[4]	24,468	40,369[r]	42,186[r]	42,504[r]	42,529[r]	45,160[r]	47,905[r]	44,366[r]	44,788	n.a

1. *U.S. banks* includes amounts due from own foreign branches and foreign subsidiaries consolidated in "Consolidated Report of Condition" filed with bank regulatory agencies. *Agencies, branches, and majority-owned subsidiaries of foreign banks*, principally amounts due from head office or parent foreign bank, and foreign branches, agencies, or wholly owned subsidiaries of head office or parent foreign bank.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the account of their domestic customers.
3. Principally negotiable time certificates of deposit and bankers acceptances.
4. Includes demand and time deposits and negotiable and nonnegotiable certificates of deposit denominated in U.S. dollars issued by banks abroad. For description of changes in data reported by nonbanks, see July 1979 BULLETIN, p. 550.

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

NOTE. Beginning April 1978, data for banks' own claims are given on a monthly basis, but the data for claims of banks' own domestic customers are available on a quarterly basis only.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States
Payable in U.S. Dollars

Millions of dollars, end of period

Maturity, by borrower and area	1980	1981▲	1982	1983			
			Dec.	Mar.	June	Sept.	Dec.
1 **Total**	**106,748**	**154,590**	**228,150**	**230,112**	**232,126**	**233,676**	**243,935**
By borrower							
2 Maturity of 1 year or less[1]	82,555	116,394	173,917	174,152	174,570	174,629	176,293
3 Foreign public borrowers	9,974	15,142	21,256	21,768	23,030	25,519	24,310
4 All other foreigners	72,581	101,252	152,661	151,384	151,541	149,111	151,983
5 Maturity of over 1 year[1]	24,193	38,197	54,233	55,960	57,556	59,046	67,642
6 Foreign public borrowers	10,152	15,589	23,137	24,859	26,206	27,077	33,006
7 All other foreigners	14,041	22,608	31,095	31,100	31,349	31,970	34,636
By area							
Maturity of 1 year or less[1]							
8 Europe	18,715	28,130	50,500	54,109	52,039	52,665	55,550
9 Canada	2,723	4,662	7,642	6,861	7,055	6,443	6,200
10 Latin America and Caribbean	32,034	48,717	73,291	75,122	74,768	76,031	74,287
11 Asia	26,686	31,485	37,578	32,753	35,327	33,442	34,551
12 Africa	1,757	2,457	3,680	3,872	3,854	4,657	4,206
13 All other[2]	640	943	1,226	1,435	1,527	1,391	1,499
Maturity of over 1 year[1]							
14 Europe	5,118	8,100	11,636	11,986	12,238	11,613	13,571
15 Canada	1,448	1,808	1,931	1,924	1,861	1,756	1,857
16 Latin America and Caribbean	15,075	25,209	35,247	35,842	36,671	38,254	43,868
17 Asia	1,865	1,907	3,185	3,573	4,053	4,581	4,859
18 Africa	507	900	1,494	1,485	1,667	1,734	2,296
19 All other[2]	179	272	740	1,150	1,066	1,108	1,191

1. Remaining time to maturity.
2. Includes nonmonetary international and regional organizations.

▲ Liabilities and claims of banks in the United States were increased, beginning in December 1981, by the shift from foreign branches to international banking facilities in the United States of liabilities to, and claims on, foreign residents.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks[1]

Billions of dollars, end of period

Area or country	1979	1980	1981	1982				1983			
				Mar	June	Sept	Dec.	Mar.	June	Sept	Dec
1 **Total**	**303.9**	**352.0**	**415.2**	**419.6**	**435.3**	**438.2**	**438.6**	**440.6**	**436.5**	**425.5**	**435.7**
2 G-10 countries and Switzerland	138.4	162.1	175.5	174.5	176.3	175.4	179.7	182.1	176.7	167.8	167.1
3 Belgium-Luxembourg	11.1	13.0	13.3	13.2	14.1	13.6	13.1	13.7	13.3	12.6	12.4
4 France	11.7	14.1	15.3	16.0	16.5	15.8	17.1	17.1	17.1	16.2	16.3
5 Germany	12.2	12.1	12.9	12.5	12.7	12.2	12.7	13.4	12.6	11.6	11.4
6 Italy	6.4	8.2	9.6	9.0	9.0	9.7	10.3	10.2	10.5	9.9	11.7
7 *Netherlands*	4.8	4.4	4.0	4.0	4.1	3.8	3.6	4.3	4.0	3.6	3.5
8 Sweden	2.4	2.9	3.7	4.1	4.0	4.7	5.0	4.3	4.7	4.9	5.1
9 Switzerland	4.7	5.0	5.5	5.3	5.1	5.1	5.0	4.6	4.8	4.2	4.3
10 United Kingdom	56.4	67.4	70.1	70.3	69.4	70.3	72.1	72.9	70.2	67.0	64.1
11 Canada	6.3	8.4	10.9	11.6	11.4	11.0	10.4	12.4	10.8	9.0	8.3
12 Japan	22.4	26.5	30.2	28.5	29.9	29.3	30.2	29.2	28.7	28.9	30.0
13 Other developed countries	19.9	21.6	28.4	30.7	32.1	32.7	33.7	33.9	34.4	34.1	36.0
14 Austria	2.0	1.9	1.9	2.1	2.1	2.0	1.9	2.1	2.1	1.9	1.9
15 Denmark	2.2	2.3	2.3	2.5	2.6	2.5	2.4	3.3	3.4	3.3	3.5
16 Finland	1.2	1.4	1.7	1.6	1.6	1.8	2.2	2.1	2.1	1.8	2.4
17 Greece	2.4	2.8	2.8	2.9	2.7	2.6	3.0	2.9	2.9	2.9	2.8
18 Norway	2.3	2.6	3.1	3.2	3.2	3.4	3.3	3.3	3.4	3.2	3.2
19 Portugal	.7	.6	1.1	1.2	1.5	1.6	1.5	1.4	1.4	1.3	1.3
20 Spain	3.5	4.4	6.6	7.2	7.3	7.7	7.5	7.0	7.2	7.1	7.2
21 Turkey	1.4	1.5	1.4	1.6	1.5	1.5	1.4	1.5	1.4	1.5	1.7
22 Other Western Europe	1.4	1.7	2.1	2.1	2.2	2.1	2.3	2.2	2.0	2.1	1.9
23 South Africa	1.3	1.1	2.8	3.3	3.5	3.6	3.7	3.6	3.9	4.7	4.7
24 Australia	1.3	1.3	2.5	3.0	4.0	4.0	4.4	4.6	4.5	4.4	5.5
25 OPEC countries[2]	22.9	22.7	24.8	25.4	26.4	27.3	27.4	28.5	28.2	27.2	29.1
26 Ecuador	1.7	2.1	2.2	2.3	2.4	2.3	2.2	2.2	2.2	2.1	2.2
27 Venezuela	8.7	9.1	9.9	10.0	10.1	10.4	10.5	10.4	10.4	9.8	9.9
28 Indonesia	1.9	1.8	2.6	2.7	2.8	2.9	3.2	3.5	3.2	3.4	3.8
29 Middle East countries	8.0	6.9	7.5	8.2	8.7	9.0	8.7	9.3	9.5	9.0	10.0
30 African countries	2.6	2.8	2.5	2.2	2.5	2.7	2.8	3.0	3.0	2.8	3.1
31 Non-OPEC developing countries	63.0	77.4	96.3	97.5	103.6	104.0	107.0	107.6	108.2	108.8	111.1
Latin America											
32 Argentina	5.0	7.9	9.4	10.0	9.6	9.2	8.9	9.0	9.4	9.5	9.6
33 Brazil	15.2	16.2	19.1	19.7	21.4	22.4	22.9	23.1	22.5	22.9	23.0
34 Chile	2.5	3.7	5.8	6.0	6.4	6.2	6.3	6.0	5.8	6.2	6.5
35 *Colombia*	2.2	2.6	2.6	2.3	2.6	2.8	3.1	2.9	3.2	3.2	3.2
36 Mexico	12.0	15.9	21.6	22.9	25.2	25.0	24.5	25.1	25.2	25.8	26.1
37 Peru	1.5	1.8	2.0	1.9	2.5	2.6	2.6	2.4	2.6	2.4	2.4
38 Other Latin America	3.7	3.9	4.1	4.1	4.0	4.3	4.0	4.2	4.3	4.2	4.3
Asia											
China											
39 Mainland	.1	2	2	2	3	2	2	2	2	.2	3
40 Taiwan	3.4	4.2	5.1	5.1	5.0	4.9	5.2	5.1	5.1	5.2	5.3
41 India	2	.3	3	5	.5	.5	.6	4	5	5	6
42 Israel	1.3	1.5	2.1	1.7	2.2	1.9	2.3	2.0	2.3	1.7	1.8
43 Korea (South)	5.4	7.1	9.4	8.6	8.9	9.3	10.8	10.8	10.8	10.8	11.3
44 Malaysia	1.0	1.1	1.7	1.7	1.9	1.8	2.1	2.5	2.6	2.8	2.9
45 Philippines	4.2	5.1	6.0	5.9	6.3	6.0	6.3	6.6	6.4	6.2	6.2
46 Thailand	1.5	1.6	1.5	1.4	1.3	1.3	1.6	1.6	1.8	1.7	1.9
47 Other Asia	5	6	1.0	1.2	1.1	1.3	1.1	1.4	1.2	1.0	1.0
Africa											
48 Egypt	.6	8	1.1	1.3	1.3	1.3	1.2	1.1	1.3	1.4	1.4
49 Morocco	6	7	7	7	7	8	7	8	8	.8	.8
50 Zaire	2	.2	2	2	2	1	1	1	.1	.1	.1
51 Other Africa[3]	1.7	2.1	2.3	2.3	2.3	2.2	2.4	2.3	2.2	2.4	2.3
52 Eastern Europe	7.3	7.4	7.8	7.2	6.7	6.3	6.2	5.8	5.7	5.3	5.4
53 U.S.S.R	7	.4	6	4	4	.3	.3	.3	.4	.2	2
54 Yugoslavia	1.8	2.3	2.5	2.5	2.4	2.2	2.2	2.2	2.3	2.3	2.4
55 Other	4.8	4.6	4.7	4.3	3.9	3.8	3.7	3.3	3.0	2.8	2.8
56 Offshore banking centers	40.4	47.0	63.7	65.7	72.0	72.1	66.8	66.1	67.3	65.5	70.2
57 Bahamas	13.7	13.7	19.0	20.2	24.1	21.4	19.0	17.3	19.5	19.0	21.9
58 Bermuda	.8	.6	7	7	7	.8	.9	1.0	8	8	9
59 Cayman Islands and other British West Indies	9.4	10.6	12.4	12.1	12.3	13.6	12.9	11.9	12.1	10.2	12.0
60 Netherlands Antilles	1.2	2.1	3.2	3.2	3.0	3.3	3.3	3.1	2.6	4.1	4.1
61 Panama[4]	4.3	5.4	7.7	7.2	7.4	8.1	7.6	7.1	6.6	5.7	6.0
62 Lebanon	2	2	2	2	2	1	1	1	.1	1	.1
63 Hong Kong	6.0	8.1	11.8	12.9	14.3	15.0	13.9	15.2	14.5	15.1	14.9
64 Singapore	4.5	5.9	8.7	9.3	9.9	9.8	9.1	10.3	11.0	10.4	10.2
65 Others[5]	.4	3	1	1	.1	.0	0	.0	0	1	0
66 Miscellaneous and unallocated[6]	11.7	14.0	18.8	18.5	18.4	20.3	17.9	16.7	16.1	16.8	16.8

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).

2. Besides the Organization of Petroleum Exporting Countries shown individually, this group includes other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates) as well as Bahrain and Oman (not formally members of OPEC).

3. Excludes Liberia.

4. Includes Canal Zone beginning December 1979.

5. Foreign branch claims only.

6. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1979	1980	1981	1982		1983		
				Sept	Dec r	Mar r	June	Sept
1 **Total**	**17,433**	**29,434**	**28,618**	**25,149**	**25,568**	**23,285**	**22,531r**	**24,595r**
2 Payable in dollars	14,323	25,689	24,909	22,051	22,375	20,302	19,625r	21,728r
3 Payable in foreign currencies	3,110	3,745	3,709	3,099	3,193	2,983	2,906r	2,867r
By type								
4 Financial liabilities	7,523	11,330	12,157	10,855	10,906	10,831	10,866r	10,779r
5 Payable in dollars	5,223	8,528	9,499	8,565	8,734	8,795	8,823r	8,809r
6 Payable in foreign currencies	2,300	2,802	2,658	2,291	2,172	2,036	2,043r	1,971r
7 Commercial liabilities	9,910	18,104	16,461	14,294	14,662	12,454	11,665r	13,815r
8 Trade payables	4,591	12,201	10,818	8,084	7,707	5,627	6,026r	7,056r
9 Advance receipts and other liabilities	5,320	5,903	5,643	6,209	6,955	6,827	5,640	6,760
10 Payable in dollars	9,100	17,161	15,409	13,486	13,641	11,507	10,802r	12,919
11 Payable in foreign currencies	811	943	1,052	808	1,021	947	864r	896
By area or country								
Financial liabilities								
12 Europe	4,665	6,481	6,825	6,389	6,369	6,233	6,220r	5,978r
13 Belgium-Luxembourg	338	479	471	494	505	410	436	379
14 France	175	327	709	672	731	725	756r	785r
15 Germany	497	582	491	446	470	487	460	454r
16 Netherlands	829	681	748	759	711	699	728	730
17 Switzerland	170	354	715	670	753	702	621r	530r
18 United Kingdom	2,477	3,923	3,565	3,212	3,070	3,081	3,069r	2,943r
19 Canada	532	964	963	753	746	733	865r	788r
20 Latin America and Caribbean	1,514	3,136	3,356	2,969	2,724	2,707	2,435	2,658r
21 Bahamas	404	964	1,279	938	899	827	695	771r
22 Bermuda	81	1	7	9	14	18	10	13
23 Brazil	18	23	22	28	28	39	34	32
24 British West Indies	516	1,452	1,241	981	1,010	1,009	932	972r
25 Mexico	121	99	102	85	121	149	151	185r
26 Venezuela	72	81	98	104	114	121	124	117
27 Asia	804	723	976	714	1,039	1,124	1,319	1,322
28 Japan	726	644	792	479	715	781	943	957
29 Middle East oil-exporting countries[2]	31	38	75	67	169	168	205	201
30 Africa	4	11	14	17	17	20	17	19
31 Oil-exporting countries[3]	1	1	0	0	0	0	0	0
32 All other[4]	4	15	24	13	12	13	9	15
Commercial liabilities								
33 Europe	3,709	4,402	3,770	3,957	3,649	3,443	3,368r	3,384
34 Belgium-Luxembourg	137	90	71	50	52	45	41	47
35 France	467	582	573	762	597	578	617r	506
36 Germany	545	679	545	436	467	455	439r	461
37 Netherlands	227	219	220	277	346	351	342	243
38 Switzerland	316	499	424	358	363	354	357	448
39 United Kingdom	1,080	1,209	880	1,001	850	679	633r	786
40 Canada	924	888	897	1,197	1,490	1,433	1,465	1,407
41 Latin America and Caribbean	1,325	1,300	1,044	1,235	1,008	1,066	1024r	1,067
42 Bahamas	69	8	2	6	16	4	1	1
43 Bermuda	32	75	67	48	89	117	76	76
44 Brazil	203	111	67	128	60	51	49	48
45 British West Indies	21	35	2	3	32	4	22	14
46 Mexico	257	367	340	499	379	355	399r	429
47 Venezuela	301	319	276	269	165	198	236r	217
48 Asia	2,991	10,242	9,384	6,641	7,160	5,437	4,799	6,852
49 Japan	583	802	1,094	1,192	1,226	1,235	1,236	1,294
50 Middle East oil-exporting countries[2,5]	1,014	8,098	7,008	4,178	4,531	2,803	2,294	4,072
51 Africa	728	817	703	669	704	497	492	506
52 Oil-exporting countries[3]	384	517	344	248	277	158	167	204
53 All other[4]	233	456	664	595	651	578	518	600

1 For a description of the changes in the International Statistics tables, see July 1979 BULLETIN, p. 550.
2 Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
3 Comprises Algeria, Gabon, Libya, and Nigeria.
4 Includes nonmonetary international and regional organizations.
5 Revisions include a reclassification of transactions, which also affects the totals for Asia and the grand totals.

3.23 CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1979	1980	1981	1982		1983		
				Sept	Dec	Mar	June	Sept
1 **Total**	**31,299**	**34,482**	**36,185**	**30,232**	**28,411r**	**31,189r**	**31,421r**	**31,649r**
2 Payable in dollars	28,096	31,528	32,582	27,571	25,784r	28,472r	28,778r	28,773r
3 Payable in foreign currencies	3,203	2,955	3,603	2,661	2,628	2,718r	2,643	2,877r
By type								
4 Financial claims	18,398	19,763	21,142	18,356	17,429r	20,220r	20,812r	20,831r
5 Deposits	12,858	14,166	15,081	13,241	12,893r	15,569r	15,976r	15,987r
6 Payable in dollars	11,936	13,381	14,456	12,828	12,467r	15,092r	15,549r	15,542r
7 Payable in foreign currencies	923	785	625	413	426	478	426	445r
8 Other financial claims	5,540	5,597	6,061	5,115	4,536	4,651	4,836r	4,845r
9 Payable in dollars	3,714	3,914	3,599	3,419	2,895	3,006	3,238r	3,019r
10 Payable in foreign currencies	1,826	1,683	2,462	1,696	1,641	1,645	1,598	1,826
11 Commercial claims	12,901	14,720	15,043	11,877	10,982r	10,969r	10,609	10,818
12 Trade receivables	12,185	13,960	14,007	10,770	9,973r	9,765r	9,241	9,519
13 Advance payments and other claims	716	759	1,036	1,106	1,010	1,203	1,367	1,299
14 Payable in dollars	12,447	14,233	14,527	11,324	10,422r	10,374r	9,991	10,212
15 Payable in foreign currencies	454	487	516	552	561	595r	618	606
By area or country								
Financial claims								
16 Europe	6,179	6,069	4,596	4,967	4,835r	6,196r	6,817r	6,202r
17 Belgium-Luxembourg	32	145	43	16	10	58	12	25
18 France	177	298	285	326	134	98r	140r	135r
19 Germany	409	230	224	215	178	127	217r	151
20 Netherlands	53	51	50	119	97	140	136	89r
21 Switzerland	73	54	117	60	107	107r	37r	34r
22 United Kingdom	5,099	4,987	3,546	3,859	4,044r	5,414r	6,040r	5,547r
23 Canada	5,003	5,036	6,755	4,386	4,287	4,613r	4,881r	4,958r
24 Latin America and Caribbean	6,312	7,811	8,812	7,948	7,420r	8,520	8,040r	8,609r
25 Bahamas	2,773	3,477	3,650	3,435	3,236r	3,806r	3,244	3,389r
26 Bermuda	30	135	18	16	32r	21r	93r	62
27 Brazil	163	96	30	76	62	50	48	49r
28 British West Indies	2,011	2,755	3,971	3,411	3,161r	3,365r	3,339r	3,932r
29 Mexico	157	208	313	268	274	352	348	315
30 Venezuela	143	137	148	133	139	156	152	137r
31 Asia	601	607	758	846	698	712	772r	764r
32 Japan	199	189	366	268	153	233	288	257r
33 Middle East oil-exporting countries[2]	16	20	37	30	15	18	14	8
34 Africa	258	208	173	165	158	153	154	151
35 Oil-exporting countries[3]	49	26	46	50	48	45	48	45r
36 All other[4]	44	32	48	44	31	25	149	148
Commercial claims								
37 Europe	4,922	5,544	5,405	4,231	3,777r	3,594r	3,410	3,349
38 Belgium-Luxembourg	202	233	234	178	150	140	144	131
39 France	727	1,129	776	646	473	489	499	486
40 Germany	593	599	561	427	356	424r	364	378
41 Netherlands	298	318	299	268	347	309	242	282
42 Switzerland	272	354	431	291	339	227	303	270
43 United Kingdom	901	929	985	1,035	808r	754	739	734
44 Canada	859	914	967	666	632r	648r	716	788
45 Latin America and Caribbean	2,879	3,766	3,479	2,772	2,521r	2,699r	2,722	2,864
46 Bahamas	21	21	12	19	21	30	30	15
47 Bermuda	197	108	223	154	259	172	108	242
48 Brazil	645	861	668	481	258	402r	512	611
49 British West Indies	16	34	12	7	12	21	21	12
50 Mexico	708	1,102	1,022	869	774r	894r	956	897
51 Venezuela	343	410	424	373	351	288	273	282
52 Asia	3,451	3,522	3,959	3,098	3,048r	3,128r	2,871	2,929
53 Japan	1,177	1,052	1,245	973	1,047r	1,115	949	1,037
54 Middle East oil-exporting countries[2]	765	825	905	777	751r	702r	700	719
55 Africa	551	653	772	661	588	559	528	562
56 Oil-exporting countries[3]	130	153	152	148	140	131	130	131
57 All other[4]	240	321	461	448	417r	342	361	326

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	1982	1983	1984 Jan.–Feb.	1983 Aug.	1983 Sept	1983 Oct.	1983 Nov	1983 Dec.	1984 Jan.	1984 Feb p
					U.S. corporate securities					
STOCKS										
1 Foreign purchases	41,881	69,890	11,683	5,181	5,516	5,530	4,849r	6,020	5,442	6,241
2 Foreign sales	37,981	64,472	11,625	5,168	5,116	5,392	4,785r	5,745	5,798	5,826
3 **Net purchases, or sales (−)**	**3,901**	**5,418**	**58**	**13**	**400**	**138**	**64r**	**275**	**−357**	**414**
4 **Foreign countries**	**3,816**	**5,320**	**138**	**14**	**392**	**134**	**64**	**283r**	**−346**	**484**
5 Europe	2,530	3,980	−13	71	261	−99	−59r	−278	−160	147
6 France	−143	−100	−168	−77	−10	−36	−66	−64	−71	−96
7 Germany	333	1054	211	54	48	55	53	−51	95	116
8 Netherlands	−63	−110	0	−13	−49	−15	24	13	0	1
9 Switzerland	−579	1,313	190	56	123	−18	−97	−208	−92	282
10 United Kingdom	3,117	1,808	−255	79	171	−136	21	51	−87	−168
11 Canada	222	1,149	407	75	154	124	−1r	183	83	324
12 Latin America and Caribbean	317	531	167	−98	106	−41	17	239	124	43
13 Middle East[1]	366	−807r	−405	−88	−178	49	45r	13	−365	−41
14 Other Asia	247	403	−12	75	51	103	63	122r	−48	36
15 Africa	2	42	14	7	4	−1	1	2	5	10
16 Other countries	131	24	−19	−28	−6	−1	−3	1	16	−34
17 **Nonmonetary international and regional organizations**	**85**	**98**	**−81**	**−1**	**8**	**4**	**0**	**−7**	**−11**	**−70**
BONDS[2]										
18 Foreign purchases	21,639	23,966	3,879	2,141	1,888	2,537	2,039	1,661	1,766	2,113
19 Foreign sales	20,188	23,076	3,666	1,995	1,960	2,492	1,304	1,493	1,800	1,867
20 **Net purchases, or sales (−)**	**1,451**	**890**	**213**	**146**	**−72**	**45**	**735**	**168**	**−33**	**246**
21 **Foreign countries**	**1,479**	**875**	**136**	**44**	**−77**	**142**	**715**	**160r**	**−23**	**158**
22 Europe	2,082	892	51	115	14	303	458	−87	2	49
23 France	305	−89	−6	−6	0	2	−31	−4	−1	−5
24 Germany	2,110	286	−71	25	41	66	53	−10	−38	−32
25 Netherlands	33	51	28	−3	1	11	5	3	3	25
26 Switzerland	157	632	16	−1	−19	7	15	78	12	5
27 United Kingdom	−589	429	161	112	32	136	390	−126	59	101
28 Canada	24	123	−34	−3	−10	22	46	−22	−24	−10
29 Latin America and Caribbean	159	100	25	−21	4	24	−6	20	9	16
30 Middle East[1]	−752	−1,134r	4	−121	−105	−249	116	42r	−26	30
31 Other Asia	−22	841	93	74	19	45	101	207	18	75
32 Africa	−19	0	−1	0	2	0	0	0	−1	0
33 Other countries	7	52	−3	0	−2	−4	0	0	0	−2
34 **Nonmonetary international and regional organizations**	**−28**	**15**	**−77**	**102**	**6**	**−97**	**20**	**7**	**−11**	**87**
					Foreign securities					
35 Stocks, net purchases, or sales (−)	−1,341	−3,849r	189	−214	−106	−14	−17	−190	−122	311
36 Foreign purchases	7,163	13,124	2,653	1,032	1,297	1,140	906	1,126r	1,201	1,453
37 Foreign sales	8,504	16,973	2,464	1,246	1,403	1,154	923	1,317	1,323	1,141
38 Bonds, net purchases, or sales (−)	−6,631	−3,677	100	−463	−54	−172	173	−689	154	−53
39 Foreign purchases	27,167	35,626	7,173	2,708	3,714	3,902	3,113	3,072	3,272	3,901
40 Foreign sales	33,798	39,302	7,072	3,171	3,768	4,075	2,940	3,761	3,118	3,954
41 **Net purchases, or sales (−), of stocks and bonds**	**−7,972**	**−7,526r**	**290**	**−677**	**−160**	**−186**	**155**	**−879**	**32**	**258**
42 **Foreign countries**	**−6,806**	**−7,028**	**211**	**−684**	**−146**	**−235**	51	**−719r**	3	**207**
43 Europe	−2,584	−5,630	−444	−301	124	−338	−417	−448	−39	−405
44 Canada	−2,363	−1,582	78	−97	−355	6	37	−64	−105	183
45 Latin America and Caribbean	336	1,120	302	62	23	5	135	17	113	188
46 Asia	−1,822	−912	288	23	105	90	160	−81r	37	252
47 Africa	−9	141	−16	14	16	11	1	0	−5	−11
48 Other countries	−364	−164	3	−385	−59	−10	135	−143	2	1
49 **Nonmonetary international and regional organizations**	**−1,165**	**−498**	**79**	**7**	**−14**	**49**	**105**	**−161**	**28**	**50**

1. Comprises oil-exporting countries as follows: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States)

2 Includes state and local government securities, and securities of U.S. government agencies and corporations. Also includes issues of new debt securities sold abroad by U S corporations organized to finance direct investments abroad

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Holdings and Transactions

Millions of dollars

Country or area	1982	1983	1984 Jan – Feb	1983 Aug	1983 Sept	1983 Oct	1983 Nov	1983 Dec	1984 Jan	1984 Feb p
	Holdings (end of period)[1]									
1 **Estimated total**[2]	**85,220**	**88,990**	....	**87,483**	**88,661**	**90,988**	**89,559**r	**88,990**	**89,699**	**90,277**
2 Foreign countries[2]	80,637	83,895		82,790	82,763	84,358	83,743r	83,895	84,607	84,473
3 Europe[2]	29,284	35,482		32,996	33,370	34,415	35,051r	35,482	35,969	37,315
4 Belgium-Luxembourg	447	16		95	58	18	2	16	33	50
5 Germany[2]	14,841	17,290		16,119	16,156	16,570	17,092	17,290	17,581	18,527
6 Netherlands	2,754	3,129		3,234	3,034	2,987	3,048	3,129	3,113	3,052
7 Sweden	677	842		644	666	714	758	842	848	868
8 Switzerland[2]	1,540	1,118		965	1,087	1,177	1,064	1,118	1,167	1,206
9 United Kingdom	6,549	8,524		8,270	8,289	8,629	8,626	8,524	8,723	8,608
10 Other Western Europe	2,476	4,563		3,669	4,081	4,321	4,461r	4,563	4,505	5,004
11 Eastern Europe	0	0		0	0	0	0	0	0	0
12 Canada	602	1,301		1,088	1,063	1,265	1,225	1,301	1,298	1,310
13 Latin America and Caribbean	1,076	863r		800	774	695	914	863r	1,426	840
14 Venezuela	188	64		62	65	66	64	64	64	64
15 Other Latin America and Caribbean	656	716		622	631	540	674	716	696	574
16 Netherlands Antilles	232	83		116	78	89	176	83	665	201
17 Asia	49,543	46,129		47,733	47,430	47,849	46,430r	46,129	45,802	44,905
18 Japan	11,578	13,910		13,007	13,210	13,446	13,600	13,910	14,012	14,351
19 Africa	77	79		79	79	79	79	79	79	78
20 All other	55	40		94	48	56	43	40	33	25
21 Nonmonetary international and regional organizations	4,583	5,095		4,693	5,898	6,630	5,816	5,095	5,092	5,804
22 International	4,186	4,404		4,086	5,421	6,094	5,030	4,404	4,467	5,139
23 Latin American regional	6	6		6	6	6	0	6	6	6
	Transactions (net purchases, or sales (−) during period)									
24 **Total**[2]	**14,972**	**3,769**	**1,288**	**−1,350**	**1,178**	**2,327**	**−1,422**	**−576**r	**709**	**579**
25 Foreign countries[2]	16,072	3,258	578	−826	−26	1,595	−615	152r	712	134
26 Official institutions	14,550	848r	559	−885	5	468	−774	−401r	512	46
27 Other foreign[2]	1,518	2,414r	20	59	−31	1,126	159	554r	200	−179
28 Nonmonetary international and regional organizations	−1,097	506	708	−523	1,205	731	−808	−729	−3	711
MEMO: Oil-exporting countries										
29 Middle East[3]	7,575	−5,397	−1,316	−1,764	−305	−373	−968	−60	−515	−801
30 Africa[4]	−552	−1	0	0	0	0	0	0	0	0

1 Estimated official and private holdings of marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on a benchmark survey of holdings as of Jan. 31, 1971, and monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2 Beginning December 1978, 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, 1984 Percent	Rate on Mar. 31, 1984 Month effective	Country	Rate on Mar. 31, 1984 Percent	Rate on Mar. 31, 1984 Month effective	Country	Rate on Mar. 31, 1984 Percent	Rate on Mar. 31, 1984 Month effective
Austria	4.25	Mar. 1984	France[1]	12.0	Dec. 1983	Norway	8.0	June 1979
Belgium	11.0	Feb. 1984	Germany, Fed. Rep. of	4.0	Mar. 1983	Switzerland	4.0	Mar. 1983
Brazil	49.0	Mar. 1981	Italy	16.0	Feb. 1984	United Kingdom[2]	...	...
Canada	10.78	Mar. 1984	Japan	5.0	Oct. 1983	Venezuela	11.0	May 1983
Denmark	7.0	Oct. 1983	Netherlands	5.0	Sept. 1983			

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	1981	1982	1983	1983				1984		
				Sept.	Oct.	Nov	Dec.	Jan	Feb	Mar.
1 Eurodollars	16 79	12 24	9 57	9 82	9 54	9 79	10 08	9 78	9 91	10.40
2 United Kingdom	13 86	12 21	10 06	9 63	9 34	9.26	9 34	9 40	9 35	8.90
3 Canada	18 84	14 38	9 48	9 35	9.31	9.40	9 83	9 84	9.85	10 40
4 Germany	12.05	8.81	5 73	5 83	6.13	6 26	6 43	6 07	5.91	5 82
5 Switzerland	9 15	5 04	4 11	4 40	4 07	4 11	4 29	3 65	3 47	3.60
6 Netherlands	11.52	8 26	5 58	6.15	6 07	6.17	6 20	6 01	5.95	6 09
7 France	15.28	14.61	12.44	12.42	12 42	12 31	12.16	12 22	12 36	12 53
8 Italy	19 98	19 99	18.95	17.42	17 51	17 71	17 75	17 75	17 40	17 28
9 Belgium	15 28	14 10	10 51	9 25	9 44	9 89	10 50	10 68	11 43	12 02
10 Japan	7 58	6 84	6 49	6 68	6 52	6 35	6 45	6 35	6 34	6 41

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	1981	1982	1983	1983			1984		
				Oct	Nov	Dec	Jan	Feb	Mar.
1 Australia/dollar[1]	114 95	101 65	90 14	91.37	91 59	90 04	90 60	93 48	95 13
2 Austria/schilling	15 948	17 060	17 968	18.305	18.900	19 383	19 815	19 028	18.285
3 Belgium/franc	37.194	45 780	51 121	53.034	54 538	55 939	57 354	55 279	53 135
4 Brazil/cruzeiro	92 374	179 22	573 27	784.35	870 21	943 43	1022 81	1131 37	1266 64
5 Canada/dollar	1.1990	1 2344	1 2325	1.2320	1.2367	1 2469	1 2484	1 2480	1.2697
6 China, P R /yuan	1.7031	1.8978	1 9809	1 9664	1 9940	1 9920	2 0490	2 0628	2 0646
7 Denmark/krone	7 1350	8 3443	9 1483	9 4172	9 6791	9 9530	10 1793	9 8549	9 5175
8 Finland/markka	4 3128	4 8086	5.5636	5 6390	5 7468	5 8515	5 9385	5 7892	5 6136
9 France/franc	5 4396	6 5793	7 6203	7 9526	8 1646	8 3839	8 5948	8 3051	8 0022
10 Germany/deutsche mark	2 2631	2 428	2 5539	2 6032	2 6846	2 7500	2 8110	2 6984	2 5973
11 Greece/drachma	n a	66 872	87 895	92 968	96 229	98.815	102.601	101 80	102 40
12 Hong Kong/dollar	5.5678	6 0697	7 2569	8.0947	7 8120	7 8044	7.7968	7 7883	7 7942
13 India/rupee	8 6807	9 4846	10 1040	10 229	10 378	10 4895	10.7152	10 744	10 714
14 Ireland/pound[1]	161 32	142 05	124 81	119 15	115.85	112.91	110.20	114 21	117 88
15 Israel/shekel	n.a.	24.407	55.865	77.808	89 344	100 599	116 728	130 21	146.40
16 Italy/lira	1138.60	1354.00	1519 30	1582 81	1625 79	1666 88	1706 63	1666.39	1614 17
17 Japan/yen	220.63	249.06	237 55	232.89	235 03	234 46	233 80	233 60	225 27
18 Malaysia/ringgit	2.3048	2.3395	2 3204	2.3451	2 3450	2 3407	2 3411	2 3363	2.2933
19 Mexico/peso	24.547	72.990	155.01	157 18	162.36	164 84	166 33	168 49	172 93
20 Netherlands/guilder	2.4998	2 6719	2.8543	2 9206	3.0078	3.0856	3 1602	3 0455	2 9326
21 New Zealand/dollar[1]	86.848	75 101	66.790	66 162	65.854	65 120	64 860	65 810	66 714
22 Norway/krone	5.7430	6 4567	7 3012	7 3244	7 4696	7 7237	7.8763	7 6937	7 5028
23 Philippines/peso	7.8113	8 5324	11 0940	13 750	14 050	14.050	14 050	14 050	14 186
24 Portugal/escudo	61 739	80 101	111 610	124.41	127 82	131 91	136 29	135.01	131.70
25 Singapore/dollar	2 1053	2.1406	2.1136	2.1350	2 1334	2 1317	2 1309	2 1279	2.0893
26 *South Africa/rand*[1]	*114 77*	92 297	89.85	88 82	84.23	82 15	79 54	81 31	82.10
27 South Korea/won	n a.	731.93	776.04	791 37	796.32	799 23	800 33	799 06	794 51
28 Spain/peseta	92 396	110 09	143 500	151.30	154.66	158.01	159 832	154 20	149 68
29 Sri Lanka/rupee	18 967	20.756	23.510	24.410	24.572	24 767	25 181	25 270	25 177
30 Sweden/krona	5 0659	6 2838	7 6717	7 7844	7.9201	8.0608	8 1782	7 9976	7 7323
31 Switzerland/franc	1 9674	2.0327	2.1006	2 1122	2 1701	2 1983	2 2380	2.2050	2.1490
32 Taiwan/Dollar	n a.	n a	n a	39 420	38 780	39 613	40.202	40 236	40 078
33 Thailand/baht	21 731	23 014	22 991	22 990	22.990	22 992	23 006	23 000	23 004
34 United Kingdom/pound[1]	202.43	174.80	151 59	149.69	147 66	143 38	140 76	144 17	145 57
35 Venezuela/bolivar	4 2781	4 2981	10.6840	13.088	12.782	12 834	13 021	13 023	13 470
MEMO									
United States/dollar[2]	102 94	116 57	125.34	127 50	130.26	132.84	135 07	131 71	128 07

1. Value in U S cents.

2 Index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland March 1973 – 100 Weights are 1972–76 global trade of each of the 10 countries Series revised as of August 1978 For description and back data, see "Index of the Weighted-Average Exchange Value of the U S. Dollar Revision" on p 700 of the August 1978 BULLETIN

NOTE. Averages of certified noon buying rates in New York for cable tranfers.

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

SPECIAL TABLES

Published Irregularly, with Latest Bulletin Reference

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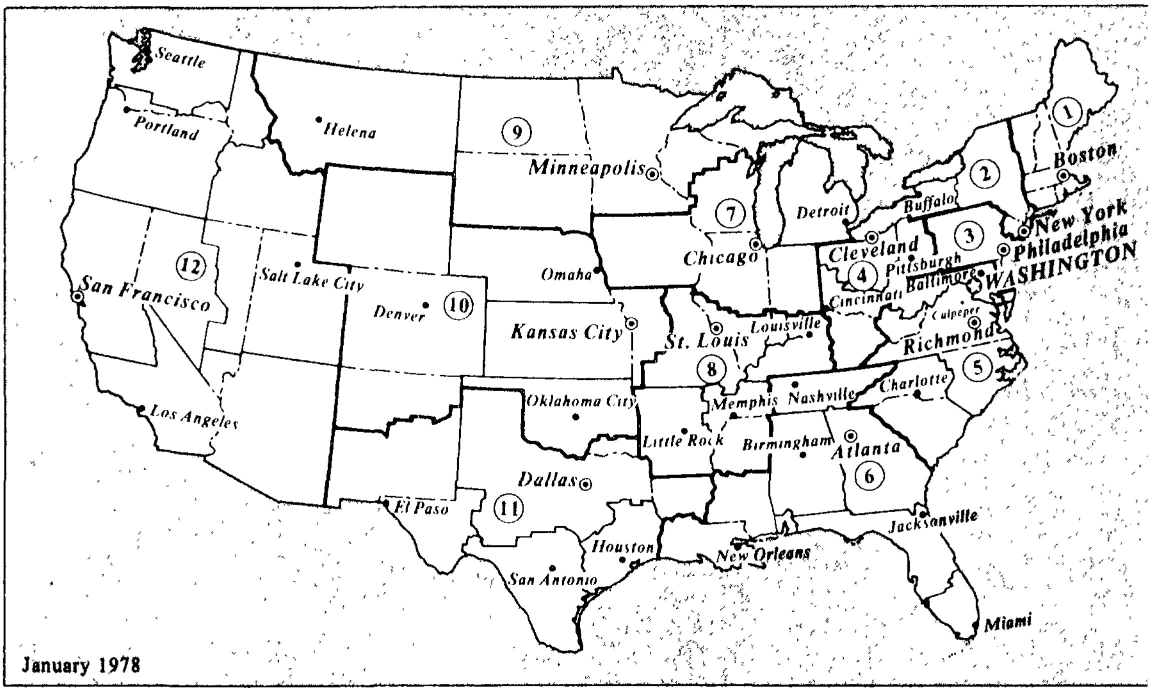

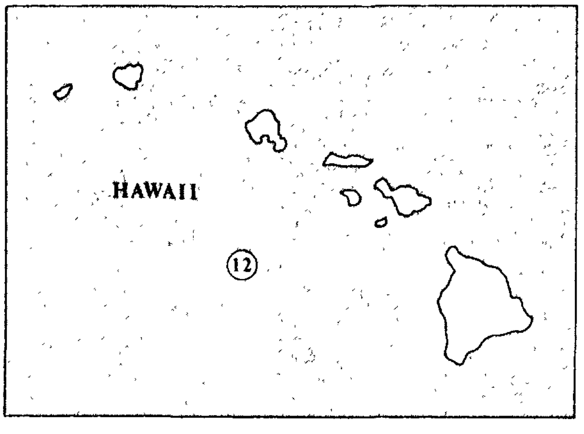

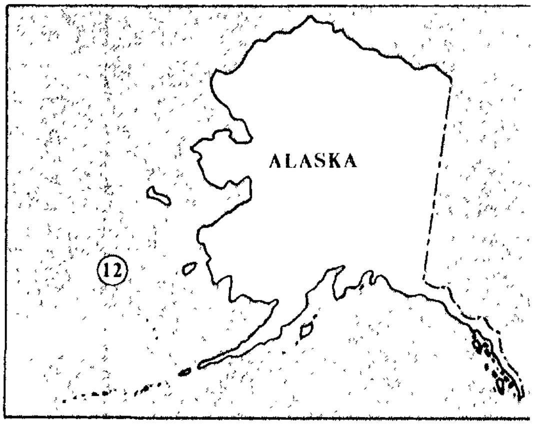

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Federal Reserve Branch Cities

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