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U.S. International Transactions in 1989

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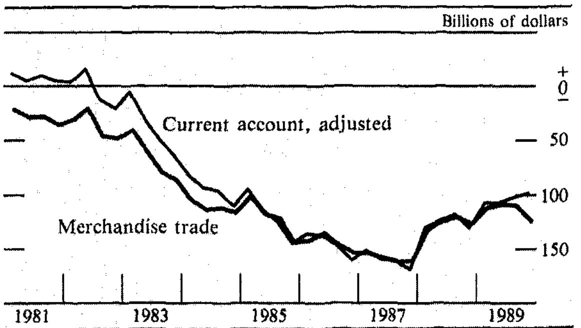
In 1989, for the second year in a row, the U.S. current account deficit narrowed, falling to $104 billion (excluding capital gains and losses) (chart 1). The trade deficit fell to $113 billion. However, the pace of improvement slowed noticeably during the year; part of the reason may have been a deterioration in U.S. international price competitiveness.

1. U.S. external balances

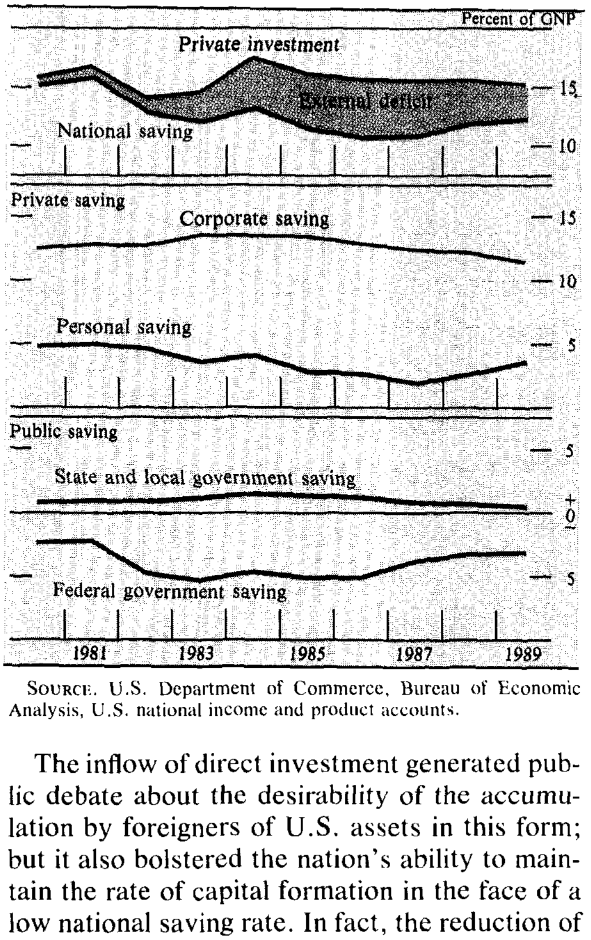


The data are seasonally adjusted annual rates. The current account is adjusted to exclude capital gains and losses.
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. international transaction accounts.

The overall improvement in the external accounts last year reflected a rapid expansion in exports, much of which came early in the year. Imports also grew at a fairly strong pace, however, led by an increase of nearly 30 percent in the value of oil imports. A modest improvement in the current account as the year went by stemmed from gains in net service transactions. The United States continued to enjoy positive net investment income receipts despite a large and growing net foreign debt position.

The capital account counterpart to the current deficit included large foreign private purchases of U.S. Treasury and corporate securities and a continued large net inflow of foreign direct investment.

2. External balance and gross U.S. saving and investment

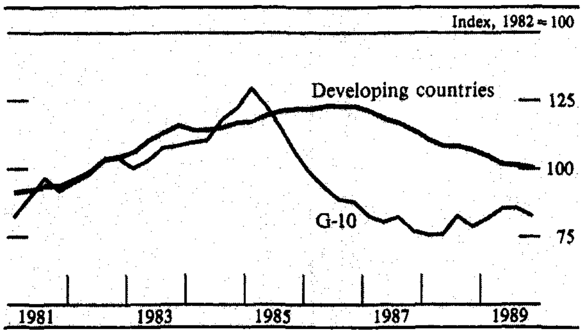


SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. national income and product accounts.

The inflow of direct investment generated public debate about the desirability of the accumulation by foreigners of U.S. assets in this form; but it also bolstered the nation's ability to maintain the rate of capital formation in the face of a low national saving rate. In fact, the reduction of the current account deficit in 1989, both in absolute terms and as a percentage of gross national product, reflected a significant narrowing of the gap between domestic investment and domestic savings. As chart 2 shows, the improvement in the external deficit was related to an increase in the U.S. national saving rate, at a time when the share of GNP devoted to investment was trending down.[1] That increase included both a signif-

1. In chart 2 the external deficit is equal to "net foreign investment" in the national income and product accounts. Net foreign investment differs from the current account

3. Real exchange value of the dollar against currencies of selected countries



The real exchange value of the dollar is calculated using weighted nominal exchange rates adjusted with weighted consumer prices. The weights in the indexes are proportional to each country's share in world exports plus imports during the years 1972–76. For the countries in the G-10 index, see the note to table 1; the countries in the developing-countries index are Brazil, Hong Kong, Korea, Malaysia, Mexico, the Philippines, Singapore, and Taiwan.

icant rise in the personal saving rate and a slight reduction in the federal budget deficit.

ECONOMIC INFLUENCES ON U.S. INTERNATIONAL TRANSACTIONS

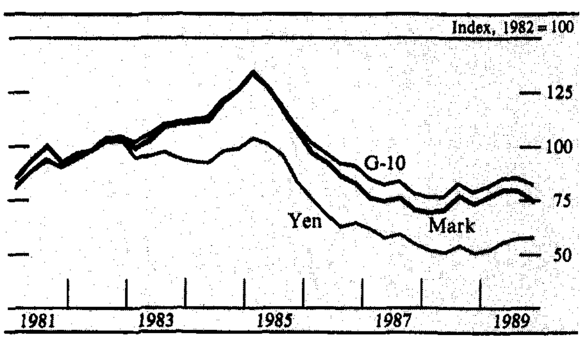
The proximate determinants of the changes in U.S. trade and current account flows include movements in U.S. international price competitiveness, changes in aggregate demand or income at home and abroad, and swings in the rates of return on real and financial assets at home and abroad. The main factor in the recent slowing of U.S. external adjustment appears to have been the weakening of U.S. international price competitiveness, after its earlier gains.

A convenient measure of price competitiveness is the real exchange value of the dollar, the ratio of U.S. prices to foreign prices expressed in dollars. As chart 3 shows, the real exchange value of the dollar with respect to the currencies of the other Group of Ten (G-10) countries (weighted by multilateral trade shares) reached a low in the first quarter of 1988; that low was more than 40 percent below the peak value in early 1985. The ratio subsequently rose (and price competitiveness declined), with much of the movement coming during the first half of 1989. By the third quarter, the ratio was 13 percent above its 1988 low. In the fourth quarter and early this year, the ratio dropped back, largely because of movement in the dollar's nominal exchange rate.

The dollar rose against nearly all major currencies during the first half of 1989, under the impetus of tight U.S. monetary policy and favorable U.S. trade figures (chart 4). Political events in Japan and China also contributed to the dollar's strength. In the second half of the year, however, an easing of U.S. monetary policy contrasted sharply with further tightening of monetary policy and rising interest rates abroad, particularly in Germany and Japan. Late in the year the dollar firmed against the yen, but it declined more sharply against the mark as political developments in Eastern Europe promised to stimulate the West German economy. Despite the dollar's decline late in the year, for the year as a whole the dollar was noticeably above its average level in 1988.

In addition to the movements of nominal exchange rates, U.S. price competitiveness deteriorated because domestic prices advanced somewhat faster on average in the United States than in the other G-10 countries. This divergence was particularly evident in 1988, when approximately two thirds of the 2 percent deterioration in price competitiveness after the fourth quarter of 1987 was attributable to differences in inflation rates.

4. Nominal exchange value of the dollar against selected currencies



The nominal exchange value of the dollar for the G-10 countries is calculated using weighted exchange rates. The weights in the index are proportional to each country's share in world exports plus imports during the years 1978–83. For the countries in the G-10 index, see the note to table 1.

balance (exclusive of capital gains and losses) in the balance of payments accounts by a small amount, reflecting differences in the treatment of shipments of gold and of transactions with Puerto Rico and U.S. territories.

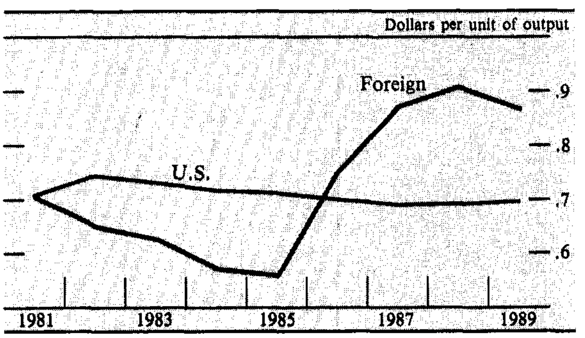
By contrast, in 1989 most of the additional 5 percent decline resulted from the rise in nominal exchange rates (some, but not all, of which was reversed by the end of the year).

Vis-à-vis the developing countries that are major U.S. trading partners, U.S. price competitiveness continued to improve, about 7 percent in 1989 on average. Of the eight countries in the index of developing countries, only Malaysia experienced an improvement in price competitiveness with respect to the United States during the year as a whole, an improvement due to a superior domestic price performance. In the last three quarters of the year, however, Mexico was able to improve its price competitiveness; depreciation of the peso of approximately 16 percent over this period outweighed the difference in the inflation rates between the two countries.

Despite its loss of price competitiveness with respect to the other industrial countries, various measures of prices and costs suggest that the United States continues to enjoy on average an absolute price and cost advantage over its major trading partners. One such measure is unit labor costs in manufacturing, which in the United States are still more than 15 percent below those in other major industrial countries (see chart 5). Such a comparison is inexact, however, and whether the present gap in labor costs has yet caused a shift in production toward the United States and has had an impact on the potential for U.S. external adjustment in the longer run is uncertain. For example, although the net inflow of direct investment into the United States has been fairly strong in recent years and may have been increased by the labor cost advantage, much of this activity has involved takeovers rather than net additions to U.S. capacity; any positive effect on the rate of U.S. capacity formation could only have been an indirect one. Moreover, private fixed capital formation has been growing much more rapidly in Europe and Japan than in the United States. Clearly, relative labor cost is just one of many variables that influence investment decisions.

Typically, an important factor in underlying movements in the trade balance is the change in the relative rates of growth of the United States and its trading partners. In the past year, a slowing in U.S. growth, coupled with the maintenance of robust growth among most major groups of U.S. trading partners, has helped narrow the U.S. deficit (table 1). An exception is the estimated reduction in growth among key developing countries in 1989 to a rate approximately equal to that of the United States; this reduction is attributable to very low growth in a number of

5. U.S. and foreign labor costs in manufacturing



The foreign index includes Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, and the United Kingdom, and is constructed by weighting each country's unit labor costs by its share in total manufacturing output.

SOURCE. Peter Hooper and Kathryn Larin, "International Comparison of Unit Labor Costs in Manufacturing," *Review of Income and Wealth*, series 35 (December 1989), pp. 335–55. Measures of unit labor costs are based partly on data published by the Bureau of Labor Statistics.

1. Growth of real GNP or GDP, selected countries, 1987–89

Percent change at an annual rate, year to year except as noted

Country	1987	1988	1989	1989:2 from 1988:4	1989:4 from 1989:2
GNP					
United States	3.7	4.4	3.0	3.1	2.0
Foreign G-10[1]	2.9	4.1	3.5	3.5	3.1
Other industrial countries[2]	3.3	3.2	3.6	3.7	3.0
GDP[3]					
Developing countries	3.5	4.3	3.2[e]	n.a.	n.a.

1. The GNP of foreign industrial countries is the weighted average for the G-10 countries, excluding the United States; they are Belgium–Luxembourg, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom. The weights are based on multilateral trade in 1972–76.

2. The GNP for other industrial countries is the weighted average for Australia, Austria, Denmark, Finland, Greece, Ireland, New Zealand, Norway, Portugal, South Africa, Spain, and Turkey. The weights are based on bilateral nonagricultural exports.

3. The GDP for developing countries is a weighted average for the regions of Asia, Africa, the Middle East, and the Western Hemisphere. The weights are based on gross domestic product.

n.a. Not available.

e Estimated using preliminary data, when available.

Latin American countries and somewhat lower growth in Asia.

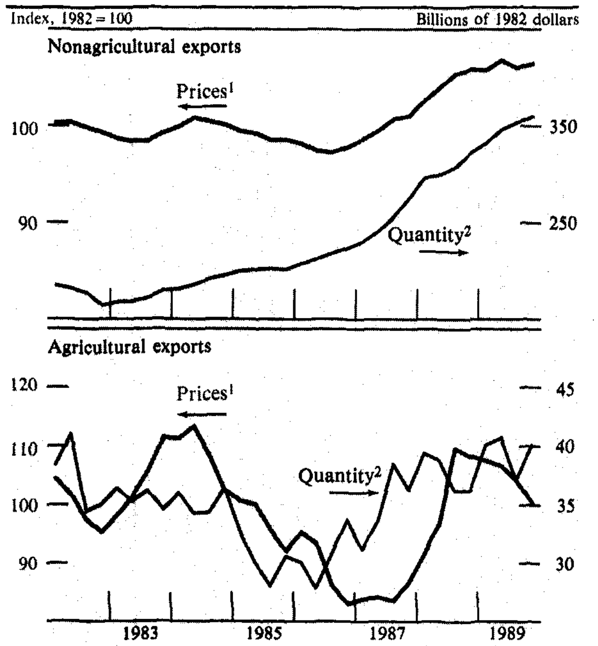
DEVELOPMENTS IN MERCHANDISE TRADE

The U.S. trade deficit narrowed $14 billion to $113 billion in 1989. However, all the improvement took place early in the year; the deficit widened from $110 billion at an annual rate in the second quarter to $115 billion in the fourth (table 2). Export growth slowed dramatically in the second half of the year after a strong first half. Though the pace was less rapid than it was during 1988, total imports continued to grow steadily. This pattern resulted in part from special factors: The dollar's appreciation held down the increase in the value of imports in the first half of the year, and the strike at Boeing reduced exports in the fourth quarter.

Exports

The value of agricultural exports increased 9 percent for the year, although most of that increase came in the first half (table 2). A combination of factors caused a sharp drop in the quantity of exports in the third quarter (chart 6): a temporary halt in corn exports to the Soviet Union; and a decline in soybean exports because of increases in supplies from South America and a shift away from soybean feed in the European Community. Prices of agricultural exports were affected more than quantities by the drought of 1988. Prices fell continuously during the year

6. U.S. exports



1. Fixed-weight price indexes are from U.S. national income and product accounts.
2. Seasonally adjusted annual rate.
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. national income and product accounts.

from the drought-induced high of the third quarter of 1988.

For separate reasons, the growth of nonagricultural exports, in both value and quantity, was also bunched in the first half of the year (see table 2 and chart 6). During that period, the value of nonagricultural exports expanded at an annual rate of almost 18 percent; but during the second half, it increased at less than 4 percent. Though

2. U.S. merchandise trade, 1987–89[1]
Billions of dollars, seasonally adjusted annual rate

Type of trade	1987	1988	1989	1988	1989			
				Q4	Q1	Q2	Q3	Q4
Merchandise exports	250	319	362	335	351	365	363	369
Agricultural	30	38	41	39	43	44	39	40
Nonagricultural	221	281	320	296	308	322	324	328
Merchandise imports	410	447	475	463	465	475	477	484
Oil	43	39	50	37	43	54	52	52
Non-oil	367	407	425	426	421	422	425	432
Trade balance	−160	−127	−113	−128	−113	−110	−114	−115

1. Components may not add to totals because of rounding.
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. international transaction accounts.

less dramatic, the story for the quantity of exports is similar: It grew 15 percent in the first half and 7 percent in the second. Part of the explanation for the slowdown was the Boeing strike, which reduced exports in the fourth quarter; but more significant was a cumulative, if gradual, loss of price competitiveness after the second quarter of 1988. The average price in dollars of nonagricultural exports as a whole increased only 1.5 percent for 1989 (chart 6). However, with the 8 percent appreciation of the dollar in the first half of 1989, prices in foreign currency rose substantially, imposing a considerable, if temporary, loss of price competitiveness. Estimates based on a Board staff model of the U.S. current account suggest that, had exchange rates remained at their level in the fourth quarter of 1987, eliminating the run-up in exchange rates in 1988 and 1989, the rate of growth of the value of nonagricultural exports in the second half of 1989 would have been between 7 and 8 percent instead of 4 percent. However, even this higher rate would have represented a significant slowing of export growth.

Although lower than in 1988 (and slowing in the second half), the growth in the quantity of exports by major category was broad-based (table 3). Capital goods grew a strong 9 percent for the year. The Boeing strike cut the quantity of aircraft exports somewhat when measured fourth

3. Changes in the quantity and price of U.S. exports, 1988 and 1989[1]

Percent change, fourth quarter to fourth quarter

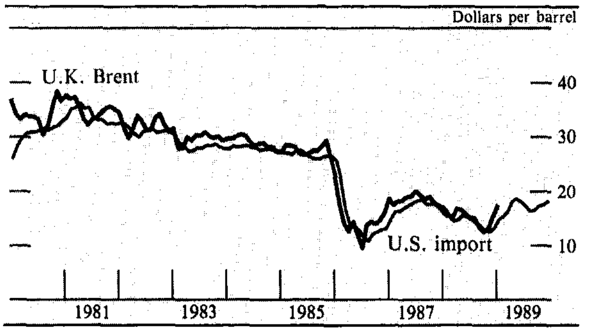
Type of export	Quantity		Price	
	1988	1989	1988	1989
Nonagricultural, total	17	12	5	1
Capital goods	19	9	3	3
Computers	18	8	−1	−10
Aircraft	28	13	3	4
Other	18	8	n.a.	n.a.
Automotive	7	1	3	3
Consumer goods	30	27	4	3
Industrial supplies	13	13	7	−3
Other	15	15	5	−1
Agricultural	0	11	25	−7

1. Prices are fixed-weight price indexes from the national income and product accounts.

n.a. Not available.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, national income and product accounts.

7. Oil prices



SOURCE. *Petroleum Intelligence Weekly*, various issues; U.S. Department of Commerce, Bureau of Economic Analysis.

quarter over fourth quarter; however, for the year the level was 30 percent higher than that in 1988. The quantity of computer exports grew 8 percent; given the 10 percent reduction in the quality-adjusted export price, the value of computer exports did not change in 1989.[2] Automotive exports showed virtually no growth because of the predominance of trade with Canada; that bilateral trade in turn is determined primarily by conditions in the U.S. market, which were weak in 1989. Consumer goods and industrial supplies showed healthy growth for the year.

Industry by industry, in general export prices rose much less than they did in 1988; however, as noted above, U.S. exports on average lost somewhat more in international price competitiveness in 1989 because the dollar was higher.

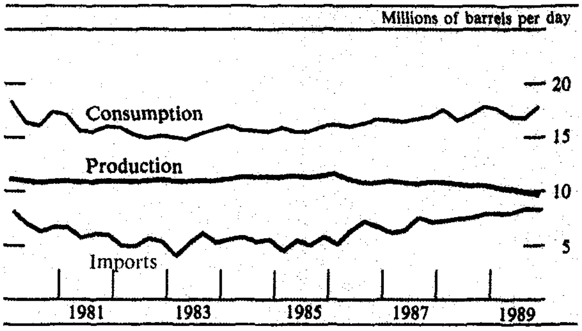
Imports

Led by a 28 percent increase in oil imports, the value of total imports increased 6.4 percent in 1989 (table 2). Non-oil imports rose a more moderate 4.3 percent.

The rise in the value of oil imports resulted from sharp increases in both price and quantity (charts 7 and 8). The quantity of oil imports

2. Because of the rapid technical advances in computer products, it is particularly difficult to decompose changes in the value of computer exports and imports into price and quantity changes. In an attempt to account for the technical advances, the Commerce Department has adopted a quality-adjusted or "hedonic" price index for the computer industry. The same index is used to deflate domestic expenditures, imports, and exports. As a result, quantity and price breakdowns for both exports and imports must be used with caution.

8. U.S. oil consumption, production, and imports

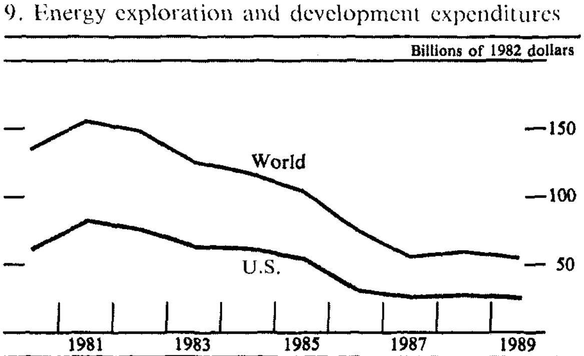


SOURCE. Department of Energy, Energy Information Administration, *Petroleum Supply Monthly*, various issues.

jumped partly because U.S. oil production declined further, continuing the downward trend evident since 1986 (chart 8); production peaked in the first quarter of 1986 at 11.4 million barrels per day, and thereafter gradually declined to 9.6 million barrels per day in the fourth quarter of 1989. Behind this trend is a long-term decline in expenditures in the United States on oil exploration and development, which is likely to depress domestic oil production for another three to five years (chart 9). The price of imported oil responded last year to continued strong worldwide demand and a series of interruptions in supply, notably the oil spill in Alaska, accidents in the North Sea, and disruptions in the oil sectors of Romania and the Soviet Union. An increase since 1985 in OPEC's share of world oil production, as shown in chart 10, augurs for little, if any, near-term easing in oil prices.

The rise in the dollar in 1988 and 1989 actually lowered the dollar prices of many categories of non-oil imports between the fourth quarters of

9. Energy exploration and development expenditures



SOURCE. 1989—estimates in *Oil and Gas Journal*; 1980–88—Chase Manhattan Bank, *Capital Investments of the World Petroleum Industry*.

4. Changes in the quantity and price of U.S. imports, 1988 and 1989

Percent change, fourth quarter to fourth quarter

Type of import	Quantity		Price[1]	
	1988	1989	1988	1989
Non-oil, total	4	6	7	−1
Computers	11	39	−1	−10
All other	3	0	7	−1
Industrial supplies	−2	−3	14	−1
Other capital goods	9	7	6	−2
Automotive	0	−11	6	2
Consumer goods	5	3	5	2
Foods, feeds, and beverages	−5	11	4	−9

1. Prices are fixed-weight price indexes from the national income and product accounts.

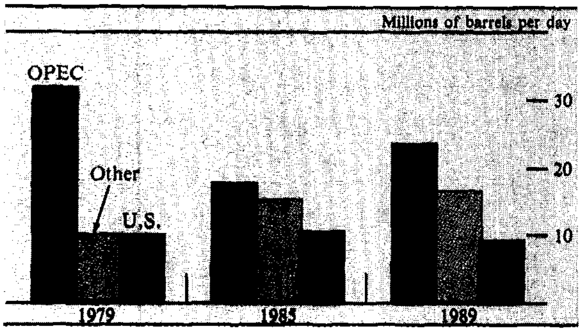
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, national income and product accounts.

1987 and 1988 (table 4). Price changes ranged between minus 2 and plus 2 percent for most categories. Through its effect on import prices, the rise in the dollar also had an initially favorable impact on the value of imports and the trade balance in the first half of 1989, the familiar J-curve effect.

The decline in the relative price of non-oil imports stimulated the quantity imported, particularly in the second half of the year. Computers, other capital goods, and foods, feeds, and beverages had robust growth.

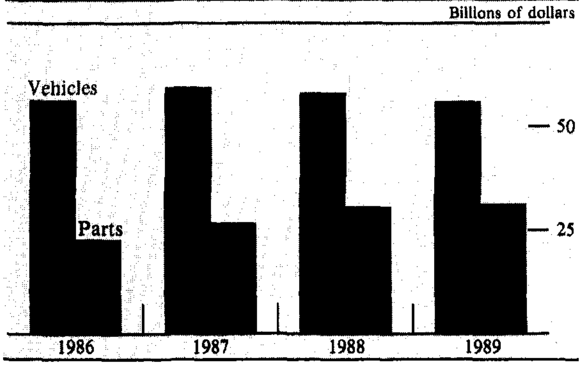
The quantity of imports of automotive products fell 11 percent, partly because significant changes took place in the locus of production of cars sold in the United States. The value of imported automotive vehicles, as shown by the green bars in chart 11, has fallen for the last two

10. World oil production



SOURCE. Department of Energy, Energy Information Administration, *International Energy Annual*, various issues.

11. Imports of automotive vehicles and parts



SOURCE. Department of Commerce, Bureau of Economic Analysis.

years. The value of imported automotive parts, on the other hand, has risen steadily.

This pattern reflects significant changes in the U.S. automotive market in recent years. While the number of passenger cars imported from Canada increased between 1987 and 1989, imports from both Japan and Western Europe declined (table 5). The causes of the decline probably differ by area: In Western Europe it may be the continuing effects of the gain in U.S. price competitiveness after 1985 associated with the depreciation of the dollar against the currencies of the countries in the European Monetary System; in Japan it was largely the increase in production by U.S. subsidiaries of Japanese firms. Such transplant production rose to 1.1 million units in 1989. In fact, net sales of Japanese nameplate cars increased in 1989 because sales from transplant production rose more than imports declined. Whereas the number of units

5. Sources of U.S. imports of passenger cars and parts, 1987 and 1989

Import and country	1987	1989
Number of passenger cars (millions)		
Total	4.6	4.0
Canada	.9	1.2
Japan	2.4	2.1
Western Europe	.7	.4
Other	.6	.3
Parts (billions of dollars)		
Total	27	31
Canada	9	10
Japan	7	11
Western Europe	4	4
Mexico	3	4
Other	4	2

SOURCES. U.S. Department of Commerce, Bureau of Economic Analysis, and U.S. International Trade Commission.

6. U.S. production and imports from Japan of passenger cars, 1986–89

Item	1986	1987	1988	1989
U.S. production (millions)	7.6	7.1	7.1	6.8
Big Three	7.5	6.4	6.3	5.7
Transplants	.3	.7	.8	1.1
U.S. imports from Japan				
Units (millions)	2.6	2.4	2.1	2.0
Average price (dollars)	8,040	8,810	9,360	9,750
Value (billions of dollars)				
Cars	21	21	20	20
Parts	6	7	9	11

SOURCES. U.S. Department of Commerce and Ward's Automotive Reports.

imported from Japan has been falling, the average price per unit has increased. Meanwhile, imports of automotive parts from Japan have been rising strongly. Indeed, Japan accounted for almost all of the increase in imported automotive parts in recent years (see table 6).

NONTRADE CURRENT ACCOUNT TRANSACTIONS

The nontrade portion of the current account balance increased \$8 billion in 1989 to a net surplus (excluding capital gains and losses) of \$10 billion (table 7). Capital gains of \$2 billion associated with foreign direct investment in the United States lowered the surplus to \$8 billion when net capital gains are included.[3] All of the \$8 billion net improvement can be attributed to "other services, net." Of the many items affecting this account, significant positive changes occurred in net travel (\$2.6 billion), royalties and license fees (\$1.3 billion), and other private services (\$4.0 billion).[4] Residents of Japan, Canada,

3. Capital gains have a negative sign on the payments side of the accounts.

4. Other private services, net exports of which reached \$17 billion in 1989, include education expenses, financial services, insurance, telecommunications, and business, professional, and technical services. Important changes in the methods of collecting data for a number of these items (and for travel services) led to a substantial upward revision in the gross and net flows for the years 1982 to 1988. These improvements may have contributed to the year-to-year change in the "other services, net" line in table 7, as well as to the higher level. For a detailed discussion of the changes, see Russell C. Krueger, "U.S. International Transactions, First Quarter 1989," *Survey of Current Business*, vol. 69 (June 1989), pp. 50–61.

7. U.S. nontrade current account transactions, 1985–89[1]
Billions of dollars

Item	1985	1986	1987	1988	1989
Total nontrade current account[2]	**3**	**0**	**−1**	**2**	**10**
Service transactions, net[2]	**18**	**16**	**14**	**16**	**24**
Investment income, net[2]	19	10	6	3	3
Direct investment income, net[2]	20	22	29	33	39
Portfolio income, net	−1	−12	−23	−29	−35
Military, net	−3	−4	−3	−5	−6
Other services, net	3	11	11	18	26
Total service receipts[2]	150	159	180	211	239
Investment[2]	84	79	89	108	125
Direct[2]	28	29	39	48	52
Portfolio	56	50	50	60	74
Military	9	9	11	10	9
Other	58	72	80	93	105
Total service payments[2]	132	143	166	194	215
Investment[2]	65	69	83	105	122
Direct[2]	8	7	10	16	13
Portfolio, private	36	39	49	60	75
Portfolio, government	21	23	24	29	34
Military	12	13	14	15	14
Other services	55	61	69	75	79
Unilateral transfers, net	**−15**	**−16**	**−14**	**−15**	**−14**
MEMO					
Current account balance excluding capital gains and losses	−120	−144	−160	−126	−104
Capital gains and losses on direct investment, net	7	12	17	−1	−2

1. Details may not add to totals because of rounding.
2. Excludes capital gains and losses on direct investment.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. international transaction accounts.

and Western Europe accounted for most of the increase in net travel receipts. Western Europe also was the source of the largest increase in net receipts of royalties and license fees and other private services.

Investment Income Receipts and Payments

Net investment income remained at $3 billion in 1989. This net flow was the sum of two disparate elements: Net income from direct investment contributed $39 billion; but net portfolio income was a negative $35 billion, marking a deterioration of $6 billion in 1989.[5] Although U.S. receipts from portfolio holdings abroad increased $14 billion, this gain was more than offset by the increase in portfolio income payments to private and government investors. As discussed in more detail below, this latter is explained by increases in both the foreign holdings of U.S. portfolio assets and the rate of return earned on these assets.

Receipts from U.S. direct investors abroad, defined as dividends and interest to the parent firm plus reinvested earnings, increased $4 billion, while payments to foreign direct investors in the United States actually decreased $3 billion. This development is remarkable because the stock of foreign direct investment in the United States increased $60 billion in 1989. The reduction in payments to direct investors in the United States mirrored the general decline in U.S. corporate profits.

U.S. International Investment Position

The U.S. net international investment position declined to an estimated negative $600 billion at the end of last year (table 8), reflecting gross claims on foreigners amounting to $1.4 trillion,

5. Because of rounding error, the net of $3 billion differs by $1 billion from the difference of the rounded flows for net direct investment income and net portfolio income.

8. Net international investment position of the United States, 1985–89[1]

Billions of dollars

Item	1985	1986	1987	1988	1989
Net international investment position	**−111**	**−268**	**−378**	**−532**	**−603**
U.S. assets abroad	**950**	**1,073**	**1,170**	**1,254**	**1,380**
Government	131	138	135	134	158
Private	819	935	1,035	1,120	1,222
Direct investment	230	260	308	327	359
Other	589	675	727	793	863
Foreign assets in the United States	**1,061**	**1,341**	**1,548**	**1,786**	**1,983**
Official	203	242	284	322	329
Private	858	1,099	1,264	1,464	1,654
Direct investment	185	220	272	329	390
Other	673	879	992	1,135	1,264

1. Details may not add to totals because of rounding.

SOURCES. 1985–88, net recorded position—*Survey of Current Business*, vol. 69 (June 1989); other data—U.S. Department of Commerce, Bureau of Economic Analysis. All data for 1989 are estimates by Federal Reserve staff based on net recorded position at the end of 1988 plus preliminary net capital flows from Bureau of Economic Analysis, U.S. international transaction accounts.

minus gross liabilities of $2 trillion.[6] Private portfolio investments accounted for most of the net debt position. The net private direct investment position also declined last year, to about negative $30 billion, defined as the difference between the value of U.S. assets held abroad, estimated at $359 billion, and foreign assets held in the United States, at $390 billion. The numbers for private asset holdings in table 8, particularly those for direct investment, are subject to significant error, as discussed below.

Given the magnitude of the U.S. net debt position, it may seem surprising that U.S. net investment income receipts remained positive last year. This outcome reflects significant differences in the implicit rates of return on U.S. international claims and liabilities (table 9). The estimated average rates of return on U.S. investments abroad, both direct and portfolio, are substantially higher than the rates on foreign investments in the United States.

The difference between U.S. and foreign rates of return is most pronounced for direct investment. The implicit rate of return on U.S. direct investments abroad, which was 15 percent in 1989 and averaged almost 14 percent for the period 1983–89, may be overstated substantially because the value of U.S. direct investments abroad (used as the denominator in the rates of return in table 9) is based on historical cost. At least three studies have suggested that these assets may be undervalued by as much as one half of their current market value, implying that the implicit rate of return is overstated by a factor of two.[7] However, there is no clear consensus that the error in the data is that large.[8] Even if it were, and the rate of return on direct investment were halved, the rates of return on direct investment in the United States and abroad would still differ widely. Moreover, a more realistic valuation of direct investment assets would also lower the rate of return on direct investment in the United States. But because foreign direct investment in the United States is on average more recent, the

6. As noted in the table, these estimates are based on data for the 1988 year-end investment position published by the Bureau of Economic Analysis and data on capital flows in 1989.

7. The following studies reach broadly similar conclusions regarding the undervaluation of the stock of direct investment abroad: Robert Eisner and Paul J. Peiper, "The World's Greatest Debtor Nation," *Review of Economics and Finance*, forthcoming; Lois Stekler, "U.S. Direct Investment Receipts and Payments: Models and Projections," International Finance Discussion Papers 140 (Board of Governors of the Federal Reserve System, Division of International Finance, 1979); Michael Ulan and William G. Dewald, *The U.S. Net International Investment Position: The Numbers are Misstated and Misunderstood* (U.S. Department of State, 1989).

For an examination of the various estimates, see Lois Stekler and Guy V.G. Stevens, "The Adequacy of Direct Investment Data," in Peter Hooper and J. David Richardson, eds., *International Economic Transactions: Issues in Measurement and Empirical Research* (University of Chicago Press, forthcoming).

8. In preliminary work, Walther Lederer has arrived at a much smaller replacement-cost measure of the value of direct investment abroad than have the studies mentioned above.

9. Rates of return on U.S. assets abroad and foreign assets in the United States[1]

Percent

Year or average	U.S. assets abroad		Foreign assets in the United States	
	Direct investment	Portfolio	Direct investment	Portfolio
1983	12.9	9.7	4.0	7.8
1984	14.3	10.6	6.2	8.5
1985	12.6	8.7	4.3	7.3
1986	11.8	7.0	3.7	6.2
1987	13.6	6.5	4.0	6.1
1988	15.2	7.1	5.3	6.6
1989[2]	15.1	8.3	3.7	7.2
Average	13.6	8.2	4.4	7.1

1. The rates of return are calculated as follows:

For direct investment, the numerator is direct investment receipts or payments, excluding capital gains and losses, from the U.S. international transaction accounts; data for recent years appear in table 7, above. The denominator is the average of year-end figures for the value of direct investment for the year in question and the previous year. These data are found in *Survey of Current Business*, vol. 69 (June 1989), table 2, p. 43.

For U.S. portfolio assets abroad, the numerator is investment income receipts, other than direct investment, accruing to private U.S. residents. The denominator is the average of the year-end values for private claims on foreigners, excluding direct investment.

For foreign portfolio assets in the United States, the numerator is investment income payments, other than direct investment, made by the U.S. government and private U.S. residents to foreigners. The denominator is the average of the year-end values for foreign assets in the United States other than direct investment.

2. The year-end values of claims or liabilities for 1989 that appear in denominators are estimates constructed by adding the recorded direct investment or portfolio capital flows during 1989 to the recorded year-end positions for 1988.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. international transaction accounts and U.S. international investment position.

market or replacement value of these holdings is likely to be closer to historical cost than is that of U.S. direct investment abroad.

These differences in rates of return on assets may also reflect other factors. Many firms in the United States shift reported profits to foreign jurisdictions that have lower taxes. This practice tends to reduce the observed rate of return on foreign investment in the United States and to increase that on U.S. direct investment abroad. The differences may also reflect accounting practices that increase interest, amortization, and depreciation charges when U.S. companies are acquired. Since much of the recent foreign direct investment in the United States has been associated with takeovers, these practices may have artificially reduced the observed rate of return on direct investment in the United States.

Even after identifying factors that bias the observed rates of return, one cannot conclude that the consistently higher rates on U.S.-owned foreign assets are a statistical artifact. For one thing, lower rates of return on recent investments are natural during a transition period. Moreover, the rates of return may reflect the reportedly poor profits from some takeovers. The discrepancy between the rates of return on U.S.-owned and foreign-owned portfolio investments probably reflects the activities of U.S. banks, which account for a large part of both U.S. portfolio claims and liabilities: The banks make profits only as they earn more on their claims than they pay on their liabilities.

Finally, as a return to ownership or equity, the return on direct investment moves with the business cycle. In light of the weakness in U.S. corporate profits in 1989, the fall in the rate of return on foreign direct investment in the United States becomes understandable.

Capital Account Transactions

In 1989, the composition of the capital account counterpart to the U.S. current account deficit shifted away from the pattern observed in recent years (table 10). The substantial buildup of official reserves in the United States in 1986–88 was reversed, as $17 billion of official capital flowed out on net. Much of this outflow represented intervention purchases of foreign currencies by the United States and other G-10 governments to limit the appreciation of the dollar.

The three major sources of capital inflows in 1989 were net foreign purchases of U.S. securities ($66 billion), net direct investment ($31 billion), and a statistical discrepancy amounting to an unrecorded inflow of $35 billion.

Securities transactions accounted for a large share of the net capital inflow in 1989. Private foreign net purchases of U.S. Treasury securities rose to almost $30 billion, half again as much as in the previous year. Purchases of U.S. government agency bonds were also strong (about $14 billion). Net foreign private purchases of U.S. corporate bonds, particularly of Eurobonds, were substantial. On the outflow side, U.S. net

10. U.S. net capital flows, 1983–89

Billions of dollars

Item	1983	1984	1985	1986	1987	1988	1989
Current account balance [1]	**−37.6**	**−95.6**	**−119.6**	**−143.9**	**−160.3**	**−125.5**	**−103.8**
Official capital, net	−.4	−5.5	−7.8	33.9	55.3	38.3	−16.9
Foreign official assets in the United States	5.8	3.1	−1.1	35.6	45.2	38.9	7.4
U.S. official reserve assets	−1.2	−3.1	−3.9	0.3	9.1	−3.6	−25.3
Other U.S. government assets	−5.0	−5.5	−2.8	−2.0	1.0	3.0	1.0
Private capital, net	28.7	77.2	111.9	98.8	103.1	97.8	85.7
Net inflow reported by U.S. banking offices	20.4	22.7	39.7	19.8	46.9	14.4	10.7
Securities transactions, net	13.2	32.8	59.6	65.6	26.2	36.0	42.9
Private foreign net purchases	20.0	37.6	67.1	69.9	31.5	43.8	65.5
U.S. Treasury securities	8.7	23.0	20.4	3.8	−7.6	20.1	29.4
U.S. corporate and other bonds[2, 3]	5.3	15.9	42.4	48.9	23.5	24.2	28.8
U.S. corporate stocks	6.0	−1.3	4.3	17.2	15.6	−.5	7.3
U.S. net purchases of foreign securities	−6.8	−4.8	−7.5	−4.3	−5.3	−7.8	−22.6
Direct investment, net[1]	1.7	12.0	12.0	23.4	22.3	42.5	31.2
Foreign direct investment in U.S.[1]	11.5	25.6	20.5	36.2	47.3	57.4	59.6
U.S. direct investment abroad[1, 3]	−9.8	−13.6	−8.5	−12.8	−25.0	−14.9	−28.4
Other	−6.6	9.7	.6	−10.0	7.7	4.9	.9
Statistical discrepancy	9.2	23.9	15.3	11.3	1.9	−10.6	34.9

1. Capital gains and losses are excluded from the direct investment receipts and payments components of the current account and (with the opposite sign) from direct investment capital flows.
2. Includes U.S. government agency bonds.
3. Transactions with finance affiliates in the Netherlands Antilles have been excluded from direct investment outflows and added to foreign purchases of U.S. securities because they consist largely of Eurobond proceeds.

SOURCE. *Survey of Current Business*, various issues, U.S. international transaction accounts, tables 1 and 6.

purchases of foreign securities reached a record $23 billion.

Inflows of foreign direct investment into the United States reached a record high of $60 billion, exceeding slightly the high level of the previous year. U.S. direct investment outflows also reached a peak, of $28 billion (excluding capital gains and losses).

The participation of foreign residents in U.S. financial markets and of U.S. residents in foreign financial markets is far greater than these net flows suggest, and it is still growing. In 1989, the sum of foreign purchases and sales of U.S. Treasury securities amounted to over $4 trillion, compared with $100 billion to $200 billion earlier in the decade. Foreign purchases and sales of U.S. stocks and bonds have also been dramatically higher; and U.S. purchases and sales of foreign stocks and bonds have increased more than ten-fold in the same period. This surge in cross-border financial transactions has paralleled a large advance in the magnitude of cross-border trade of goods and services and has been spurred by similar economic forces. Rapid technological advances, including virtually instantaneous transmission of information and sophisticated hedging techniques, have reduced the cost of managing operations around the globe and have facilitated direct, as well as portfolio, investment.

The rapid growth of foreign direct investment in the United States during the 1980s has stirred public debate over the desirability of the continued accumulation of U.S. assets by foreigners in this form. Any rapid change should, perhaps, be scrutinized, but no evidence suggests that present or foreseeable levels of foreign ownership of U.S. industry should be troublesome. Two concerns that have been emphasized are the takeover of sensitive defense-related firms and the accumulation of undesirable concentrations of market power by foreign firms. The first has been addressed by the passage of the Exon–Florio amendment to the Omnibus Trade and Competitiveness Act of 1988. As to the second, current antitrust laws should be adequate to deal with the accumulation of excessive market power, no matter by whom. In fact, as table 11 shows, the concentration of market power in key industries in the hands of foreign interests as a whole, let alone individual foreign companies, is not large.[9]

9. No single country accounts for a predominant portion of the holdings of 31 percent in the chemicals and stone, clay, and glass industries.

11. Share of foreign direct investment assets in U.S. manufacturing, 1974, 1980, and 1987

Percent

Type of manufacturing	1974	1980	1987
Total manufacturing	6	8	13
Food and kindred products	5	7	12
Chemicals	11	18	31
Primary metals	5	8	19
Electrical machinery	3	9	11
Machinery, excluding electrical	2	5	6
Stone, clay, and glass	n.a.	13	31

SOURCE. For 1987, *Survey of Current Business*, vol. 69 (July 1989), table 15, p. 131; for 1974 and 1980, shares were calculated using asset data from the *Survey of Current Business* and from U.S. Department of Commerce, *Foreign Direct Investment in the United States* (Government Printing Office, 1976). Data on assets of U.S. business are from U.S. Bureau of the Census, *Quarterly Financial Report*.

An issue that has rarely been addressed in this debate is the effect on the U.S. current account deficit of potential restrictions on foreign direct investment. Given that current and prospective U.S. trade deficits imply the necessity of a continued net accumulation of U.S. assets by foreigners, any policy action that restricts direct investment in the United States would, at a minimum, shift the composition of this asset accumulation toward portfolio capital. It also would probably provoke retaliation against U.S. direct investment abroad. Either of these outcomes would tend to increase the burden of servicing the growing U.S. international indebtedness, and it would have other undesirable effects on future current account deficits.

First, in order to attract the additional portfolio inflows necessary to offset any restriction on direct investment, rates of return paid on foreign portfolio investments would have to increase, worsening the servicing burden and the current account. Second, a shift in the composition of U.S. liabilities from the equity capital of direct investment to debt instruments would commit the United States to fixed payments, rather than payments that vary with the state of the economy.[10]

Third, the apparent differences in the average rates of return on different real and financial international claims and liabilities, discussed above and shown in table 9, suggest that any shift away from direct investment inflows as a counterpart to the current account deficit is likely to imply higher net investment income payments. For example, one outcome of restrictions that reduced the inflow of direct investment could be an equal reduction in U.S. direct investment abroad, which could result from a retaliatory imposition of restrictions by other countries. In this case, since the rate of return on U.S. direct investment holdings abroad has been substantially greater than that on foreign holdings in the United States, the loss in net direct investment income receipts could be significant. Moreover, the effects of a restriction imposed in any one year would cumulate, worsening the current account balance in every subsequent year until the capital flow was reversed.

Alternatively, restrictions on the inflow of direct investment could be offset by an increase in the inflow of portfolio investment. Since rates of payment on portfolio liabilities in the United States are currently greater than those on direct investment liabilities in the United States, such a shift would also result in an increase in net payments, even without an increase in the rate of return on U.S. portfolio assets held by foreigners.

The average rates of return shown in table 9 are subject to considerable uncertainty, and these rates of return, even if accurate, may not apply to future investment flows. Nevertheless, the differences are large enough in some cases to suggest that a shift away from direct investment inflows would have a negative effect on U.S. net investment income flows.

PROSPECTS FOR 1990

The question for the year ahead is whether the recent slowing of U.S. external adjustment merely interrupts a longer-term improving trend or reverses it in a more lasting way. Two factors favor further adjustment. One is that strong growth of aggregate demand abroad is apparently continuing, while growth in the United States is moderating; this difference should be a continuing source of strength for exports relative to imports. Second, since the third quarter of 1989,

10. Part of the increase in portfolio capital would be invested in U.S. common stock, which also has a flexible return. However, assuming past proportions as a guide, a large percentage of the increase would be invested in debt instruments.

the dollar has retraced part of its earlier rise against the major foreign currencies, thereby restoring some of the U.S. price competitiveness that had been lost. But several other factors cloud this prospect. With U.S. prices now rising somewhat faster than domestic prices abroad, the recent improvement in price competitiveness may be short-lived unless the U.S. inflation situation improves. Oil imports are another potential problem. With the recent rise in oil prices and the continued negative trend in domestic production, rising U.S. consumption of oil will necessitate higher imports, in both quantity and value.

The service account showed remarkable improvement in 1989, despite the continued deterioration in the U.S. net investment position. Sustained strength in receipts of net direct investment income was an important component of this performance. Whether the currently favorable differentials in rates of return will persist is not clear. Whatever future rates of return may be, the overall flow of net investment income will inevitably turn negative if the net international investment position of the United States continues to deteriorate.

At a more fundamental level, substantial further progress in reducing the U.S. external deficit seems unlikely until private and government saving rates in the United States attain and maintain higher levels. □

The Nonbank Activities of Bank Holding Companies

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In 1970, Congress amended the Bank Holding Company Act of 1956 to establish a new framework for the expansion of bank holding companies into nonbank activities. This article provides some historical background on the nonbank activities of bank holding companies. It also uses 1988 data from two relatively new bank holding company reporting forms to describe the extent of these nonbank activities and their contribution to the financial condition of bank holding companies.

Historical Background

In the early 1900s, the bank holding company emerged as a new form of bank ownership. While the permissible business activities of banks were limited by state or federal law, bank holding companies were not banks and therefore were not subject to those limitations.

Relatively little is known about the extent of nonbank activities of early bank holding companies, but many of the companies appear to have been formed as a means of expanding geographically into areas in which branch banking was restricted, rather than as a means of engaging in activities prohibited to banks. Although a few bank holding companies owned major nonbank subsidiaries, most bank holding companies that expanded beyond banking combined a small bank with a company providing another financial service, such as an insurance agency.[1]

The Bank Holding Company Act of 1956

Although the Glass–Steagall Act of 1933 made some provision for the regulation of multibank holding companies, the opponents of holding companies pressed for more restrictions. After numerous unsuccessful attempts during and after World War II, additional legislation to restrict the expansion of multibank holding companies was passed in 1956.[2] The motivation for this legislation, the Bank Holding Company Act of 1956, has been ascribed to various factors; most explanations focus on the fear of financial concentration resulting from a few multistate bank holding companies acquiring control over a large

NOTE. This article is an update of an earlier study by the same authors, *New Data on the Performance of Nonbank Subsidiaries of Bank Holding Companies*, Staff Studies 159 (Board of Governors of the Federal Reserve System, February 1990). Many of the more technical footnotes and data references in the earlier paper are omitted here. Interested readers can obtain a copy of the earlier paper from the authors.

1. According to Klebaner, examples of bank holding company ownership of large nonbank enterprises were the holdings of Transamerica, including extensive insurance interests, a tuna and salmon canning plant, and a manufacturer of metal products; and the Trust Company of Georgia's ownership of a soft drink bottling company. See Benjamin J. Klebaner, "The Bank Holding Company Act of 1956," *Southern Economic Journal*, vol. 24 (January 1958), pp. 313–26.

2. General histories of the bank holding company movement include Gerald C. Fischer, *Bank Holding Companies* (Columbia University Press, 1961); Gerald C. Fischer, Robert A. Eisenbeis, and Joseph F. Sinkey, *The Modern Bank Holding Company: Development, Regulation and Performance* (Philadelphia: School of Business and Management, Temple University, 1986); Michael A. Jesse and Steven A. Seelig, *Bank Holding Companies and the Public Interest: An Economic Analysis* (Lexington Books, 1977); and Donald T. Savage, "A History of the Bank Holding Company Movement, 1900–78," in *The Bank Holding Company Movement to 1978: A Compendium* (Board of Governors of the Federal Reserve System, 1978), pp. 21–68.

percentage of nationwide banking assets. This concern was addressed by the restrictions on interstate banking in the Douglas Amendment to the Bank Holding Company Act. The Douglas Amendment effectively prohibited interstate bank holding companies unless individual states specifically permitted their banks to be acquired by out-of-state holding companies.

In addition to the threat of concentration posed by extensive interstate banking, concentration also could result from the affiliation of major nonfinancial corporations with leading banking organizations. Many feared that huge banking and industrial conglomerates of this type would dominate the economic system. Therefore, restrictions were placed on the nonbank activities of bank holding companies.

Restrictions on the nonbank activities of multibank holding companies were based on several factors besides the concern with economic concentration. First, some believed that a bank holding company should not be permitted to perform activities that could not be performed directly by a bank. By this line of reasoning, if the activity was not safe or appropriate for a bank, then it was not safe or proper for an organization owning a bank. Second, many nonbank businesses feared that firms affiliated with banks would gain a competitive advantage over unaffiliated competitors in the same industry. These businesses were concerned that firms affiliated with banks would receive preferential credit treatment from the banks and would have access to low-cost funds provided by them from non-interest-bearing deposits. Third, there was a persistent fear that a bank would tie access to credit to the purchase of services provided by its nonbank affiliates. For example, if all of the bank's commercial borrowers were required, as a condition of obtaining credit, to buy their business travel services from the bank holding company's travel agency, the independent travel agencies would be unable to compete.

Given these concerns, the framers of the Bank Holding Company Act of 1956 restricted nonbank activities very severely and permitted mainly those activities incidental to banking or performing services for banks. Approved activities included ownership of the bank's premises, auditing and appraisal, and safe deposit services. In general, the law required that nonconforming nonbank businesses be divested over a period of years, but the Federal Reserve Board was given the power to allow retention of activities in the areas of banking, finance, or insurance if these activities were ". . . so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto. . . ."

As required by the 1956 legislation, the Federal Reserve Board evaluated applications to retain existing nonbank subsidiaries throughout the period between 1956 and the passage of the 1970 Amendments. Fewer than thirty applications were submitted, and most approvals were for insurance-related subsidiaries; these affiliates were either insurance agencies to be operated in conjunction with a bank or underwriters of credit-related insurance. The Board's analysis required that the nonbank subsidiaries be functionally or operationally related to the bank: The sale of insurance in conjunction with granting a loan was viewed as different from the general sale of insurance. The major denial during the period was Transamerica Corporation's application to retain Occidental Life Insurance Company.

The relatively restrictive provisions of the Bank Holding Company Act of 1956 effectively prohibited interstate banking and limited the expansion of nonbank activities. The number of multibank holding companies continued to grow, however. Forty-seven separate multibank holding companies controlling 7.5 percent of insured commercial bank deposits were in operation at the end of 1956. By the end of 1970, there were 111 multibank holding companies controlling 16.2 percent of commercial bank deposits. Only a few of the smaller multibank holding companies operating before the passage of the 1956 legislation divested banks after the law was enacted so as to become one-bank holding companies and avoid regulation. The one-bank holding companies, although not yet regulated, were a potential source of many of the same difficulties that their opponents associated with multibank holding companies.

The One-Bank Holding Company and the 1970 Amendments

In 1955, there were approximately 117 one-bank holding companies with $11.6 billion of insured commercial bank deposits, or approximately 6 percent of the total of such deposits. These organizations were generally small and combined small bank subsidiaries with a nonbanking activity; the nonbanking activity most typically was insurance. Because the one-bank holding companies were not subject to the Bank Holding Company Act of 1956, the way was open to use this type of organization to expand into nonbank activities. In the mid-1960s, the rush to form one-bank holding companies began; by 1968, there were 783 one-bank holding companies with $108.2 billion of deposits. Thirty-four of the nation's 100 largest banking organizations—including 7 of the top 10—had formed or announced plans to form one-bank holding companies.

By the end of 1970, one-bank holding companies owned nonbank subsidiaries operating in a wide variety of industries. Most frequently these firms participated in financial activities, such as insurance and real estate, but they were also engaged in businesses ranging from animal husbandry to water supply. In terms of the government's industrial classification system, 276 three-digit Standard Industrial Classification codes were represented on the list of nonbank activities being performed by one or more holding companies.

The long-standing concerns about aggregate concentration and the separation of banking and commerce were revived as the nation's largest banking organizations formed one-bank holding companies. The Congress responded by enacting the 1970 Amendments to the Bank Holding Company Act of 1956. The 1970 Amendments extended bank holding company regulation to one-bank holding companies and established rules for nonbank activities that were applicable to all bank holding companies.

The 1970 Amendments established a two-part test for the permissibility of proposed nonbank activities. First, a proposed nonbank activity must be closely related to banking. "Closely related to banking" has been interpreted by the Federal Reserve Board and the courts that have reviewed Board decisions to include the following: (1) activities in which banks have traditionally engaged, (2) activities that are so closely related to traditional activities that banks are well equipped to engage in the activity, or (3) activities that are integrally related to permissible bank activities. The second step in the test requires that the proposed activity be a proper incident to banking. For this test, the law established specific factors to be weighed by the Board in making its decision. In weighing the public benefits and costs, the Board was instructed to examine potential gains, such as greater public convenience, increased competition, and greater efficiency, and then to determine if these gains would outweigh any possible costs, such as increased concentration, decreased competition, unfair competition, conflicts of interest, or unsound banking practices.

The Congress also had to resolve the future status of those nonbank activities that were being conducted by bank holding companies before the passage of the 1970 Amendments. The law provided ten years for bank holding companies to divest those impermissible activities begun after June 30, 1968. Activities conducted before June 30, 1968, were grandfathered, although the Federal Reserve was required to review the grandfather status of otherwise impermissible activities engaged in by a bank holding company with more than $60 million of bank assets.

Under the rules established by the 1970 Amendments to the Bank Holding Company Act of 1956, holding companies have continued to expand their role in the American banking system. More than 90 percent of domestic banking assets are now held by banks owned by bank holding companies: 70 percent of these assets are held by banks owned by multibank holding companies, and 20 percent by one-bank holding companies. Not all of these holding companies have been established for the purpose of engaging in nonbank activities; many were established for tax reasons or for interstate or intrastate geographic expansion by banks. Nearly all of the nonbank activities considered permissible for bank holding companies are also permissible for national banks.

The Data Collection System for Nonbank Activities

Although considerable research has focused on the performance of banks owned by bank holding companies, little work has been done on the characteristics of the nonbank subsidiaries. In part, this lack of research is attributable to a lack of consistent data. Beginning in 1986, however, data on the nonbank activities of bank holding companies have been available from two new forms, the FR-Y11Q and the FR-Y11AS, which are filed by all bank holding companies with consolidated assets of more than $1 billion and by those with assets of more than $150 million and nonbank activities above certain levels.

The FR-Y11Q, a quarterly report form filed by each covered bank holding company, consists of a brief balance sheet and a profit and loss statement that consolidate data for all of the nonbank subsidiaries of each bank holding company, excluding Edge and agreement corporations and subsidiaries of the affiliated banks. The FR-Y11AS, which is filed annually by each covered bank holding company, also consists of a brief balance sheet and an income statement, but the data are aggregated by line of business. For reporting purposes, the bank holding company assigns each of its nonbank subsidiaries, according to the primary activity of that subsidiary, to one of eleven specified categories. The data are then aggregated within activity categories so that all consumer finance subsidiaries are reported as a unit, all commercial finance subsidiaries as a group, and so on. This grouping of data by activity permits an analysis of each category, although there can be some mixing of activities within a given subsidiary or within categories. For example, a holding company's commercial finance subsidiary may also engage in mortgage banking as a secondary line of activity, but all of its assets would be allocated to commercial finance.

The FR-Y11Q and FR-Y11AS are filed by a relatively small group made up mostly of very large bank holding companies. In 1988, 284 banking organizations filed these forms compared with 298 organizations in the previous year. This number of organizations in 1988 represented less than 3 percent of all U.S. banking organizations and only 4.8 percent of all bank holding companies. These 284 organizations, however, controlled $2.36 trillion of total assets, or 87 percent of the $2.72 trillion of assets (combined bank and nonbank) held by all 1,409 bank holding companies filing on the consolidated financial statement, the FR-Y9.

Bank Holding Company Involvement in Nonbank Activities

The 1988 share of nonbank assets in total assets for the 284 reporting bank holding companies is relatively small. However, this share has increased significantly since 1986, and a few large bank holding companies have large holdings of nonbank assets. An examination of the types of nonbank activities shows that many of the assets are held in what are considered to be traditional banking activities. Subsidiaries engaged in securities brokerage, a nontraditional activity, have experienced the largest rate of asset growth.

Consolidated Nonbank Activities

At the end of 1988, total nonbank assets held by the 284 bank holding companies reporting on the FR-Y11Q were $175.5 billion, which was 7.43 percent of the consolidated bank and nonbank assets of these firms (see table 1). Further, this amount represents an increase of 7.9 percent in the volume of nonbank assets held by 298 firms reporting on the FR-Y11Q at year-end 1987. In contrast, total bank holding company assets increased only 1.3 percent.

The values of nonbank assets reported on the FR-Y11Q overestimate those actually devoted to nonbank activities. The reported asset values include balances due to the nonbank subsidiaries from their parent company and their affiliated banks. To calculate net nonbank assets, these intrafirm balances should be subtracted from total assets, just as they are netted out in calculating the total assets of the consolidated bank holding company. The total volume of net nonbank assets held by the 284 reporting firms was $164.0 billion at the end of 1988, which represents 6.94 percent of consolidated bank and nonbank assets of these firms. Comparable volumes of net nonbank assets were $146.8 billion for the end of 1987 and $133.9 billion at the end of 1986, representing increases in the volume of net nonbank assets of 9.6 percent from 1986 to 1987 and 11.7 percent from 1987 to 1988.

The 1988 ratio of net nonbank to total bank holding company assets of 6.94 percent has grown significantly since 1986 and is substantial enough to warrant attention. In particular, the

1. *Assets held in nonbank subsidiaries by reporting bank holding companies*

Assets in billions of dollars; ratios in percent

Type of asset or ratio	1988	1987	1986	Percentage growth	
				1987–88	1986–87
Asset					
Total nonbank	175.5	162.6	146.0	7.9	11.4
Net nonbank[1]	164.0	146.8	133.9	11.7	9.6
Total bank holding company	2,362.7	2,332.9	2,269.3	1.3	2.8
Ratio					
Total nonbank assets to total assets	7.43	6.97	6.43	6.6	8.4
Net nonbank assets to total assets	6.94	6.29	5.90	10.3	6.6
MEMO: Number of reporting bank holding companies	284	298	303	...	...

1. The values of nonbank assets reported on the FR-Y11Q overestimate those actually devoted to nonbank activities. The reported asset values include balances due to the nonbank subsidiaries from their parent company and their affiliated banks. To calculate net nonbank assets, these intrafirm balances should be subtracted from total assets, just as they are netted out in calculating the total assets of the consolidated bank holding company.

ratio of net nonbank assets to total assets for the reporting bank holding companies increased 10.3 percent from 1987 to 1988 and 6.6 percent from 1986 to 1987. By contrast, assets of the reporting bank holding companies increased only 4.1 percent over the 1986–88 period. Furthermore, large disparities exist among organizations in the amount of nonbank assets held, and total nonbank assets are very large for a few bank holding companies.

The disparity in the holdings of nonbank assets is apparent in comparing them for banking organizations ranked by net nonbank assets. As the data in table 2 indicate, the ownership of nonbank assets is highly concentrated. The top five firms (in terms of net nonbank assets) held 57.2 percent of the total held by the 284 firms. The top ten firms held 73.4 percent; the top fifty, 96.9 percent; and the top one hundred, 99.5 percent. The remaining one hundred eighty-four firms filing this report collectively held less than 1 percent of all net nonbank assets, and eleven of these firms reported that they had no nonbank assets.

2. Concentration of net nonbank assets in bank holding companies, 1988[1]

Companies ranked by net nonbank assets	Share of net nonbank assets (percent)	Average net nonbank assets (millions of dollars)	Average bank holding company assets (millions of dollars)	Ratio of nonbank assets to total bank holding company assets (percent)
Top 5	57.2	18,759.9	106,724.8	17.6
Top 10	73.4	12,038.0	67,535.8	17.8
Top 25	90.6	5,942.3	47,918.4	12.4
Top 50	96.9	3,177.0	31,130.9	10.2
Top 100	99.5	1,630.9	19,830.1	8.2
All reporting companies	100.0	577.4	8,319.4	6.9

1. Based on the 284 bank holding companies filing the FR-Y11Q and FR-Y11AS reporting forms.

The data in table 2 also show that the top five bank holding companies also averaged the largest totals of bank and nonbank assets. The average size in terms of total assets of the top five firms ranked by net nonbank assets was $106.7 billion; for the top ten, the average size was $67.5 billion, while the average size for the two hundred eighty-four reporting firms was only $8.3 billion. Further, those organizations with large dollar amounts of nonbank assets also had relatively high ratios of nonbank to total assets. The top five banking organizations in terms of total nonbank assets had 17.6 percent of their total assets in nonbank activities, and the top ten had 17.8 percent; whereas the comparable figure for all reporting firms was only 6.9 percent.

Considerable overlap exists between the fifty largest bank holding companies in terms of consolidated bank and nonbank assets and the fifty largest in terms of nonbank assets. The fifty largest in terms of total assets collectively held $154.4 billion, or 94.2 percent of the total net nonbank assets of $164.0 billion at year-end 1988. Three organizations had just over 20 percent of their total assets in net nonbank assets; seven organizations had more than 10 percent; and eight had more than 5 percent. Thus, only eighteen of the fifty largest bank holding companies in terms of total assets held a significant percentage of their total assets in nonbank activities. Many very large banking organizations had relatively small amounts of nonbank assets. By contrast, when all reporting organizations were ranked by net nonbank assets, thirty-nine organizations had more than 5 percent of their total assets in nonbank activities.

Nonbank Activities by Type

Table 3 shows the distribution of aggregate nonbank assets among eleven categories of nonbank activities. The aggregate of nonbank assets is defined as the sum of total nonbank assets across the eleven types of nonbank subsidiaries, including balances due from other types of nonbank subsidiaries and from the parent bank holding company and its affiliated banks. Aggregate nonbank assets in 1989 totaled $209.8 billion. Thus, based on consolidated nonbank assets of $175.5 billion, balances due from other types of nonbank subsidiaries amounted to $34.3 billion in 1988.

A large percentage of nonbank assets is invested in traditional banking activities that can be conducted within the bank. As the data in table 3 indicate, subsidiaries engaged principally in commercial finance, mortgage banking, consumer finance, and leasing account for about 47 percent of aggregate nonbank assets. If the "other depository institution" category is included, traditional banking activities account for 56 percent of aggregate nonbank assets.

The remainder of nonbank assets is accounted for primarily by securities brokerage (15.4 percent) and other nonbank (26.5 percent) subsidiaries. Subsidiaries classified under securities brokerage include those engaged principally in discount brokerage and permissible securities underwriting activities. Other nonbank subsidiaries are engaged mainly in the following activities: trust services; provision of general economic and financial information and advice; sponsorship, organization, or control of a closed-end investment company; investment to promote community welfare; courier services; management consulting; sale of money orders, travelers' checks, or savings bonds; personal property and real estate services; foreign exchange services; and acting as futures commission merchants. In addition, this category includes nonbank activities conducted before the 1970 Amendments that are still being conducted under grandfather rights. Finally, one major bank holding company finances all of its subsidiaries through a funding subsidiary; the funding subsidiary is included under other nonbank for purposes of this reporting system.

The data in table 3 also indicate that the other nonbank category is the one reported by the

3. Nonbank assets held by bank holding companies, by type of activity, 1988

Activity[1]	Total assets in activity (millions of dollars)	Percentage of aggregate nonbank assets in activity	Number of bank holding companies engaged in activity	Growth in assets, 1987–88 (percent)	Percentage of assets held by top five firms engaged in activity[2]
Commercial finance	37,128.3	17.7	58	8.99	63.6
Securities brokerage	32,320.9	15.4	83	53.99	86.1
Mortgage banking	27,470.8	13.1	110	−6.69	75.1
Consumer finance	24,043.7	11.5	51	−4.38	63.7
Other depository institutions	19,697.2	9.4	14	−8.70	95.0
Leasing	9,156.7	4.4	96	6.40	51.5
Data processing	1,838.0	.8	88	−9.42	68.9
Insurance underwriting	1,678.4	.8	111	−4.41	62.1
Small business investment company	650.6	.3	26	9.31	79.8
Insurance agency	340.0	.2	75	−28.51	61.2
Other nonbank	55,524.7	26.5	183	−2.35	71.0
Aggregated nonbank assets	209,849.3	...	...	...	...

1. As specified on FR-Y11AS form.
2. Because the financial data reported on the FR-Y11AS are consolidated within the eleven categories, the percentage of assets held by the top five firms engaged in the activity refers to the consolidated nonbank subsidiaries for each bank holding company rather than to a single subsidiary.

largest number of bank holding companies, reflecting in part their continuation of nonbank activities conducted before the 1970 restrictions. Large numbers of bank holding companies also report subsidiaries engaged in credit-related insurance underwriting, mortgage banking, and leasing.

Total nonbank activities have grown 7.4 percent since 1987, largely because of the growth in securities brokerage and commercial finance. The assets of securities brokerage subsidiaries increased 54 percent, from $21.0 billion in 1987 to $32.3 billion in 1988. This increase resulted primarily from the shifting of permissible government securities underwriting activities previously conducted in banks to the securities subsidiaries. The number of firms engaged in this activity, however, fell from ninety-nine in 1987 to eighty-three in 1988, reflecting the sale of brokerage subsidiaries by many bank holding companies. Assets in small business investment companies and leasing also increased; in contrast, assets in insurance agency subsidiaries fell 29 percent, and assets in data processing subsidiaries fell 9 percent.

Finally, table 3 also shows the percentage of assets in nonbank activities held by the top five firms in each category. In nearly all of the nonbank activity categories, but particularly securities brokerage and other depository institutions, the expected levels of concentration appear in that the largest five firms engaged in each activity held the vast bulk of the total assets of those bank holding company subsidiaries engaged in that activity. This result is consistent with the concentration of nonbank assets revealed by the previous analysis of the consolidated nonbank data. Only twenty-seven bank holding companies had nonbank subsidiaries that ranked among the five largest in one or more activity categories, and only five bank holding companies had nonbank subsidiaries among the five largest in more than three types of activities.

PROFITABILITY OF NONBANK ACTIVITIES

Data for 1986 through 1988 suggest that, in the aggregate, nonbank activities were relatively profitable. In 1986 and 1987, profit rates for nonbank activities exceeded profit rates for the affiliated bank subsidiaries and the consolidated bank holding company; in 1988, however, when bank profits were not under pressure from loan loss provisions for loans to developing countries, nonbank profits were lower than bank profits. Profit rates varied widely across nonbank activities and bank holding companies. The wide variation reflected in part the different mixes of nonbank activities engaged in by the firms, different formulas for the allocation of joint costs, and different management abilities.

Consolidated Nonbank Activities

The ratios of net income to assets and net income to equity are the commonly used measures of the profitability of banking organizations and are shown in table 4 for the consolidated nonbank subsidiaries of firms reporting on the FR-Y11Q. The average of the ratios of nonbank net income to assets was 0.69 percent and of nonbank net income to equity was 6.24 percent over the 1986–88 period. The data also show some variability in nonbank profits: The ratio of nonbank net income to assets was 1.19 percent in 1986, 0.34 percent in 1987, and 0.61 percent in 1988.

4. Profit rates for nonbank and bank subsidiaries and for bank holding companies with nonbank activities, 1986–88

Percent

Organization	1986	1987	1988	Average, 1986–88
	Ratio of net income to assets			
Nonbank subsidiaries	1.19	.34	.61	.69
Bank subsidiaries[1]	.52	.21	.79	.38
Consolidated bank holding companies	.56	−.17	.77	.39
	Ratio of net income to equity			
Nonbank subsidiaries	10.23	3.11	5.66	6.24
Bank subsidiaries[1]	10.02	−4.25	14.46	7.39
Consolidated bank holding companies	10.05	−3.19	13.18	6.97

1. Bank data are calculated by subtracting nonbank activity from that of the consolidated holding company. Bank data can also be calculated by aggregating across the individual banks of the holding company. Ratios of net income to assets and net income to equity obtained by aggregating across banks are similar to those reported and were .60 and 10.07 in 1986; −.04 and −.64 in 1987; .88 and 14.48 in 1988; and .48 and 8.18 for 1986 through 1988.

The ratios of nonbank net income to equity have shown similar variability.

For comparison, table 4 also presents the ratios of net income to assets and net income to equity for the affiliated bank subsidiaries and the consolidated holding companies. Based on the 1986–88 average ratio of net income to assets, nonbank subsidiaries appear to be fairly profitable relative to the affiliated bank subsidiaries and the consolidated bank holding company. Over the 1986–88 period, the average ratio of net income to assets was 0.69 percent for the consolidated nonbank subsidiaries compared with 0.38 percent for the affiliated bank subsidiaries and 0.39 percent for the consolidated bank holding company. Based on the 1986–88 average ratio of net income to equity, however, nonbank subsidiaries appear to be less profitable. The average ratio of net income to equity was 6.24 percent for the consolidated nonbank subsidiaries compared with 7.39 percent for the affiliated bank subsidiaries and 6.97 percent for the consolidated bank holding company. The differences between the ratios of net income to assets and of net income to equity reflect the higher equity capitalization of nonbank subsidiaries relative to bank subsidiaries.

Examining the two profit rates—the ratios of net income to assets and net income to equity capital—over the various years, the profit rates of the nonbank subsidiaries exceeded those for the affiliated bank subsidiaries in both 1986 and 1987; the profit rates for the nonbank subsidiaries in 1988, however, were lower than those of the bank subsidiaries as bank profits increased significantly from their 1987 lows. The relationship between bank profits and nonbank profits is also of interest. The data show that the profits of nonbank subsidiaries fell in 1987 from 1986 levels, and then rose in 1988, thus exhibiting the same pattern as bank profits. Given that the fall in bank profits in 1987 was attributed in large part to loan write-off provisions for developing-country debt, it is not clear why profits of nonbank subsidiaries also fell. Although only a few years' data are available for analysis, this pattern of profits raises questions about the potential gains from diversification resulting from currently allowed nonbank activities.

The profit rates for nonbank activities are also

5. Profit rates of nonbank subsidiaries and consolidated bank holding companies with nonbank activities, by asset size, 1986–88

Percent

Organization[1]	1986	1987	1988
	Ratio of net income to assets		
Nonbank subsidiaries			
Largest 50	1.15	.26	.64
All other	1.51	1.13	.04
Consolidated bank holding companies			
Largest 50	.55	−.39	.86
All other	.61	.44	.49
	Ratio of net income to equity		
Nonbank subsidiaries			
Largest 50	10.46	2.62	6.18
All other	8.96	5.61	.22
Consolidated bank holding companies			
Largest 50	10.27	−8.28	15.53
All other	9.58	6.57	7.32

1. Top fifty bank holding companies ranked by total assets and 234 remaining firms with nonbank activities.

calculated separately for the top fifty firms based on consolidated bank and nonbank assets and for the remaining firms. These profit rates, shown in table 5, suggest that the profits of the top fifty firms are similar to rates for the entire sample of firms, as reported in table 4, because the top fifty firms account for 75 percent of total assets of the reporting bank holding companies and for 94 percent of the total nonbank assets reported. The data further suggest that the relationship between bank and nonbank profits for the largest fifty firms differs from the comparable relationship for the other firms. In particular, when ratios of nonbank net income to assets for the fifty largest firms fell substantially in 1987 to 0.26 from 1.15 in 1986, this ratio for the other firms fell only to 1.13 percent from 1.51 percent. In addition, the bank holding company ratio of net income to assets of the fifty largest firms fell in 1987 to -0.39 percent because of large loan write-off provisions by the bank subsidiaries, whereas this ratio for the other firms remained relatively high, at 0.44 percent.

Nonbank Profits by Type of Activity

Profit rates for the eleven categories of nonbank activities vary widely. Table 6 presents the

6. Median profit rates of bank holding company nonbank subsidiaries, by type of activity

Percent

Activity	Ratios, 1988[1]		Ratios, 1986–88[1]	
	Median net income to assets (1st, 3rd quartile)	Median net income to equity (1st, 3rd quartile)	Median net income to assets (1st, 3rd quartile)	Median net income to equity (1st, 3rd quartile)
Commercial finance	.93 (0; 2.2)	10.94 (2.8; 38.3)	.80 (−.1; 2.0)	8.97 (0; 20.4)
Mortgage banking	.92 (−1.8; 3.3)	2.93 (−11.2; 17.7)	.79 (−1.8; 3.2)	6.60 (−6.1; 21.9)
Consumer finance	.70 (−.3; 2.4)	8.61 (−.9; 2.2)	1.38 (0; 3.3)	13.1 (0; 22.3)
Securities brokerage	0 (−7.1; 9.4)	0 (−15.4; 14.7)	5.54 (−.8; 21.6)	12.4 (−3.8; 30.4)
Other depository institutions	.43 (−0.0; 1.3)	3.80 (−.4; 11.1)	.72 (0; 1.3)	6.16 (0; 12.1)
Leasing	1.38 (0; 4.1)	7.1 (0; 23.8)	1.26 (−.5; 3.4)	7.46 (0; 23.9)
Data processing	2.21 (−4.4; 14.4)	11.7 (0; 33.5)	3.1 (−1.5; 13.3)	12.8 (0; 38.0)
Insurance underwriting	7.20 (4.4; 10.5)	13.7 (7.6; 21.4)	8.0 (4.9; 11.0)	15.9 (9.1; 22.7)
Small business investment company	2.61 (−1.0; 6.7)	3.68 (.1; 14.6)	.20 (−6.4; 4.8)	1.2 (−5.6; 7.2)
Insurance agency	8.85 (1.1; 21.4)	20.4 (3.3; 40.4)	9.07 (1.2; 19.4)	20.94 (5.0; 39.4)
Other nonbank	.90 (−1.5; 5.3)	6.0 (−.1; 24.2)	1.1 (−1.4; 5.5)	6.5 (−.1; 24.6)

1. The numbers separated by semicolons in parentheses are the profit rates at the first and third quartile respectively.

median ratios of net income to assets and net income to equity in 1988 for the bank holding company subsidiaries engaged in the eleven nonbank activities, along with the profit rates at the first quartile (25th percentile) and at the third quartile (75th percentile). The table also reports 1986–88 median ratios of net income to assets and of net income to equity for the bank holding company nonbank subsidiaries. For the most part, activities that were relatively profitable in 1988 were relatively profitable over the entire period. Overall, securities brokerage firms were the least profitable and insurance agencies were the most profitable nonbank activities. The median securities brokerage firm earned 0 percent on assets and equity, and the median insurance agency earned 8.85 percent on assets and 20.4 percent on equity.

The variation in profit rates of the nonbank subsidiaries may reflect more than just differences in performance across activity categories. Profit rates may differ across activities based on whether the subsidiaries hold assets (such as commercial loans) or provide services (such as insurance). Profit rates may also vary because of differences among activities in their equity capitalization ratios. Although somewhat lower than bank profits in 1988, profit rates for the nonbank activities most like traditional bank activities—commercial finance, mortgage banking, consumer finance, and leasing—are similar to profit rates for banks. Collectively, the ratio of net income to assets for these activities was 0.68 percent in 1988; with other depository institutions included, the ratio was 0.65 percent. The ratio of net income to assets for the affiliated bank subsidiaries (shown in table 4) was 0.79 percent in 1988.

The median profit rates for the nonbank subsidiaries in 1988 are similar to the 1986–88 rates, except for the securities brokerage firms and small business investment companies. Based on data for three years, these subsidiaries appear to have the highest variability in income among the nonbank subsidiaries. Comparing 1986–88 median ratios across activities, small business investment companies were the least profitable, and insurance agencies were the most profitable.[3]

Some Risk Measures of Nonbank Activities

The overall riskiness of the bank holding company is affected by the riskiness of its nonbank activities. The most frequently used measure of risk, the standard deviation of profits for the individual nonbank subsidiaries, cannot be used to assess risk in this case because data are available for only three years. As an alternative, some indirect measures of risk—the equity capitalization of the nonbank subsidiaries and the riskiness of loans made by them—provide some indication of the riskiness of nonbank activities. In addition, a measure of the probability of insolvency can be calculated assuming that the cross-section distribution of net income to assets is representative of the distribution of net income to assets for an average firm.

Ratios of Equity Capital to Assets

The equity capital-to-assets ratio is often used as an indicator of risk in banks and bank holding companies because high levels of capital provide protection against large declines in income. Thus, better capitalized organizations will, other things equal, incur less risk of insolvency because of loan losses, lower revenues, or higher costs. The use of this ratio as an indicator of risk across different types of organizations, however, is not straightforward. For example, differences in capital-to-assets ratios may simply reflect different ways in which firms in various activities are typically funded. Thus, higher capital-to-assets ratios may indicate activities with higher risk rather than lower risk because firms engaging in activities with high expected profits and high variability of profits need high levels of capital to protect against insolvency.

The data in table 7 indicate that nonbank subsidiaries appear to be better capitalized than affiliated bank subsidiaries are. Specifically, the capital-to-assets ratio for the consolidated nonbank subsidiaries, as reported on the FR-Y11Q forms, is 10.83 percent for 1988. In contrast, the capital-to-assets ratio for the 284 consolidated bank holding companies is only 5.84 percent, and for the aggregated bank subsidiaries, it is 5.44 percent. These ratios are similar to those for the 1986–88 period.

The capital-to-assets ratios shown in table 7 vary widely across the different types of nonbank subsidiaries. Mortgage banking, securities

7. Ratios of equity capital to assets for consolidated bank holding companies and bank and nonbank subsidiaries

Percent

Organization	Ratios of capital to assets	
	1988	1986–88
Consolidated bank holding companies	5.84	5.59
Bank subsidiaries[1]	5.44	5.17
Nonbank subsidiaries	10.83	11.13
Nonbank subsidiaries by type		
Commercial finance	9.44	10.60
Mortgage banking	5.15	6.14
Consumer finance	9.55	9.18
Securities brokerage	5.29	5.79
Other depository institutions	17.43	19.28
Leasing	7.06	7.64
Data processing	20.01	21.55
Insurance underwriting	50.50	46.67
Small business investment company	67.68	67.13
Insurance agency	29.74	26.08
Other nonbank	16.38	17.81

1. The bank data are calculated by subtracting nonbank equity capital and assets from consolidated holding company data. The bank capital-to-assets ratio is also calculated by aggregating across the equity capital and total assets of individual banks of the holding company, yielding ratios of 6.10 for 1988 and 5.91 for 1986 through 1988.

3. The median profit rates shown in table 6 may differ substantially from weighted average profit rates because of the relatively small numbers of subsidiaries engaged in some nonbank activities, extreme performances by a few large subsidiaries, and because net income, which is a flow measure, is measured against assets or equity, which are stock measures. For comparison, the weighted average net income-to-assets ratios in 1988 were (in percent) the following: 1.43 for commercial finance, -0.71 for mortgage banking, 0.78 for consumer finance, -0.62 for securities brokerage, 0.51 for other depository institutions, 1.60 for leasing, -4.29 for data processing, 8.10 for insurance underwriting, 8.93 for small business investment companies, 6.71 for insurance agencies, and 1.12 for other nonbank activities. In several cases, the relative profitability of the activities depends on whether profits are measured by the weighted average or median, suggesting that the profit data for the different types of nonbank subsidiaries should be used carefully.

brokerage, and leasing subsidiaries have relatively low capital-to-assets ratios of about 5 to 7 percent. The high ratio for other depository institutions reflects the large amount of capital kept in the savings and loan associations owned by the single bank holding company that accounts for 90 percent of the assets in this category. Small business investment and insurance underwriting subsidiaries have very high capital-to-assets ratios of 67.7 and 50.5 percent respectively, which are more similar to norms in those industries than to bank ratios.

Capital-to-assets ratios are commonly used as indicators of risk. However, in the case of holding company subsidiaries, these ratios reflect any double leveraging practices of the parent bank holding company, whereby the holding company issues debt and invests the funds in the nonbank subsidiaries as equity. However, if capital-to-assets ratios are reliable indicators of risk in the comparison of holding company subsidiaries engaged in different activities, nonbank subsidiaries appear less risky than the affiliated bank subsidiaries. Further, rather than reflecting just risk and double leveraging, these differences in capital-to-assets ratios may reflect differences in typical funding patterns for firms engaged in various activities. Indeed, those subsidiaries engaged in so-called traditional banking activities—commercial finance, mortgage banking, consumer finance, and leasing—collectively have a capital-to-assets ratio of 8.0 percent, similar to capital-to-assets ratios of banks, although still somewhat higher.

Measures of Loan Risk

Given the difficulties associated with the use of capital-to-asset ratios as measures of risk, loan risk measures were also calculated for those nonbank subsidiaries that hold a large portion of their assets in loans. The loan-to-asset ratios in 1988 were 88.0 percent for the fifty-eight commercial finance subsidiaries; 58.4 percent for the one hundred ten mortgage banking subsidiaries; 89.1 percent for the fifty-one consumer finance subsidiaries; and 83.7 percent for the ninety-six leasing subsidiaries.

Net charge-off rates (charge-offs less recoveries as a percentage of total loans) and past due rates (loans past due 90 days or more and nonaccruing loans as a percentage of total loans) are calculated for the nonbank subsidiaries engaged in commercial finance, mortgage banking, consumer finance, and leasing that reported values of more than zero for loans and leases. The net charge-off and past-due rates for loans made by commercial finance subsidiaries are compared with net charge-off and past-due rates on commercial and industrial loans made by the bank subsidiaries of the same bank holding company. Comparable ratios for mortgage banking subsidiaries are compared with rates on the affiliated commercial banks' loans secured by real estate. The rates for consumer finance subsidiaries are compared with rates on commercial bank loans to individuals for household, family, and other personal expenditures, and the comparable rates for leasing subsidiaries are compared with rates on commercial bank lease financing receivables. Table 8 shows these rates.

As the data indicate, the 1988 net charge-off rates on loans made by nonbank subsidiaries are higher than the net charge-off rates on similar loans made by the affiliated bank subsidiaries, except for commercial finance subsidiaries. These net charge-off rates suggest that loans and leases made by the consumer finance, mortgage banking, and leasing subsidiaries are riskier than similar loans and leases made by the affiliated bank subsidiaries. The past-due rates suggest the same relationship. Specifi-

8. Rates of net charge-offs and past-due loans of nonbank and bank subsidiaries of bank holding companies, 1988

Percent, except as noted

Type of rate and subsidiary	Commercial finance	Mortgage banking	Consumer finance	Leasing
Net charge-off				
Nonbank	.78	1.20	2.44	1.26
Bank	1.01	.29	1.83	.37
Past due				
Nonbank	3.14	3.47	1.82	7.20
Bank	4.17	2.47	1.58	.59
MEMO: Number of firms	46	88	38	60

cally, the past-due rates are higher for the consumer finance, mortgage banking, and leasing nonbank subsidiaries and lower for the commercial finance subsidiaries than for the affiliated bank subsidiaries, although these results tend to be heavily influenced by the very poor performance of a few firms.

Overall, loans made by mortgage banking, consumer finance, and leasing subsidiaries appear to be riskier than similar loans made by the affiliated bank subsidiaries. In contrast, commercial finance loans made by the bank subsidiaries appear to be riskier than those made by the nonbank subsidiaries.

Probability of Insolvency

Finally, the risk of nonbank subsidiaries can be measured by an indicator of the probability of insolvency. This conceptual measure assumes an independent firm, whereas in a holding company a parent organization would likely assist a subsidiary by providing additional capital. The measure is derived from the probability that income losses will exhaust capital and assumes that income returns are normally distributed. Specifically, risk can be measured by

$$g = [E(P/A) + C/A]/s.$$

where

$E(P/A)$ = the expected ratio of net income to assets
C/A = the ratio of capital to assets
s = the standard deviation of net income to assets.

The standard deviation of net income to assets is calculated based on the cross-section distribution of net income to assets, assuming that it is representative of the time-series distribution for an average firm. The g ratio is appealing because it incorporates the three financial variables most closely associated with the financial health of a firm. Those firms with higher C/A, higher $E(P/A)$, and lower s will have a higher g measure and lower overall insolvency risk.

As with the loan risk measures reported above, the g measure of risk is constructed for subsidiaries engaged in commercial finance, mortgage banking, consumer finance, and leasing. Only subsidiaries that were engaged in these activities in both 1987 and 1988 are included in the sample for purposes of calculating g so that start-up and exiting firms are not included when calculating the standard deviation of the net-income-to-assets ratio. These measures are then compared with g measures constructed for the bank subsidiaries of those holding companies with nonbank subsidiaries that make commercial and industrial loans, loans secured by real estate, loans to individuals, and leases. Table 9 shows these g measures.

9. Indicators of the probability of insolvency for nonbank and affiliated bank subsidiaries of bank holding companies, selected activities[1]

Type of subsidiary	Risk ratio (g) for selected activities			
	Commercial finance	Mortgage banking	Consumer finance	Leasing
Nonbank	1.28	1.15	5.15	1.38
Bank	4.29	9.46	4.34	9.30

1. The sample includes only those subsidiaries engaged in these activities in both 1987 and 1988.

The calculated g ratios indicate that the commercial finance, mortgage banking, and leasing nonbank subsidiaries are riskier than their affiliated bank subsidiaries. For these three types of activities, the g ratios are lower (suggesting higher risk) for the nonbank subsidiaries than for the affiliated bank subsidiaries. In the case of consumer finance, bank subsidiaries may be more risky although the difference in the g ratios is small. These relationships are particularly interesting because these nonbank subsidiaries have higher capital-to-assets ratios and higher net-income-to-assets ratios (except for mortgage banking subsidiaries) than the affiliated bank subsidiaries do, which, other things equal, would suggest lower risk. However, the nonbank subsidiaries have a much higher standard deviation of net income to assets; the higher standard deviation offsets the risk-reducing effects of higher capital and higher profits.

CONCLUSION

To date, the new data provided by the FR-Y11Q and FR-Y11AS on nonbank activities of bank holding companies are only available for three years. Nevertheless, the available data indicate that some of the nation's largest banking organizations have large holdings of nonbank assets. Furthermore, the overall share of holding company assets devoted to nonbank activities has increased significantly since data collection began in 1986.

Available evidence on nonbank activities of bank holding companies suggests that nonbank subsidiaries are more profitable than bank subsidiaries, but nonbank profits have moved in parallel with bank profits over the 1986–88 period. Furthermore, nonbank subsidiaries appear to be better capitalized than bank subsidiaries, although this may reflect double leveraging. However, various measures of risk involving loans or insolvency appear to indicate that nonbank subsidiaries are riskier than bank subsidiaries and therefore may be more than a device to circumvent restrictions on geographic expansion. Thus, the growth in the relative share of nonbank activities could have important implications for the safety and soundness of banking organizations.

The future share of nonbank assets within the consolidated bank holding company is difficult to predict. As barriers to intrastate and interstate banking are reduced, lending activities conducted in nonbank subsidiaries may be moved to bank subsidiaries, thus reducing the amount of activities conducted in nonbank subsidiaries. On the other hand, any differences in the nature of the lending done by bank and nonbank subsidiaries may justify their continued existence and growth. Finally, bank holding companies may wish to expand their nonbank activities to include those that are even more removed from traditional banking activities. □

The Federal Reserve in the Payments System

The following white paper was released on March 26, 1990, and updates a general policy statement first issued by the Federal Reserve Board in 1984.

This paper sets out the Federal Reserve's general policy regarding its role in the payments system. The Federal Reserve's objective in describing its policy is to encourage closer cooperation among all participants in improving the payments system and to facilitate the business planning of users and providers of payment services. The paper also outlines the procedure the Federal Reserve will ordinarily follow in reviewing its service offerings. The Board, at its sole discretion, will determine when the procedure is applicable and will make the decisions related to the procedure.

In summary, the role of the Federal Reserve in providing payment services is to promote the integrity and efficiency of the payments mechanism and to ensure the provision of payment services to all depository institutions on an equitable basis, and to do so in an atmosphere of competitive fairness. Given the size, speed, and interdependencies of payments, this mission is, and will likely continue to be, even more important than it was when the Federal Reserve was established in 1913.

ROLE OF THE FEDERAL RESERVE

Background

Since the Federal Reserve's inception, its active involvement in payments processing has been an integral part of the development of the nation's financial system. The Congress, responding in part to the breakdown of the check collection system in the early 1900s, made the Federal Reserve an active participant in the payments system when it established the Federal Reserve in 1913. At that time the Congress envisioned that the Federal Reserve would play a dual role as an operator and a regulator of the payments system. The Congress has reaffirmed its commitment to this dual role for the Federal Reserve in the Monetary Control Act of 1980 and in the Expedited Funds Availability Act, enacted in 1987.

The Federal Reserve has a wide-ranging participatory role in the payments system. Reserve Banks process checks and provide a nationwide network for the collection of items ineligible for processing through normal check collection channels, such as matured coupons, bonds, and bankers acceptances. The Federal Reserve assisted in developing the automated clearinghouse (ACH) system for small-dollar electronic payments and now provides a nationwide electronic ACH network. Depository institutions transfer large-dollar payments over the Federal Reserve's nationwide wire transfer system (Fedwire). The Federal Reserve also operates a book-entry securities service for the safekeeping and transfer of U.S. Treasury and agency securities. Finally, the Federal Reserve supports a variety of private clearing arrangements by providing settlement services through its nationwide network of account relationships.

This participatory role has served the nation well, contributing directly and indirectly to widespread public confidence in a payments system that is quick, sure, and efficient. The Federal Reserve's participatory role is well suited to the structure of the U.S. financial industry. This country has a highly fractionalized banking system spread over wide areas, with different types of institutions having differing payments needs. As interstate banking spreads, the underlying public policy rationale for the Federal Reserve's operational presence in the payments system will continue to be an important consideration. The Federal Reserve will continue to bring to payments markets an overall concern for safety and soundness, promotion of operating efficiency, and equitable access. Indeed, those considerations relating to integrity, efficiency, and access to the payments system will remain at the core of the Federal Reserve's role and responsibilities regarding the operation of the payments system.

Integrity of the Payments System

A reliable payments system is crucial to the economic growth and stability of the nation. The smooth functioning of markets for virtually every good and service is dependent on the smooth functioning of banking and financial markets, which, in turn, is dependent on the integrity of the nation's payments system. History shows that the fragility of a country's payments system can precipitate or intensify a general economic crisis. The breakdown of the payments machinery in the United States during the Panic of 1907, which helped precipitate the creation of the Federal Reserve System, is a case in point. More recently, the 1974 failure of a relatively small German financial institution, Bankhouse I.D., Herstatt, and the consequent uncertainty regarding payments through private clearing networks, temporarily caused substantial disruption in the U.S. payments system. This occurrence clearly demonstrated that financial failures, including those abroad, can transmit systemic effects, via the payments system, to financial institutions in all parts of the world.

As a payments system participant and central bank, the Federal Reserve's roles are integrally related. The Federal Reserve's direct and ongoing participation in the operation of the payments system enhances the integrity of the payment process. For example, the Federal Reserve's final and irrevocable Fedwire funds transfer service reduces the risk that the failure of one institution could be transmitted rapidly to other institutions. In addition, to carry out its responsibilities as central bank, the Federal Reserve frequently provides payment services to troubled depository institutions that other providers of payment services may not serve because of the risks involved. This provision helps to ensure that the inability of a depository institution to make or process payments will not trigger its insolvency and that the institution's problems can be resolved in an orderly fashion, with minimum disruptive effects.

Efficiency of the Payments System

Federal Reserve involvement in the payments system promotes efficiency for a variety of reasons. The Federal Reserve has a public-interest motivation in seeking to stimulate improvements in the efficiency of the payments system. The Federal Reserve has worked closely with other providers of payment services to develop and use advanced technology and procedures. Because of its day-to-day operating presence in the payments system, it has the know-how to contribute to technical advances as well as the ability to help promote their implementation. Federal Reserve involvement may be particularly appropriate for advances that require widespread cooperation among depository institutions (for example, the introduction and implementation of Magnetic Ink Character Recognition (MICR) encoding of checks). Moreover, Federal Reserve involvement as a neutral and trusted intermediary can facilitate acceptance of innovations that improve the efficiency of the payments system. Additional efficiencies result from the scope of the Federal Reserve's participation in the payments system.

As the Congress anticipated in the Monetary Control Act of 1980, competition between the Federal Reserve and other providers of payment services has resulted in a more efficient payments system. Both the Federal Reserve and other service providers have been prompted by competition to process payments as efficiently as possible and to improve the quality of the services offered.

It is recognized that the most significant further gains in payment efficiency are likely to come from the application of advances in electronic technology. These gains will become more widespread as new technology becomes available to all depository institutions, regardless of their size or location. The Federal Reserve will continue to promote the use of electronics in providing payment services when it can demonstrate that this technology will enhance the efficiency or effectiveness of its services.

Provision of Payment Services to All Depository Institutions

Federal Reserve payment services are available to all depository institutions, including smaller institutions in remote locations that other providers might choose not to serve. Under the Monetary Control Act, in making payment services available to depository institutions, the Federal Reserve must give due regard to the provision of an adequate level of services nationwide. Since implementation of the act, the Reserve Banks have provided access to Federal Reserve services to nonmember banks, mutual savings banks, savings and loan associations, and credit unions.

Fiscal Agency Functions

Besides providing payment services to depository institutions, the Federal Reserve, as fiscal agent, provides a variety of services on behalf of the U.S. Treasury and other government agencies. These services include the creation, safekeeping, and transfer of book-entry records evidencing ownership of the public debt and the processing of government payments.

Depository institutions benefit from production efficiencies that result when the facilities and expertise required to provide these fiscal agency services are used to produce other similar services for depository institutions. Similarly, paper and electronic payment services are supplied to the Treasury and other government agencies more efficiently because the Federal Reserve also offers these services to depository institutions.

Criteria for Evaluating Proposed Payments System Changes

Cost Recovery

In offering payment services, the Federal Reserve must satisfy the cost-recovery objective of the Monetary Control Act: In the long run, aggregate revenues should match costs. The pricing principles adopted by the Board of Governors in 1980 added to the aggregate cost-recovery objective specified in the Monetary Control Act the more stringent objective of full-cost recovery (including all operating and float costs and imputed taxes and return on capital) for each service line.[1] This internal objective of cost recovery for each service line was subsequently modified to provide that revenues for each service line must cover all operating costs, float costs, and certain imputed costs, such as the cost of interest on short- and long-term debt, as well as make some contribution to the pretax return on equity. Thus, each service line must be at least marginally "profitable," and all service lines combined must, in the aggregate, cover all production costs, float costs, and the private sector adjustment factor.

The Federal Reserve establishes cost-recovery objectives, rather than targeted volume objectives, for its services. In a dynamic payments environment, circumstances might arise, such as changes in technology or banking structure, that could jeopardize the Federal Reserve's ability to meet its cost-recovery objectives in a particular service. If a service experiencing such developments can be improved to be responsive to the market, it would continue to be offered. If it becomes clear, however, that the service cannot be expected to meet cost-recovery objectives, the Federal Reserve would reassess the appropriateness of continuing to provide the service after taking into account its other objectives, including the requirement to provide equitable access and an adequate level of services nationwide. For example, several Reserve Banks have stopped offering cash transportation in areas where an adequate level of this service is otherwise provided by the private sector.

More efficient operations or aggressive pricing by other service providers could also result in the Federal Reserve's failing to meet cost-recovery objectives. Because the Monetary Control Act directs the Federal Reserve to give due regard to competitive factors, a decision would have to be made as to whether the public benefits of continuing to offer the service justify the shortfall. The Federal Reserve might also continue to provide a service that did not meet cost-recovery objectives if the revenue shortfall were caused by

1. See the appendix for details on calculation of costs and fees.

a temporary situation that could be corrected. In any event, a decision to continue to provide a service that could not reasonably be expected to meet cost-recovery objectives would be made by the Federal Reserve Board only after seeking public comment and only when there were clear public benefits to such a course of action. Similarly, any decision to withdraw from a particular service line would have to be undertaken in an orderly way, giving due regard to the transition problems associated with the discontinuation of a service.

New Services and Service Enhancements

The Federal Reserve's operational presence in the payments system can be expected to change as the payments system evolves. Increased interstate banking activity, technological developments, developments in law and regulation, and the entry of new participants in the payments system will all influence the evolution of the Federal Reserve's role.

As the Federal Reserve considers the introduction of new services or major service enhancements, all of the following criteria must be met:

- The Federal Reserve must expect to achieve full recovery of costs over the long run.
- The Federal Reserve must expect that its providing the service will yield a clear public benefit, including, for example, promoting the integrity of the payments system; improving the effectiveness of financial markets; reducing the risk associated with payments and securities transfer services; or improving the efficiency of the payments system.
- The service should be one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity. For example, it may be necessary for the Federal Reserve to provide a payment service to ensure that an adequate level of service is provided nationwide or to avoid undue delay in the development and implementation of the service.

Competitive Impact Analysis

The Board will also conduct a competitive impact analysis when considering an operational or a legal change, such as a change to a price or service or a change to Regulation J, if that change would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services due to differing legal powers or constraints or due to a dominant market position of the Federal Reserve deriving from such legal differences. All operational or legal changes having a substantial effect on payments system participants will be subject to a competitive impact analysis even if competitive effects are not apparent on the face of the proposal.

In conducting the competitive impact analysis, the Board would first determine whether the proposal has a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services. Second, if such an adverse effect on the ability to compete is identified, the Board would then ascertain whether the adverse effect is due to legal differences or due to a dominant market position deriving from such legal differences. Third, if it were determined that legal differences or a dominant market position deriving from such legal differences were judged to exist, then the proposed change would be further evaluated to assess its benefits, such as contributing to payments system efficiency or integrity or other Board objectives, and to determine whether the proposal's objectives could be reasonably achieved with a lesser or no adverse competitive impact. Fourth, the Board would then either modify the proposal to lessen or eliminate the adverse impact on competitors' ability to compete or determine that the payments system objectives may not be reasonably achieved if the proposal were modified. If reasonable modifications would not mitigate the adverse effect, the Board would then determine whether the anticipated benefits were significant enough to proceed with the change even though it may adversely affect the ability of other service providers to compete with the Federal Reserve in that service.

Process for Communicating Concerns

If a depository institution or other payments system participant believes that the Federal Reserve's priced services policies or practices are not in accord with the competitive analysis or other criteria described above, it should communicate its concerns to the First Vice President of the local Federal Reserve Bank. If the institution wishes to pursue the matter further after discussing the issue with the Reserve Bank staff members, it may address its concern to the Board member designated as Chairman of the Board's Committee on Federal Reserve Bank Activities.

Conclusion

The Federal Reserve recognizes its responsibilities to cooperate with other providers in improving the payments system and, through the procedures described above, to maintain a fundamental commitment to competitive fairness. These responsibilities must, in the final analysis, be viewed as an extension of the Federal Reserve's underlying responsibility for preserving the safety and soundness of, and public confidence in, the payments system.

Appendix: Methodology for Computing Federal Reserve Bank Costs and Fees

In accordance with the Monetary Control Act, the Federal Reserve establishes prices for its payment services to recover costs and a 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.

Costs for providing services are derived from the Federal Reserve's Planning and Control System (PACS). PACS is the uniform cost accounting system that the Reserve Banks use for determining the full costs of fulfilling their four basic areas of responsibility: (1) monetary policy, (2) supervision and regulation, (3) fiscal agency services, and (4) services to financial institutions and the public (the last includes both priced and nonpriced services). The system was developed in the mid-1970s to serve as a cost-accounting system, similar to systems used in the private sector, and also to serve as a vehicle for evaluating the cost effectiveness and relative efficiency of the Reserve Banks.

PACS provides the Federal Reserve with an important management tool for budgeting and expense control by ensuring that similar expenses are recorded by Reserve Banks in the same way and that all Reserve Banks report operating expenses under a set of common and uniform definitions.

Like most expense accounting systems used in the private sector, expenses under PACS are classified by type or "object" of expense, such as salaries, supplies, equipment, and travel, and by the "output" to which the expense is related, such as fiscal services to the Treasury or the provision of check collection services to depositing institutions. Classification of expenses by type enables the Federal Reserve to collect necessary information for external and internal financial reporting and control purposes. Classification of expenses by output service enables Federal Reserve management to analyze the overall costs of Reserve Bank operations in terms of ongoing service responsibilities, the programs instituted to fulfill these service responsibilities, and the basic activities or processes included in the provision of each service.

There are subsidiary services within each area of responsibility (service line). "Services to financial institutions and the public," for example, encompasses priced services such as commercial check, electronic funds transfer, securities, and noncash collection. Within each of these subsidiary services, PACS identifies specific "activities" that reflect the basic operations or processes within the services.

PACS classifies all costs into three categories: direct, support, and overhead costs. Direct costs are those costs directly attributable to a given service. Support costs are those costs, such as computer programming and building operations, that, although not directly used in priced service operations, are required to support such activities. All support costs are fully charged to the benefiting activities on a usage basis. Overhead costs represent all remaining Federal Reserve costs that cannot be charged directly to an output service on a usage basis. Examples of overhead functions include the personnel department, protection, and budget control. Overhead costs are allocated to benefiting services based on formulas that reflect relative usage.

All Federal Reserve fees are reviewed annually and revised if necessary. The annual review takes place during the third quarter of the year. Each Reserve Bank forecasts its costs and volumes for each priced service for the upcoming year. Included in the cost estimate are all direct, support, overhead, and float costs that are to be allocated to each priced service. The cost and volume estimates are based on a combination of historical experience and projections. At the same time, the Federal Reserve calculates a proposed PSAF for the year. Aggregate cost and volume estimates for nationally priced services are based on estimates made by the individual Reserve Banks.

The proposed Reserve Bank fees are reviewed by the System's Pricing Policy Committee and the staff of the Board of Governors. The purpose of the review is to ensure that the cost and volume estimates are reasonable, that the PSAF calculation is consistent with System guidelines, and that proposed prices meet the cost-recovery policies of the Board of Governors. Finally, the Board of Governors reviews and approves the proposed prices and PSAF.

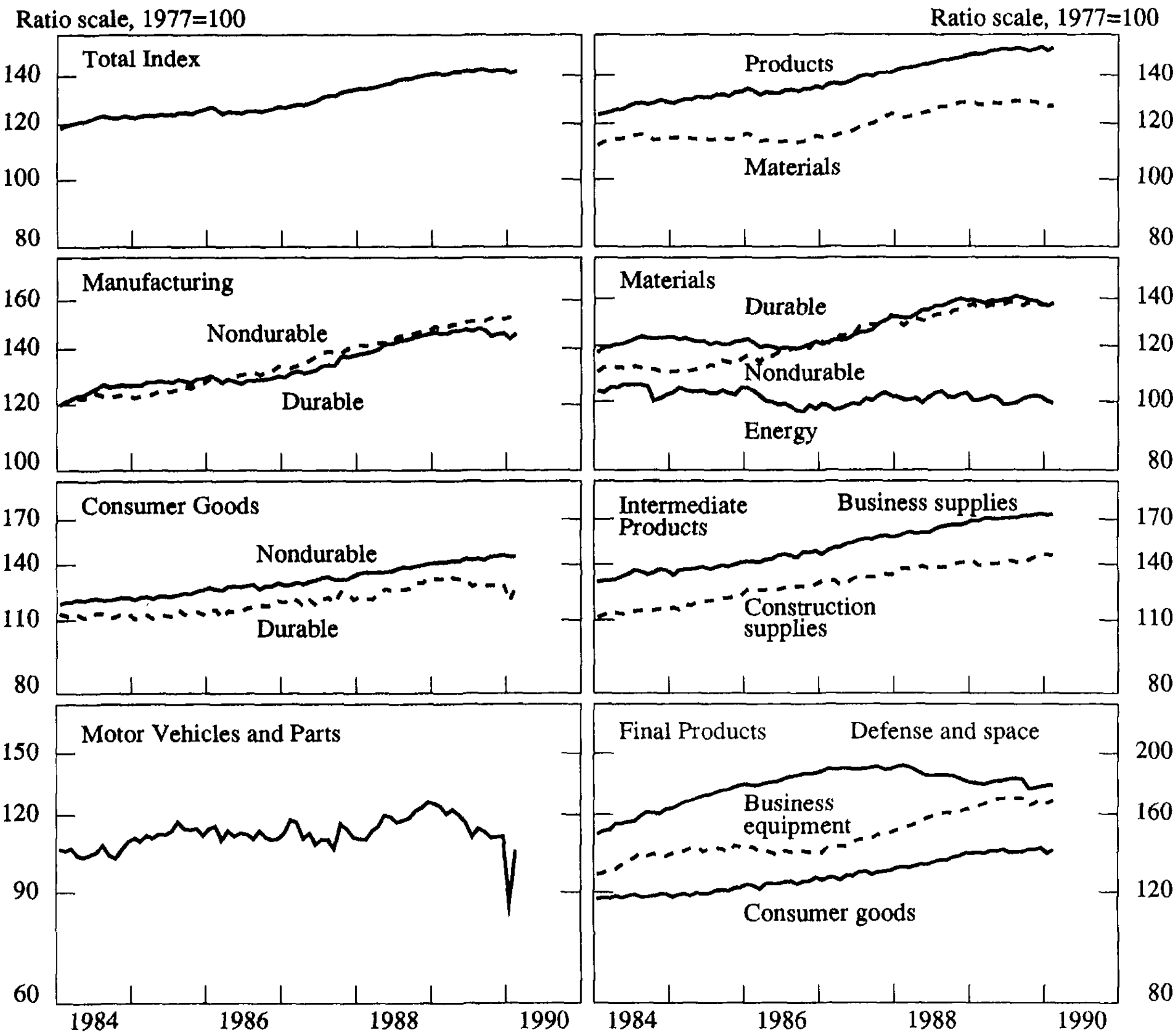
By order of the Board of Governors of the Federal Reserve System, March 23, 1990.

(signed) William W. Wiles
Secretary of the Board

Industrial Production

Released for publication March 16

Industrial production rose 0.6 percent in February following a revised decline of 1.0 percent in January. The output of motor vehicles and parts increased sharply in February following the substantial cut in January, although the level of motor vehicle production in February was still more than 5 percent below its December level. Excluding motor vehicles and related industries, production was little changed in February. At 141.8 percent of the 1977 annual average, the total index in February was 0.9 percent higher than it was a year earlier. Manufacturing output increased 0.7 percent in February, and the factory operating rate rose 0.4 percentage point to 82.4 percent. Detailed data for capacity utilization are shown separately in "Capacity Utiliza-



All series are seasonally adjusted. Latest series: February.

Group	1977 = 100		Percentage change from preceding month					Percentage change, Feb. 1989 to Feb. 1990
	1990		1989			1990		
	Jan.	Feb.	Oct.	Nov.	Dec.	Jan.	Feb.	
	Major market groups							
Total industrial production	**141.0**	**141.8**	**-.3**	**.3**	**.1**	**-1.0**	**.6**	**.9**
Products, total	151.5	152.8	-.6	.6	.7	-1.2	.8	1.8
Final products	148.9	150.5	-.9	.5	.7	-1.5	1.1	1.3
Consumer goods	138.0	139.7	.9	.1	.5	-2.2	1.3	.7
Durable	119.6	127.2	.0	-.3	.6	-6.8	6.4	-3.4
Nondurable	144.8	144.4	1.2	.2	.5	-.6	-.3	2.1
Business equipment	166.6	168.3	-2.8	1.1	1.3	-1.3	1.0	2.0
Defense and space	177.9	178.2	-3.4	.1	.6	.4	.1	-.6
Intermediate products	160.5	160.6	.5	.9	.5	-.3	.1	3.5
Construction supplies	145.8	145.3	1.2	1.3	.9	.0	-.3	4.2
Materials	126.7	126.8	.0	-.1	-1.0	-.5	.1	-.5
	Major industry groups							
Manufacturing	147.4	148.5	-.6	.4	-.1	-.7	.7	1.1
Durable	143.7	145.8	-1.6	.5	.2	-1.5	1.4	-.1
Nondurable	152.5	152.2	.8	.1	-.5	.4	-.2	2.8
Mining	104.7	104.2	.8	.3	-2.4	2.5	-.5	3.3
Utilities	111.0	110.1	.9	-.1	7.5	-10.6	-.8	-5.5

NOTE. Indexes are seasonally adjusted.

tion," Federal Reserve monthly statistical release G.3.

In market groups, output of consumer goods advanced 1.3 percent, reflecting the rebound in auto and light truck production; auto assemblies jumped to an annual rate of 5.8 million units from a rate of 4.1 million units in January. However, the output of home goods, such as appliances, was unchanged in February and has changed little, on balance, since last fall. The index for nondurable consumer goods decreased 0.3 percent, as the output of food and clothing declined. The rise in the production of business equipment was the result of the pickup in output of motor vehicles for business use, which are components of transit equipment. Production of manufacturing

Total industrial production—Revisions

Estimates as shown last month and current estimates

Month	Index (1977=100)		Percentage change from previous months	
	Previous	Current	Previous	Current
Nov.	142.2	142.3	.3	.3
Dec.	142.5	142.4	.2	.1
Jan.	140.9	141.0	-1.2	-1.0
Feb.	...	141.8	...	.6

equipment was about unchanged, and the output of commercial equipment, which includes computers, fell about 0.5 percent. Output of construction supplies has changed little so far in 1990, after having risen sharply during the fourth quarter of last year.

The production of materials edged up last month, as gains in motor vehicle-related industries more than offset declines in nondurable and energy materials. The drop in nondurables was widespread, with the most significant declines occurring in textiles and chemicals. The decrease in energy materials mainly reflected the decline in coal mining.

In industry groups, apart from the gain in motor vehicles and parts, manufacturing output was little changed in February. Among durables, the production of primary metals, mainly steel and lumber, posted declines, while the output of aerospace industries rose as commercial aircraft and related industries increased again. Among nondurables, significant declines occurred in apparel and textiles, but gains in the output of printing and publishing continued to be robust. Outside of manufacturing, mining output fell, and production at utilities declined further in February as a result of the relatively mild weather.

Statements to the Congress

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Economic and Commercial Law of the Committee on the Judiciary, U.S. House of Representatives, March 1, 1990.

My testimony this morning will review the Federal Reserve's role in the developments surrounding the recent decision of Drexel Burnham Lambert to liquidate its operations. In addition, I will touch on some possible implications of this event.

My remarks will have to be fairly general in nature. The situation is still unfolding and remains in many respects quite sensitive. As you know, Drexel, in cooperation with the authorities, is endeavoring to unwind its business. This process is being undertaken in what we hope will be the least disruptive manner to the markets and to Drexel's creditors. As I will be detailing later, markets appear to have taken the Drexel problems well in stride, but we cannot be certain that the full repercussions are as yet entirely apparent. While it is still too early to draw conclusions, the events of the past few weeks do suggest some issues that might merit further consideration, and I shall indicate what some of those are. One further caveat is necessary: These views are my own and do not necessarily represent those of the Board of Governors, which has not had an opportunity to consider the contents of this testimony owing to the short time between your invitation and the hearing.

BACKGROUND

The Federal Reserve, especially the Federal Reserve Bank of New York, has been giving the situation at Drexel extra attention for some time. In that time frame, difficulties arising out of criminal indictments involving key Drexel personnel raised concerns about potential risks to the financial health of the firm. The seriousness of those risks deepened as the problems multiplied for issuers in the junk bond market—a market in which Drexel had played a leading role and a market that itself loomed so large in the fortunes of the firm.

The interest of the Federal Reserve in Drexel grew, in part, out of our business relationship with its government securities subsidiary. This subsidiary is a primary dealer—that is, it was sufficiently strong financially and sufficiently active in the government securities market to warrant its use as one of the forty-four firms with which the Federal Reserve Bank of New York conducts transactions relating to open market operations. The Federal Reserve Bank of New York carefully monitors the condition of all the primary dealers to ensure that they remain sound counterparties and reliable marketmakers.

Our concern about the condition of Drexel also reflected our more general interest in the continued smooth overall functioning of the financial markets. The Congress has given us authority to act as lender of last resort through our discount window for depository institutions, recognizing their central position in the payments system and their use as a repository for a key portion of the wealth of households and businesses. Our direct authority to lend outside of depositories is severely circumscribed—and we have not done so since the 1930s.

But we do recognize a broader responsibility to the financial system. After the stock market break of 1987, we carried out this responsibility by providing an extra measure of funds through open market operations. These operations were designed to meet any unusual demands for liquidity, and, more importantly, by doing so in an open manner, to assuage fears and bolster confidence. At that time, we also monitored carefully the provision of credit in securities markets. Then, as now, our concern was not with the fortunes of a particular firm; rather it was and remains the orderly operation of the financial markets because that is a prerequisite for the orderly functioning of the economy. We were monitoring Drexel in part to ascertain whether its difficulties, should they mount, might have more general implications for the functioning of financial markets.

THE DEVELOPING SITUATION AT DREXEL AND THE ROLE OF THE FEDERAL RESERVE

Against this background, late last year and early in 1990 the Federal Reserve Bank of New York began to receive reports that creditors and counterparties to Drexel were becoming more cautious in the amounts, terms, and conditions of credit extensions—including intraday credit—to Drexel. In this same period, Drexel's commercial paper was downgraded, effectively reducing its access to this source of funds. It also came to our attention that as funding for the parent corporation ran off, the firm was upstreaming excess capital from its broker–dealer subsidiary. Consultations were stepped up among concerned agencies and parties, including the Federal Reserve Bank of New York, the Board of Governors, the Securities and Exchange Commission (SEC), the U.S. Treasury, and the New York Stock Exchange (NYSE), as well as Drexel.

By early this month, it became apparent that Drexel had lost the confidence of many of its lenders and clients. In these circumstances, it is important to note that the precise financial condition of the firm rested on an evaluation of a large portfolio of loans and securities—including bridge loans and "junk" bonds—whose worth was difficult to assess. Moreover, the ongoing profitability of the firm was likely to be impaired by the declining prices and dwindling activity in junk bonds. As doubts emerged about the ability of Drexel to meet its obligations in a timely and predictable way, it suffered what in banking terms would be called a "run." The run extended across the various units that make up Drexel—including both regulated and unregulated affiliates, and including affiliates that seemed to be solvent, as well as those whose status was in doubt. It is important to recognize the depth and breadth of the problem. To be sure, the firm defaulted on a relatively small proportion of its obligations, but this was seen by many as only the tip of the iceberg, an indication that many more such problems and difficulties would be forthcoming absent drastic action. Continuous and unimpeded access to credit is the lifeblood of any financial concern, which must, in effect, refinance itself on a daily basis, and creditor confidence is the foundation on which such access is built.

Drexel recognized the need for action to restore confidence in its ability to continue as a going concern over the longer run. The firm apparently explored several options, including raising fresh external capital and selling all or a portion of its operations. In the face of its lack of success, the government authorities, after careful and frequent consultation, determined that consideration should be given to an orderly shrinkage of the firm to minimize the chance of spillovers from Drexel's difficulties, helping to maintain the integrity and smooth functioning of our financial system more generally. There were likely to be some dislocations caused by the dissolution of Drexel, for creditors, employees, and customers. Nonetheless, the fundamental structure and soundness of the securities markets and financial system and its ability to channel funds to those who could make the best use of them was unlikely to be impaired by the failure of this single firm, provided it was carried out in a generally orderly way.

Consequently, the Federal Reserve, working with other federal authorities, the NYSE, and numerous private parties, focused on an orderly winding down of Drexel's business, especially that done in the regulated entities—the government securities subsidiary and the broker–dealer. These entities were not included in the bankruptcy filing of the parent corporation. The Federal Reserve gave particular emphasis to efforts aimed at the orderly shrinkage of the government securities affiliate, in light of our primary dealer relationship with this affiliate, and our heavy involvement in this market as a key participant and fiscal agent for the Treasury, and continuing concern for its orderly functioning. The Federal Reserve Bank of New York issued a statement to let the market and the public know that we were monitoring the situation carefully, and its staff was in close and continuing contact with Drexel and other market participants to help facilitate the orderly winding down of its position. Moreover, we cooperated closely with the SEC, the NYSE, banks, and other market participants as they worked to resolve the broker–dealer. Throughout this process there was close and continuous consultation among the federal authorities, including the Treasury Department and the SEC, to exchange information and discuss issues.

Our activities had several dimensions. For one, we kept our wire facilities open unusually long hours, as did the banks that cleared for Drexel. Through extraordinary efforts of both the private and public sectors, the complex mechanisms for transferring securities and funds worked, at least in a mechanical sense. Other problems arose, however, that threatened to derail the process of winding down the firm. Many firms doing business with Drexel, quite naturally and understandably, were exercising extreme caution in their transactions with Drexel. One effect of this attitude was a possible "gridlock" in the exchange of securities, foreign exchange positions, and cash, which could have hindered the orderly sale of assets and unwinding of positions. We had numerous discussions with the private parties involved in these transactions to determine what the problems were and solicit suggestions for their resolution. In our discussions we made it clear that these parties needed to make their own strategic and business judgments. We looked for ways in which we could be helpful to facilitate the resolution of problems, including offering to provide space at the Federal Reserve Bank of New York where parties could meet. In addition, we had in place detailed contingency arrangements to assist directly in the exchange and settlement of mortgage-backed securities and other instruments had such arrangements proved necessary.

Owing to the efforts of all concerned, substantial progress has been made in winding down the firm. The government securities entity has little remaining on its balance sheet and has very small residual financing needs, which should be reduced even further in coming days. The broker–dealer also is considerably smaller than a few weeks ago, and important off-balance-sheet positions have been transferred to other parties or unwound. Still, the process is far from complete, both in the regulated entities and elsewhere in the firm. With the easiest and cleanest transactions having naturally been completed first, remaining positions may be slower and more difficult to resolve.

The orderly nature of the unwinding process probably has contributed to the relatively calm reaction in financial markets. In addition, Drexel's difficulties had been building for some time, and in certain respects were well known. As a result, the firm's demise was not entirely a surprise, though the particular timing and speed of the downfall may have been. There was a small flight to government securities when the situation seemed particularly uncertain, but that was quickly reversed. In the market in which Drexel had been most prominent, that for junk bonds, price reaction also was fairly mild. Drexel had begun to reduce its participation in this market some time before, and the market was focused on the effects of the difficulties of some prominent issuers rather than those of investment banks.

This market reaction tends to validate the judgment that the failure of Drexel, while a tragedy for the many involved, did not present undue risks to the orderly functioning of the financial system or the economy. It is highly likely that other firms will step in to fill the gaps left by Drexel, including picking up that part of the issuance of high-yield bonds that represents a legitimate source of funds for smaller and riskier businesses. Yet, complacency would be a mistake. Lenders to investment banks and other intermediaries may become more cautious. In moderation, this caution should promote greater efforts to enhance the soundness of these borrowers, by capital infusions and other means, but a more general and indiscriminate loss of confidence would impair the ability of institutions and markets to perform needed functions. I stress that we see no evidence of this, but clearly it is a situation that will have to be carefully monitored. Moreover, the task of winding down a firm of this size is always one that entails at least some risk of more generalized problems and dislocations.

ISSUES FOR FURTHER CONSIDERATION

As I noted in my introduction, it is far too early to draw hard conclusions for public policy from the experience with Drexel. Nonetheless, certain issues have emerged that might merit further consideration.

First, is the need for our financial institutions to have ample capital and to have arrangements in place to obtain more capital in an emergency. Capital, and in particular tangible net worth, is the bedrock of lender confidence that funds can be repaid. To the extent that a financial intermediary is holding assets that may be hard to liquidate on short notice, or whose price may fluctuate or is difficult to determine, greater levels of capital will be required to maintain the needed degree of confidence. Capital adequacy is an issue that we have stressed in our oversight of the banking system, and it has been a key element in the SEC's regulation of broker–dealers, but it is a more general problem in our economy—for both financial and nonfinancial firms.

A second set of issues arises out of the structure of Drexel. Drexel was a holding company with both regulated and nonregulated subsidiaries, separately incorporated and capitalized, though engaged in complex transactions among themselves. Problems in one area of the firm could not be isolated and quickly spilled over into other areas, some of which may have been fundamentally sound. The government securities affiliate, for example, seems to have been adequately capitalized, and engaged in no unusually risky activities. Yet it, too, found its access to credit curtailed when questions were raised about the health of the parent company and other affiliates.

This experience raises several questions about the separation of activities in financial holding companies and about the possible need for an overview of the entire holding company, both regulated and nonregulated entities. In this regard, collecting information from the nonregulated entities to get a fix on their risk profile, though not without its pitfalls, might be a sensible first step to consider.

A third category of issues arises from our experience with the various clearing and settlement systems as the firm was unwound. The combination of huge positions on the balance sheet and substantial off-balance-sheet activity for any diversified financial intermediary implies massive flows of funds and securities on a daily basis. The clearing and settlement systems for these flows work reasonably well in the ordinary course of business. As in October 1987, it takes extraordinary circumstances to bring to the fore potential problems with these systems. As Drexel attempted to sell its securities positions, to unwind its foreign exchange book, and to manage various positions in commodities markets, it became clear that the time lag between exchanges of financial instruments and the delivery of payment for those instruments in most settlement systems was a problem when parties to the transaction were concerned that an event, like bankruptcy, might intervene. One system that did not experience such problems was the book-entry system for government securities. This system works on the basis of payment against delivery, eliminating the time lag, and facilitating deliveries in the unusual circumstances prevailing. Although it would embody a major change to current practices, thought might be given to the feasibility of extending this type of settlement and bookkeeping procedure to other markets. □

Statement by Wayne D. Angell, Member, Board of Governors of the Federal Reserve System, before the Subcommittee on Consumer and Regulatory Affairs of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 1, 1990.

I am pleased to appear today to discuss the Expedited Funds Availability Act. This act limits the length of a hold an institution may place on its customers' deposits, requires disclosure of an institution's funds availability policy, and gives the Federal Reserve Board the authority to make improvements to the check-clearing system. We have now had eighteen months of experience with this new law, and I agree that it is time to undertake an assessment of its effect on both depository institutions and their customers. I believe that it is particularly appropriate to assess what changes to the act should be adopted to decrease the costs and risks to depository institutions without jeopardizing the act's objectives.

I would like to begin by discussing the objectives of the act and whether these objectives have been met. Next, I will describe several amendments to the act that the Board recommends that the Congress adopt. I will conclude by relating some lessons that I believe can be learned from our experience with the act.

First, I believe it is important to evaluate whether the objectives of the Expedited Funds Availability Act have been successfully achieved. The central objective of the act is to ensure prompt availability of funds deposited in transaction accounts. The minority of institutions that, before the act, had been placing very long holds on their customers' deposits (sometimes of several weeks or more) must now make funds available to their customers for withdrawal in much shorter time frames. Thus, the abusive practices of a few institutions that prompted the Congress to enact this law have been eliminated. Surveys that have been conducted in the wake of the act indicate that most institutions—75 percent or more—provide their customers with same-day or next-day availability and therefore do not impose holds as long as those permitted by the act, except in unusual circumstances. The remaining institutions place blanket holds on their customers' deposits, because they perceive a higher risk of fraud loss from making funds available for withdrawal before having an opportunity to learn whether deposited checks are being returned. These holds are limited by the availability schedules of the act. Overall, most institutions did not need to make significant changes to their availability policies to comply with the act's requirements. Of particular concern to me, however, is the evidence that some institutions actually lengthened the holds that they place on deposits in response to the act. Some bankers have indicated that this phenomenon is due to the fear that disclosure of a prompt availability policy would increase the risk of fraud loss.

The second primary objective of the act is to inform customers of when funds they deposit in transaction accounts will be available for withdrawal. The act requires an institution to disclose its specific funds availability policy to new customers when an account is established; institutions provided this disclosure to existing customers when the act became effective. Notices of the availability policy of an institution must also be posted in its branches, at automated teller machines (ATMs), and on deposit slips. If an institution delays availability of a particular deposit beyond the times established in its general policy, it must notify the customer of the imposition of the longer hold. In addition, institutions must provide a copy of their availability policy disclosure to any person upon request. This requirement facilitates comparison shopping for those customers that consider availability an important criterion in selecting an institution in which to establish a transaction account.

Examinations of institutions by the federal bank regulatory agencies have shown a high level of compliance with the act's availability and disclosure requirements. Of course, requiring institutions to provide disclosures to customers will not ensure that the customers will read them. A recent survey conducted by TransData Corporation for the *American Banker* revealed that only 53 percent of consumers were aware that their institution had a formal funds availability policy. Nonetheless, customers who are interested have access to information regarding when they may start drawing against their deposited funds. Therefore, disclosure of an institution's funds availability policy is a very important achievement of the act.

Improved access to customers' funds and improved information as to when funds are available for withdrawal may enhance economic efficiency if the benefits exceed the cost. To the extent that these goals have been achieved without a corresponding increase in risk and cost to banks in their provision of payment services, they represent a positive step in the development of our payments system. In recognition of the importance of achieving these benefits without increasing risks, the act's third main objective is to minimize the increase in risk to institutions from making funds available for withdrawal promptly by giving the Board authority to improve the check collection and return system. The Board has used this authority to implement changes to expedite the collection of checks and the return of unpaid checks. These rules appear in Subpart C of the Board's Regulation CC.

Before the implementation of Regulation CC, the check return system was a slow, labor-intensive operation that relied on visual inspection of endorsements on the check instead of machine-readable information that allows for high-speed automated processing. In addition, returns were often transported by mail rather than by courier, further slowing their trip to the institution of first deposit. A check was generally returned through each of the institutions that collected the check, even though this may not have been the most efficient path to route the return. Under the old check return procedures, most returned checks would not have been received by the institution of first deposit by the time the act requires that funds be made available for withdrawal under the temporary schedule. An even higher percentage would not have been returned within the time frames established in the permanent schedule.

Under the rules established in Subpart C of Regulation CC, institutions have a responsibility to return checks expeditiously. The regulation is designed to encourage the return of checks by the most direct route (rather than returning a check through each institution that handled the check for forward collection), to encourage the use of couriers rather than the mail to transport returned checks, and to provide for the automated processing of returned checks. These rules have generally speeded the return of unpaid checks. They also have increased the cost to institutions handling returned checks, particularly during this transition period. This increased cost is offset, at least in part, by the fact that a given returned check is now handled by fewer institutions than was the case before the implementation of the new procedures. We believe that as banks become more familiar with the new procedures, and as further efficiencies are introduced, the cost of handling returned checks will decline.

A recent survey of returned checks processed by the Federal Reserve indicates that institutions receive most checks that are returned unpaid by the day on which they must make funds available for withdrawal under the temporary availability schedule. More than 90 percent of nonlocal returns and nearly two-thirds of local returns surveyed were delivered to the institution of first deposit by the day funds must be made available for withdrawal under the temporary schedule. The situation changes dramatically, however, when the shorter permanent schedule established by the act becomes effective in September 1990. While almost three-quarters of nonlocal checks in the survey were returned to the institution of first deposit by the day funds must be made available for withdrawal under the permanent availability schedule, virtually no local checks were returned within this time frame (although it may be possible to return many checks that are exchanged directly through local clearinghouse arrangements within this time). I should note, however, that the act requires that funds be made available for withdrawal by the start of business on the day specified in the availability schedules and that few returned checks are delivered to the institution of first deposit by the start of its business day.

We believe that the improvements already made have helped to control the level of check fraud that could have resulted from the temporary availability schedule; however, we cannot be sanguine regarding the potential for fraud that could occur after the permanent schedule becomes effective in September of this year. It is difficult to assess the magnitude of check losses in the industry because these losses are often aggregated with other types of losses and are difficult to isolate. The Board does not have any industrywide data on how the act has affected check losses. The anecdotal evidence that we have received indicates a very disparate impact from institution to institution. While some institutions have stated that their losses after the implementation of the act are relatively unchanged from those experienced before the act took effect, other institutions have reported very large increases in fraud losses. The results suggest that while the act has not encouraged widespread check fraud, some banks have been subject to increased losses, and continued attention needs to be devoted to this issue.

Generally, the act envisions two mechanisms to protect institutions from risk of loss when they must make funds available for withdrawal on a prompt basis. First, the act permits institutions to extend the hold on deposits in certain specified higher-risk situations. These "safeguard exceptions" include deposits to new accounts, large-dollar deposits, deposits to accounts of repeated overdrafters, and deposits that the institution has reasonable cause to believe are uncollectible. However, the act does not allow institutions to apply these safeguard exceptions to certain check deposits that must be given next-day availability. This risk exposure is addressed in the Board's recommended amendments to the act, which I will discuss shortly.

Second, the act attempts to link the availability schedules (with the exception of the next-day availability requirements) with the time that most returned checks would be received by the institution of first deposit. A depositor attempting to defraud an institution should not be able to rely on the availability schedules to ensure that funds are available for withdrawal before a fraudulent check is returned. As noted earlier, institutions will not be protected by this second mechanism with respect to most local checks under the permanent schedule.

Overall, the Board believes that the act already has increased somewhat the risk exposure to institutions, despite efforts to improve the check return process. The act places upward pressure on institutions' costs, and provides greater incentives for institutions to consider customers' creditworthiness before allowing them to establish transaction accounts. These factors may have curtailed services to customers, and undoubtedly will do so to a greater degree in the future.

The Board believes that the Congress can alleviate some of these risks without jeopardizing the objectives of the act and hopes you will amend the act to reduce compliance costs and otherwise further its purposes. In this regard, the Board has recommended several proposed amendments to the act. These amendments have been described in reports to the Congress that have been submitted by the Board pursuant to the act.

For example, when the act was adopted, the Congress indicated that the requirements related to the availability of funds deposited at nonproprietary ATMs should be reassessed and directed the Board to study this issue and report to the Congress on its findings. During consideration of the act, banks reported to the Congress on the processing limitation associated with accepting deposits at nonproprietary ATMs; specifically, that the account-holding institution does not have information regarding the composition of the deposit that is necessary to place differential holds. Given this limitation, the act, in effect, allows the account-holding institution to treat any such deposits as though they were composed of nonlocal checks under the temporary availability schedule. The Congress anticipated that technological advances would eliminate the need for special treatment of these deposits, once the permanent schedule became effective. The Board has investigated a number of potential alternatives with ATM networks and participating institutions and has concluded that there is currently no viable solution to address this processing limitation.

Based on this analysis, the Board recommends that the Congress amend the act to treat nonproprietary ATM deposits under the permanent schedule in the same manner as they are treated under the temporary schedule. This treatment would help ensure that deposit-taking at nonproprietary ATMs is not restricted or discontinued by those institutions that believe they need the flexibility to place longer holds on these deposits to limit their risk exposure. If such an amendment were enacted, consumers would continue to be able to choose between the convenience of making a deposit at a nonproprietary ATM and the marginally prompter availability that may be provided if the deposit were made by other means.

Besides this amendment, the Board recommends that the act also be amended in several other respects. Specifically, the Board recommends amendments that would accomplish the following:

- Expand the scope of the safeguard exceptions to include deposits of checks subject to next-day availability.
- Provide the Board with greater flexibility to tailor the requirements of the exception hold notices to the exception invoked.

• Apply the same condition to next-day availability of Treasury checks and "on-us" checks as is currently applied to other deposits (including deposits of cash, state and local government checks, and official checks) that generally must receive next-day availability.

• Resolve the long-run operational and disclosure difficulties associated with the determination of whether payable-through checks are local or nonlocal checks.

• Clarify the Board's ability to allocate liability among depository institutions as well as among other participants in the payments system and clarify the damages for which payments system participants may be liable.

• Provide for direct review in the U.S. Court of Appeals of any Board regulation or any other Board order issued pursuant to this act.

The appendix to this testimony includes the specific amendments proposed by the Board and the rationale for their adoption.[1]

In conclusion, I believe that we have learned several lessons from our experience in implementing the Expedited Funds Availability Act. The first lesson is that, in legislation as well as regulation, there are costs and benefits that must be balanced but that are often unrecognized at the time the laws or rules are adopted. In this instance, the act has imposed, and will impose, significant costs on all institutions, including those institutions that were already in substantial compliance with the law's requirements. Most depository institutions provided prompt availability before the implementation of the act; only a small portion of institutions imposed the unduly long holds on their customers' deposits that were the impetus of the legislation. Virtually no institution, however, had a policy that was in complete conformance with the detailed requirements that were subsequently included in the act. Compliance with the act required all institutions to analyze the implementing regulations, make certain policy and operational changes, issue numerous types of disclosures, and conduct extensive staff training. Surveys have indicated that the cost of this compliance was not inconsequential. Over the long term, institutions are likely to pass these costs on to their customers and may become more selective in determining the customers they will serve.

The second lesson learned is that the specificity of the act has limited the ability of the Board to adopt regulations that carry out the intent of the law in the most efficient, cost-effective manner. Had the act provided greater flexibility to the Board in carrying out the law's objectives (as was the case with the Senate version of the act), many of the problems identified by the Board could have been resolved by regulation rather than by statutory amendment. While we believe that the act's objectives, for the most part, have been achieved, these lessons suggest that they might have been accomplished at a lower cost. Finally, our experience with implementing the act indicates that the short lead time between enactment and the effective date of the law further increased the industry's and the Federal Reserve System's implementation costs, particularly given the complexity of the act's requirements. As is often the case, if you need something fast, you usually pay more for it.

I appreciate this opportunity to discuss our experience in implementing the Expedited Funds Availability Act and to suggest certain modifications that should be made to the act. □

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.

Statement by Clyde H. Farnsworth, Jr., Director, Division of Federal Reserve Bank Operations, 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, March 8, 1990.

I am pleased to appear before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance to comment on proposed legislation related to money laundering.

As indicated to the subcommittee in recent correspondence, the Federal Reserve places a high priority on supporting efforts to attack the laundering of proceeds from illegal activities. In an effort to further increase its contribution to stopping money laundering, the Federal Reserve is exploring ways of using resources more effectively within the framework of current law.

We have reviewed the various legislative proposals, and we appreciate the opportunity to provide you with comments on these proposals.

Revocation of Charters and Termination of Insurance

The Federal Reserve recognizes that depository institutions are typically used in money laundering transactions. For this reason, we also recognize that it is necessary for depository institutions to take an aggressive role in the battle against money laundering. However, we believe that H.R. 3848, the "Depository Institution Money Laundering Amendments of 1990," poses risks to the nation's financial system. While we recognize that the intent of H.R. 3848 is to place the responsibility for policing for possible money laundering violations with the depository institutions, we believe that the potential harm associated with the implementation of H.R. 3848 outweighs the benefits of giving depository institutions an increased incentive to detect money laundering activity.

H.R. 3848 would require the mandatory revocation of a federally chartered depository institution's banking license or the mandatory termination of federal insurance for a state-chartered depository institution convicted of money laundering or a cash transaction reporting offense. While there may be circumstances in which the revocation of the charter or termination of insurance of a depository institution may be an appropriate sanction for money laundering violations, we believe that this sanction should not be mandatory. Moreover, any proposed sanctions should take into consideration the nature of the violation and the effect of the sanction on the depositors and creditors of the institution. Further, the procedures for imposing any such sanctions should take into consideration requirements for due process.

It should be self-evident that the sanction of revocation of an institution's charter or termination of its insurance would not be appropriate when the violation was due to the totally unauthorized acts of mid- or low-level employees and did not involve conscious corporate activity. To do so would inflict unjust and detrimental punishment on an institution.

Similarly, it may not be appropriate to revoke the charter or terminate the insurance of an institution when the revocation or termination would lead to sudden and immediate closure and liquidation of the institution. Such a liquidation could cause serious liquidity problems and, possibly, losses for creditors of the closed institution. These creditors may include depositors and other insured depository institutions whose solvency may be jeopardized by the closing. If other institutions must be closed because of their relationship with the institution whose charter was revoked, the federal deposit insurance funds may ultimately bear the costs of these closings. The insurance funds and the public should not become indirect victims of efforts to curtail money laundering.

When the Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, federal bank regulators were given significantly enhanced enforcement powers. These powers include the authority to accomplish the following: (1) remove and permanently prohibit from association or involvement with any financial institution a wider variety of individuals who are associated with financial institutions and who may commit violations of criminal laws, as well as civil statutes and regulations; and (2) impose extremely large civil money penalties, ranging up to $1 million per day, against any institution or individual who knowingly violates a law, such as the money laundering statutes or the Bank Secrecy Act, and as a result causes a substantial loss to the institution or causes the individual to receive a substantial pecuniary gain. An expansion of these enforcement powers, coupled with the banking regulators' traditional cease-and-desist authority would permit banking regulators to eliminate the ability of persons and institutions to continue the illegal practices and to deter others as intended by H.R. 3848 without inequitable and severe effects, as well as costs associated with the mandatory sanctions.

As an alternative to mandatory sanctions against institutions, we believe that the Congress might consider enhancement of the banking agencies' enforcement powers over individuals of banking organizations. As a means of deterring money laundering and permanently barring wrongdoers from the banking industry, the existing authority for bank regulators to remove bank officials from association with their financial institutions could be expanded. These authorities could include mandatory suspension, removal, and permanent prohibition from involvement with any financial institution for money laundering or significant violations of the Bank Secrecy Act; or suspension, removal, and prohibition without showing that the institution suffered a loss and that the violator profited, as is now required. This expansion of authority can easily be accomplished by simple amendments to the banking agencies' existing suspension, removal, and prohibition authority.

Charter revocation or insurance termination could be an additional tool in the arsenal of weapons available to federal regulators if regulators have the discretion to invoke such sanctions after (1) reviewing the particular facts regarding the violation; (2) considering factors regarding the soundness of the institution and the convenience and needs of the communities served by the institution, including the potential harm to depositors and creditors of the institution; and (3) affording the institution the same due process protections available before the imposition of existing penalties.

Wire Transfer Recordkeeping

The design of recordkeeping requirements for wire transfers is a very complex and technical undertaking. Given the potential ramifications to the payments systems, the Federal Reserve believes that the ongoing rulemaking process for wire transfers by the Department of the Treasury is the most efficient means by which to regulate this complicated area. In addition, a regulatory, rather than a statutory, approach provides the flexibility that is often needed to adapt requirements to an evolving environment. The Congress could specify the general goals of such recordkeeping requirements and direct the Treasury Department to implement regulations to carry out these goals.

H.R. 4044 and H.R. 4064 would impose comprehensive recordkeeping requirements on institutions involved in wire transfers. The Federal Reserve has a continuing interest in ensuring the efficiency and integrity of the payments system. In this context, we agree that it may be beneficial to use information from wire transfers to help detect money laundering, to investigate such activity once detected, or to trace the proceeds of such activity. Although information from wire transfers may be useful for all these purposes, each purpose is likely to be best served by different information or different approaches to collecting or using the information.

The nature of wire transfers makes the development of requirements for recordkeeping significantly more complex than those for currency transactions. Whereas information that institutions must report regarding currency transactions can be obtained from the institution's customer, the proposals under consideration require recording of information pertaining to wire transfers that is not within the purview of the institution subject to the requirements for recordkeeping. While a currency transaction is essentially a two-party transaction, a wire transfer generally involves four or more parties, including institutions and customers with no relationship to the institution that would be required to keep records.

The formats used by the nation's large-dollar wire transfer systems already accommodate the general categories of information required by the proposals; however, the current message size does not allow for the very detailed nature of the information that is envisioned. Wire transfer messages are designed to provide information necessary to complete the payment and to enable the beneficiary to determine the source of the payment. The proposed recordkeeping requirements would necessitate substantial modifications to the information transmitted through the wire transfer systems to ensure that institutions required to keep records of such wire transfers will have all of the necessary information available to produce such records. Such modifications would entail major systems changes, both for the Fedwire and Clearinghouse Interbank Payments System (CHIPS) networks and for the thousands of depository institutions that have automated their wire transfer operations. The cost of these changes would be substantial, and their implementation would require substantial lead time for wire transfer systems, the institutions that use them, and their customers. Even with these modifications to the wire transfer systems, there is no assurance that wire transfers originating in foreign countries will contain information sufficient to satisfy the proposed recordkeeping requirements.

The additional data collection and data entry that would be required by these proposals could impede the origination of wire transfers, thereby impeding the efficiency of the hundreds of trillions of dollars of economic transactions that are made over these systems annually. It is important that the impact of any recordkeeping requirements for wire transfers be carefully assessed to ensure that they do not result in a degradation in the efficiency and attractiveness of the nation's large-dollar payment systems. Extensive recordkeeping requirements could cause parties engaged in legitimate transactions to use less efficient means of payment, such as checks.

More important, these requirements could have adverse consequences for the competitive position of U.S. financial institutions and, at the margin, for the attractiveness of the dollar as a vehicle for international payments. For example, overly burdensome requirements could drive transactions tied to money laundering into offshore clearing systems where they would be even more difficult to detect. These burdensome requirements could also drive legitimate transactions offshore as well. Networks have already been established in several foreign countries to facilitate the transfer of dollar-denominated payments.

Finally, we are very concerned about the potential negative impact on the government securities market if these recordkeeping requirements are also intended to apply to the Federal Reserve's book-entry transfer system. If such recordkeeping requirements are intended to apply to these transactions, we believe that it is even more important that such regulations be developed through the Treasury rulemaking process.

The Federal Reserve will continue to offer its assistance to the Treasury Department in its development of rules to achieve the objectives of the Congress in the most effective manner.

Federal Reserve Analysis of Currency Surplus

H.R. 4044 also includes a provision requiring that the Federal Reserve provide currency surplus data to the Attorney General. The Federal Reserve currently provides currency flow data to various units of the Department of Justice, as well as to the Department of the Treasury.

On a monthly basis, the Federal Reserve provides data on currency receipts and payments for each Federal Reserve office to the following: the Department of the Treasury, Financial Crimes Enforcement Network; the Department of the Treasury, Office of Financial Enforcement; the U.S. Customs Service; the Department of Justice, Criminal Division; and the Drug Enforcement Administration. These law enforcement agencies have consistently indicated that the information from the Federal Reserve is useful for statistical analysis and as potential targeting information for their investigations. Also, on a case-by-case basis, additional information has been provided by the Federal Reserve Banks in support of major law enforcement initiatives.

We continue to engage in a meaningful dialogue with federal law enforcement officials regarding the types of data collected by the Federal Reserve System and the utility of such data to law enforcement. This dialogue, along with internal Federal Reserve initiatives, serves to refine and produce meaningful information and permit the law enforcement community to focus on important investigative matters rather than be burdened by large amounts of useless data.

The Federal Reserve willingly provides available currency flow data, at any level of detail, to all federal law enforcement agencies on request, and, therefore, it is unnecessary to mandate the provision of this information.

STUDY OF METHODS FOR TRACING FEDERAL RESERVE NOTES

H.R. 4044 would require a study of various methods for the tracing of Federal Reserve notes. The Federal Reserve is fully prepared to participate in a study to determine appropriate and viable methods of tracing Federal Reserve notes and the costs associated with those methods if it is the sense of the Congress that such a study is appropriate.

UNIFORM STATE LICENSING AND REGULATION OF CHECK-CASHING SERVICES

The Federal Reserve believes that it is important for states to adequately supervise the providers of financial services, including money transmitters and check-cashing services, to ensure that they do not serve as a vehicle for avoiding the controls applicable to financial institutions. Nevertheless, the form of supervision must recognize the importance of these services to those segments of the community that might choose not to use banking services and must ensure that the supervisory burdens do not discourage the availability of legitimate services. The proposed bills would likely bring under licensing and regulation such businesses as supermarkets and other establishments that provide check-cashing services as a courtesy to their customers but that are ancillary to their primary business.

CONCLUSION

In closing, let me state that we realize that the Congress faces a difficult task of improving the ability of the law enforcement authorities to detect money laundering activities while, at the same time, protecting the public from overly intrusive and potentially harmful laws. I want to reaffirm the Federal Reserve's commitment to deter money laundering and to be cooperative in providing assistance to law enforcement officials who are charged with the very important task of uncovering money laundering wherever it may exist. □

Statement by Manuel H. Johnson, Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, March 19, 1990.

I appreciate the opportunity to be here today to present the views of the Federal Reserve Board on the report by the General Accounting Office (GAO) entitled "Bank Powers: Activities of Securities Subsidiaries of Bank Holding Companies." I should say at the outset that this report provides an excellent discussion of the approach that the Board has taken with respect to expanded securities activities for banking organizations as well as of some of the outstanding issues regarding these activities. The report also includes some initial statistical information on securities activities that should serve as good baseline data for those who seek to track the development of these activities.

The GAO study concurs in the overall initial approach taken by the Board, the principal elements being the reliance on the holding company structure and a careful, incremental expansion of securities activities within that structure to insulate affiliated banks and thrift institutions, and the resources of the federal safety net, from any potential risk arising from the activity, to minimize harmful conflicts of interest, and to address competitive equity issues.

In my remarks today, I will provide a brief summary of the Board's decisions with respect to expanded securities activities for bank holding companies as well as a discussion of the rationale underlying the structure adopted by the Board. I will then address the issues raised by the GAO report and the committee's invitation letter.

BOARD'S DECISIONS ON SECURITIES SUBSIDIARIES

In April 1987, the Board approved applications by three bank holding companies for separately incorporated and separately capitalized nonbank subsidiaries of the holding companies to underwrite and deal in municipal revenue bonds, mortgage-related securities, and commercial paper. These are securities that, under the Glass–Steagall Act, may not be underwritten or dealt in by a member bank directly. The underwriting of these securities is, however, functionally similar to securities activities conducted by banks. The Board's decision, as well as its subsequent decision authorizing the underwriting of consumer-receivable-related securities, was based on section 20 of the Glass–Steagall Act, which allows affiliates of member banks—but not the member banks themselves—to participate in otherwise impermissible securities underwriting and dealing activity so long as the affiliates are not "engaged principally" in this activity. It is from this provision of the Glass–Steagall Act—section 20—that the underwriting subsidiaries authorized by the Board have derived their name—the so-called section 20 subsidiaries.

Because of the precedent-setting nature of the applications, the Board reached its decision only after considerable deliberations and debate, extending nearly two years. During that time, the statutory language, the legislative history, and the implications of these proposals for banking organizations, the financial markets generally, and the federal safety net were carefully analyzed by the Board. As part of this analysis, a hearing was conducted before the Board members to obtain the most thorough public comment possible on these issues.

The ability of bank holding companies to enter the underwriting field depended in large measure on the meaning of the term "engaged principally" in section 20 of the Glass–Steagall Act. The Board devoted a considerable effort to evaluation of the factors that should be used to determine the level of underwriting and dealing activity that would not exceed this "engaged principally" threshold. The Board concluded that a member bank affiliate would not be engaged principally in underwriting or dealing in ineligible securities if those activities were not a substantial part of the affiliate's business. In particular, the Board found that when an affiliate's gross revenue from ineligible securities activities did not exceed a range of between 5 to 10 percent of the total gross revenues of the affiliate, the ineligible securities activities would not be substantial. The Board initially allowed only a 5 percent threshold, consistent with its view that a conservative, step-by-step approach was most appropriate in addressing the issues raised by these new activities.

In addition, although not required by the Glass–Steagall Act, the Board exercised its authority under the Bank Holding Company Act to establish capital adequacy requirements, as well as a number of prudential limitations or "fire walls," for holding companies engaging in expanded securities activities. These fire walls limit transactions between a section 20 subsidiary and its affiliates to address the potential risks, conflicts of interest, and competitive issues raised by the activity. The Board's decisions on these section 20 applications were upheld by U.S. courts of appeals.

In January 1989, the Board expanded the range of securities that could be underwritten in a section 20 subsidiary to include any debt or equity security except shares of mutual funds. Because of the broadened range of activities permitted, the Board felt it prudent to strengthen further the capital requirements for holding companies seeking to enter this field as well as the fire walls between the section 20 subsidiary and its affiliates. Also, the Board required that before the section 20 subsidiaries could commence the expanded securities activities, they must have in place policies and procedures to ensure compliance with the operating conditions of the Board's order, and demonstrate that they possess the necessary managerial and operational infrastructure to conduct the activity. The Board delayed for one year the commencement of equity activities to allow adequate time for the section 20 subsidiaries to establish, and gain experience with, the managerial and operational infrastructure and other policies and procedures necessary to comply with the requirements of the 1989 order.

The 1987 and 1989 orders were the most important determinations by the Board establishing the structure for allowing bank holding companies to engage in securities underwriting and dealing activities in the United States. The Board has more recently made several determinations that have adjusted the provisions of these earlier orders. For instance, in September 1989, the Board raised from 5 to 10 percent the revenue limit on the amount of total revenues that a section 20 subsidiary could derive from underwriting and dealing in ineligible securities. Under this higher limit, the ineligible securities activities are still relatively small compared with the bank-eligible securities activities of a section 20 company. The Board also permitted, under certain narrow conditions, the underwriting of asset-backed securities issued by affiliates.

In January 1990, the Board approved applications by three foreign banking organizations to establish U.S. section 20 subsidiaries. These decisions required a careful balancing of two somewhat competing concepts: (1) national treatment on the one hand, and (2) limiting the extraterritorial effects that might be caused by full application of the fire walls on the other.

Finally, in February this year, the Board authorized the Federal Reserve Bank of New York to conduct, as its supervisory resources permit, the infrastructure reviews required by the Board's January 1989 order before section 20 companies could commence the equity securities underwriting and dealing activities approved in that order.

RATIONALE GOVERNING THE BOARD'S DECISIONS

The Board has long been of the view that banking organizations should, to maintain their basic competitiveness, be permitted to expand their activities in response to the challenges and opportunities that market forces and recent advances in computer and communications technology are creating in the financial services marketplace, both domestically and abroad. Broadened securities powers, besides helping to maintain the domestic and international competitiveness of U.S. banks, may also produce the potential for other substantial public benefits. These include increased competition through *de novo* entry of banking organizations into what can sometimes be moderately concentrated securities markets. Such entry may be expected to reduce concentration levels, lower customer and financing costs, increase the availability of investment banking services, foster product innovation to meet customer financing needs, and enhance liquidity in these markets. Greater customer convenience and gains in efficiency may also be realized through possible economies of scale and scope from coordinated commercial and investment banking business.

The Board recognized at the outset, however, that this expansion of powers must be soundly grounded upon a framework that ensures that new activities are conducted in a manner fully consistent with traditional and essential U.S. concepts of bank safety and soundness; the avoidance of conflicts of interest, partiality in the credit-granting process, and unfair competition; and the minimization of undue risk to the resources of the federal safety net. After considerable reflection on the complex issues of expanded powers in light of these fundamental concepts, the Board concluded that an expansion of the securities powers of banking organizations in a manner that is faithful to these essential public policy objectives could be achieved within the current constraints of the law. This decision took into account four principal factors: (1) the separation of the new activity from federally insured affiliates that could be achieved through the bank holding company organizational structure, (2) the need for prudential limitations to manage risks and harmful conflicts of interest, (3) the necessity for strong capital, and (4) the need for careful supervision of the entry by banking organizations into the expanded activities.

1. *Bank Holding Company Structure.* The applications presented to the Board proposed that the expanded securities activities be conducted in a subsidiary of the holding company. The applicants did not seek to engage in the activity directly through the insured bank or a subsidiary of that bank. This holding company structure was dictated in major part by the constraints of the Glass–Steagall Act, which, as I have noted, generally prohibits a bank from underwriting and dealing in securities (other than certain government securities) and limits the affiliation of a member bank with a company engaged principally in such activities.

The holding company structure also lends itself to a phased-in and prudent approach to expanded securities activities. The holding company organizational format provides an effective structure to address the potential for risk and harmful conflicts of interest and competitive inequities that might flow through close association of the expanded activities with the resources and support, direct or indirect, of the federal safety net. The effectiveness of the bank holding company format for this purpose derives from the fact that it offers the ability to separate from the bank the ownership and the financial, managerial, and operational control of the expanded activity. Thus, the potential for transference of risk and other harmful effects to the bank, and to the federal safety net, is thereby reduced. An important element in this analysis is that in a bank holding company structure, losses in a subsidiary are isolated from the bank and are not reflected in the bank's financial statements and capital accounts.

The structure also takes advantage of the benefits of functional regulation. A section 20 subsidiary—as a nonbank entity separate from its affiliated banks and thrift institutions—is required under the Securities Exchange Act of 1934 to register with the Securities and Exchange Commission (SEC) as a broker-dealer. Under this regulatory system, the section 20 subsidiary is subject to the net capital rules and other regulations of the commission and will be supervised by that agency and self-regulatory bodies operating under its purview.

2. *Prudential Limitations.* Building on the advantages of corporate separateness achieved through the holding company structure, the Board developed certain prudential limitations on transactions between the subsidiary engaging in the expanded securities activities and its insured bank affiliates. These fire walls are designed to ensure that the potential for risk and conflicts of interest and other adverse effects of the activity do not spill over to the insured affiliate through lending or other intercorporate financial transactions, and that the benefits derived by the bank from the federal safety net are not inappropriately extended to the section 20 subsidiary.

As I have noted, an important element in the Board's decision was the belief that synergies could be achieved and banking competitiveness maintained, with the potential for substantial public benefits, through the combination of investment and commercial banking. The Board recognized, however, that certain of the prudential limitations implemented to curtail risk could lessen somewhat the anticipated synergies, as well as increase the cost of doing business for a bank-affiliated securities company. Nevertheless, the Board believed that it was important to proceed cautiously in these areas, and that until sufficient experience was gained, the effect of the prudential limitations on the attainment of the expected synergies was to be balanced against potential risks to the federal safety net.

The Board's decision was not, however, intended to be static. The Board recognized the need to reformulate the limitations on the basis of experience. Thus, the Board's orders state that when experience shows that adjustments to the fire walls are warranted, by way of tightening, loosening, or other modification, the Board retains the flexibility to do so, consistent with the underlying goals of the Board's order. In this vein, the Board has already made several adjustments to the fire walls in which it determined that certain transactions between the section 20 subsidiary and its affiliated banks or thrift institutions could be permitted without increasing the risks to these institutions.

The GAO has recognized the importance of this process and has endorsed this approach in its report. The report states, "When bank holding companies can demonstrate adequate capital, effective internal controls, and ability to manage new powers in a responsible manner, consideration can be given to reducing regulatory burden by relaxing some of the fire walls in light of the other regulatory controls that are in place and provided that sufficient regulatory resources are available."

3. *Capital Adequacy.* It has long been Board policy that strong capital is indispensable to any proposal for banking expansion. A sound capital base is fundamental in ensuring the safety and soundness of individual institutions, and thereby providing real protection for its customers and the resources of the federal safety net. Equally important in the Board's mind, the requirement

for a strong capital base promotes sound and responsible operation, and controls the moral hazards, such as undue risktaking, that tend to arise when an institution operates in reliance on the resources of the federal safety net rather than with its own funds at stake.

Thus, it is not surprising that the Board adopted as a prerequisite to expanded debt and equity securities activities the requirement that there be no impairment of the capital strength of the banking organization. To ensure that essential banking capital is not diverted to support the new activity, a holding company is required to deduct from its consolidated primary capital any investment that it makes in the underwriting subsidiary. This requirement serves to ensure that even if there should be losses resulting from the new activity, the losses do not detract from the capital needed to support the organization's banking operations.

In addition, in authorizing the debt and equity underwriting powers in 1989, the Board required a bank holding company to deduct from its capital any credit that it extends to an underwriting subsidiary unless such lending is fully secured. The Board also took the additional step of requiring a bank holding company seeking to avail itself of these powers either to demonstrate that it is strongly capitalized and will remain so after the required capital deductions or to raise additional capital to support the expanded activity. In most cases the applicants were required to raise additional capital to offset the investment in the section 20 subsidiary.

4. *Supervision.* The final element in the Board's decision on expanded securities powers has been a phased-in approach based on the section 20 subsidiary's experience, including a demonstrated managerial and operational infrastructure, and the development by the Federal Reserve of appropriate procedures for supervising these new activities. This gradual approach allows review of the growth and operations of the section 20 subsidiaries and provides opportunities for adjustments and modifications to the conditions placed on the activities, as circumstances warrant.

The Board believes that its approach is appropriate when the alternative—the large-scale introduction of new activities—could have a potentially deleterious effect on the institutions and the resources of the federal safety net. In this regard, the Board has also required annual inspections of section 20 subsidiaries to ensure compliance with the prudential limitations. Moreover, examiners are required to monitor the risk profile and financial condition of a bank holding company's section 20 subsidiary to evaluate its impact on the consolidated banking organization.

GAO Report

While the GAO has not endorsed the Board's entire system of prudential limitations as an essential part of expanded securities activities for bank holding companies, the GAO found that the overall approach of the Board was consistent with that suggested by the GAO in a 1988 report on repeal of the Glass–Steagall Act. The GAO suggests, however, several areas in which the Board might consider the need for further changes in the operations of section 20 subsidiaries. I will discuss the major areas cited by the GAO.

Organizational Structure. The GAO report supports, at least in the near term, using bank holding company subsidiaries—as opposed to subsidiaries of banks—to expand the securities powers of banking organizations. While not endorsing any particular organizational structure in the long run, the GAO would advocate the following: (1) retaining a separate corporate identity for the firm engaging in the ineligible securities activities; (2) regulation of the banking and securities affiliates by a federal bank regulator and the SEC respectively; and (3) regulation by the Federal Reserve of the financial holding company that owns the bank and securities affiliates. As discussed, these are all positions with which the Board agrees.

The GAO states that there is currently some legal question regarding the extent to which a bank holding company may be required to use nonbanking assets to support bank subsidiaries, and therefore funds upstreamed to the parent bank holding company may not be available to support a bank subsidiary if the parent decides not to so invest them. The GAO states, "Clarification of the operational basis of this source of strength policy would help in providing a clearer perspective on how the fire walls and source of strength policy work together in strengthening banks affiliated with a Section 20 firm."

The Federal Reserve Board agrees with the GAO that clarification in this area is desirable and would support efforts to ensure that bank holding companies and their subsidiaries continue to serve as a source of strength to troubled subsidiary banks.

Purposes, Regulatory Burden, and Effectiveness of Fire Walls and Other Limitations. The GAO report states that it is important that each of the fire walls and the purpose served by each of the limitations on the powers of section 20 companies be as clear as possible. In its lengthy orders, the Board has tried to set forth in detail its rationale for each such limitation. In addition, the Board has been, and will be, reviewing the fire walls periodically, on the basis of holding company experience in the activity, to ensure that they serve the intended purpose without unnecessarily hampering the operations of the section 20 subsidiary. In this regard, the Board has modified or interpreted several of the fire walls to allow certain transactions that would not be deemed to cause any financial risk to affiliated banks and, in its January 1990 order, the Board stated that it would review the fire walls regarding management interlocks and marketing as well as the condition requiring prior approval for additional holding company financial support of a section 20 company.

With respect to the amount of securities activities allowed, the GAO noted that the Office of the Comptroller of the Currency and the Association of Bank Holding Companies, in comments on the GAO report, suggested that either a higher limit could be set, or alternative measures could be explored, for defining "engaged principally." The GAO stated, however, that it agreed with the Board's policy of using the revenue limit to phase in bank-ineligible securities activities. The GAO did not have a position on the percentage of revenue that ultimately should be allowed.

The Board devoted considerable effort to evaluating the factors that should be used to determine the level of ineligible underwriting and dealing activity that would not exceed the substantiality threshold incorporated in the "engaged principally" language in section 20 of the Glass–Steagall Act. The Board determined that the 5 to 10 percent limit was an appropriate quantitative level of ineligible activity under that statute. This measure has been reviewed by several courts of appeals and found to be consistent with the statutory provision.

Except for the "engaged principally" language in the Glass–Steagall Act, the Board would not have chosen to have a revenue limit on the level of ineligible securities activity of a section 20 subsidiary. While this limit has a prudential effect, it was placed on the section 20 subsidiaries for legal, not prudential, reasons. Although one might disagree with the precise level of ineligible activity that may be allowed and still be within the "engaged principally" test in section 20 of the Glass–Steagall Act, only the Congress, by amending or repealing that provision, can remove the requirement entirely.

International Perspective. The GAO report points out that U.S. banking organizations engage in securities activities overseas in a different structural framework than has been required in the United States. What the report does not state is that one of the basic reasons for these differences is that the Glass–Steagall Act does not apply overseas, and that there are virtually no statutory restrictions on the activities in which U.S. banking organizations may engage abroad. Moreover, the Edge Act directs the Board to create a regulatory climate in which Edge corporations may compete effectively with foreign banks. Because direct competitors of U.S. banks in foreign markets offer not only commercial banking but also capital market services, the Board has permitted U.S. banking organizations to engage in securities activities abroad to be in a position to compete with local banks. This authority may be exercised through indirect subsidiaries of a member bank as well as through bank holding company subsidiaries.

It should be noted, however, that the equity underwriting and dealing activities of U.S. banking organizations have been constrained overseas, with dealing positions for a U.S. banking organization being limited to $15 million in the securities of any one issuer, and underwriting limits not covered by binding commitments by subunderwriters also being limited to that amount. Proposals regarding these limitations are to be presented to the Board in the near future, and a question that is logically raised by any expansion of this authority is the extent to which a section 20 approach should be required overseas. This issue and its ramifications for U.S. bank competitiveness will be considered when the Board requests comments on amendments to the current rules.

The GAO report also notes that in its January 1990 order allowing three foreign banks to establish securities subsidiaries in the United States, the Board did not apply the fire walls exactly the same way that it had applied them to U.S. bank holding companies one year earlier. Those applications raised substantial issues of national treatment, primarily because most foreign banks do not have a holding company parent but rather hold their U.S. investments through the foreign bank itself. Because the foreign bank also acts as a bank holding company, the Board had to decide whether the bank holding company fire walls or the bank fire walls were more appropriate. This is further complicated by the fact that the rationale for some of the fire walls, such as protecting the federal safety net, does not apply when the holding company in question is a foreign bank.

The Board examined carefully how the fire walls should be applied to foreign bank applicants, making sure to the greatest extent possible that pertinent safety and soundness and competitive equity considerations were fully taken into account, while at the same time trying to limit the extent to which application of the fire walls would interfere with the responsibilities of the home country supervisor and the non-U.S. operations of the foreign banks. Admittedly, this task cannot be accomplished perfectly, and one might argue that under the Board's order it is easier for foreign organizations to fund their U.S. securities operations than it is for U.S. bank holding companies, although the foreign banks would argue otherwise. The Board, however, stated in its January 1990 order that it would review for both domestic and foreign banking organizations the prior approval requirements for all funding of securities subsidiaries and the capital deduction for unsecured lending by a bank holding company to a securities subsidiary.

Reciprocal Treatment of Securities Firms. The GAO notes that an issue that needs to be studied is whether there are comparable opportunities for domestic securities firms to expand into domestic banking. The GAO recommends that any structure that is adopted needs to include appropriate controls over the entire holding company comparable to the Federal Reserve's current control over bank holding company operations.

As recognized by the GAO, the ability of investment banks to affiliate with commercial banks—while possible under the current state of the law—is best accomplished by legislation. The repeal of the Glass–Steagall Act would open the opportunity for the Congress to determine how these relationships should be structured.

Besides asking for comments on the GAO report, the committee's letter also asked for our views on whose responsibility it should be to enforce the fire walls and how they should be enforced. In the bank holding company context, the Federal Reserve Board is the appropriate agency to enforce the fire walls separating a section 20 company from its affiliated banks and nonbanks. As the agency responsible for supervising and regulating the holding company on a consolidated basis, the Board is also the appropriate agency to review the operational and managerial infrastructure of the section 20 company to ensure that the fire walls are in place and being observed. This does not mean, however, that the Board would be examining those companies to ensure that they are in compliance with the securities laws and regulations. As I discussed earlier, the Board's orders rely on functional regulation; as a broker–dealer, the section 20 company is and should be subject to regulation by the SEC. Indeed, the Board's supervisory procedures are designed, to the extent feasible, to avoid duplicating the efforts of a section 20 subsidiary's designated self-regulatory organization. This dual regulation by function is a concept endorsed by the GAO report.

With respect to how these fire walls should be enforced, the Board believes it has adequate authority under the Bank Holding Company Act and other enforcement laws, especially in light of the increased penalty provisions contained in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, to ensure that bank holding companies adhere to the requirements of Board orders.

CONCLUSION

In the absence of legislation establishing a comprehensive framework for the conduct of securities underwriting activities by banking organizations, the Board is required, as provided in existing law, to act on applications within mandated time periods. In acting on applications by bank holding companies to engage in expanded securities activities, the Board is proceeding cautiously and with due regard to the potential for risk to federally insured institutions and the federal safety net. The Board believes that this is appropriate when banking organizations are expanding their powers into nontraditional activities. This process is a continuing one, and the Board will be reviewing periodically the operations of the section 20 subsidiaries and the effect that the prudential limitations have on their operations. □

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Securities of the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 29, 1990.

It is a pleasure to appear on this panel this morning to discuss issues involving the regulation of securities markets. While your committee is addressing a broad range of matters in this area, you have asked me to focus on whether the existing split regulation of equities and index futures may have contributed to market volatility, interfered with the process of innovation, or led to enforcement problems. You also have asked for comment on certain proposals for regulatory consolidation. I would like to focus my remarks on three major issues: first, the adequacy of margin requirements on stock index futures as a prudential safeguard and the impact of existing margin-setting procedures and other differences in regulation on market volatility; second, existing impediments to innovation; and third, whether there is a need to modify the existing regulatory system for stocks and stock derivatives. My evaluation will be done against the objective of a regulatory structure that, while limiting risks to the system, results in highly efficient and innovative U.S. financial markets that can compete effectively in the global marketplace.

As I will discuss in more detail, the Board does not believe that the existing division of regulatory authority has increased volatility in the securities markets, nor in this regard is it a threat to the capital-formation process. We continue to view the primary purpose of margins to be to protect the clearing organizations, brokers, and other intermediaries from credit losses that could jeopardize contract performance. While we think that federal oversight of margins is appropriate for prudential purposes, there are different views among Board members on whether that authority is best vested in the Commodity Futures Trading Commission (CFTC) or the Securities and Exchange Commission (SEC).

On the broader issue of consolidating jurisdiction for stocks and stock index futures (or all financial futures) in one agency, there are good arguments for and against such a consolidation and, accordingly, differences of views on whether such consolidation would, on balance, be beneficial. We believe some changes to the existing regulatory system are necessary to avoid the prospect that jurisdictional disputes among regulators will impede innovation in our financial markets, but consolidation of jurisdiction is not necessary to achieve this objective.

FEDERAL MARGIN REGULATION

A prominent area of disagreement among those interested in the smooth functioning of our capital markets has been the appropriate level of margins for stock index futures and the need for federal authority over such margins. In part, these disagreements reflect different views as to the purposes of margins and the appropriate objectives of federal margin regulation. Accordingly, at the outset I would like to clarify the position of the Board of Governors on these issues.

We continue to believe that the primary objective of federal margin regulation should be to protect the financial integrity of market participants and thereby ensure contract performance. Margins should be adequate to protect clearing organizations, brokers, and other lenders from credit losses arising from changes in securities prices. As such, they are one important element of a package of prudential safeguards, including capital requirements, liquidity requirements, and operational controls, aimed at limiting the vulnerability of the financial markets to losses or disruptions arising from the failure of one or more key participants. The failure of, or even the loss of public confidence in, a major intermediary in any of the stock, futures, or options markets could immediately place significant strains on other markets, their clearing systems, and on our nation's payment system.

The Board remains skeptical, however, of whether setting margins on stock index futures at levels higher than necessary for prudential purposes will reduce excessive stock price volatility. We, too, are concerned about what seems to be a higher frequency of large price movements in the equity markets, but we are not convinced that such movements can be attributed to the introduction of stock index futures and the opportunities they offer for greater leverage. Although available statistical evidence on the relationship between margins and stock price volatility is mixed, the preponderance of that evidence suggests that neither margins in the cash markets nor in the futures markets have affected volatility in any measurable manner. Moreover, we are concerned that raising maintenance margins on stock index futures to levels well above those necessary for prudential purposes could substantially reduce futures market liquidity or drive business offshore.

Thus, in the Board's view, the critical question is whether margins on stock index futures have been maintained at levels that are adequate for prudential purposes. Although no futures clearinghouse has ever suffered a loss from a default on a stock index futures contract, certain actions by futures exchanges and their clearinghouses in recent years raise questions about the adequacy of futures margins from a public policy perspective. Specifically, we have concerns about the tendency for these organizations to lower margins on stock index futures to such a degree in periods of price stability that they feel compelled to raise them during periods of extraordinary price volatility. While such a practice has heretofore protected the financial interests of the clearinghouses and their members, it tends to compound already substantial liquidity pressures on their customers, on lenders to their customers, and on other payment and clearing systems. In the Board's view, somewhat higher margin levels on stock index futures would obviate the need to raise them in a crisis and thereby reduce concerns about the reliability of our market mechanisms, especially clearing and payment systems, in times of adversity.

The Board believes that federal oversight is appropriate to ensure that margins on stocks and stock index futures are established at levels that are adequate under a wide range of market conditions. Futures self-regulatory organizations (SROs) should continue to have primary responsibility for developing and refining margin policies. But the appropriate federal agency should have both the authority to initiate changes in margins on stock index futures and the authority to veto changes proposed by the relevant SRO. That authority should not be limited to emergency authority such as the CFTC currently has over futures margins.

Either the CFTC or the SEC could play this role. The principal argument in favor of assigning oversight responsibility for stock index futures to the CFTC is that it has overall responsibility for prudential supervision of futures exchanges and clearing organizations and futures commission merchants (FCMs). Assignment of oversight responsibility to the CFTC would avoid certain regulatory burdens and potential conflicts that could arise if responsibility for critical aspects of prudential oversight of such entities were divided between the CFTC and the SEC.

The principal argument for assigning oversight responsibility for stock index futures margins to the SEC is that it would foster consistency of margins in the stock and stock derivative markets. The Board believes that margins in these markets should be consistent in the sense that they provide comparable protection against adverse price movements. The degree of protection provided by margin requirements depends on the magnitude of potential future price volatility. Although studies of past price movements can shed light on potential movements in the future, the forecasting of future volatility necessarily involves elements of judgment. Because different agencies are likely to come to different judgments, there is a case to be made for having only one regulator with margin authority over all the equity products markets to achieve consistency of margins across these markets.

On balance, the Board does not see a clear basis for choosing between CFTC and SEC oversight of stock index futures margins. The Board feels strongly, however, that authority should not be given to the Federal Reserve because it does not have overall prudential responsibility for any of the futures commission merchants (FCMs), broker–dealers, or clearing organizations that margins are intended to protect. The existing margin authority for stock and stock options assigned to the Board under the Securities Exchange Act of 1934 should be transferred to the SROs and the SEC.

Issues of Regulatory Jurisdiction

The question of regulatory responsibility for margins is one element of the broader question of regulatory jurisdiction over futures and options markets. In light of the strong linkages among the markets for futures, options, and their underlying instruments, some have argued that the division of oversight responsibilities among agencies may impede the effective regulation and supervision that is essential to ensure sound and efficient financial markets.

One particular concern relates to volatility. It is frequently argued that leveraged trading in stock index futures and options, encouraged by low margin requirements on derivative products, has led to increased volatility in the prices of the underlying stocks. More generally, it has been suggested that other inconsistencies in market mechanisms involving, for example, circuit breakers and short-selling rules, contribute to market instability. It is feared that increased price volatility, in turn, will reduce the attractiveness of equity markets and could impede the capital-formation process. These concerns have prompted calls for one regulator who will take steps to remove inconsistencies that may contribute to sharp price swings.

The Board does not share the view that split regulatory authority over equity instruments has in any meaningful way contributed to volatility. As I noted earlier, we have found no substantial evidence linking margin levels to price volatility in the cash or the index product markets. Nor have studies revealed a clear understanding of how circuit breakers and other market rules affect price movements in the different markets.

In a more fundamental sense, we believe that it is counterproductive to lay blame on one sector, in this case the market for stock index derivatives, for the increasing occurrence of wide and rapid price swings in equity markets. Rather, the volatility we observe reflects more basic changes in economic and financial processes prompted by technological advances and the increasing concentration of assets in institutional portfolios. The delegation by the public of the management of a large proportion of its assets to professional managers through pension funds and other institutions and the desire of these managers for low-cost methods to manage risk and adjust portfolios has spurred growth in the new instruments; improvements in telecommunications and computer technology mean that information on economic fundamentals will be received and translated by these managers more quickly into market prices. To the extent that price movements reflect these basic forces, efforts to restrain volatility by imposing more restrictions on particular markets or instruments could have unintended effects, resulting in significant costs to the system and a shifting of transactions activity offshore.

A second issue frequently raised in evaluating the adequacy of our current regulatory system concerns product innovation. Many of the new products being developed on futures and options markets are not easy to classify. They have important similarities to, or are otherwise linked to, a variety of existing instruments subject to different regulators; and, as a consequence, various uncertainties and frictions have emerged about the appropriate exchanges that should trade these instruments and the agencies that should provide regulatory oversight. One recent example involves the "index participation" or IP contracts that were introduced by several of the stock exchanges, approved by the SEC for securities trading, and, in essence, disapproved when the courts ruled that IPs were futures products subject to the exclusive jurisdiction of the CFTC and could not be traded off exchanges regulated by the CFTC.

Under the Commodities Exchange Act (CEA), any commodity contract with an element of futurity cannot be entered into except on a CFTC-regulated exchange. Moreover, this act defines the term "commodity" very broadly to include not only physical commodities, like corn and wheat, but intangible contractual interests, including financial instruments. This restriction, when interpreted broadly, serves to discourage the development of new financial products that might be offered outside of the futures exchanges and tends to stifle the innovation process. In a very general sense, all financial instruments have an element of futurity in them, in that their value depends on future events. We believe that the CEA can be modified in ways that preserve the public safeguards that motivated this provision, while preventing conflicts in this area from having to be dealt with by the courts and without impeding the process of innovation in equity and other instruments. Such modifications might include an exemption for transactions subject to other regulatory safeguards, sophisticated trader exemptions, or more stringent fraud liability.

Alternative Regulatory Structures

As I have noted, a case can be made for having only one federal agency with oversight authority over margins in the equity and equity derivative markets. This case rests not on the issue of volatility but on the fact that setting prudential margins requires judgments concerning potential future price volatility in the linked markets for stocks and derivative products. One regulator would provide a single view of potential future volatility in these markets and thereby foster consistency of margins across the various segments of the equity markets. Others would go further and transfer all regulatory authority over stock index futures and options on such futures to the SEC. This alternative is one of the possibilities recently identified by Treasury Secretary Brady.

This would help achieve consistent prudential regulation across these tightly linked markets for equity instruments. However, such a measure would result in two regulators of futures exchanges and futures clearinghouses, and hence would still require a considerable amount of coordination on the part of the SEC and the CFTC. One must recognize that stock index futures are but one of many futures contracts offered by these organizations—indeed, only one of many financial futures contracts. Should losses from stock index futures trading—to be subject to SEC regulation under this alternative—jeopardize the financial integrity of a clearing organization or futures brokerage firm (FCM), it would threaten contract performance on all of the futures traded by the entity, including tangible commodity futures. Similarly, a failure in the commodity futures markets could, because of the effects on the clearing organization or brokerage firm, have consequences for the equity markets. In another area, many exchange rules related to trading and clearing cut across a wide range of contracts rather than being specific to stock index contracts, and close coordination between the SEC and the CFTC would be important in evaluating such rules.

Thus, the SEC would have an important interest in other aspects of futures market regulation while the CFTC would continue to have a strong interest in the regulation of stock index futures. The logic of transferring stock index futures to the SEC because of their tight linkage to the cash market suggests that futures contracts on other instruments also might be regulated differently. That is, Treasury futures would be regulated by the Treasury and Eurodollar and foreign currency futures by the Federal Reserve. Such a change, however, would increase the regulatory fragmentation in the securities markets and would not appear to be a particularly useful realignment. Consequently, the benefits of transferring regulatory jurisdiction to the SEC for purposes of achieving more consistency of regulation across equity instruments must be balanced against these drawbacks, and there is scope for legitimate differences of view on whether such a measure would be a net improvement.

Secretary Brady also has suggested much more far-reaching measures to deal with the jurisdictional issue—the transferring of all financial products to the SEC or the merging of the two agencies. We would urge caution in considering these alternatives. A full merger of the two agencies would avoid many of the problems just mentioned about overlapping jurisdiction in the regulation of exchanges and clearinghouses, and the transfer of all financial instruments to the SEC might be accompanied by the separate clearing of all financial futures subject to only one regulator. However, these solutions would concentrate a great deal of regulatory authority over the financial system in a single agency and this has been a concern of the Congress for a long time. Besides the potential management difficulties of a larger organization, there is the risk that bureaucratic inertia in a larger agency could be an impediment to the process of innovation. We should not lose sight of the fact that under the existing system of split jurisdiction over financial instruments, our financial markets have been the most innovative in the world, with many of the new products spurred by the introduction of index futures and other futures. □

Announcements

EDWARD W. KELLEY, JR.: REAPPOINTMENT AS A MEMBER OF THE BOARD OF GOVERNORS

On January 19, 1990, President Bush announced his intention to reappoint Edward W. Kelley, Jr., as a member of the Board of Governors. Governor Kelley was subsequently confirmed by the Senate on April 4 and took the oath of office, administered by Chairman Alan Greenspan, on April 20, 1990. The text of the President's announcement of January 19, follows:

The President today announced his intention to nominate Edward W. Kelley, Jr., to be a member of the Board of Governors of the Federal Reserve System for a term of 14 years, from February 1, 1990. This is a reappointment.

Since 1987, Mr. Kelley has served as a member of the Board of Governors of the Federal Reserve System. Prior to this, he was chairman of the board of Investment Advisors, Inc., in Houston, Texas, from 1981 to 1987. In addition, he has served as chairman of the board of the Shoreline Companies, Inc., and director of Texas Industries, Inc.

Mr. Kelley graduated from Rice University (B.A., 1954) and Harvard University (M.B.A., 1959). He was born January 27, 1932, in Eugene, Oregon. He served in the U.S. Naval Reserve, from 1954 to 1956. Mr. Kelley is married, has three children, and resides in Washington, D.C.

REVISIONS TO POLICY STATEMENT REGARDING THE SYSTEM'S ROLE IN THE PAYMENTS MECHANISM

The Federal Reserve Board announced on March 26, 1990, revisions to its general policy statement regarding the System's role in the payments mechanism. The revised white paper, titled "The Federal Reserve in the Payments System," was first issued by the Board in 1984.[1]

The white paper has been updated to address explicitly recommendations made by the General Accounting Office in 1989 that the Board define its commitment to competitive fairness in the check collection system and establish a forum for hearing concerns raised by the private sector.

The policy revisions apply to all Federal Reserve services.

REGULATION T: AMENDMENTS

The Federal Reserve Board has approved amendments to Regulation T (Credit by Brokers and Dealers) to accomodate the settlement and clearance of transactions in foreign securities and to permit marginability of foreign securities at broker–dealers. The amendments are effective April 30, 1990.

The amendments will accomplish the following:

- Permit foreign equity and debt securities that meet prescribed criteria to be eligible for margin at broker–dealers on the same basis as margin securities.
- Permit recognition and isolation of debt denominated in foreign currencies and allow foreign securities denominated in that currency to be used as margin for the debt without conversion into dollars.
- Ease restrictions on payment and settlement for foreign securities to accommodate the practices of the market where the trade occurs.
- Allow a broker–dealer subject to Regulation T to arrange with foreign persons to extend credit on foreign securities.

1. The policy statement is reprinted on pages 293–98 of this *Bulletin*.

Foreign equity securities will be eligible for margin treatment if they meet the following criteria:

- Trading for at least six months on an exchange or in a recognized foreign securities market outside the United States.
- Continuous availability to U.S. broker–dealers of quotations of both bid and asked or last-sale prices for the security through an electronic quotation system.
- An aggregate market value for the security of at least $1 billion.
- An average weekly trading volume of at least 200,000 shares or the equivalent of $1 million.
- The existence of the issuer or a predecessor in interest for at least five years.

The Board will publish quarterly a list of foreign equity securities that are marginable together with its regularly scheduled List of Marginable OTC Stocks.

Foreign corporate debt securities will be marginable if the original issue had outstanding a principal amount of at least $100 million, the issue is not in default on interest or principal payments, and the issue is rated in one of the two highest rating categories by a nationally recognized statistical rating service.

Revisions to Official Staff Commentaries

The Federal Reserve Board published in final form on March 29, 1990, an official staff commentary to Regulation B (Equal Credit Opportunity). The majority of the revisions implement the Equal Credit Opportunity Act amendments on business credit that were part of the Women's Business Ownership Act of 1988. The revisions pertain to data collection and become effective April 1.

The Federal Reserve Board also published in final form on March 29, 1990, an official staff commentary to Regulation E (Electronic Fund Transfers). The revisions address questions that have arisen about the revocation of authority for preauthorized transfers. The revisions become effective April 1.

The Federal Reserve Board published in final form on March 30, 1990, an official staff commentary to Regulation Z (Truth in Lending). The revisions become effective April 1, but compliance is optional until October 1, 1990.

The majority of the revisions address the Regulation Z amendments implementing the Fair Credit and Charge Card Disclosure Act and the Home Equity Loan Consumer Protection Act. Most of the interpretations have been developed in response to requests by creditors for additional guidance. Some of the issues discussed include tax refund anticipation loans, the price-level adjusted mortgage (a new mortgage product), and open-end credit advertising.

Proposed Actions

The Federal Reserve Board on March 19, 1990, requested comment on whether it should delete or revise a provision in Regulation Z (Truth in Lending) that permits creditors to freeze the credit line when the rate cap on a home equity line of credit is reached. The Board also requests comment on the timing of providing disclosures to consumers regarding the repayment phase in an agreement. Comment on these two provisions in Regulation Z is requested by April 20, 1990.

Revisions to Money Stock Data

Measures of the money stock were revised in February of this year as a result of the annual benchmark and seasonal factor review, as well as a minor adjustment to the composition of M2. Data in tables 1.10 and 1.21 in the statistical appendix to the *Bulletin* reflected these changes beginning with the issue for April 1990.

Deposits of commercial banks and thrift institutions were benchmarked using call reports through June 1989 and other sources.

Changes in seasonal factors were based on the X-11-ARIMA procedure used in recent years. Beginning with this review, separate seasonal factors were computed for other checkable deposits (OCDs) at commercial banks and thrift institutions. (Previously, OCDs were seasonally adjusted as a whole.) Also, for the first time, seasonal factors were computed separately for money market deposit accounts (MMDAs) at commercial banks and at thrift institutions, and for general purpose and broker–dealer money market mutual funds (a component of M2) and institution-only money market mutual funds (a component of M3). These procedures had a small effect on seasonally adjusted M1, but no effect on the non-M1 component of M2 or the non-M2 component of M3 as these components of the broader aggregates continue to be seasonally adjusted as a whole.

The set of components of M2 has been expanded to include overnight repurchase agreements issued by thrift institutions, formerly included with term repurchase agreements in the non-M2 component of M3. (Overnight repurchase agreements issued by commercial banks have been included in M2 since 1980.)

More detail on the revisions is available in the H.6 release, "Money Stock, Liquid Assets and Debt Measures," dated February 15, 1990. Historical data are available from the Money and Reserves Projections Section, Division of Monetary Affairs, mail stop 72, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1. Monthly seasonal factors used to construct M1, M2, and M3, January 1989–March 1991

Year and month	Currency	Nonbank travelers' checks	Demand deposits	Other checkable deposits		Nontransactions components	
				At banks	At thrift institutions	In M2	In M3 only
1989—January	.9930	.9298	1.0211	1.0220	.9945	1.0018	.9970
February	.9894	.9482	.9683	1.0010	.9751	1.0006	1.0014
March	.9935	.9604	.9722	1.0054	.9876	1.0015	1.0047
April	.9974	.9557	1.0070	1.0323	1.0256	1.0006	.9945
May	1.0003	.9716	.9787	.9881	.9974	.9976	.9991
June	1.0054	1.0427	1.0017	.9910	1.0060	.9986	.9955
July	1.0083	1.1196	1.0082	.9873	1.0082	1.0011	.9915
August	1.0024	1.1216	.9953	.9876	.9999	1.0008	1.0001
September	.9969	1.0654	.9936	.9910	.9986	.9987	1.0048
October	.9952	1.0026	1.0023	.9867	.9989	1.0002	1.0031
November	1.0028	.9520	1.0100	.9951	1.0028	1.0005	1.0074
December	1.0151	.9281	1.0423	1.0119	1.0035	.9982	1.0015
1990—January	.9924	.9318	1.0205	1.0224	.9954	1.0017	.9967
February	.9897	.9497	.9684	1.0013	.9762	1.0005	1.0008
March	.9940	.9608	.9725	1.0060	.9890	1.0016	1.0049
April	.9973	.9556	1.0071	1.0326	1.0261	1.0005	.9943
May	1.0002	.9727	.9781	.9877	.9968	.9976	.9991
June	1.0058	1.0429	1.0014	.9905	1.0050	.9986	.9956
July	1.0075	1.1171	1.0082	.9872	1.0078	1.0011	.9917
August	1.0036	1.1199	.9951	.9874	.9992	1.0009	1.0002
September	.9969	1.0641	.9934	.9909	.9984	.9986	1.0046
October	.9944	1.0029	1.0030	.9866	.9989	1.0000	1.0035
November	1.0034	.9526	1.0100	.9952	1.0029	1.0007	1.0075
December	1.0144	.9293	1.0429	1.0120	1.0038	.9983	1.0015
1991—January	.9923	.9331	1.0198	1.0226	.9958	1.0017	.9967
February	.9899	.9501	.9683	1.0013	.9768	1.0005	1.0004
March	.9950	.9606	.9729	1.0063	.9895	1.0017	1.0050

2. Monthly seasonal factors for selected components of the monetary aggregates, January 1989–March 1991

Year and month	Commercial bank deposits				Thrift institution deposits				Money market mutual funds	
	Savings	Money market deposit accounts	Small denomination time	Large denomination time	Savings	Money market deposit accounts	Small denomination time	Large denomination time	In M2	In M3 only
1989—January	.9952	1.0103	.9994	.9948	.9924	1.0019	1.0037	1.0065	.9959	1.0262
February	.9928	1.0045	1.0010	.9995	.9893	.9990	1.0039	1.0024	1.0048	1.0309
March	.9984	1.0044	1.0020	1.0073	.9977	1.0025	.9995	.9954	1.0134	1.0147
April	1.0024	1.0007	.9999	.9999	1.0021	.9955	.9993	.9904	1.0112	.9936
May	1.0035	.9890	.9975	1.0010	1.0017	.9944	.9969	.9943	.9982	.9948
June	1.0064	.9941	1.0013	.9985	1.0071	.9970	.9980	.9904	.9945	.9867
July	1.0089	.9931	1.0026	.9943	1.0109	.9979	1.0023	.9900	.9923	.9921
August	1.0025	.9957	1.0018	1.0015	1.0023	1.0015	1.0005	.9959	.9967	.9925
September	.9972	.9963	1.0012	1.0036	.9985	1.0002	.9983	1.0023	.9967	.9763
October	1.0003	.9971	.9992	1.0028	1.0047	1.0020	1.0000	1.0098	.9954	.9771
November	.9988	1.0054	.9976	1.0011	.9997	1.0035	1.0001	1.0138	1.0022	1.0098
December	.9934	1.0098	.9960	.9960	.9931	1.0048	.9978	1.0091	.9992	1.0057
1990—January	.9954	1.0110	.9989	.9942	.9927	1.0032	1.0034	1.0076	.9964	1.0272
February	.9932	1.0050	1.0008	.9994	.9896	.9995	1.0036	1.0027	1.0049	1.0319
March	.9990	1.0046	1.0021	1.0072	.9986	1.0028	.9988	.9942	1.0137	1.0129
April	1.0023	1.0005	1.0006	1.0000	1.0019	.9950	.9995	.9902	1.0110	.9912
May	1.0029	.9881	.9981	1.0012	1.0013	.9935	.9971	.9945	.9976	.9940
June	1.0060	.9935	1.0019	.9988	1.0067	.9959	.9984	.9903	.9935	.9886
July	1.0086	.9926	1.0027	.9945	1.0106	.9972	1.0025	.9896	.9916	.9932
August	1.0024	.9954	1.0018	1.0016	1.0023	1.0012	1.0007	.9953	.9970	.9930
September	.9970	.9959	1.0008	1.0035	.9988	1.0001	.9983	1.0019	.9971	.9755
October	1.0000	.9969	.9991	1.0031	1.0041	1.0020	1.0001	1.0098	.9949	.9766
November	.9991	1.0061	.9974	1.0011	.9996	1.0039	1.0002	1.0146	1.0030	1.0097
December	.9939	1.0103	.9957	.9957	.9935	1.0057	.9977	1.0096	.9995	1.0060
1991—January	.9954	1.0115	.9986	.9939	.9930	1.0039	1.0034	1.0080	.9967	1.0285
February	.9934	1.0053	1.0008	.9992	.9898	.9997	1.0034	1.0026	1.0046	1.0317
March	.9992	1.0045	1.0021	1.0073	.9990	1.0029	.9984	.9935	1.0139	1.0106

3. Weekly seasonal factors used to construct M1, M2, and M3, December 1989–March 1991

Week ending	Currency	Nonbank travelers' checks	Demand deposits	Other checkable deposits		Nontransactions components	
				At banks	At thrift institutions	In M2	In M3 only
1989—December 4	1.0038	.9306	1.0260	1.0063	1.0146	1.0004	1.0033
11	1.0139	.9294	1.0275	1.0156	1.0252	1.0008	.9990
18	1.0129	.9282	1.0332	1.0121	1.0029	.9977	.9980
25	1.0260	.9271	1.0330	1.0052	.9861	.9940	1.0078
1990—January 1	1.0078	.9259	1.0858	1.0104	.9921	.9983	1.0001
8	1.0077	.9275	1.0703	1.0500	1.0325	1.0029	.9883
15	.9970	.9302	1.0345	1.0417	1.0097	1.0039	.9991
22	.9891	.9328	1.0022	1.0166	.9843	1.0019	.9993
29	.9798	.9355	.9742	.9911	.9528	.9993	.9992
February 5	.9896	.9391	.9902	1.0083	.9924	.9998	.9986
12	.9947	.9411	.9733	1.0065	.9857	1.0005	1.0028
19	.9926	.9478	.9657	.9984	.9699	1.0010	.9998
26	.9813	.9545	.9487	.9910	.9565	1.0006	1.0007
March 5	.9925	.9596	.9754	1.0123	.9944	1.0007	1.0036
12	.9986	.9611	.9769	1.0137	.9981	1.0013	1.0041
19	.9947	.9625	.9750	1.0058	.9874	1.0012	1.0028
26	.9890	.9638	.9545	.9949	.9704	1.0005	1.0081
April 2	.9900	.9652	.9884	1.0022	.9959	1.0049	1.0055
9	1.0071	.9585	1.0118	1.0400	1.0460	1.0048	.9966
16	1.0003	.9563	1.0213	1.0487	1.0452	1.0012	.9938
23	.9941	.9542	1.0091	1.0422	1.0227	.9973	.9898
30	.9870	.9521	.9866	1.0038	.9942	.9974	.9937

3. Weekly seasonal factors used to construct M1, M2, and M3, December 1989–March 1991—Continued

Week ending		Currency	Nonbank travelers' checks	Demand deposits	Other checkable deposits		Nontransactions components	
					At banks	At thrift institutions	In M2	In M3 only
1990 May	7	1.0051	.9564	.9840	1.0068	1.0143	.9954	.9955
	14	1.0041	.9656	.9863	.9896	1.0095	.9972	.9975
	21	.9994	.9748	.9746	.9844	.9925	.9983	.9999
	28	.9981	.9840	.9607	.9740	.9726	.9981	1.0042
June	4	1.0045	.9952	1.0078	.9993	1.0212	1.0004	.9977
	11	1.0121	1.0184	1.0108	1.0069	1.0242	.9990	.9954
	18	1.0054	1.0414	1.0065	.9988	1.0096	.9979	.9962
	25	.9983	1.0643	.9805	.9717	.9776	.9972	.9955
July	2	1.0022	1.0870	1.0096	.9698	.9904	.9997	.9932
	9	1.0198	1.1005	1.0269	1.0051	1.0382	1.0006	.9883
	16	1.0103	1.1125	1.0237	.9927	1.0162	1.0013	.9900
	23	1.0041	1.1244	.9911	.9788	.9936	1.0013	.9930
	30	.9967	1.1363	.9824	.9726	.9794	1.0015	.9944
August	6	1.0109	1.1388	1.0060	.9991	1.0277	1.0011	.9958
	13	1.0112	1.1287	1.0078	.9931	1.0108	1.0016	1.0002
	20	1.0048	1.1186	.9990	.9859	.9962	1.0013	.9992
	27	.9937	1.1086	.9746	.9762	.9719	1.0005	1.0034
September	3	1.0010	1.0985	.9903	.9892	1.0011	.9993	1.0027
	10	1.0059	1.0829	1.0140	1.0137	1.0302	.9997	1.0024
	17	.9971	1.0672	1.0050	1.0041	1.0077	.9990	1.0041
	24	.9892	1.0516	.9705	.9748	.9733	.9974	1.0060
October	1	.9863	1.0361	.9889	.9652	.9751	.9981	1.0072
	8	1.0051	1.0227	1.0099	1.0004	1.0235	.9998	1.0030
	15	.9994	1.0101	1.0227	.9946	1.0123	1.0000	1.0043
	22	.9934	.9976	.9932	.9834	.9904	.9998	1.0025
	29	.9855	.9850	.9828	.9710	.9694	1.0001	1.0035
November	5	.9986	.9729	1.0142	.9984	1.0209	1.0017	1.0040
	12	1.0080	.9624	1.0136	1.0026	1.0128	1.0017	1.0080
	19	1.0041	.9519	1.0150	.9948	1.0044	1.0014	1.0046
	26	1.0024	.9415	.9962	.9847	.9822	.9978	1.0136
December	3	.9982	.9312	1.0173	.9972	1.0014	1.0014	1.0050
	10	1.0149	.9304	1.0292	1.0228	1.0295	.9999	1.0007
	17	1.0134	.9295	1.0392	1.0126	1.0041	.9986	.9975
	24	1.0239	.9287	1.0383	1.0077	.9873	.9962	1.0015
	31	1.0082	.9279	1.0685	1.0056	.9846	.9971	1.0047
1991—January	7	1.0072	.9290	1.0872	1.0486	1.0357	1.0027	.9915
	14	.9984	.9313	1.0423	1.0436	1.0153	1.0038	.9986
	21	.9913	.9337	1.0078	1.0217	.9913	1.0007	.9976
	28	.9814	.9361	.9649	.9937	.9560	1.0002	.9983
February	4	.9869	.9389	.9839	1.0042	.9902	.9999	.9984
	11	.9958	.9448	.9734	1.0107	.9891	1.0003	1.0016
	18	.9942	.9506	.9698	.9996	.9729	1.0004	1.0001
	25	.9825	.9564	.9505	.9908	.9569	1.0008	.9996
March	4	.9891	.9613	.9720	1.0068	.9888	1.0012	1.0027
	11	.9998	.9610	.9799	1.0134	.9998	1.0016	1.0031
	18	.9957	.9606	.9751	1.0049	.9896	1.0017	1.0037
	25	.9909	.9603	.9562	.9967	.9734	1.0009	1.0091
April	1	.9889	.9599	.9835	1.0025	.9886	1.0030	1.0057

4. Weekly seasonal factors for selected components of the monetary aggregates, December 1989–March 1991

Week ending	Commercial bank deposits				Thrift institution deposits				Money market mutual funds	
	Savings	Money market deposit accounts	Small denomination time	Large denomination time	Savings	Money market deposit accounts	Small denomination time	Large denomination time	In M2	In M3 only
1989—December 4	.9964	1.0094	.9970	.9951	.9975	1.0045	.9994	1.0103	1.0021	1.0147
11	.9967	1.0121	.9962	.9957	.9968	1.0069	.9976	1.0094	1.0041	1.0062
18	.9928	1.0117	.9938	.9942	.9925	1.0062	.9961	1.0088	1.0018	1.0079
25	.9897	1.0089	.9922	.9990	.9882	1.0053	.9961	1.0083	.9978	1.0021
1990—January 1	.9915	1.0041	1.0015	.9958	.9913	.9993	1.0008	1.0099	.9902	1.0006
8	.9990	1.0154	1.0004	.9915	.9985	1.0076	1.0036	1.0078	.9819	.9968
15	.9973	1.0148	.9991	.9937	.9958	1.0071	1.0033	1.0081	1.0001	1.0338
22	.9941	1.0102	.9976	.9935	.9909	1.0009	1.0025	1.0071	1.0028	1.0387
29	.9929	1.0061	.9979	.9970	.9865	.9987	1.0040	1.0076	1.0011	1.0409
February 5	.9918	1.0063	.9993	.9965	.9909	1.0009	1.0060	1.0052	.9981	1.0348
12	.9938	1.0060	1.0007	.9994	.9915	1.0003	1.0051	1.0043	1.0035	1.0376
19	.9936	1.0042	1.0013	.9992	.9888	.9987	1.0038	1.0033	1.0058	1.0279
26	.9931	1.0036	1.0014	1.0005	.9868	.9977	1.0012	1.0001	1.0084	1.0307
March 5	.9943	1.0059	1.0019	1.0029	.9927	1.0022	1.0003	.9971	1.0109	1.0229
12	.9982	1.0066	1.0027	1.0046	.9976	1.0053	.9989	.9959	1.0143	1.0186
19	.9987	1.0041	1.0019	1.0052	.9996	1.0034	.9973	.9927	1.0140	1.0064
26	.9998	1.0012	1.0016	1.0117	.9981	1.0013	.9970	.9928	1.0158	1.0081
April 2	1.0041	1.0058	1.0023	1.0116	1.0051	1.0011	1.0020	.9931	1.0126	1.0109
9	1.0102	1.0115	1.0015	1.0061	1.0109	1.0050	1.0009	.9904	1.0144	.9984
16	1.0035	1.0081	1.0002	.9995	1.0047	.9989	.9990	.9880	1.0157	.9935
23	.9984	.9953	1.0003	.9947	.9966	.9885	.9987	.9883	1.0122	.9764
30	.9965	.9857	1.0001	.9965	.9945	.9856	.9987	.9930	1.0015	.9909
May 7	1.0006	.9847	.9988	.9961	1.0002	.9901	.9981	.9927	.9931	.9852
14	1.0025	.9875	.9978	.9977	1.0025	.9939	.9972	.9957	.9970	.9854
21	1.0037	.9885	.9974	1.0021	1.0016	.9945	.9966	.9948	.9999	.9960
28	1.0037	.9888	.9981	1.0086	.9994	.9934	.9964	.9959	1.0006	1.0075
June 4	1.0060	.9948	.9989	1.0022	1.0056	.9981	.9970	.9920	.9966	.9979
11	1.0090	.9981	1.0010	1.0001	1.0091	1.0006	.9974	.9917	.9970	.9867
18	1.0055	.9946	1.0022	.9962	1.0069	.9965	.9970	.9896	.9935	.9870
25	1.0041	.9891	1.0030	.9985	1.0031	.9918	.9978	.9881	.9930	.9902
July 2	1.0054	.9905	1.0035	.9982	1.0090	.9925	1.0035	.9909	.9867	.9840
9	1.0122	.9942	1.0031	.9931	1.0164	.9984	1.0036	.9879	.9850	.9834
16	1.0106	.9935	1.0025	.9908	1.0141	.9981	1.0026	.9887	.9933	.9900
23	1.0086	.9914	1.0024	.9946	1.0091	.9968	1.0022	.9901	.9935	.9999
30	1.0046	.9915	1.0026	.9982	1.0039	.9964	1.0015	.9913	.9955	1.0015
August 6	1.0052	.9944	1.0022	.9973	1.0066	1.0017	1.0017	.9907	.9947	.9982
13	1.0051	.9960	1.0022	1.0002	1.0057	1.0029	1.0012	.9933	.9962	.9955
20	1.0027	.9951	1.0015	1.0015	1.0023	1.0009	1.0007	.9965	.9979	.9867
27	1.0000	.9949	1.0012	1.0051	.9975	.9994	.9998	.9981	.9992	.9977
September 3	.9975	.9972	1.0017	1.0042	.9981	1.0010	.9997	.9982	.9968	.9837
10	1.0000	1.0010	1.0010	1.0022	1.0007	1.0043	.9984	.9972	.9952	.9785
17	.9973	.9988	1.0001	1.0009	.9992	1.0011	.9970	.9998	.9984	.9727
24	.9954	.9907	1.0001	1.0038	.9964	.9966	.9962	1.0024	.9986	.9654
October 1	.9950	.9921	1.0016	1.0071	.9991	.9976	1.0012	1.0109	.9963	.9832
8	1.0026	.9965	1.0008	1.0057	1.0093	1.0030	1.0015	1.0079	.9911	.9687
15	1.0020	.9986	1.0000	1.0024	1.0074	1.0031	.9999	1.0093	.9949	.9754
22	1.0001	.9957	.9985	1.0021	1.0026	1.0010	.9994	1.0099	.9964	.9777
29	.9968	.9960	.9971	1.0021	.9986	1.0006	.9995	1.0116	.9957	.9799
November 5	.9980	1.0030	.9983	1.0012	1.0021	1.0044	1.0005	1.0119	.9986	.9897
12	1.0007	1.0058	.9976	1.0037	1.0027	1.0058	1.0008	1.0149	1.0016	1.0062
19	.9997	1.0062	.9966	1.0021	.9996	1.0030	1.0004	1.0150	1.0018	1.0091
26	.9991	1.0058	.9972	1.0003	.9961	1.0021	.9994	1.0166	1.0076	1.0229
December 3	.9968	1.0104	.9976	.9959	.9972	1.0052	.9997	1.0131	1.0046	1.0187
10	.9985	1.0130	.9969	.9996	.9987	1.0083	.9983	1.0108	1.0043	1.0067
17	.9948	1.0112	.9950	.9926	.9932	1.0066	.9956	1.0099	1.0022	1.0042
24	.9900	1.0063	.9947	.9941	.9876	1.0030	.9948	1.0067	.9983	1.0021
31	.9912	1.0108	.9952	.9963	.9928	1.0050	1.0011	1.0096	.9913	1.0057

4. Weekly seasonal factors for selected components of the monetary aggregates, December 1989–March 1991 —Continued

Week ending	Commercial bank deposits				Thrift institution deposits				Money market mutual funds	
	Savings	Money market deposit accounts	Small denomination time	Large denomination time	Savings	Money market deposit accounts	Small denomination time	Large denomination time	In M2	In M3 only
1991—January 7	.9988	1.0183	.9973	.9934	.9996	1.0093	1.0042	1.0072	.9805	.9901
14	.9976	1.0156	.9981	.9943	.9962	1.0072	1.0031	1.0084	.9993	1.0361
21	.9944	1.0095	.9985	.9919	.9905	1.0013	1.0017	1.0081	1.0034	1.0416
28	.9929	1.0051	.9999	.9954	.9870	.9992	1.0036	1.0091	1.0030	1.0425
February 4	.9909	1.0057	1.0003	.9953	.9900	1.0009	1.0054	1.0066	.9977	1.0364
11	.9943	1.0059	1.0008	.9989	.9916	1.0005	1.0047	1.0054	1.0028	1.0383
18	.9939	1.0045	1.0007	.9988	.9892	.9988	1.0037	1.0037	1.0058	1.0293
25	.9932	1.0047	1.0008	1.0003	.9873	.9982	1.0017	.9994	1.0071	1.0290
March 4	.9935	1.0062	1.0012	1.0036	.9922	1.0021	1.0009	.9953	1.0097	1.0218
11	.9983	1.0062	1.0018	1.0053	.9982	1.0051	.9989	.9938	1.0140	1.0108
18	.9995	1.0039	1.0013	1.0062	1.0000	1.0030	.9966	.9919	1.0147	1.0009
25	1.0003	1.0017	1.0019	1.0101	.9983	1.0014	.9962	.9939	1.0175	1.0079
April 1	1.0023	1.0055	1.0042	1.0100	1.0044	1.0025	1.0006	.9934	1.0116	1.0175

Record of Policy Actions of the Federal Open Market Committee

MEETING HELD ON FEBRUARY 6–7, 1990

1. Domestic Policy Directive

The information reviewed at this meeting suggested continued but sluggish expansion in overall economic activity, with conditions uneven across sectors. Industrial activity remained weak, partly because of the depressing effects of an inventory correction on manufacturing output, while the service-producing sector of the economy continued to grow moderately. Aggregate price measures had increased more slowly over most of the second half of 1989, but unusually cold weather in December put temporary upward pressure on food and energy prices. The latest data on labor compensation suggested no significant change in prevailing trends.

Total nonfarm payroll employment increased substantially in January after growing at a reduced pace on average in previous months. Employment surged in the service-producing sector, and unusually warm weather brought a rebound in hiring in the construction industry. These increases more than offset a large decline in factory jobs associated with sizable short-term layoffs in the motor vehicle and related industries. The civilian unemployment rate remained at the 5.3 percent level that had prevailed over most of 1989.

Partial data for January indicated that industrial production fell sharply. Automobile producers cut back temporarily on assemblies to help reduce bulging inventories of unsold vehicles, and the January thaw in the weather apparently brought a reduction in the generation of electricity that more than reversed a December surge. Abstracting from a number of transitory factors affecting production in recent months, industrial activity had changed little since the third quarter, although recent orders data suggested some underlying support for manufacturing output over the near term. Total industrial capacity utilization remained at a relatively high level in the fourth quarter but was down somewhat from its level a year earlier.

Adjusted for inflation, consumer spending was little changed in the fourth quarter. Strong gains in spending for services offset declines in purchases of consumer goods, especially new cars and light trucks. Although some of the strength in the services category reflected temporarily high energy-related expenditures, spending for medical and transportation services apparently remained strong throughout the fourth quarter. Near the end of the year, consumers responded positively to incentive programs introduced by automakers to reduce bloated inventories, and higher sales of domestically produced cars carried over to January. Residential construction in the fourth quarter was little changed from its third-quarter level, partly because December's unusually cold weather depressed single-family housing starts in that month. Multifamily starts remained at a low level as vacancy rates for such units moved still higher.

Business capital spending, adjusted for inflation, declined in the fourth quarter because of strike activity in the aircraft industry and sharply lower outlays for motor vehicles. Spending for equipment other than motor vehicles and aircraft rose; sizable increases were registered for computers and communications equipment, and moderate gains were evident for a wide variety of heavy machinery. A pickup toward the end of 1989 in new orders for equipment other than aircraft and the return to work of striking aircraft workers pointed to some improvement in equipment spending in the current quarter. Nonresidential construction activity apparently weakened a little in the fourth quarter, partly reflecting the persisting high vacancy rates for office and other commercial space. Manufacturers' inventories fell in December after moderate increases in the two previous months; for the fourth quarter as a whole, increases in factory stocks were well below those for previous quarters in 1989. By contrast, nonauto retail stockbuilding accelerated late in the year, and there were reports that inventory–sales ratios at general merchandisers were higher than desired.

The nominal U.S. merchandise trade deficit rose slightly in November from a revised October level. For the two months together, the deficit was up substantially from the averages for both the third quarter and the first nine months of 1989. Total exports for the two-month period were little changed from their third-quarter level as a reduction in exports of aircraft, resulting from strike activity, offset moderate increases in a broad array of other products. Total imports increased rapidly in October–November, with imports of capital goods being especially strong. Indicators of economic activity in major foreign industrial countries were mixed during the fourth quarter of 1989. Growth continued strong in Japan, and most indicators pointed to renewed strength for Germany, Italy, and France. By contrast, growth was sluggish in the United Kingdom and Canada.

Producer prices for finished goods jumped in December, largely reflecting higher prices for energy products, most notably for heating oil. Abstracting from food and energy items, producer prices rose faster in December than in November, but the rate of increase in the fourth quarter as a whole remained at the reduced third-quarter pace. At the consumer level, prices rose somewhat more rapidly toward the end of 1989, and food and energy prices apparently increased substantially further in January. Among nonfood, non-energy categories, discounting of apparel and home furnishings was more than offset by a sharp rise in prices of new cars and by another month of sizable price increases for services.

At its meeting on December 18–19, 1989, the Committee adopted a directive that called for a slight easing in the degree of pressure on reserve positions but that provided for giving equal weight to subsequent developments that might require some easing or tightening during the intermeeting period. Accordingly, the Committee agreed that slightly greater or slightly lesser reserve restraint would be acceptable during the intermeeting period, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The contemplated reserve conditions were expected to be consistent with growth of M2 and M3 over the four-month period from November 1989 to March 1990 at annual rates of about 8½ percent and 5½ percent respectively.

Immediately after the Committee meeting, open market operations were directed toward implementing the slight easing in the degree of pressure on reserve positions called for by the Committee. Reserve conditions then remained essentially unchanged over the rest of the intermeeting period. Adjustment plus seasonal borrowing averaged a little more than $300 million for the intermeeting period; the volume was boosted by reserve shortfalls, borrowing by large banks over the long holiday weekends, and, in the latter part of the interval, borrowing by a sizable bank whose normal access to liquidity had been impaired. The federal funds rate declined from about 8½ percent at the time of the December meeting to around 8¼ percent shortly thereafter; except for some firming in the last week of 1989 owing to reserve shortfalls and year-end pressures, the funds rate remained in the vicinity of that lower level. Other private short-term market rates also declined over the period, including a ½ percentage point drop in the prime rate to 10 percent, while Treasury bill rates increased somewhat.

Yields on intermediate- and long-term debt instruments rose considerably over the intermeeting period. Some stronger-than-anticipated economic data and rising food and energy prices were interpreted in the financial markets as pointing away from recession and as suggesting little if any moderation in underlying inflation trends. Increases in interest rates abroad probably also had an influence on U.S. interest rates. Stock prices approached new highs at the start of the year but had fallen substantially since then.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other

G-10 currencies declined further over the intermeeting period, as monetary conditions abroad tightened somewhat on average while those in the United States eased slightly. The dollar's movements against individual currencies were mixed; most of its depreciation occurred against the German mark, which continued to be buoyed by developments in Eastern Europe, and against related European currencies. On net, the U.S. dollar remained relatively firm against the yen and the Canadian dollar; the latter declined sharply as Canadian short-term interest rates edged lower amid signs of slow growth in the Canadian economy and a consequent easing of inflation pressures.

Growth of M2, measured on a benchmarked and seasonally revised basis, remained relatively strong in the fourth quarter of 1989; for the year, this aggregate expanded at a rate a little below the middle of the Committee's annual range. Partly as a result of further contraction in the assets and associated funding needs of thrift institutions, M3 grew more slowly in the fourth quarter and, for the year, expanded at a rate just below the lower bound of its annual range. In January, both of the broader aggregates increased at slower rates. A sharp drop in transactions deposits damped expansion of M2, even though retail-type savings deposits remained strong and money market funds evidently benefited from funds flowing out of weakening stock and bond markets. Growth of M3 in January slowed by less than that of M2.

The staff projection prepared for this meeting suggested that the economy was likely to expand relatively slowly over the next several quarters. In the near term, production adjustments to eliminate excess inventories, most notably in the motor vehicles industry, were expected to depress manufacturing activity and overall growth; some pickup in the expansion was anticipated after the inventory correction was completed, but final sales were projected to continue growing at a relatively sluggish pace. Homebuilding might rebound somewhat in the near term after being disrupted by December's cold weather, but prevailing interest rates and possible cutbacks in construction lending by thrift institutions likely would restrain residential construction activity throughout the year. The projection assumed that fiscal policy would be moderately restrictive and that net exports would make little contribution to growth of domestic production in 1990. The expansion of consumer demand would be damped by slow gains in employment and associated limited growth in real disposable incomes. With pressures on labor and other production resources expected to ease only gradually, little improvement was anticipated in the underlying trend of inflation over the next several quarters.

In their discussion of the economic situation and outlook, the Committee members generally agreed that continuing growth in economic activity remained a reasonable expectation for the year ahead. Several observed that, on the whole, recent indicators of business conditions provided some assurance that the expansion was no longer weakening and indeed that a modest acceleration might be under way from the considerably reduced growth experienced in the fourth quarter. The members acknowledged that there were considerable risks, stemming mainly from the financial side, of a weaker-than-projected expansion, and some did not rule out the possibility of a downturn. In the latter connection, several commented that they had observed a sense of unease and fragility in the business and financial communities arising from such factors as declining profit margins, heavy debt burdens, and problems in certain sectors of the financial markets that were contributing to greater caution on the part of lenders and a reduced availability of credit to some borrowers. With regard to the outlook for inflation, members remained generally optimistic that moderating pressures on labor and other resources would lead in time to a lower rate of inflation. However, most members saw little prospect that significant progress, if any, would be made in reducing the underlying rate of inflation in the quarters immediately ahead. Indeed, in part because of temporary pressures in the food and energy sectors, key measures of inflation might well register larger increases in the near term before turning down later.

In keeping with the usual practice at meetings when the Committee establishes its longer-run ranges for growth of the monetary and debt aggregates, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members had prepared projections of economic activity, the rate of unemployment, and inflation for the year 1990. In making these forecasts, the members took account of the Committee's policy of continuing restraint on demand to resist any increase in inflation pressures and to foster price stability over time. For the period from the fourth quarter of 1989 to the fourth quarter of 1990, the forecasts for growth of real GNP had a central tendency of 1¾ to 2 percent, a pace close to that experienced in 1989 excluding the direct effects of the rebound in farm output after the drought in 1988. Estimates of the civilian rate of unemployment in the fourth quarter of 1990 were concentrated in a range of 5½ to 5¾ percent. The associated pressures on prices resulted in projected increases in the consumer price index centered on rates of 4 to 4½ percent for the year, compared with a rise of 4½ percent in 1989. Forecasts for growth of nominal GNP had a central tendency of 5½ to 6½ percent. The forecasts assumed that changes in the foreign exchange value of the dollar would not be of sufficient magnitude to have a significant effect on the economy or prices during 1990.

In the Committee's discussion of developments bearing on the economic outlook, the members emphasized that despite indications of continuing growth in overall business activity, there were obvious areas of weakness in the economy, notably in manufacturing across much of the nation and in construction in many localities. Business sentiment appeared to have deteriorated in some areas, perhaps more than was justified by actual developments. While local business conditions were clearly uneven, business activity was generally characterized as growing on an overall basis in the various regions, including recent evidence of a modest pickup in some previously depressed parts of the country.

With regard to individual sectors of the economy, the outlook for retail sales was clouded to some extent by the uncertain prospects for motor vehicles and the financial problems being experienced by some major retailers; nonetheless, in the context of expected further gains in disposable incomes, many members expected overall consumer spending to be relatively well maintained. Business inventories probably were falling in the current quarter, largely reflecting sharp declines in stocks of motor vehicles, but once the correction in that industry was completed, some renewed increases in overall inventory investment were anticipated in line with expanding sales. Current indicators suggested that business fixed investment might be reasonably well maintained, but it also was noted that overbuilding of commercial real estate in many areas would restrain overall nonresidential construction and more generally that depressed profits and cash flows could limit gains in business investment. Concerning the outlook for residential construction, conditions in local housing markets varied markedly and the prospects for the nation were difficult to assess. Negative developments included higher mortgage interest rates, a reduced availability of financing for many developers, and the overhang of large inventories of housing units held by the Resolution Trust Corporation (RTC). Nonetheless, housing demand was holding up in many areas and booming in a few, and on balance most members expected little change this year in overall expenditures for residential construction. A number commented that the prospects for exports were relatively bright; foreign demand was reported to be robust for many types of goods, and overall exports would be given some impetus over time by the depreciation of the dollar over the past several months.

Turning to the outlook for inflation, members noted that broad measures of labor compensation did not suggest any lessening of pressures. Unit labor costs appeared to be rising at a faster pace recently than the underlying rate of inflation, squeezing profit margins. Commodity prices displayed mixed changes but generally remained on a high plateau. Business contacts and broader surveys indicated a widespread expectation that the current rate of inflation would continue. Moreover, with higher social security taxes and a rising minimum wage adding to labor costs and earlier increases in producer food and energy costs not yet fully transmitted to retail prices, some measures of inflation were expected to show sharper increases over the near term. On the other hand, reports from a number of business contacts indicated that input prices, especially for raw materials, had stabilized or declined in recent months. More generally, a number of members commented that continued limited growth in business activity at a time of uncertainties and concerns associated with various financial problems and declining real estate values in many areas should contribute to some restraint in overall inflationary behavior.

Against the background of the members' views on the economic outlook and in keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey–Hawkins Act), the Committee reviewed the ranges that it had established on a tentative basis in July 1989 for growth of the monetary and debt aggregates in 1990. The tentative ranges, which were unchanged from those for 1989, included expansion of 3 to 7 percent for M2 and 3½ to 7½ percent for M3, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt had been set at 6½ to 10½ percent, also unchanged from 1989.

With regard to M2, on which much of the discussion was focused, a majority of the members concluded that retention of the tentative range of 3 to 7 percent would best assure the flexibility that the Committee was likely to need to implement its policy objectives during the year. A staff analysis prepared for this meeting indicated that, were interest rates to remain near recent levels, a somewhat higher rate of M2 growth than had occurred in any of the past three years was likely to be consistent with some reduction in the expansion of nominal GNP. According to this analysis, the lagged effects of earlier declines in market interest rates would continue to boost M2 growth in the first part of 1990, and the velocity of M2 was likely to fall for the year as a whole. To the extent that the projected weakness in M2 velocity turned out to be correct, it implied M2 growth toward the upper end of the tentative range on the basis of the central tendency of the members' forecasts of nominal GNP.

Given this outlook, an unchanged range for M2 still left considerable leeway for the Committee to embark on a more aggressive policy to restrain inflation, should developments during the year suggest an intensification of inflationary pressures or provide an opportunity to tilt the implementation of policy toward greater restraint and faster progress against inflation without impairing the forward momentum of the economy. Thus, although the Committee recognized that over time lower ranges and slower M2 growth would be compatible with price stability, retention of the current range did not signal a diminished determination to move toward the objective of price stability.

Preferences for slightly higher or somewhat lower ranges for M2 also were expressed. The arguments in favor of a higher range focused on the risks of a weaker economy than was anticipated currently and the related desirability of more maneuvering room for an easing of short-run policy if such were needed to help avert a cumulative deterioration in economic activity. In those circumstances, faster monetary growth would not be inconsistent with the Committee's long-term commitment to price stability. Other members believed that a somewhat reduced range would allow adequate growth in M2 to sustain moderate expansion in economic activity and would provide a desirable signal of the System's commitment to an anti-inflationary policy. In this connection, the credibility of the System's anti-inflationary policy was seen as an important channel for reducing inflationary expectations directly and thereby lessening the economic costs and time needed to achieve price stability. These members expressed concern that growth around the upper end of a 3 to 7 percent range might well preclude any progress in reducing inflation this year and might make it more difficult to achieve such progress later. For some of these members, however, a 3 to 7 percent range would be acceptable if its upper limit was viewed as a firm constraint on actual growth and if a clear explanation was made of the Committee's commitment to achieve price stability over time.

Turning to the ranges for M3 and debt, most of the members indicated that they favored or could accept reductions from the tentative ranges that had been adopted in July 1989 for this year. Some reduction in the range for M3 was thought to be consistent with an unchanged range for M2 for technical reasons associated with the restructuring of the thrift industry and related shrinkage in thrift institution balance sheets. Declines in thrift institution assets and associated funding needs, including liabilities in M3, now seemed likely to be larger in 1990 than had been anticipated last summer, reflecting continued efforts of solvent institutions to meet capital standards as well as the closing of insolvent institutions. Beyond that, while a reduction in the M3 range, especially if it was limited, might have little implication for policy, many members believed that the Committee should take advantage of every opportunity to reduce its ranges toward levels that were consistent with price stability. With regard to the monitoring range for total domestic nonfinancial debt, the members expected the expansion of such debt to moderate for a fourth year in 1990, in large measure because of anticipated reductions in debt creation associated with corporate merger and acquisition activities but also because of some probable ebbing in the growth of household debt. The prospect of slower growth of debt was welcome, given concerns about strains associated with highly leveraged borrowers and high debt servicing obligations.

A few members indicated a preference for retaining the somewhat higher ranges for M3 and debt that had been adopted on a tentative basis for this year. In their view, lowering those ranges would tend to send potentially confusing signals, raising questions as to why the M2 range was not reduced. Also, disparate adjustments in the ranges for the various aggregates could foster an unwarranted impression of the precision with which the Committee felt it could evaluate the ranges.

The members generally agreed that setting 1990 target ranges for M2 and particularly for M3 was rendered more difficult by uncertainty about developments affecting thrift institutions, especially given the relatively limited basis in past experience for gauging the likely impact of such developments. The establishment of an appropriate range for the growth of nonfinancial debt also was complicated by uncertainty about the extent to which Treasury borrowing would be used to carry the assets of failed thrift institutions as opposed to funding from financial-sector sources through the RTC. With these questions adding to the usual uncertainty about the relationship of movements in the aggregates to broad measures of economic performance, the Committee decided to retain the 4 percentage point width of the ranges. It also agreed that the implementation of policy should continue to take into account, in addition to monetary growth and its velocity, indications of inflationary pressures in the economy, the strength of business activity, and developments in domestic and international financial markets.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept the M2 range for 1990 that had been established on a tentative basis in July 1989 and reductions of 1 percentage point and 1½ percentage points respectively in the tentative ranges for M3 and nonfinancial debt. Accordingly, the Committee approved the following paragraph relating to its 1990 ranges for inclusion in the domestic policy directive:

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 3 to 7 percent and 2½ to 6½ percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price stability, movements in their velocities, and developments in the economy and financial markets.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Johnson, Kelley, and LaWare. Votes against this action: Mr. Hoskins, Ms. Seger, and Mr. Stern.

Messrs. Hoskins and Stern dissented because they wanted a lower range for M2. They were concerned that growth around the upper end of a 3 to 7 percent range would not be compatible with progress in reducing the rate of inflation this year. An upper limit of 6 percent would be preferable and would provide adequate room in their view for policy to foster sustained economic expansion. Mr. Hoskins also stressed the desirability of a predictable and credible monetary policy, which he believed should include persistent reductions in the ranges to levels that would be consistent with stable prices. The favorable effects of such a policy on inflationary expectations would tend to lessen the costs and also accelerate the achievement of price stability.

Ms. Seger dissented because she believed that the M2 range should be raised to at least 3½ to 7½ percent. In her view, the considerable downside risks to the expansion called for some added room to accommodate the possible need for a more stimulative policy and somewhat faster M2 growth than was contemplated by an unchanged range. In particular, a shortfall in aggregate demands during the first half of the year might well require some easing of policy aimed at countering developing weakness in the economy. In such circumstances, M2 growth somewhat above 7 percent would not be inconsistent with the Committee's anti-inflation objective. She could accept unchanged ranges for growth of M3 and nonfinancial debt, given the outlook for somewhat slower expansion of both aggregates in relation to M2 than the Committee had anticipated in July 1989.

Turning to policy implementation for the intermeeting period ahead, a majority of the members favored steady reserve conditions. Given indications of some pickup in activity from the latter part of 1989, such a policy offered the best prospects at this point of reconciling the Committee's objective of acceptable and sustained economic growth with that of some reduction over time in inflationary pressures on labor and other resources. A tightening of policy might have some advantages in terms of moderating monetary growth and improving inflationary expectations, but in this view such a policy would incur too much risk of creating financial conditions that could lead to a weaker economy. Conversely, significantly lower interest rates could have inflationary consequences in an economy that already was operating at relatively high employment levels, partly through their effects on the dollar in the foreign exchange markets. Conditions in the economy and in financial markets, both in the United States and abroad, suggested that monetary policy needed to convey a sense of stability.

Other members acknowledged that adjustments in monetary policy needed to be made with a special degree of caution in current circumstances, but on balance they assessed the risks and the related advantages and disadvantages of a change in policy somewhat differently. In one view, the risks of a recession argued for a prompt adjustment toward somewhat less monetary restraint, especially given the need to bolster relatively interest-sensitive sectors of the economy such as housing and motor vehicles. A differing view focused on the desirability of a somewhat tighter policy at this juncture, particularly in light of the outlook for relatively little progress against inflation as the business expansion tended to strengthen. One member gave special emphasis to the desirability of limiting M2 growth to a path closer to the middle of the Committee's range for 1990 to help assure that progress would be made this year in moderating inflationary pressures.

In the Committee's consideration of possible adjustments to the degree of reserve pressure during the intermeeting period, a majority of the members supported a directive that did not contain any bias toward tightening or easing. They felt that a symmetric instruction was consistent at this point with their general preference for a stable policy and that an intermeeting adjustment should be made only in the event of particularly conclusive economic or financial evidence, including a substantial deviation in monetary growth from current expectations. One member who preferred a slightly tighter policy indicated that an unchanged policy that was biased toward restraint would be acceptable.

Members noted that seasonal borrowing was likely to turn up from its January lows so that some increase in the total of adjustment plus seasonal borrowing would be associated with a given degree of reserve restraint and a given federal funds rate. It was understood that some increase in the borrowing assumption would be made at the start of the intermeeting period and that further adjustments might be made later during the period, subject to the Chairman's review. In keeping with the usual practice, persisting borrowings by troubled depository institutions that had not been classified as extended credit would be treated as nonborrowed reserves in setting target growth paths for reserves. More generally, in light of the uncertainties that were involved, the Manager would continue to exercise flexibility in his approach to the borrowing assumption.

At the conclusion of the Committee's discussion, a majority of the members indicated that they favored or could accept a directive that called for an unchanged degree of pressure on reserve positions. Some firming or some easing of reserve conditions would be acceptable during the intermeeting period depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 7 and 3½ percent respectively over the three-month period from December to March. The members agreed that the intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

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

The information reviewed at this meeting suggests that economic activity is continuing to expand despite weakness in the industrial sector. Total nonfarm payroll employment increased substantially in January after growing at a reduced pace on average in previous months; a surge in the service-producing sector and a weather-related rebound in construction were only partly offset by a large decline in the manufacturing sector. The civilian unemployment rate was unchanged at 5.3 percent. Partial data suggest that industrial production in January was appreciably below its average in the fourth quarter. Adjusted for inflation, strong gains in consumer spending on services in the fourth quarter offset declines in consumer purchases of goods, especially motor vehicles. Unusually cold weather depressed housing starts appreciably in December, and residential construction in the fourth quarter was little changed from its third-quarter level. Business capital spending, adjusted for inflation, declined in the fourth quarter as a result of lower expenditures on motor vehicles and strike activity in the aircraft industry; spending on other types of capital goods was strong, however, and new orders for equipment picked up toward the end of the year. The nominal U.S. merchandise trade deficit widened in October–November from the third-quarter rate. Consumer prices had risen somewhat more rapidly toward the end of 1989, and prices of food and energy apparently increased substantially further in January. The latest data on labor compensation suggest no significant change in prevailing trends.

Interest rates have risen in intermediate- and long-term debt markets since the Committee meeting on December 18–19; in short-term markets, the federal funds rate has declined, and other short-term rates show mixed changes over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period; most of the depreciation was against the German mark and related European currencies, and there was little change against the yen.

Growth of M2 slowed in January, almost entirely reflecting a drop in transaction deposits. Growth of M3 also slowed in January as assets of thrift institutions and their associated funding needs apparently continued to contract. For the year 1989, M2 expanded at a rate a little below the middle of the Committee's annual range, and M3 grew at a rate slightly below the lower bound of its annual range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 3 to 7 percent and 2½ to 6½ percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from December through March at annual rates of about 7 and 3½ percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for the paragraph on short-term policy implementation: Messrs. Greenspan, Corrigan, Angell, Boehne, Johnson, Kelley, LaWare, and Stern.

Votes against this action: Messrs. Boykin and Hoskins and Ms. Seger.

While taking account of the various elements of weakness and fragility in the economy, Mr. Boykin dissented because he preferred a policy directive tilted toward increased reserve pressures should economic and financial conditions warrant. This view was based on his concerns regarding the lagged effects of policy actions and the risks of delaying decisions until there was full confirmation of inflationary pressures. In this context, Mr. Boykin expressed his preference for dealing promptly with inflation if the Committee wished to make progress toward its long-stated goal of lowering the rate of inflation.

Mr. Hoskins dissented because he preferred some firming of reserve conditions. He recognized that there was some financial fragility in the economy, but he believed that underlying inflation pressures were relatively strong and that the balance of risks pointed to a need for greater monetary restraint to curb such inflation. He emphasized the desirability of tightening monetary policy gradually to reduce monetary growth to a pace closer to the midpoint of the Committee's range for the year.

Ms. Seger's dissent reflected a preference for some easing of reserve conditions at this point. In her view, even a limited decline in interest rates would provide timely assistance to relatively weak, interest-sensitive sectors of the economy such as housing and motor vehicles and would tend to sustain the expansion itself without adding to inflation risks in the economy.

2. *Review of Continuing Authorizations*

The Committee followed its customary practice of reviewing all of its continuing authorizations and directives at this first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning January 1, 1990. The Committee reaffirmed the authorization for foreign currency operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Johnson, Kelley, LaWare, Ms. Seger, and Mr. Stern. Votes against this action: None.

3. *Authorization for Domestic Open Market Operations*

On the recommendation of the Manager for Domestic Operations, the Committee amended paragraph 1(a) of the authorization for domestic open market operations to raise from $6 billion to $8 billion the limit on intermeeting changes in System account holdings of U.S. government and federal agency securities. The increase was the first permanent change in the limit since March 1985 when it was raised from $4 billion to $6 billion. The Manager indicated that temporary increases had been authorized more frequently in recent years and that the existing limit also was approached more often during intermeeting intervals when no temporary increase was requested. A permanent increase to $8 billion would reduce the number of occasions requiring special Committee action, while still calling needs for particularly large changes to the Committee's attention. The Committee concurred in the Manager's view that a $2 billion increase would be appropriate.

Accordingly, effective February 6, 1990, paragraph 1(a) of the authorization for domestic open market operations was amended to read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $8.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Johnson, Kelley, LaWare, Ms. Seger, and Mr. Stern. Votes against this action: None.

Legal Developments

AMENDMENT TO REGULATION B

The Board of Governors is publishing revisions to the official staff commentary to 12 C.F.R. Part 202, its Regulation B (Equal Credit Opportunity). The commentary applies and interprets the requirements of Regulation B and is a substitute for individual staff interpretations of the regulation. The revisions include interpretations of the final rule amending Regulation B to implement Equal Credit Opportunity Act amendments on business credit as well as interpretations about data collection.

Effective April 1, 1990, 12 C.F.R. Part 202 is amended as follows:

1. The authority citation for Part 202 continues to read as follows:

Authority: 15 U.S.C. §§ 1691-1961f

2. In section 202.1, comment 1(a)-3 is added to read as follows:

Section 202.1—Authority, Scope, and Purpose

* * * * *

1(a) Authority and Scope.

* * * * *

3. *Board.* The term "Board," as used in this regulation, means the Board of Governors of the Federal Reserve System.

3. In section 202.2, comment 2(g) 1 and a heading are added to read as follows:

Section 202.2—Definitions

* * * * *

2(g)*Business credit.*

1. *Definition.* The test for deciding whether a transaction qualifies as business credit is one of primary purpose. For example, an open-end credit account used for both personal and business purposes is not business credit unless the primary purpose of the account is business-related. A creditor may rely on an applicant's statement of the purpose for the credit requested.

* * * * *

4. In section 202.3, comment 3(e)-1 and the heading and comment 3(d)(3)-1 are removed; comment 3(d)-1 and the heading are revised to read as follows:

Section 202.3—Limited Exceptions for Certain Classes of Transactions

* * * * *

3(d) *Government credit.*

1. *Credit to governments.* The exception relates to credit extended to (not by) governmental entities. For example, credit extended to a local government by a creditor in the private sector is covered by this exception, but credit extended to consumers by a federal or state housing agency does not qualify for special treatment under this category.

* * * * *

5. In section 202.5, comments 5(b)(2)-1 and -2 and a heading are added to read as follows:

Section 202.5—Rules Concerning Taking of Applications

* * * * *

5(b) *General rules concerning request for information.*

* * * * *

Paragraph 5(b)(2)

1. *Local laws.* Information that a creditor is allowed to collect pursuant to a "state" statute or regulation includes information required by a local statute, regulation, or ordinance.
2. *Information required by Regulation C.* Regulation C generally requires creditors covered by the Home Mortgage Disclosure Act ("HMDA") to collect and report information about the race or national origin and sex of applicants for home improvement loans and home purchase loans, including some types of loans not covered by section 202.13. Certain creditors with assets under $30 million, though covered by HMDA, are not required to collect and report these data; but they may do so

at their option under HMDA, without violating the ECOA or Regulation B.

* * * * *

6. In section 202.9, comments 9(a)(3)-1 through -5 and a heading are added to read as follows:

Section 202.9—Notifications

* * * * *

9(a) Notification of action taken, ECOA notice, and statement of specific reasons.

* * * * *

Paragraph 9(a)(3)

1. *Coverage.* In determining the rules in this paragraph that apply to a given business credit application, a creditor may rely on the applicant's assertion about the revenue size of the business. (Applications to start a business are governed by the rules in section 202.9(a)(3)(i).) If an applicant applies for credit as a sole proprietor, the revenues of the sole proprietorship will determine which rules in the paragraph govern the application. However, if an applicant applies for business purpose credit as an individual, the rules in paragraph 9(a)(3)(i) apply unless the application is for trade or similar credit.
2. *Trade credit.* The term "trade credit" generally is limited to a financing arrangement that involves a buyer and a seller — such as a supplier who finances the sale of equipment, supplies, or inventory; it does not apply to an extension of credit by a bank or other financial institution for the financing of such items.
3. *Factoring.* Factoring refers to a purchase of accounts receivable, and thus is not subject to the act or regulation. If there is a credit extension incident to the factoring arrangements, the notification rules in section 202.9(a)(3)(ii) apply as do other relevant sections of the act and regulation.
4. *Manner of compliance.* In complying with the notice provisions of the act and regulation, creditors offering business credit may follow the rules governing consumer credit. Similarly, creditors may elect to treat all business credit the same (irrespective of revenue size) by providing notice and keeping records in accordance with section 202.9(a)(3)(i).
5. *Timing of notification.* A creditor subject to section 202.9(a)(3)(ii)(A) is required to notify a business credit applicant, orally or in writing, of action taken on an application within a reasonable time of receiving a completed application. Notice provided in accordance with the timing requirements of section 202.9(a)(1) is deemed reasonable in all instances.

* * * * *

7. In section 202.10, comment 10–1 is revised to read as follows:

Section 202.10—Furnishing of Credit Information

1. *Scope.* The requirements of section 202.10 for designating and reporting credit information apply only to consumer credit transactions. Moreover, they apply only to creditors that opt to furnish credit information to credit bureaus or to other creditors; there is no requirement that a creditor furnish credit information on its accounts.

* * * * *

8. In section 202.13, comment 13(a)-7 is added to read as follows:

Section 202.13—Information for Monitoring Purposes

13(a) Information to be requested.

* * * * *

7. *Data collection under Regulation C.* See comment 5(b)(2)-2.

AMENDMENT TO REGULATION E

The Board of Governors is publishing revisions to the official staff commentary to 12 C.F.R. Part 205, its Regulation E (Electronic Fund Transfers). The commentary applies and interprets the requirements of Regulation E and is a substitute for individual staff interpretations of the regulation. The revision addresses questions that have arisen about the requirements of the regulation relating to the revocation of authority for preauthorized transfers.

Effective April 1, 1990, 12 C.F.R. Part 205 is amended as follows:

1. The authority citation for Part 205 continues to read:

Authority: Pub. L. 95–630, 92 Stat. 3730 (15 U.S.C. § 1693b).

2. Comment Q10–19.5 is added to read as follows:

Q10–19.5: *Preauthorized debits — revocation of authorization.* A consumer authorizes a designated payee to originate electronic fund transfers from the consumer's account. The consumer later revokes that authorization, and instructs the account-holding financial institution to block all subsequent debits initiated by that payee-originator. Must the financial institution comply with the consumer's instructions, or may it wait for the originator to cease the initiation of automatic debits?

A: Since the financial institution has been notified that the consumer's authorization is no longer valid, the institution must block all future debits transmitted by that payee-originator.

The financial institution may confirm that the consumer has informed the payee-originator of the revocation. The institution may also require a copy of the consumer's revocation.

* * * * *

AMENDMENT TO REGULATION T

The Board of Governors is amending 12 C.F.R. Part 220, its Regulation T (Credit by Brokers and Dealers; Accommodation of Settlement and Clearance of Foreign Securities) to permit marginability of certain foreign securities and to accommodate settlement and clearance of transactions in foreign securities.

Effective April 30, 1990, 12 C.F.R. Part 220 is amended as follows:

Part 220—Credit by Brokers and Dealers

1. The authority citation for Part 220 continues to read as follows:

Authority: 15 U.S.C. §§ 78c, 78g, 78h, 78q, and 78w.

2. In section 220.2, paragraphs (i) through (y) are redesignated as paragraphs (k) through (aa); "or" is removed at the end of newly redesignated paragraph (q)(4); the period is removed at the end of newly redesignated paragraphs (q)(5), (t)(3), and (t)(4)(iii) and "; or" is added; and new paragraphs (i), (j), (q)(6), and (t)(5) are added to read as follows:

Section 220.2—Definitions

* * * * *

(i) *Foreign margin stock* means:

(1) A foreign security that is an equity security and that appears on the Board's periodically published List of Foreign Margin Stocks based on information submitted by a self-regulatory organization under procedures approved by the Board; or

(2) A foreign security that is a debt security convertible into a margin security.

(j) *Foreign security* means a security issued in a jurisdiction other than the United States.

* * * * *

(q) *Margin security* * * *

(6) Any foreign margin stock.

* * * * *

(t) *OTC margin bond* * * *

(5) A foreign security that is a nonconvertible debt security that meets all of the following requirements:

(i) At the time of original issue, a principal amount of at least $100,000,000 was outstanding;

(ii) At the time of the extension of credit, the creditor has a reasonable basis for believing that the issuer is not in default on interest or principal payments; and

(iii) At the time of the extension of credit, the issue is rated in one of the two highest rating categories by a nationally recognized statistical rating organization, except that an issue that has not been rated as of the effective date of this provision shall be considered an "OTC margin bond" if a subsequent unsecured issue of at least $100,000,000 of the same issuer is rated in one of the two highest rating categories by a nationally recognized statistical rating organization.

3. In section 220.4, a new sentence is added to the end of paragraph (c)(1) to read as follows:

Section 220.4—Margin account

* * * * *

(c) *When additional margin is required —*

(1) *Computing deficiency.* * * * To the extent that debits in a margin account are denominated in foreign currency secured by specifically identified foreign margin securities as provided in section 220.5(g), each foreign currency debit position shall be considered separately for purposes of computing a deficiency and no credit shall be given to such specifically identified foreign margin securities for purposes of computing equity in the margin account either in United States dollars or in any other specific foreign currency.

* * * * *

4. In section 220.5, a new paragraph (g) is added to read as follows:

Section 220.5—Margin account exceptions and special provisions

* * * * *

(g) *Credit denominated in foreign currency.* A creditor may extend credit denominated in a foreign currency secured by foreign margin securities denominated or traded in the same foreign currency and specifically identified on the creditor's books and records as securing the foreign currency debit.

5. In section 220.8, paragraph (b)(1) introductory text is revised; paragraphs (b)(1)(i) through (iv) are redesignated as shown below:

Old Paragraph Designation	New Paragraph Designation
(i)	(A)
(ii)	(B)
(iii)	(C)
(iv)	(D)
(A)	(1)
(B)	(2)
(C)	(3)

and new paragraphs (b)(1)(i) and (b)(1)(ii) are added to read as follows:

Section 220.8—Cash account

* * * * *

(b) *Time periods for payment; cancellation or liquidation* —

(1) *Full cash payment.* A creditor shall obtain full cash payment for customer purchases —

(i) Within seven business days of the date:

* * * * *

(ii) In the case of the purchase of a foreign security, within seven business days of the trade date or the date on which settlement is required to occur by the rules of the foreign securities market, provided this period does not exceed the maximum time permitted by this part for delivery against payment transactions.

* * * * *

6. In section 220.13, "or" is removed at the end of paragraphs (a) and (b); the period is removed at the end of paragraph (c) and "; or" is added; and new paragraph (d) is added to read as follows:

Section 220.13—Arranging for loans by others

* * * * *

(d) *Credit extended by a foreign person to purchase foreign securities.*

7. In section 220.17, the section heading and the headings to paragraphs (a) and (b) are revised; the reference to paragraph (d) in paragraphs (a) and (b) is changed to read paragraph (f); paragraphs (c), (d), and (e) are redesignated as paragraphs (e), (f), and (g) and revised; and new paragraphs (c) and (d) are added to read as follows:

Section 220.17—Requirements for the list of marginable OTC stocks and the list of foreign margin stocks

(a) *Requirements for inclusion on the list of marginable OTC stocks.*

* * * * *

(b) *Requirements for continued inclusion on the list of marginable OTC stocks.*

* * * * *

(c) *Requirements for inclusion on the list of foreign margin stocks.* Except as provided in paragraph (f) of this section, a foreign margin stock shall meet the following requirements:

(1) The security is listed for trading on or through the facilities of a foreign securities exchange or recognized foreign securities market and has been trading on such exchange or market for at least six months;

(2) Daily quotations for both bid and asked or last sale prices for the security provided by the foreign securities exchange or foreign securities market on which the security is traded are continuously available to creditors in the United States pursuant to an electronic quotation system;

(3) The aggregate market value of shares, the ownership of which is unrestricted, is not less than $1 billion;

(4) The average weekly trading volume of such security during the preceding six months is either at least 200,000 shares or $1 million; and

(5) The issuer or a predecessor in interest has been in existence for at least five years.

(d) *Requirements for continued inclusion on the list of foreign margin stocks.* Except as provided in paragraph (f) of this section, a foreign margin stock shall meet the following requirements:

(1) The security continues to meet the requirements specified in paragraphs (c)(1) and (2) of this section;

(2) The aggregate market value of shares, the ownership of which is unrestricted, is not less than $500 million; and

(3) The average weekly trading volume of such security during the preceding six months is either at least 100,000 shares of $500,000.

(e) *Removal from the lists.* The Board shall periodically remove from the lists any stock that:

(1) ceases to exist or of which the issuer ceases to exist, or

(2) no longer substantially meets the provisions of paragraphs (b) or (d) of this section or section 220.2(u).

(f) *Discretionary authority of Board.* Without regard to other paragraphs of this section, the Board may add to, or omit or remove from the list of marginable OTC stocks and the list of foreign margin stocks any equity security, if in the judgment of the Board, such action is necessary or appropriate in the public interest.

(g) *Unlawful representations.* It shall be unlawful for any creditor to make, or cause to be made, any representation to the effect that the inclusion of a security on the list of marginable OTC stocks or the list of foreign margin stocks is evidence that the Board or the SEC has in any way passed upon the merits of, or given approval to, such security or any transactions therein. Any statement in an advertisement or other similar communication containing a reference to the Board in connection with the lists or stocks on those lists shall be an unlawful representation.

8. In section 220.18, the phrase "or the percentage set by the regulatory authority where the trade occurs, whichever is greater" is added before the period at the end of paragraphs (a) and (b).

Amendment to Regulation Z

The Board of Governors is publishing revisions to the official staff commentary to 12 C.F.R. Part 226, its Regulation Z (Truth in Lending). The commentary applies and interprets the requirements of Regulation Z and is a substitute for individual staff interpretations. The majority of the revisions address the amendments to Regulation Z issued in April 1989 to implement the Fair Credit and Charge Card Disclosure Act of 1988 and the amendments to the regulation issued in June 1989 to implement the Home Equity Loan Consumer Protection Act of 1988. The commentary incorporates much of the guidance provided when those regulatory changes were adopted and addresses additional questions that have been raised about application of the new requirements as well as several issues concerning other parts of the regulation.

Effective April 1, 1990, but compliance optional until October 1, 1990, 12 C.F.R. Part 226 is amended as follows:

1. The authority citation for Part 226 continues to read:

Authority: Truth in Lending Act, 15 U.S.C. § 1604 and sec. 2 Pub. L. 100–583, 102 Stat. 2960; sec. 1204(c), Competitive Equality Banking Act, Pub. L. 100–86, 101 Stat. 552.

Subpart A—General

* * * * *

Section 226.2—Definitions and Rules of Construction

2(a) *Definitions*

* * * * *

2(a)(15) "Credit Card"

* * * * *

1. Comment 2(a)(15)-3 is added to read as follows:

3. *Charge card.* Generally, charge cards are cards used in connection with an account on which outstanding balances cannot be carried from one billing cycle to another and are payable when a periodic statement is received. Under the regulation, a reference to credit cards generally includes charge cards. The term "charge card" is, however, distinguished from "credit card" in sections 226.5a, 226.9(e), 226.9(f) and 226.28(d), and appendices G-10 through G-13. When the term "credit card" is used in those provisions, it refers to credit cards other than charge cards.

* * * * *

2(a)(20) "Open-End Credit"

* * * * *

2. Comment 2(a)(20)-5 is amended by adding parenthetical material before the last sentence to read as follows:

5. *Reusable line.* * * *

* * * * *

2(a)(24) "Residential Mortgage Transaction"

* * * * *

3. Comment 2(a)(24)-6 is added to read as follows:

6. *Multiple purpose transactions.* A transaction meets this definition of this section if any part of the loan proceeds will be used to finance the acquisition or initial construction of the consumer's principal dwelling. For example, a transaction to finance the initial construction of the consumer's principal dwelling is a residential mortgage transaction even if a portion of the funds will be disbursed directly to the consumer or used to satisfy a loan for the purchase of the land on which the dwelling will be built.

* * * * *

Subpart B—Open-End Credit

Section 226.5—General Disclosure Requirements

* * * * *

5(b) Time of Disclosures

5(b)(1) Initial Disclosures

4. Comment 5(b)(1)-1 is amended by adding two sentences after the second sentence to read as follows:

1. *Disclosures before the first transaction.* * * * The prohibition on the payment of fees other than application or refundable membership fees before initial disclosures are provided does not apply to home equity plans subject to sections 226.5b. See the commentary to section 226.5b(h) regarding the collection of fees for home equity plans covered by section 226.5b. * * *

* * * * *

5. Comments 5a-1 through 5a(g)-2 and headings are added to read as follows:

Section 226.5a—Credit and Charge Card Applications and Solicitations

1. *General.* Section 226.5a generally requires that credit disclosures be contained in application forms and preapproved solicitations initiated by a card issuer to open a credit or charge card account. (See the commentary to sections 226.5a(a)(3) and 226.5a(e) for exceptions; see also section 226.2(a)(15) and accompanying commentary for the definition of charge card.)

2. *Combining disclosures.* The initial disclosures required by section 226.6 do not substitute for the disclosures required by section 226.5a; however, a card issuer may establish procedures so that a single disclosure statement meets the requirements of both sections. For example, if a card issuer in complying with section 226.5a(e)(2) provides all the applicable disclosures required under section 226.6, in a form that the consumer may keep and in accordance with the other format and timing requirements for that section, the issuer satisfies the initial disclosure requirements under section 226.6 as well as the disclosure requirements of section 226.5a(e)(2). Or if, in complying with section 226.5a(c) or 226.5a(d)(2), a card issuer provides an integrated document that the consumer may keep, and provides the section 226.5a disclosures (in a tabular format) along with the additional disclosures required under section 226.6 (presented outside of the table), the card issuer satisfies the requirements of both sections 226.5a and 226.6.

5a(a) General Rules

5a(a)(2) Form of Disclosures

1. *Prominent location.* Certain of the required disclosures provided on or with an application or solicitation must be prominently located— that is, readily noticeable to the consumer. There are, however, no requirements that the disclosures be in any particular location or in any particular type size or typeface.

2. *Multiple accounts or varying terms.* If a tabular format is required to be used, card issuers offering several types of accounts may disclose the various terms for the accounts in a single table or may provide a separate table for each account. Similarly, if rates or other terms vary from state to state, card issuers may list the states and the various disclosures in a single table or in separate tables.

3. *Additional information.* The table containing the disclosures required by section 226.5a should contain only the information required or permitted by this section. (See the commentary to section 226.5a(b) for guidance on information permitted in the table.) Other credit information may be presented on or with an application or solicitation, provided such information appears outside the required table.

4. *Location of certain disclosures.* A card issuer has the option of disclosing any of the fees in section 226.5a(b)(8) through (10) in the required table or outside the table.

5. *Terminology.* In general, section 226.5a(a)(2)(iv) requires that the terminology used for the disclosures specified in section 226.5a(b) be consistent with that used in the disclosures under sections 226.6 and 226.7. This standard requires that the section 226.5a(b) disclosures be close in meaning to those under sections 226.6 and 226.7; however, the terminology used need not be identical. In addition, section 226.5a(a)(2)(i) requires that the headings, content, and format of the tabular disclosures be substantially similar, but need not be identical, to the tables in appendix G. A special rule applies to the grace period disclosure, however;

the term "grace period" must be used, either in the heading or in the text of the disclosure.

6. *Deletion of inapplicable disclosures.* Generally, disclosures need only be given as applicable. Card issuers may, therefore, delete inapplicable headings and their corresponding boxes in the table. For example, if no transaction fee is imposed for purchases, the disclosure form may contain the heading "Transaction fee for purchases" and a box showing "none," or the heading and box may be deleted from the table. There is an exception for the grace period disclosure, however: even if no grace period exists, that fact must be stated.

5a(a)(3) Exceptions

1. *Coverage.* Certain exceptions to the coverage of section 226.5a are stated in section 226.5a(a)(3); in addition, the requirements of section 226.5a do not apply to the following:

—Lines of credit accessed solely by account numbers; or

—Addition of a credit or charge card to an existing open-end plan

2. *Noncoverage of "consumer initiated" requests.* Applications provided to a consumer upon request are not covered by section 226.5a, even if the request is made in response to the card issuer's invitation to apply for a card account. To illustrate, if a card issuer invites consumers to call a toll-free number or to return a response card to obtain an application, the application sent in response to the consumer's request need not contain the disclosures required under section 226.5a. Similarly, if the card issuer invites consumers to call and make an oral application on the telephone, section 226.5a does not apply to the application made by the consumer. If, however, the card issuer calls a consumer or initiates a telephone discussion with a consumer about opening a card account and contemporaneously takes an oral application, such applications are subject to section 226.5a, specifically section 226.5a(d).

3. *General purpose applications.* In accordance with section 226.5(c).

4. *Variable-rate accounts—other disclosures.* In describing how the applicable rate will be determined, the card issuer must identify the index or formula and disclose any margin or spread added to the index or formula in setting the rate. The card issuer may disclose the margin or spread as a range of the highest and lowest margins that may be applicable to the account. A disclosure of any applicable limitations on rate increases or decreases may also be included in the table.

5. *Introductory rates—discounted rates.* If the initial rate is temporary and is lower than the rate that will apply after the temporary rate expires, the card issuer must disclose the annual percentage rate that would otherwise apply to the account. In a fixed-rate account, the card issuer must disclose the rate that will apply after the introductory rate expires. In a variable-rate account, the card issuer must disclose a rate based on the index or formula applicable to the account in accordance with the rules in section 226.5a(b)(1)(ii) and comment 5a(b)(1)-3. An initial discounted rate may be provided in the table along with the rate required to be disclosed if the card issuer also discloses the time period during which the introductory rate will remain in effect.

6. *Introductory rates—premium rates.* If the initial rate is temporary and is higher than the permanently applicable rate, the card issuer must disclose the initial rate. The issuer may disclose in the table the rate that would otherwise apply if the issuer also discloses the time period during which the initial rate will remain in effect.

5a(b)(2) Fees for Issuance or Availability

1. *Membership fees.* Membership fees for opening an account must be disclosed under this paragraph. A membership fee to join an organization that provides a credit or charge card as a privilege of membership must be disclosed only if the card is issued automatically upon membership. Such a fee need not be disclosed if membership results merely in eligibility to apply for an account.

2. *Enhancements.* Fees for optional services in addition to basic membership privileges in a credit or charge card account (for example, travel insurance or card registration services) need not be disclosed under this paragraph if the basic account may be opened without paying such fees.

3. *One-time fees.* Disclosure of non-periodic fees is limited to fees related to opening the account, such as one-time membership fees. The following are examples of fees that should not be disclosed in the table:

—Fees for reissuing a lost or stolen card;

—Statement reproduction fees; and

—Application fees described in section 226.4(c)(1).

4. *Waived or reduced fees.* If fees required to be disclosed are waived or reduced for a limited time, the introductory fees or the fact of fee waivers may be provided in the table in addition to the required fees if the card issuer also discloses how long the fees or waivers will remain in effect.

5. *Fees stated as annual amount.* Fees imposed periodically must be stated as an annual total. For example, if a fee is imposed quarterly, the disclosures would state the total amount of the fees for one year. (See, however, the commentary to section 226.9(e) with regard to disclosure of such fees in renewal notices.)

5a(b)(4) Transaction Charges

1. *Charges imposed by person other than card issuer.* Charges imposed by a third party, such as a seller of goods, would not be disclosed under this section; the third party would be responsible for disclosing the charge under section 226.9(d)(1).

5a(b)(5) Grace Period

1. *How disclosure is made.* The card issuer may, but need not, refer to the beginning or ending point of any grace period and briefly state any conditions on the applicability of the grace period. For example, the grace period disclosure might read "30 days" or "30 days from the date of the periodic statement (provided you have paid your previous balance in full by the due date)."

5a(b)(6) Balance Computation Method

1. *Form of disclosure.* In cases where the card issuer uses a balance calculation method that is identified by name in the regulation, the card issuer may only disclose the name of the method in the table. In cases where the card issuer uses a balance computation method that is not identified by name in the regulation, the disclosure in the table should clearly explain the method in as much detail as set forth in the descriptions of balance methods in section 226.5a(g). The explanation need not be as detailed as that required for the disclosures under section 226.6(a)(3). (See the commentary to section 226.5a(g) for guidance on particular methods.)

2. *Determining the method.* In determining the appropriate balance computation method for purchases for disclosure purposes, the card issuer must assume that a purchase balance will exist at the end of any grace period. Thus, for example, if the average daily balance method will include new purchases or cover two billing cycles only if purchase balances are not paid within the grace period, the card issuer would disclose the name of the average daily balance method that includes new purchases or covers two billing cycles, respectively. The card issuer should not assume the existence of a purchase balance, however, in making other disclosures under section 226.5a(b).

5a(b)(7) Statement on Charge Card Payments

1. *Applicability and content.* The disclosure that charges are payable upon receipt of the periodic statement is applicable only to charge card accounts. In making this disclosure, the card issuer may make such modifications as are necessary to more accurately reflect the circumstances of repayment under the account. For example, the disclosure might read, "Charges are due and payable upon receipt of the periodic statement and must be paid no later than 15 days after receipt of such statement."

5a(b)(8) Cash Advance Fee

1. *Applicability.* The card issuer must disclose only those fees it imposes for a cash advance that are finance charges under section 226.4. For example, a charge for a cash advance at an automated teller machine (ATM) would be disclosed under section 226.5a(b)(8) if no similar charge is imposed for ATM transactions not involving an extension of credit. (See comment 4(a)-5 for a description of such a fee.)

5a(b)(9) Late Payment Fee

1. *Applicability.* The disclosure of the fee for a late payment includes only those fees that will be imposed for actual, unanticipated late payments. (See the commentary to section 226.4(c)(2) for additional guidance on late payment fees.)

5a(b)(10) Over-the-Limit Fee

1. *Applicability.* The disclosure of fees for exceeding a credit limit does not include fees for other types of default or for services related to exceeding the limit. For example, no disclosure is required of fees for reinstating credit privileges or fees for the dishonor of checks on an account that, if paid, would cause the credit limit to be exceeded.

5a(c) Direct Mail Applications and Solicitations

1. *Accuracy.* In general, disclosures in direct mail applications and solicitations must be accurate as of the time of mailing. (An accurate variable annual percentage rate is one in effect within 30 days before mailing.)

2. *Mailed publications.* Applications or solicitations contained in generally available publications mailed to consumers (such as subscription magazines) are subject to the requirements applicable to "take-ones" in section 226.5a(e), rather than the direct mail requirements of section 226.5a(c). However, if a primary purpose of a card issuer's mailing is to offer credit or charge card accounts—for example, where a card issuer "prescreens" a list of potential cardholders using credit criteria, and then mails to the targeted group its catalog containing an application or a solicitation for a card account—the direct mail rules apply. In addition, a card issuer may use a single application form as a "take-one" (in racks in public locations, for example) and for direct mailings, if the card issuer complies with the requirements of section 226.5a(c) even when the form is used as a "take-one"—that is, by providing current information and presenting the required disclosures in a tabular format—and eliminates the information required under section 226.5a(e)(1)(ii) and (iii).

5a(d) Telephone Applications and Solicitations

1. *Coverage.* This paragraph applies if:

—A telephone conversation between a card issuer and consumer may result in the issuance of a card as a consequence of an issuer-initiated offer to open an account for which the issuer does not require any application (that is, a "preapproved" telephone solicitation).

—The card issuer initiates the contact and at the same time takes application information over the telephone.

This paragraph does not apply to:

—Telephone applications initiated by the consumer.

—Situations where no card will be issued—because for example, the consumer indicates that he or she does not want the card, or the card issuer decides either during the telephone conversation or later not to issue the card.

5a(e) Applications and Solicitations Made Available to General Public

1. *Coverage.* Applications and solicitations made available to the general public include what are commonly referred to as "take-one" applications typically found at counters in banks and retail establishments, as well as applications contained in catalogs, magazines and other generally available publications. In the case of credit unions, this paragraph applies to applications and solicitations to open card accounts made available to those in the general field of membership.

2. *Cross-selling.* If a card issuer invites a consumer to apply for a credit or charge card (for example, where the issuer engages in cross-selling), an application provided to the consumer at the consumer's request is not considered an application made available to the general public and therefore is not subject to section 226.5a(e). For example, the following are not covered:

—A consumer applies in person for a car loan at a financial institution and the loan officer invites the consumer to apply for a credit or charge card account; the consumer accepts the invitation.

—An employee of a retail establishment, in the course of processing a sales transaction using a bank credit card, asks a customer if he or she would like to apply for the retailer's credit or charge card; the customer responds affirmatively.

3. *Toll-free telephone number.* If a card issuer, in complying with any of the disclosure options of section 226.5a(e), provides a telephone number for consumers to call to obtain credit information, the number must be toll-free for nonlocal calls made from an area code other than the one used in the card issuer's dialing area. Alternatively, a card issuer may provide any telephone number that allows a consumer to call for information and reverse the telephone charges.

5a(e)(1) Disclosure of Required Credit Information

1. *Date of printing.* Disclosure of the month and year fulfills the requirement to disclose the date an application was printed.

2. *Form of disclosures.* The disclosures specified in sections 226.5a(e)(i), (ii), and (iii) may appear either in or outside the table containing the required credit disclosures.

5a(e)(2) Inclusion of Certain Initial Disclosures

1. *Accuracy of disclosures.* The disclosures required by section 226.5a(e)(2) generally must be current as of the time they are made available to the public. Disclosures are considered to be made available at the time they are placed in public locations (in the case of "take-ones") or mailed to consumers (in the case of publications).

2. *Accuracy—exception.* If a card issuer discloses all the information required by section 226.5a(e)(1)(ii) on the application or solicitation, the disclosures under section 226.5a(e)(2) need only be current as of the date of printing. (A current variable annual percentage rate would be one in effect within 30 days before printing.)

5a(e)(3) No Disclosure of Credit Information

1. *When disclosure option available.* A card issuer may use this option only if the issuer does not include on or with the application or solicitation any statement that refers to the credit disclosures required by section 226.5a(b). Statements such as "no annual fee," "low interest rate," "favorable rates," and "low costs" are deemed to refer to the required credit disclosures and, therefore, may not be included on or with the solicitation or application, if the card issuer chooses to use this option.

5a(e)(4) Prompt Response to Requests for Information

1. *Prompt disclosure.* Information is promptly disclosed if it is given within 30 days of a consumer's request for information but in no event later than delivery of the credit or charge card.

2. *Information disclosed.* When a consumer requests credit information, card issuers need not provide all the required credit disclosures in all instances. For example, if disclosures have been provided in accordance with section 226.5a(e)(1) or (2) and a consumer calls or writes a card issuer to obtain information about changes in the disclosures, the issuer need only provide the items of information that have changed from those previously disclosed on or with the application or solicitation. If a consumer requests information about particular items, the card issuer need only provide the requested information. If, however, the card issuer has made disclosures in accordance with the option in section 226.5a(e)(3) and a consumer calls or writes the card issuer requesting information about costs, all the required disclosure information must be given.

3. *Manner of response.* A card issuer's response to a consumer's request for credit information may be provided orally or in writing, regardless of the manner in which the consumer's request is received by the issuer. Furthermore, the card issuer may provide the information listed in either section 226.5a(e)(1) or (2). Information provided in writing need not be in a tabular format.

5a(f) Special Charge Card Rule—Card Issuer and Person Extending Credit Not the Same Person

1. *Duties of charge card issuer.* Although the charge card issuer is not required to disclose information about the underlying open-end credit plan if the card issuer meets the conditions set forth in section 226.5a(f), the card issuer must disclose the information relating to the charge card plan itself.

2. *Duties of creditor maintaining open-end plan.* Section 226.5a does not impose disclosure requirements on the creditor that maintains the underlying open-end credit plan. This is the case even though the creditor offering the open-end credit plan may be considered an agent of the charge card issuer. (See comment 2(a)(7)-1.)

3. *Form of disclosures.* The disclosures required by section 226.5a(f) may appear either in or outside the table containing the required credit disclosures in circumstances where a tabular format is required.

5a(g) Balance Computation Methods Defined

1. *Daily balance method.* Card issuers using the daily balance method may disclose it using the name "average daily balance (including new purchases)" or "average daily balance (excluding new purchases)," as appropriate. Alternatively, such card issuers may explain the method. (See comment 7(e)-5 for a discussion of the daily balance method.)

2. *Two-cycle average daily balance methods.* The "two-cycle average daily balance" methods described in sections 226.5a(g)(2)(i) and (ii) include those methods in which the average daily balances for two billing cycles may be added together to compute the finance charge. Such methods also include those in which a periodic rate is applied separately to the balance in each cycle, and the resulting finance charges are added together. The method is a "two-cycle average daily balance" even if the finance charge is based on both the current and prior cycle balances only under certain circumstances, such as when purchases during a prior cycle were carried over into the current cycle and no finance charge was assessed during the prior cycle. Furthermore, the method is a "two-cycle average daily balance method" if the balances for both the current and prior cycles are average daily balances, even if those balances are figured differently. For example, the name "two-cycle average daily balance (excluding new purchases)" should be used to describe a method in which the finance charge for the current cycle, figured on an average daily balance excluding new purchases, will be added to the finance charge for the prior cycle, figured on an average daily balance of only new purchases during that prior cycle.

6. Comments 5b-1 through 5b(h)-3 and headings are added to read as follows:

Section 226.5b—Requirements for Home Equity Plans

1. *Coverage.* This section applies to all open-end credit plans secured by the consumer's "dwelling," as defined in section 226.2(a)(19), and is not limited to plans secured by the consumer's *principal* dwelling. (See the commentary to section 226.3(a), which discusses whether transactions are consumer or business-purpose credit, for guidance on whether a home equity plan is subject to Regulation Z.)

2. *Transition rules and renewals of preexisting plans.* The requirements of this section do not apply to home equity plans entered into before November 7, 1989. The requirements of this section also do not apply if the original consumer, on or after November 7, 1989, renews a plan entered into prior to that date (with or without changes to the terms). If, on or after November 7, 1989, a security interest in the consumer's dwelling is added to a line of credit entered into before that date, the substantive restrictions of this section apply for the remainder of the plan, but no new disclosures are required under this section.

3. *Disclosure of repayment phase—applicability of requirements.* Some plans provide in the initial agreement for a period during which no further draws may be taken and repayment of the amount borrowed is made. All of the applicable disclosures in this section must be given for the repayment phase. Thus, for example, a creditor must provide payment information about the repayment phase as well as about the draw period, as required by section 226.5b(d)(5). If the rate that will apply during the repayment phase is fixed at a known amount, the creditor must provide an annual percentage rate under section 226.5b(d)(6) for that phase. If, however, a creditor uses an index to determine the rate that will apply at the time of conversion to the repayment phase—even if the rate will thereafter be fixed—the creditor must provide the information in section 226.5b(d)(12), as applicable.

4. *Payment terms—applicability of closed-end provisions and substantive rules.* All payment terms that are provided for in the initial agreement are subject to the requirements of Subpart B and not Subpart C of the regulation. Payment terms that are subsequently added to the agreement may be subject to Subpart B or to Subpart C, depending on the circumstances. The following examples apply these general rules to different situations:

—If the initial agreement provides for a repayment phase or for other payment terms such as options permitting conversion of part or all of the balance to a fixed rate during the draw period, these terms must be disclosed pursuant to sections 226.5b and 226.6, and not under Subpart C. Furthermore, the creditor must continue to provide periodic statements under section 226.7 and comply with other provisions of Subpart B (such as the substantive requirements of section 226.5b(f)) throughout the plan, including the repayment phase.

—If the consumer and the creditor enter into an agreement during the draw period to repay all or part of the principal balance on different terms (for example, with a fixed rate of interest) and the amount of available credit will be replenished as the principal balance is repaid, the creditor must continue to comply with Subpart B. For example, the creditor must continue to provide periodic statements and comply with the substantive requirements of section 226.5b(f) throughout the plan.

—If the consumer and creditor enter into an agreement during the draw period to repay all or part of the principal balance and the amount of available credit will not be replenished as the principal balance is repaid, the creditor must give closed-end credit disclosures pursuant to Subpart C for that new agreement. In such cases, Subpart B, including the substantive rules, does not apply to the closed-end credit transaction, although it will continue to apply to any remaining open-end credit available under the plan.

5. *Spreader clause.* When a creditor holds a mortgage or deed of trust on the consumer's dwelling and that mortgage or deed of trust contains a "spreader clause" (also known as a "dragnet" or cross-collateralization clause), subsequent occurrences such as the opening of an open-end plan are subject to the rules applicable to home equity plans to the same degree as if a security interest were taken directly to secure the plan, unless the creditor effectively waives its security interest under the spreader clause with respect to the subsequent open-end credit extensions.

5b(a) Form of Disclosures

5b(a)(1) General

1. *Written disclosures.* The disclosures required under this section must be clear and conspicuous and in writing, but need not be in a form the consumer can keep. (See the commentary to section 226.6(e) for special rules when disclosures required under section 226.5b(d) are given in a retainable form.)

2. *Disclosure of annual percentage rate — more conspicuous requirement.* As provided in section 226.5(a)(2), when the term "annual percentage rate" is required to be disclosed with a number, it must be more conspicuous than other required disclosures.

3. *Segregation of disclosures.* While most of the disclosures must be grouped together and segregated from all unrelated information, the creditor is permitted to include information that explains or expands on the required disclosures, including, for example:

—Any prepayment penalty;
—How a substitute index may be chosen;
—Actions the creditor may take short of terminating and accelerating an outstanding balance;
—Renewal terms; or
—Rebate of fees.

An example of information that does not explain or expand on the required disclosures and thus cannot be included is the creditor's underwriting criteria, although the creditor could provide such information separately from the required disclosures.

4. *Method of providing disclosures.* A creditor may provide a single disclosure form for all of its home equity plans, as long as the disclosure describes all aspects of the plans. For example, if the creditor offers several payment options, all such options must be disclosed. (See, however, the commentary to sections 226.5b(d)(5)(iii) and 226.5b(d)(12)(x) and (xi) for disclosure requirements relating to these provisions.) If any aspects of a plan are linked together, the creditor must disclose clearly the relationship of the terms to each other. For example, if the consumer can only obtain a particular payment option in conjunction with a certain variable-rate feature, this fact must be disclosed. A creditor has the option of providing separate disclosure forms for multiple options or variations in features. For example, a creditor that offers different payment options for the draw period may prepare separate disclosure forms for the two payment options. A creditor using this alternative, however, must include a statement on each disclosure form that the consumer should ask about the creditor's other home equity programs. (This disclosure is required only for those programs available generally to the public. Thus, if the only other programs available are employee preferred-rate plans, for example, the creditor would not have to provide this statement.) A creditor that receives a request for information about other available programs must provide the additional disclosures as soon as reasonably possible.

5b(a)(2) Precedence of Certain Disclosures

1. *Precedence rule.* The list of conditions provided at the creditor's option under section 226.5b(d)(4)(iii) need not precede the other disclosures.

5b(b) Time of Disclosures

1. *Mail and telephone applications.* If the creditor sends applications through the mail, the disclosures and a brochure must accompany the application. If an application is taken over the telephone, the disclosures and brochure may be delivered or mailed within three business days of taking the application. If an application is mailed to the consumer following a telephone request, however, the creditor also must send the disclosures and a brochure along with the application.

2. *General purpose applications.* The disclosures and a brochure need not be provided when a general purpose application is given to a consumer unless (1) the application or materials accompanying it indicate that it can be used to apply for a home equity plan or (2) the application is provided in response to a consumer's specific inquiry about a home equity plan. On the other hand, if a general purpose application is provided in response to a consumer's specific inquiry only about credit other than a home equity plan, the disclosures and brochure need not be provided even if the application indicates it can be used for a home equity plan, unless it is accompanied by promotional information about home equity plans.

3. *Publicly-available applications.* Some creditors make applications for home equity plans, such as "take-ones," available without the need for a consumer to request them. These applications must be accompanied by the disclosures and a brochure, such as by attaching the disclosures and brochure to the application form.

4. *Response cards.* A creditor may solicit consumers for its home equity plan by mailing a "response card" which the consumer returns to the creditor to indicate interest in the plan. If the only action taken by the creditor upon receipt of the response card is to send the consumer an application form or to telephone the consumer to discuss the plan, the creditor need not send the disclosures and brochure with the response card.

5. *Denial or withdrawal of application.* In situations where footnote 10a permits the creditor a three-day delay in providing disclosures and the brochure, if the creditor determines within that period that an application will not be approved, the creditor need not provide the consumer with the disclosures or brochure. Similarly, if the consumer withdraws the application within this three-day period, the creditor need not provide the disclosures or brochure.

6. *Intermediary agent or broker.* In determining whether or not an application involves an "intermediary agent or broker" as discussed in footnote 10a, creditors should consult the provisions in comment 19(b)-3.

5b(c) Duties of Third Parties

1. *Disclosure requirements.* Although third parties who give applications to consumers for home equity plans must provide the brochure required under section 226.5b(e) in all cases, such persons need provide the disclosures required under section 226.5b(d) only in certain instances. A third party has no duty to obtain disclosures about a creditor's home equity plan or to create a set of disclosures based on what it knows about a creditor's plan. If, however, a creditor provides the third party with disclosures along with its application form, the third party must give the disclosures to the consumer with the application form. The duties under this section are those of the third party; the creditor is not responsible for ensuring that a third party complies with those obligations. If an intermediary agent or broker takes an application over the telephone or receives an application contained in a magazine or other publication, footnote 10a permits that person to mail the disclosures and brochure within three business days of receipt of the application. (See the commentary to section 226.5b(h) about imposition of nonrefundable fees.)

5b(d) Content of Disclosures

1. *Disclosures given as applicable.* The disclosures required under this section need be made only as applicable. Thus, for example, if negative amortization cannot occur in a home equity plan, a reference to it need not be made.

2. *Duty to respond to requests for information.* If the consumer, prior to the opening of a plan, requests information as suggested in the disclosures (such as the current index value or margin), the creditor must provide this information as soon as reasonably possible after the request.

5b(d)(1) Retention of Information

1. *When disclosure not required.* The creditor need not disclose that the consumer should make or otherwise retain a copy of the disclosures if they are retainable — for example, if the disclosures are not part of an application that must be returned to the creditor to apply for the plan.

5b(d)(2) Conditions for Disclosed Terms

Paragraph 5b(d)(2)(i)

1. *Guaranteed terms.* The requirement that the creditor disclose the time by which an application must be submitted to obtain the disclosed terms does not require the creditor to guarantee any terms. If a creditor chooses not to guarantee any terms, it must disclose that all of the terms are subject to change prior to opening the plan. The creditor also is permitted to guarantee some terms and not others, but must indicate which terms are subject to change.

2. *Date for obtaining disclosed terms.* The creditor may disclose either a specific date or a time period for obtaining the disclosed terms. If the creditor discloses a time period, the consumer must be able to determine from the disclosure the specific date by which an application must be submitted to obtain any guaranteed terms. For example, the disclosure might read, "To obtain the following terms, you must submit your application within 60 days after the date appearing on this disclosure," provided the disclosure form also shows the date.

Paragraph 5b(d)(2)(ii)

1. *Relation to other provisions.* Creditors should con-

sult the rules in section 226.5b(g) regarding refund of fees.

5b(d)(4) Possible Actions by Creditor

Paragraph 5b(d)(4)(i)

1. *Fees imposed upon termination.* This disclosure applies only to fees (such as penalty or prepayment fees) that the creditor imposes if it terminates the plan prior to normal expiration. The disclosure does not apply to fees that are imposed either when the plan expires in accordance with the agreement or if the consumer terminates the plan prior to its scheduled maturity. In addition, the disclosure does not apply to fees associated with collection of the debt, such as attorneys' fees and court costs, or to increases in the annual percentage rate linked to the consumer's failure to make payments. The actual amount of the fee need not be disclosed.

2. *Changes specified in the initial agreement.* If changes may occur pursuant to section 226.5b(f)(3)(i), a creditor must state that certain changes will be implemented as specified in the initial agreement.

Paragraph 5b(d)(4)(iii)

1. *Disclosure of conditions.* In making this disclosure, the creditor may provide a highlighted copy of the document that contains such information, such as the contract or security agreement. The relevant items must be distinguished from the other information contained in the document. For example, the creditor may provide a cover sheet that specifically points out which contract provisions contain the information, or may mark the relevant items on the document itself. As an alternative to disclosing the conditions in this manner, the creditor may simply describe the conditions using the language in sections 226.5b(f)(2) and 226.5b(f)(3)(vi) or language that is substantially similar. In describing specified changes that may be implemented during the plan, the creditor may provide a disclosure such as: "Our agreement permits us to make certain changes to the terms of the line at specified times or upon the occurrence of specified events."

2. *Form of disclosure.* The list of conditions under section 226.5b(d)(4)(iii) may appear with the segregated disclosures or apart from them. If the creditor elects to provide the list of conditions with the segregated disclosures, the list need not comply with the precedence rule in section 226.5b(a)(2).

5b(d)(5) Payment Terms

Paragraph 5b(d)(5)(i)

1. *Length of the plan.* The combined length of the draw period and any repayment period need not be stated. If the length of the repayment phase cannot be determined because, for example, it depends on the balance outstanding at the beginning of the repayment period, the creditor must state that the length is determined by the size of the balance. If the length of the plan is indefinite (for example, because there is no time limit on the period during which the consumer can take advances), the creditor must state that fact.

2. *Renewal provisions.* If, under the credit agreement, a creditor retains the right to review a line at the end of the specified draw period and determine whether to renew or extend the draw period of the plan, the possibility of renewal or extension — regardless of its likelihood — should be ignored for purposes of the disclosures. For example, if an agreement provides that the draw period is five years and that the creditor may renew the draw period for an additional five years, the possibility of renewal should be ignored and the draw period should be considered five years. (See the commentary accompanying section 226.9(c)(1) dealing with change in terms requirements.)

Paragraph 5b(d)(5)(ii)

1. *Determination of the minimum periodic payment.* This disclosure must reflect how the minimum periodic payment is determined, but need only describe the principal and interest components of the payment. Other charges that may be part of the payment (as well as the balance computation method) may, but need not, be described under this provision.

2. *Fixed rate and term payment options during draw period.* If the home equity plan permits the consumer to repay all or part of the balance during the draw period at a fixed rate (rather than a variable rate) and over a specified time period, this feature must be disclosed. To illustrate, a variable-rate plan may permit a consumer to elect during a ten-year draw period to repay all or a portion of the balance over a three-year period at a fixed rate. The creditor must disclose the rules relating to this feature including the period during which the option can be selected, the length of time over which repayment can occur, any fees imposed for such a feature, and the specific rate or a description of the index and margin that will apply upon exercise of this choice. For example, the index and margin disclosure might state, "If you choose to convert any portion of your balance to a fixed rate, the rate will be the highest prime rate published in the *Wall Street Journal* that is in effect at the date of conversion plus a margin." If the fixed rate is to be determined according to an index, it must be one that is outside the creditor's control and is publicly available in accordance with section 226.5b(f)(1). The effect of exercising the option should not be reflected elsewhere in the disclosures, such as in the historical example required in section 226.5b(d)(12)(xi).

3. *Balloon payments.* In programs where the occurrence of a balloon payment is possible, the creditor must disclose the possibility of a balloon payment even if such a payment is uncertain or unlikely. In

such cases, the disclosure might read, "Your minimum payments may not be sufficient to fully repay the principal that is outstanding on your line. If they are not, you will be required to pay the entire outstanding balance in a single payment." In programs where a balloon payment will occur, such as programs with interest-only payments during the draw period and no repayment period, the disclosures must state that fact. For example, the disclosure might read, "Your minimum payments will not repay the principal that is outstanding on your line. You will be required to pay the entire outstanding balance in a single payment." In making this disclosure, the creditor is not required to use the term "balloon payment." The creditor also is not required to disclose the amount of the balloon payment. (See, however, the requirement under section 226.5b(d)(5)(iii).) The balloon payment disclosure does not apply in cases where repayment of the entire outstanding balance would occur only as a result of termination and acceleration. The creditor also need not make a disclosure about balloon payments if the final payment could not be more than twice the amount of other minimum payments under the plan.

Paragraph 5b(d)(5)(iii)

1. *Minimum periodic payment example.* In disclosing the payment example, the creditor may assume that the credit limit as well as the outstanding balance is $10,000 if such an assumption is relevant to calculating payments. (If the creditor only offers lines of credit for less than $10,000, the creditor may assume an outstanding balance of $5,000 instead of $10,000 in making this disclosure.) The example should reflect the payment comprised only of principal and interest. Creditors may provide an additional example reflecting other charges that may be included in the payment, such as credit insurance premiums. Creditors may assume that all months have an equal number of days, that payments are collected in whole cents, and that payments will fall on a business day even though they may be due on a non-business day. For variable-rate plans, the example must be based on the last rate in the historical example required in section 226.5b(d)(12)(xi), or a more recent rate. In cases where the last rate shown in the historical example is different from the index value and margin (for example, due to a rate cap), creditors should calculate the rate by using the index value and margin. A discounted rate may not be considered a more recent rate in calculating this payment example for either variable- or fixed-rate plans.

2. *Representative examples.* In plans with multiple payment options within the draw period or within any repayment period, the creditor may provide representative examples as an alternative to providing examples for each payment option. The creditor may elect to provide representative payment examples based on three categories of payment options. The first category consists of plans that permit minimum payment of only accrued finance charges ("interest only" plans). The second category includes plans in which a fixed percentage or a fixed fraction of the outstanding balance or credit limit (for example, 2% of the balance or 1/180th of the balance) is used to determine the minimum payment. The third category includes all other types of minimum payment options, such as a specified dollar amount plus any accrued finance charges. Creditors may classify their minimum payment arrangements within one of these three categories even if other features exist, such as varying lengths of a draw or repayment period, required payment of past due amounts, late charges, and minimum dollar amounts. The creditor may use a single example within each category to represent the payment options in that category. For example, if a creditor permits minimum payments of 1%, 2%, 3% or 4% of the outstanding balance, it may pick one of these four options and provide the example required under sections 226.5b(d)(5)(iii) for that option alone. The example used to represent a category must be an option commonly chosen by consumers, or a typical or representative example. (See the commentary to section 226.5b(d)(12)(x) and (xi) for a discussion of the use of representative examples for making those disclosures. Creditors using a representative example within each category must use the same example for purposes of the disclosures under sections 226.5b(d)(5)(iii) and 226.5b(d)(12)(x) and (xi).) Creditors may use representative examples under section 226.5b(d)(5) only with respect to the payment example required under paragraph (d)(5)(iii). Creditors must provide a full narrative description of all payment options under section 226.5b(d)(5)(i) and (ii).

3. *Examples for draw and repayment periods.* Separate examples must be given for the draw and repayment periods unless the payments are determined the same way during both periods. In setting forth payment examples for any repayment period under this section (and the historical example under section 226.5b(d)(12)(xi)), creditors should assume a $10,000 advance is taken at the beginning of the draw period and is reduced according to the terms of the plan. Creditors should not assume an additional advance is taken at any time, including at the beginning of any repayment period.

4. *Reverse mortgages.* Reverse mortgages, also known as reverse annuity or home equity conversion mortgages, in addition to permitting the consumer to obtain advances, may involve the disbursement of monthly advances to the consumer for a fixed period or until the occurrence of an event such as the con-

sumer's death. Repayment of the reverse mortgage (generally a single payment of principal and accrued interest) may be required to be made at the end of the disbursements or, for example, upon the death of the consumer. In disclosing these plans, creditors must apply the following rules, as applicable:

—If the reverse mortgage has a specified period for advances and disbursements but repayment is due only upon occurrence of a future event such as the death of the consumer, the creditor must assume that disbursements will be made until they are scheduled to end. The creditor must assume repayment will occur when disbursements end (or within a period following the final disbursement which is not longer than the regular interval between disbursements). This assumption should be used even though repayment may occur before or after the disbursements are scheduled to end. In such cases, the creditor may include a statement such as "The disclosures assume that you will repay the line at the time the draw period and our payments to you end. As provided in your agreement, your repayment may be required at a different time." The single payment should be considered the "minimum periodic payment" and consequently would not be treated as a balloon payment. The example of the minimum payment under section 226.5b(d)(5)(iii) should assume a single $10,000 draw.

—If the reverse mortgage has neither a specified period for advances or disbursements nor a specified repayment date and these terms will be determined solely by reference to future events, including the consumer's death, the creditor may assume that the draws and disbursements will end upon the consumer's death (estimated by using actuarial tables, for example) and that repayment will be required at the same time (or within a period following the date of the final disbursement which is not longer than the regular interval for disbursements). Alternatively, the creditor may base the disclosures upon another future event it estimates will be most likely to occur first. (If terms will be determined by reference to future events which do not include the consumer's death, the creditor must base the disclosures upon the occurrence of the event estimated to be most likely to occur first.)

—In making the disclosures, the creditor must assume that all draws and disbursements and accrued interest will be paid by the consumer. For example, if the note has a non-recourse provision providing that the consumer is not obligated for an amount greater than the value of the house, the creditor must nonetheless assume that the full amount to be drawn or disbursed will be repaid. In this case, however, the creditor may include a statement such as "The disclosures assume full repayment of the amount advanced plus accrued interest, although the amount you may be required to pay is limited by your agreement."

—Some reverse mortgages provide that some or all of the appreciation in the value of the property will be shared between the consumer and the creditor. The appreciation feature must be disclosed in accordance with section 226.5b(d)(12).

5b(d)(6) Annual Percentage Rate

1. *Preferred-rate plans.* If a creditor offers a preferential fixed-rate plan in which the rate will increase a specified amount upon the occurrence of a specified event, the creditor must disclose the specific amount the rate will increase.

5b(d)(7) Fees Imposed by Creditor

1. *Applicability.* The fees referred to in section 226.5b(d)(7) include items such as application fees, points, annual fees, transaction fees, fees to obtain checks to access the plan, and fees imposed for converting to a repayment phase that is provided for in the original agreement. This disclosure includes any fees that are imposed by the creditor to use or maintain the plan, whether the fees are kept by the creditor or a third party. For example, if a creditor requires an annual credit report on the consumer and requires the consumer to pay this fee to the creditor or directly to the third party, the fee must be specifically stated. Third party fees to open the plan that are initially paid by the consumer to the creditor may be included in this disclosure or in the disclosure under section 226.5b(d)(8).

2. *Manner of describing fees.* Charges may be stated as an estimated dollar amount for each fee, or as a percentage of a typical or representative amount of credit. The creditor may provide a stepped fee schedule in which a fee will increase a specified amount at a specified date. (See the discussion contained in the commentary to section 226.5b(f)(3)(i).)

3. *Fees not required to be disclosed.* Fees that are not imposed to open, use, or maintain a plan, such as fees for researching an account, photocopying, paying late, stopping payment, having a check returned, exceeding the credit limit, or closing out an account do not have to be disclosed under this section. Credit report and appraisal fees imposed to investigate whether a condition permitting a freeze continues to exist—as discussed in the commentary to section 226.5b(f)(3)(vi)—are not required to be disclosed under this section or section 226.5b(d)(8).

4. *Rebates of closing costs.* If closing costs are imposed they must be disclosed, regardless of whether such costs may be rebated later (for example, rebated to the extent of any interest paid during the first year of the plan).

5. *Terms used in disclosure.* Creditors need not use the terms "finance charge" or "other charge" in describing the fees imposed by the creditor under this section or those imposed by third parties under section 226.5b(d)(8).

5b(d)(8) Fees Imposed by Third Parties to Open a Plan

1. *Applicability.* Section 226.5b(d)(8) applies only to fees imposed by third parties to open the plan. Thus, for example, this section does not require disclosure of a fee imposed by a government agency at the end of a plan to release a security interest. Fees to be disclosed include appraisal, credit report, government agency, and attorneys fees. In cases where property insurance is required by the creditor, the creditor either may disclose the amount of the premium or may state that property insurance is required. For example, the disclosure might state, "You must carry insurance on the property that secures this plan."

2. *Itemization of third party fees.* In all cases creditors must state the total of third party fees as a single dollar amount or a range. A creditor has two options with regard to providing the more detailed information about third party fees. Creditors may provide a statement that the consumer may request more specific cost information about third party fees from the creditor. As an alternative to including this statement, creditors may provide an itemization of such fees (by type and amount) with the early disclosures.

3. *Manner of describing fees.* A good faith estimate of the amount of fees must be provided. Creditors may provide, based on a typical or representative amount of credit, a range for such fees or state the dollar amount of such fees. Fees may be expressed on a unit cost basis, for example, $5 per $1,000 of credit.

4. *Rebates of third party fees.* Even if fees imposed by third parties may be rebated, they must be disclosed. (See the commentary to section 226.5b(d)(7).)

5b(d)(9) Negative Amortization

1. *Disclosure required.* In transactions where the minimum payment will not or may not be sufficient to cover the interest that accrues on the outstanding balance, the creditor must disclose that negative amortization will or may occur. This disclosure is required whether or not the unpaid interest is added to the outstanding balance upon which interest is computed. A disclosure is not required merely because a loan calls for non-amortizing or partially amortizing payments.

5b(d)(10) Transaction Requirements

1. *Applicability.* A limitation on automated teller machine usage need not be disclosed under this paragraph unless that is the only means by which the consumer can obtain funds.

5b(d)(12) Disclosures for Variable-Rate Plans

1. *Variable-rate provisions.* Sample forms in appendix G-14 provide illustrative guidance on the variable-rate rules.

Paragraph 5b(d)(12)(iv)

1. *Determination of annual percentage rate.* If the creditor adjusts its index through the addition of a margin, the disclosure might read, "Your annual percentage rate is based on the index plus a margin." The creditor is not required to disclose a specific value for the margin.

Paragraph 5b(d)(12)(viii)

1. *Preferred-rate provisions.* This paragraph requires disclosure of preferred-rate provisions, where the rate will increase upon the occurrence of some event, such as the borrower-employee leaving the creditor's employ or the consumer closing an existing deposit account with the creditor.

2. *Provisions on conversion to fixed rates.* The commentary to section 226.5b(d)(5)(ii) discusses the disclosure requirements for options permitting the consumer to convert from a variable rate to a fixed rate.

Paragraph 5b(d)(12)(ix)

1. *Periodic limitations on increases in rates.* The creditor must disclose any annual limitations on increases in the annual percentage rate. If the creditor bases its rate limitation on 12 monthly billing cycles, such a limitation should be treated as an annual cap. Rate limitations imposed on less than an annual basis must be stated in terms of a specific amount of time. For example, if the creditor imposes rate limitations on only a semiannual basis, this must be expressed as a rate limitation for a six-month time period. If the creditor does not impose periodic limitations (annual or shorter) on rate increases, the fact that there are no annual rate limitations must be stated.

2. *Maximum limitations on increases in rates.* The maximum annual percentage rate that may be imposed under each payment option over the term of the plan (including the draw period and any repayment period provided for in the initial agreement) must be provided. The creditor may disclose this rate as a specific number (for example, 18%) or as a specific amount above the initial rate. For example, this disclosure might read, "The maximum annual percentage rate that can apply to your line will be 5 percentage points above your initial rate." If the creditor states the maximum rate as a specific amount above the initial rate, the creditor must include a statement that the consumer should inquire about the rate limitations that are currently available. If an initial discount is not taken into account in applying maximum rate limitations, that fact must be disclosed. If separate overall limitations apply to rate increases resulting from events such as the exercise of a fixed-rate conversion option or leaving the creditor's employ, those limitations also must be stated. Limitations do not include

legal limits in the nature of usury or rate ceilings under state or federal statutes or regulations.

3. *Form of disclosures.* The creditor need not disclose each periodic or maximum rate limitation that is currently available. Instead, the creditor may disclose the range of the lowest and highest periodic and maximum rate limitations that may be applicable to the creditor's home equity plans. Creditors using this alternative must include a statement that the consumer should inquire about the rate limitations that are currently available.

Paragraph 5b(d)(12)(x)

1. *Maximum rate payment example.* In calculating the payment, creditors should assume the maximum rate is in effect. Any discounted or premium initial rates or periodic rate limitations should be ignored for purposes of this disclosure. If a range is used to disclose the maximum cap under section 226.5b(d)(12)(ix), the highest rate in the range must be used for the disclosure under this paragraph. As an alternative to making disclosures based on each payment option, the creditor may choose a representative example within the three categories of payment options upon which to base this disclosure. (See the commentary to section 226.5b(d)(5).) However, separate examples must be provided for the draw period and for any repayment period unless the payment is determined the same way in both periods. Creditors should calculate the example for the repayment period based on an assumed $10,000 balance. (See the commentary to section 226.5b(d)(5) for a discussion of the circumstances in which a creditor may use a lower outstanding balance.)

2. *Time the maximum rate could be reached.* In stating the date or time when the maximum rate could be reached, creditors should assume the rate increases as rapidly as possible under the plan. In calculating the date or time, creditors should factor in any discounted or premium initial rates and periodic rate limitations. This disclosure must be provided for the draw phase and any repayment phase. Creditors should assume the index and margin shown in the last year of the historical example (or a more recent rate) is in effect at the beginning of each phase.

Paragraph 5b(d)(12)(xi)

1. *Index movement.* Index values and annual percentage rates must be shown for the entire 15 years of the historical example and must be based on the most recent 15 years. The example must be updated annually to reflect the most recent 15 years of index values as soon as reasonably possible after the new index value becomes available. If the values for an index have not been available for 15 years, a creditor need only go back as far as the values have been available and may start the historical example at the year for which values are first available.

2. *Selection of index values.* The historical example must reflect the method of choosing index values for the plan. For example, if an average of index values is used in the plan, averages must be used in the example, but if an index value as of a particular date is used, a single index value must be shown. The creditor is required to assume one date (or one period, if an average is used) within a year on which to base the history of index values. The creditor may choose to use index values as of any date or period as long as the index value as of this date or period is used for each year in the example. Only one index value per year need be shown, even if the plan provides for adjustments to the annual percentage rate or payment more than once in a year. In such cases, the creditor can assume that the index rate remained constant for the full year for the purpose of calculating the annual percentage rate and payment.

3. *Selection of margin.* A value for the margin must be assumed in order to prepare the example. A creditor may select a representative margin that it has used with the index during the six months preceding preparation of the disclosures and state that the margin is one that it has used recently. The margin selected may be used until the creditor annually updates the disclosure form to reflect the most recent 15 years of index values.

4. *Amount of discount or premium.* In reflecting any discounted or premium initial rate, the creditor may select a discount or premium that it has used during the six months preceding preparation of the disclosures, and should disclose that the discount or premium is one that the creditor has used recently. The discount or premium should be reflected in the example for as long as it is in effect. The creditor may assume that a discount or premium that would have been in effect for any part of a year was in effect for the full year for purposes of reflecting it in the historical example.

5. *Rate limitations.* Limitations on both periodic and maximum rates must be reflected in the historical example. If ranges of rate limitations are provided under section 226.5b(d)(12)(ix), the highest rates provided in those ranges must be used in the example. Rate limitations that may apply more often than annually should be treated as if they were annual limitations. For example, if a creditor imposes a 1% cap every six months, this should be reflected in the example as if it were a 2% annual cap.

6. *Assumed advances.* The creditor should assume that the $10,000 balance is an advance taken at the beginning of the first billing cycle and is reduced according to the terms of the plan, and that the consumer takes no subsequent draws. As discussed in the commentary to section 226.5b(d)(5), creditors should not assume an additional advance is taken at the beginning of any repayment period. If applicable, the creditor may assume the $10,000 is both the

advance and the credit limit. (See the commentary to section 226.5b(d)(5) for a discussion of the circumstances in which a creditor may use a lower outstanding balance.)

7. *Representative payment options.* The creditor need not provide an historical example for all of its various payment options, but may select a representative payment option within each of the three categories of payments upon which to base its disclosure. (See the commentary to section 226.5b(d)(5).)

8. *Payment information.* The payment figures in the historical example must reflect all significant program terms. For example, features such as rate and payment caps, a discounted initial rate, negative amortization, and rate carryover must be taken into account in calculating the payment figures if these would have applied to the plan. The historical example should include payments for as much of the length of the plan as would occur during a 15-year period. For example:

—If the draw period is 10 years and the repayment period is 15 years, the example should illustrate the entire 10-year draw period and the first 5 years of the repayment period.

—If the length of the draw period is 15 years and there is a 15-year repayment phase, the historical example must reflect the payments for the 15-year draw period and would not show any of the repayment period. No additional historical example would be required to reflect payments for the repayment period.

—If the length of the plan is less than 15 years, payments in the historical example need only be shown for the number of years in the term. In such cases, however, the creditor must show the index values, margin and annual percentage rates and continue to reflect all significant plan terms such as rate limitations for the entire 15 years.

A creditor need show only a single payment per year in the example, even though payments may vary during a year. The calculations should be based on the actual payment computation formula, although the creditor may assume that all months have an equal number of days. The creditor may assume that payments are made on the last day of the billing cycle, the billing date or the payment due date, but must be consistent in the manner in which the period used to illustrate payment information is selected. Information about balloon payments and remaining balance may, but need not, be reflected in the example.

9. *Disclosures for repayment period.* The historical example must reflect all features of the repayment period, including the appropriate index values, margin, rate limitations, length of the repayment period, and payments. For example, if different indices are used during the draw and repayment periods, the index values for that portion of the 15 years that reflect the repayment period must be the values for the appropriate index.

10. *Reverse mortgages.* The historical example for reverse mortgages should reflect 15 years of index values and annual percentage rates, but the payment column should be blank until the year that the single payment will be made, assuming that payment is estimated to occur within 15 years. (See the commentary to section 226.5b(d)(5) for a discussion of reverse mortgages.)

5b(e) Brochure

1. *Substitutes.* A brochure is a suitable substitute for the Board's home equity brochure if it is, at a minimum, comparable to the Board's brochure in substance and comprehensiveness. Creditors are permitted to provide more detailed information than is contained in the Board's brochure.

2. *Effect of third party delivery of brochure.* If a creditor determines that a third party has provided a consumer with the required brochure pursuant to section 226.5b(c), the creditor need not give the consumer a second brochure.

5b(f) Limitations on Home Equity Plans

1. *Coverage.* Section 226.5b(f) limits both actions that may be taken and language that may be included in contracts, and applies to any assignee or holder as well as to the original creditor. The limitations apply to the draw period and any repayment period, and to any renewal or modification of the original agreement.

Paragraph 5b(f)(1)

1. *External index.* A creditor may change the annual percentage rate for a plan only if the change is based on an index outside the creditor's control. Thus, a creditor may not make rate changes based on its own prime rate or cost of funds and may not reserve a contractual right to change rates at its discretion. A creditor is permitted, however, to use a published prime rate, such as that in the *Wall Street Journal,* even if the bank's own prime rate is one of several rates used to establish the published rate.

2. *Publicly available.* The index must be available to the public. A publicly available index need not be published in a newspaper, but it must be one the consumer can independently obtain (by telephone, for example) and use to verify rates imposed under the plan.

3. *Provisions not prohibited.* This paragraph does not prohibit rate changes that are specifically set forth in the agreement. For example, stepped-rate plans, in which specified rates are imposed for specified periods, are permissible. In addition, preferred-rate provisions, in which the rate increases by a specified amount upon the occurrence of a specified event, also are permissible.

Paragraph 5b(f)(2)
1. *Limitations on termination and acceleration.* In general, creditors are prohibited from terminating and accelerating payment of the outstanding balance before the scheduled expiration of a plan. However, creditors may take these actions in the three circumstances specified in section 226.5b(f)(2). Creditors are not permitted to specify in their contracts any other events that allow termination and acceleration beyond those permitted by the regulation. Thus, for example, an agreement may not provide that the balance is payable on demand nor may it provide that the account will be terminated and the balance accelerated if the rate cap is reached.
2. *Other actions permitted.* If an event permitting termination and acceleration occurs, a creditor may instead take actions short of terminating and accelerating. For example, a creditor could temporarily or permanently suspend further advances, reduce the credit limit, change the payment terms, or require the consumer to pay a fee. A creditor also may provide in its agreement that a higher rate or higher fees will apply in circumstances under which it would otherwise be permitted to terminate the plan and accelerate the balance. A creditor that does not immediately terminate an account and accelerate payment or take another permitted action may take such action at a later time, provided one of the conditions permitting termination and acceleration exists at that time.
Paragraph 5b(f)(2)(i)
1. *Fraud or material misrepresentation.* A creditor may terminate a plan and accelerate the balance if there has been fraud or material misrepresentation by the consumer in connection with the plan. This exception includes fraud or misrepresentation at any time, either during the application process or during the draw period and any repayment period. What constitutes fraud or misrepresentation is determined by applicable state law and may include acts of omission as well as overt acts, as long as any necessary intent on the part of the consumer exists.
Paragraph 5b(f)(2)(ii)
1. *Failure to meet repayment terms.* A creditor may terminate a plan and accelerate the balance when the consumer fails to meet the repayment terms provided for in the agreement. However, a creditor may terminate and accelerate under this provision only if the consumer actually fails to make payments. For example, a creditor may not terminate and accelerate if the consumer, in error, sends a payment to the wrong location, such as a branch rather than the main office of the creditor. If a consumer files for or is placed in bankruptcy, the creditor may terminate and accelerate under this provision if the consumer fails to meet the repayment terms of the agreement. This section does not override any state or other law that requires a right to cure notice, or otherwise places a duty on the creditor before it can terminate a plan and accelerate the balance.
Paragraph 5b(f)(2)(iii)
1. *Impairment of security.* A creditor may terminate a plan and accelerate the balance if the consumer's action or inaction adversely affects the creditor's security for the plan, or any right of the creditor in that security. Action or inaction by third parties does not, in itself, permit the creditor to terminate and accelerate.
2. *Examples.* A creditor may terminate and accelerate, for example, if:

—the consumer transfers title to the property or sells the property without the permission of the creditor;
—the consumer fails to maintain required insurance on the dwelling;
—the consumer fails to pay taxes on the property;
—the consumer permits the filing of a lien senior to that held by the creditor;
—the sole consumer obligated on the plan dies;
—the property is taken through eminent domain; or
—a prior lienholder forecloses.

By contrast, the filing of a judgment against the consumer would permit termination and acceleration only if the amount of the judgment and collateral subject to the judgment is such that the creditor's security is adversely affected. If the consumer commits waste or otherwise destructively uses or fails to maintain the property such that the action adversely affects the security, the plan may be terminated and the balance accelerated. Illegal use of the property by the consumer would permit termination and acceleration if it subjects the property to seizure. If one of two consumers obligated on a plan dies, the creditor may terminate the plan and accelerate the balance if the security is adversely affected. If the consumer moves out of the dwelling that secures the plan and that action adversely affects the security, the creditor may terminate a plan and accelerate the balance.
Paragraph 5b(f)(3)
1. *Scope of provision.* In general, a creditor may not change the terms of a plan after it is opened. For example, a creditor may not increase any fee or impose a new fee once the plan has been opened, even if the fee is charged by a third party, such as a credit reporting agency, for a service. The change of terms prohibition applies to all features of a plan, not only those required to be disclosed under this section. For example, this provision applies to charges imposed for late payment, although this fee is not required to be disclosed under section 226.5b(d)(7).
2. *Charges not covered.* There are three charges not

covered by this provision. A creditor may pass on increases in taxes since such charges are imposed by a governmental body and are beyond the control of the creditor. In addition, a creditor may pass on increases in premiums for property insurance that are excluded from the finance charge under section 226.4(d)(2), since such insurance provides a benefit to the consumer independent of the use of the line and is often maintained notwithstanding the line. A creditor also may pass on increases in premiums for credit insurance that are excluded from the finance charge under section 226.4(d)(1), since the insurance is voluntary and provides a benefit to the consumer.

Paragraph 5b(f)(3)(i)

1. *Changes provided for in agreement.* A creditor may provide in the initial agreement for specific changes to take place upon the occurrence of specific events. Both the triggering event and the resulting modification must be stated with specificity. For example, in home equity plans for employees, the agreement could provide that a specified higher rate or margin will apply if the borrower's employment with the creditor ends. A contract could contain a stepped-rate or stepped-fee schedule providing for specified changes in the rate or the fees on certain dates or after a specified period of time. A creditor also may provide in the initial agreement that it will be entitled to a share of the appreciation in the value of the property as long as the specific appreciation share and the specific circumstances which require the payment of it are set forth. A contract may permit a consumer to switch among minimum payment options during the plan.

2. *Prohibited provisions.* A creditor may not include a general provision in its agreement permitting changes to any or all of the terms of the plan. For example, creditors may not include "boilerplate" language in the agreement stating that they reserve the right to change the fees imposed under the plan. In addition, a creditor may not include any "triggering events" or responses that the regulation expressly addresses in a manner different from that provided in the regulation. For example, an agreement may not provide that the margin in a variable-rate plan will increase if there is a material change in the consumer's financial circumstances, because the regulation specifies that temporarily freezing the line or lowering the credit limit is the permissible response to a material change in the consumer's financial circumstances. Similarly a contract cannot contain a provision allowing the creditor to freeze a line due to an insignificant decline in property value since the regulation allows that response only for a significant decline.

Paragraph 5b(f)(3)(ii)

1. *Substitution of index.* A creditor may change the index and margin used under the plan if the original index becomes unavailable, as long as historical fluctuations in the original and replacement indices were substantially similar, and as long as the replacement index and margin will produce a rate similar to the rate that was in effect at the time the original index became unavailable. If the replacement index is newly established and therefore does not have any rate history, it may be used if it produces a rate substantially similar to the rate in effect when the original index became unavailable.

Paragraph 5b(f)(3)(iii)

1. *Changes by written agreement.* A creditor may change the terms of a plan if the consumer expressly agrees in writing to the change at the time it is made. For example, a consumer and a creditor could agree in writing to change the repayment terms from interest-only payments to payments that reduce the principal balance. The provisions of any such agreement are governed by the limitations in section 226.5b(f). For example, a mutual agreement could not provide for future annual percentage rate changes based on the movement of an index controlled by the creditor or for termination and acceleration under circumstances other than those specified in the regulation. By contrast, a consumer could agree to a new credit limit for the plan, although the agreement could not permit the creditor to later change the credit limit except by a subsequent written agreement or in the circumstances described in section 226.5b(f)(3)(vi).

2. *Written agreement.* The change must be agreed to in writing by the consumer. Creditors are not permitted to assume consent because the consumer uses an account, even if use of an account would otherwise constitute acceptance of a proposed change under state law.

Paragraph 5b(f)(3)(iv)

1. *Beneficial changes.* After a plan is opened, a creditor may make changes that unequivocally benefit the consumer. Under this provision, a creditor may offer more options to consumers, as long as existing options remain. For example, a creditor may offer the consumer the option of making lower monthly payments or could increase the credit limit. Similarly, a creditor wishing to extend the length of the plan on the same terms may do so. Creditors are permitted to temporarily reduce the rate or fees charged during the plan (though a change in terms notice may be required under section 226.9(c) when the rate or fees are returned to their original level). Creditors also may offer an additional means of access to the line, even if fees are associated with using the device, provided the consumer retains the ability to use prior access devices on the original terms.

Paragraph 5b(f)(3)(v)

1. *Insignificant changes.* A creditor is permitted to

make insignificant changes after a plan is opened. This rule accommodates operational and similar problems, such as changing the address of the creditor for purposes of sending payments. It does not permit a creditor to change a term such as a fee charged for late payments.

2. *Examples of insignificant changes.* Creditors may make minor changes to features such as the billing cycle date, the payment due date (as long as the consumer does not have a diminished grace period if one is provided), and the day of the month on which index values are measured to determine changes to the rate for variable-rate plans. A creditor also may change its rounding practice in accordance with the tolerance rules set forth in section 226.14 (for example, stating an exact APR of 14.3333 percent as 14.3 percent, even if it had previously been stated as 14.33 percent). A creditor may change the balance computation method it uses only if the change produces an insignificant difference in the finance charge paid by the consumer. For example, a creditor may switch from using the average daily balance method (including new transactions) to the daily balance method (including new transactions).

Paragraph 5b(f)(3)(vi)

1. *Suspension of credit or reduction of credit limit.* A creditor may prohibit additional extensions of credit or reduce the credit limit in the circumstances specified in the regulation. A creditor may not take these actions under other circumstances, unless the creditor would be permitted to terminate the line and accelerate the balance as described in section 226.5b(f)(2). The creditor's right to reduce the credit limit does not permit reducing the limit below the amount of the outstanding balance if this would require the consumer to make a higher payment.

2. *Temporary nature of suspension or reduction.* Creditors are permitted to prohibit additional extensions of credit or reduce the credit limit only while one of the designated circumstances exists. When the circumstance justifying the creditor's action ceases to exist, credit privileges must be reinstated, assuming that no other circumstance permitting such action exists at that time.

3. *Imposition of fees.* If not prohibited by state law, a creditor may collect only bona fide and reasonable appraisal and credit report fees if such fees are actually incurred in investigating whether the condition permitting the freeze continues to exist. A creditor may not, in any circumstances, impose a fee to reinstate a credit line once the condition has been determined not to exist.

4. *Reinstatement of credit privileges.* Creditors are responsible for ensuring that credit privileges are restored as soon as reasonably possible after the condition that permitted the creditor's action ceases to exist. One way a creditor can meet this responsibility is to monitor the line on an ongoing basis to determine when the condition ceases to exist. The creditor must investigate the condition frequently enough to assure itself that the condition permitting the freeze continues to exist. The frequency with which the creditor must investigate to determine whether a condition continues to exist depends upon the specific condition permitting the freeze. As an alternative to such monitoring, the creditor may shift the duty to the consumer to request reinstatement of credit privileges by providing a notice in accordance with section 226.9(c)(3). A creditor may require a reinstatement request to be in writing if it notifies the consumer of this requirement on the notice provided under section 226.9(c)(3). Once the consumer requests reinstatement, the creditor must promptly investigate to determine whether the condition allowing the freeze continues to exist. Under this alternative, the creditor has a duty to investigate only upon the consumer's request.

5. *Suspension of credit privileges following request by consumer.* A creditor may honor a specific request by a consumer to suspend credit privileges. If the consumer later requests that the creditor reinstate credit privileges, the creditor must do so provided no other circumstance justifying a suspension exists at that time. If two or more consumers are obligated under a plan and each has the ability to take advances, the agreement may permit any of the consumers to direct the creditor not to make further advances. A creditor may require that all persons obligated under a plan request reinstatement.

6. *Significant decline defined.* What constitutes a significant decline for purposes of section 226.5b(f)(3)(vi)(A) will vary according to individual circumstances. In any event, if the value of the dwelling declines such that the initial difference between the credit limit and the available equity (based on the property's appraised value for purposes of the plan) is reduced by fifty percent, this constitutes a significant decline in the value of the dwelling for purposes of section 226.5b(f)(3)(vi)(A). For example, assume that a house with a first mortgage of $50,000 is appraised at $100,000 and the credit limit is $30,000. The difference between the credit limit and the available equity is $20,000, half of which is $10,000. The creditor could prohibit further advances or reduce the credit limit if the value of the property declines from $100,000 to $90,000. This provision does not require a creditor to obtain an appraisal before suspending credit privileges although a significant decline must occur before suspension can occur.

7. *Material change in financial circumstances.* Two conditions must be met for section 226.5b(f)(3)(vi)(B)

to apply. First, there must be a "material change" in the consumer's financial circumstances, such as a significant decrease in the consumer's income. Second, as a result of this change, the creditor must have a reasonable belief that the consumer will be unable to fulfill the payment obligations of the plan. A creditor may, but does not have to, rely on specific evidence (such as the failure to pay other debts) in concluding that the second part of the test has been met. A creditor may prohibit further advances or reduce the credit limit under this section if a consumer files for or is placed in bankruptcy.

8. *Default of a material obligation.* Creditors may specify events that would qualify as a default of a material obligation under section 226.5b(f)(3)(vi)(C). For example, a creditor may provide that default of a material obligation will exist if the consumer moves out of the dwelling or permits an intervening lien to be filed that would take priority over future advances made by the creditor.

9. *Government limits on the annual percentage rate.* Under section 226.5b(f)(3)(vi)(D), a creditor may prohibit further advances or reduce the credit limit if, for example, a state usury law is enacted which prohibits a creditor from imposing the agreed-upon annual percentage rate.

5b(g) Refund of Fees

1. *Refund of fees required.* If any disclosed term, including any term provided upon request pursuant to section 226.5b(d), changes between the time the early disclosures are provided to the consumer and the time the plan is opened, and the consumer as a result decides to not enter into the plan, a creditor must refund all fees paid by the consumer in connection with the application. All fees, including credit report fees and appraisal fees, must be refunded whether such fees are paid to the creditor or directly to third parties. A consumer is entitled to a refund of fees under these circumstances whether or not terms are guaranteed by the creditor under section 226.5b(d)(2)(i).

2. *Variable-rate plans.* The right to a refund of fees does not apply to changes in the annual percentage rate resulting from fluctuations in the index value in a variable-rate plan. Also, if the maximum annual percentage rate is expressed as an amount over the initial rate, the right to refund of fees would not apply to changes in the cap resulting from fluctuations in the index value.

3. *Changes in terms.* If a term, such as the maximum rate, is stated as a range in the early disclosures, and the term ultimately applicable to the plan falls within that range, a change does not occur for purposes of this section. If, however, no range is used and the term is changed (for example, a rate cap of 6 rather than 5 percentage points over the initial rate), the change would permit the consumer to obtain a refund of fees. If a fee imposed by the creditor is stated in the early disclosures as an estimate and the fee changes, the consumer could elect to not enter into the agreement and would be entitled to a refund of fees. On the other hand, if fees imposed by third parties are disclosed as estimates and those fees change, the consumer is not entitled to a refund of fees paid in connection with the application. Creditors must, however, use the best information reasonably available in providing disclosures about such fees.

4. *Timing of refunds and relation to other provisions.* The refund of fees must be made as soon as reasonably possible after the creditor is notified that the consumer is not entering into the plan because of the changed term, or that the consumer wants a refund of fees. The fact that an application fee may be refunded to some applicants under this provision does not render such fees finance charges under section 226.4(c)(1) of the regulation.

5b(h) Imposition of Nonrefundable Fees

1. *Collection of fees after consumer receives disclosures.* A fee may be collected after the consumer receives the disclosures and brochure and before the expiration of three days, although the fee must be refunded if, within three days of receiving the required information, the consumer decides to not enter into the agreement. In such a case, the consumer must be notified that the fee is refundable for three days. The notice must be clear and conspicuous and in writing, and may be included with the disclosures required under section 226.5b(d) or as an attachment to them. If disclosures and brochure are mailed to the consumer, footnote 10d of the regulation provides that a nonrefundable fee may not be imposed until six business days after the mailing.

2. *Collection of fees before consumer receives disclosures.* An application fee may be collected before the consumer receives the disclosures and brochure (for example, when an application contained in a magazine is mailed in with an application fee) provided that it remains refundable until three business days after the consumer receives the section 226.5b disclosures. No other fees except a refundable membership fee may be collected until after the consumer receives the disclosures required under section 226.5b.

3. *Relation to other provisions.* A fee collected before disclosures are provided may become nonrefundable except that, under section 226.5b(g), it must be refunded if the consumer elects to not enter into the plan because of a change in terms. (Of course, all fees must be refunded if the consumer later rescinds under section 226.15.)

Section 226.6—Initial Disclosure Statement

* * * * *

6(a) Finance Charge

* * * * *

Paragraph 6(a)(2)

* * * * *

7. Comment 6(a)(2)-2 is amended by adding a sentence after the first sentence following the third bullet to read as follows:

2. *Variable-rate disclosures — coverage.* * * * (See the rule in section 226.5b(f)(1) applicable to home equity plans, however, which prohibits "rate reservation" clauses.) * * *

* * * * *

8. Comments 6(e)-1 through -4 and a heading are added to read as follows:

6(e) Home Equity Plan Information

1. *Additional disclosures required.* For home equity plans, creditors must provide several of the disclosures set forth in section 226.5b(d) along with the disclosures required under section 226.6. Creditors also must disclose a list of the conditions that permit the creditor to terminate the plan, freeze or reduce the credit limit, and implement specified modifications to the original terms.

2. *Form of disclosures.* The home equity disclosures provided under this section must be in a form the consumer can keep, and are governed by section 226.5(a)(1). The segregation standard set forth in section 226.5b(a) does not apply to home equity disclosures provided under section 226.6.

3. *Disclosure of payment and variable-rate examples.* The payment example disclosure in section 226.5b(d)(5)(iii) and the variable-rate information in sections 226.5b(d)(12)(viii), (x), (xi), and (xii) need not be provided with the disclosures under section 226.6 if:

—The disclosures under section 226.5b(d) were provided in a form the consumer could keep; and

—The disclosures of the payment example under section 226.5b(d)(5)(iii), the maximum payment example under section 226.5b(d)(12)(x) and the historical table under section 226.5b(d)(12)(xi) included a representative payment example for the category of payment options the consumer has chosen.

For example, if a creditor offers three payment options (one for each of the categories described in the commentary to section 226.5b(d)(5)), describes all three options in its early disclosures, and provides all of the disclosures in a retainable form, that creditor need not provide the section 226.5b(d)(5)(iii) or 226.5b(d)(12) disclosures again when the account is opened. If the creditor showed only one of the three options in the early disclosures (which would be the case with a separate disclosure form rather than a combined form, as discussed under section 226.5b(a)), the disclosures under sections 226.5b(d)(5)(iii) and 226.5b(d)(12)(viii), (x), (xi) and (xii) must be given to any consumer who chooses one of the other two options. If the sections 226.5b(d)(5)(iii) and 226.5b(d)(12) disclosures are provided with the second set of disclosures, they need not be transaction-specific, but may be based on a representative example of the category of payment option chosen.

4. *Disclosures for the repayment period.* The creditor must provide disclosures about both the draw and repayment phases when giving the disclosures under section 226.6. Specifically, the creditor must make the disclosures in section 226.6(e), state the corresponding annual percentage rate (as required in section 226.6(a)(2)) and provide the variable-rate information required in footnote 12 for the repayment phase. To the extent the corresponding annual percentage rate, the information in footnote 12 and any other required disclosures are the same for the draw and repayment phase, the creditor need not repeat such information, as long as the disclosure clearly states that the information applies to both phases.

* * * * *

Section 226.9—Subsequent Disclosure Requirements

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9(c) Change in Terms

9. Comment 9(c)-1 is revised by adding a sentence at the end to read as follows:

1. *"Changes" initially disclosed.* * * * The rules in section 226.5b(f) relating to home equity plans, however, limit the ability of a creditor to change the terms of such plans.

* * * * *

9(c)(1) Written Notice Required

* * * * *

10. Comment 9(c)(1)-6 is added to read as follows:

6. *Home equity plans.* If a creditor renews the draw period for a home equity plan on terms different from those of the original plan, the requirements of section 226.9(c) apply to such a change. When the terms are changed pursuant to a written agreement as described in section 225.5b(f)(3)(iii), the advance notice requirement does not apply.

* * * * *

11. Comments 9(c)(3)-1 and -2 and a heading are added to read as follows:

9(c)(3) Notice for Home Equity Plans

1. *Written request for reinstatement.* If a creditor requires the request for reinstatement of credit privileges to be in writing, the notice under section 226.9(c)(3) must state that fact.

2. *Notice not required.* A creditor need not provide a notice under this paragraph if, pursuant to the commentary to section 226.5b(f)(2), a creditor freezes a line or reduces a credit line rather than terminating a plan and accelerating the balance.

* * * * *

12. Comments 9(e)-1 through 9(e)(3)-2 and headings are added to read as follows:

9(e) Disclosures Upon Renewal of Credit or Charge Card

1. *Coverage.* This paragraph applies to credit and charge card accounts of the type subject to 226.5a. (See section 226.5a(a)(3) and the accompanying commentary for discussion of the types of accounts subject to section 226.5a.) The disclosure requirements are triggered when a card issuer imposes any annual or other periodic fee on such an account, whether or not the card issuer originally was required to provide the application and solicitation disclosures described in section 226.5a.

2. *Form.* The disclosures under this paragraph must be clear and conspicuous, but need not appear in a tabular format or in a prominent location. The disclosures need not be in a form the cardholder can retain.

3. *Terms at renewal.* Renewal notices must reflect the terms actually in effect at the time of renewal. For example, a card issuer that offers a preferential annual percentage rate to employees during their employment must send a renewal notice to employees disclosing the lower rate actually charged to employees (although the card issuer also may show the rate charged to the general public).

4. *Variable rate.* If the card issuer cannot determine the rate that will be in effect if the cardholder chooses to renew a variable-rate account, the card issuer may disclose the rate in effect at the time of mailing or delivery of the renewal notice. Alternatively, the card issuer may use the rate as of a specified date (and then update the rate from time to time, for example, each calendar month) or use an estimated rate under section 226.5(c).

5. *Renewals more frequent than annual.* If a renewal fee is billed more often than annually, the renewal notice should be provided each time the fee is billed. In this instance, the fee need not be disclosed as an annualized amount. Alternatively, the card issuer may provide the notice no less than once every twelve months if the notice explains the amount and frequency of the fee that will be billed during the time period covered by the disclosure, and also discloses the fee as an annualized amount. The notice under this alternative also must state the consequences of a cardholder's decision to terminate the account after the renewal notice period has expired. For example, if a $2 fee is billed monthly but the notice is given annually, the notice must inform the cardholder that the monthly charge is $2, the annualized fee is $24, and $2 will be billed to the account each month for the coming year unless the cardholder notifies the card issuer. If the cardholder is obligated to pay an amount equal to the remaining unpaid monthly charges if the cardholder terminates the account during the coming year but after the first month, the notice must disclose that fact.

6. *Terminating credit availability.* Card issuers have some flexibility in determining the procedures for how and when an account may be terminated. However, the card issuer must clearly disclose the time by which the cardholder must act to terminate the account to avoid paying a renewal fee. State and other applicable law govern whether the card issuer may impose requirements such as specifying that the cardholder's response be in writing or that the outstanding balance be repaid in full upon termination.

7. *Timing of termination by cardholder.* When a card issuer provides notice under section 226.9(e)(1), a cardholder must be given at least 30 days or one billing cycle, whichever is less, from the date the notice is mailed or delivered to make a decision whether to terminate an account. When notice is given under section 226.9(e)(2), a cardholder has 30 days from mailing or delivery to decide to terminate an account.

8. *Timing of notices.* A renewal notice is deemed to be provided when mailed or delivered. Similarly, notice of termination is deemed to be given when mailed or delivered.

9. *Prompt reversal of renewal fee upon termination.* In a situation where a cardholder has provided timely notice of termination and a renewal fee has been billed to a cardholder's account, the card issuer must reverse or otherwise withdraw the fee promptly. Once a cardholder has terminated an account, no additional action by the cardholder may be required.

9(e)(3) Notification on Periodic Statements

1. *Combined disclosures.* If a single disclosure is used to comply with both sections 226.9(e) and 226.7, the periodic statement must comply with the rules in sections 226.5a and 226.7. For example, the words "grace period" must be used and the name of the balance calculation method must be identified (if listed

in section 226.5a(g)) to comply with the requirements of section 226.5a, even though the use of those terms would not otherwise be required for periodic statements under section 226.7. A card issuer may include some of the renewal disclosures on a periodic statement and others on a separate document so long as there is some reference indicating that they relate to one another. All renewal disclosures must be provided to a cardholder at the same time.

2. *Preprinted notices on periodic statements.* A card issuer may preprint the required information on its periodic statements. A card issuer that does so, however, using the advance notice option under section 226.9(e)(1), must make clear on the periodic statement when the preprinted renewal disclosures are applicable. For example, the card issuer could include a special notice (not preprinted) at the appropriate time that the renewal fee will be billed in the following billing cycle, or could show the renewal date as a regular (preprinted) entry on all periodic statements.

13. Comments 9(f)-1 through 9(f)-4 and 9(f)(3)-1 and headings are added to read as follows:

9(f) Change in Credit Card Account Insurance Provider

1. *Coverage.* This paragraph applies to credit card accounts of the type subject to section 226.5a if credit insurance (typically life, disability, and unemployment insurance) is offered on the outstanding balance of such an account. (Credit card accounts subject to section 226.9(f) are the same as those subject to section 226.9(e); see comment 9(e)-1.) Charge card accounts are not covered by this paragraph. In addition, the disclosure requirements of this paragraph apply only where the card issuer initiates the change in insurance providers. For example, if the card issuer's current insurance provider is merged into or acquired by another company, these disclosures would not be required. Disclosures also need not be given in cases where card issuers pay for credit insurance themselves and do not separately charge the cardholder.

2. *No increase in rate or decrease in coverage.* The requirement to provide the disclosure arises when the card issuer changes the provider of insurance, even if there will be no increase in the premium rate charged the consumer and no decrease in coverage under the insurance policy.

3. *Form of notice.* If a substantial decrease in coverage will result from the change in providers, the card issuer either must explain the decrease or refer to an accompanying copy of the policy or group certificate for details of the new terms of coverage. (See the commentary to appendix G-13.)

4. *Discontinuation of insurance.* In addition to stating that the cardholder may cancel the insurance, the card issuer may explain the effect the cancellation would have on the consumer's credit card plan.

5. *Mailing by third party.* Although the card issuer is responsible for the disclosures, the insurance provider or another third party may furnish the disclosures on the card issuer's behalf.

9(f)(3) Substantial Decrease in Coverage

1. *Determination.* Whether a substantial decrease in coverage will result from the change in providers is determined by the two-part test in section 226.9(f)(3): first, whether the decrease is in a significant term of coverage; and second, whether the decrease might reasonably be expected to affect a cardholder's decision to continue the insurance. If both conditions are met, the decrease must be disclosed in the notice.

* * * * *

Section 226.12—Special Credit Card Provisions

* * * * *

12(a) Issuance of Credit Cards

* * * * *

Paragraph 12(a)(2)

* * * * *

14. Comment 12(a)(2)-9 is added to read as follows:

9. *Multiple entities.* Where multiple entities share responsibilities with respect to a credit card issued by one of them, the entity that issued the card may replace it on an unsolicited basis, if that entity terminates the original card by voiding it in some way, as described in comment 12(a)(2)-7. The other entity or entities may not issue a card on an unsolicited basis in these circumstances.

* * * * *

Section 226.14—Determination of Annual Percentage Rate

* * * * *

15. The heading to comments under section 226.14(b) is revised to read as follows:

14(b) Annual Percentage Rate for Section 226.5a and 226.5b Disclosures, for Initial Disclosures and for Advertising Purposes

16. Comment 14(b)-1 is amended by revising the first sentence to read as follows:

1. *Corresponding annual percentage rate computation.* For purposes of sections 226.5a, 226.5b, 226.6 and 226.16, the annual percentage rate is determined

by multiplying the periodic rate by the number of periods in the year. * * *

* * * * *

Section 226.15—Right of Rescission

* * * * *

15(a) Consumer's Right to Rescind

* * * * *

Paragraph 15(a)(3)

* * * * *

17. Comments to 15(a)(3) are amended by revising the fourth sentence and by adding two sentences at the end of comment 15(a)(3)-2; and by adding a sentence at the end of comment 15(a)(3)-3 to read as follows:

2. *Material disclosures.* * * * Failure to give the other required initial disclosures (such as the billing rights statement) or the information required under section 226.5b does not prevent the running of the rescission period, although that failure may result in civil liability or administrative sanctions. The payment terms set forth in footnote 36 apply to any repayment phase set forth in the agreement. Thus, the payment terms described in section 226.6(e)(2) for any repayment phase as well as for the draw period are "material disclosures."

3. *Material disclosures — variable-rate program.* * * * The disclosures listed in footnote 12 to section 226.6(a)(2) for any repayment phase also are material disclosures for variable-rate programs.

* * * * *

Section 226.16—Advertising

* * * * *

16(b) *Advertisement of Terms That Require Additional Disclosures*

18. Comments to 16(b) are revised by adding parenthetical material at the end of comment 16(b)-2 and by revising the last sentence in comment 16(b)-6 to read as follows:

2. *Use of positive terms.* * * * (See, however, the rules in section 226.16(d) relating to advertisements for home equity plans.)

* * * * *

6. *Discounted variable-rate plans — disclosure of the annual percentage rates.* * * * The options listed in comment 16(b)-5 may be used in disclosing the current indexed rate.

* * * * *

19. Comment 16(b)-7 is revised to read as follows:

7. *Triggering terms.* The following are examples of terms that trigger additional disclosures:

—"Small monthly service charge on the remaining balance," which describes how the amount of a finance charge will be determined.

—"12 percent Annual Percentage Rate" or "A $15 annual membership fee buys you $2,000 in credit," which describe required disclosures using positive numbers.

20. Comment 16(b)-8 is added to read as follows:

8. *Deferred billing and deferred payment programs.* Statements such as "Charge it — you won't be billed until May" or "You may skip your January payment" are not in themselves triggering terms, since the timing for initial billing or for monthly payments are not terms required to be disclosed under section 226.6. However, a statement such as "No finance charge until May" or any other statement regarding when finance charges begin to accrue is a triggering term, whether appearing alone or in conjunction with a description of a deferred billing or deferred payment program such as the examples above.

21. Comments 16(d)-1 through -6 and a heading are added to read as follows:

16(d) Additional Requirements for Home Equity Plans

1. *Trigger terms.* Negative as well as affirmative references trigger the requirement for additional information. For example, if a creditor states "no annual fee," "no points," or "we waive closing costs" in an advertisement, additional information must be provided. (See comment 16(d)-4 regarding the use of a phrase such as "no closing costs.") Inclusion of a statement such as "low fees," however, would not trigger the need to state additional information. References to payment terms include references to the draw period or any repayment period, to the length of the plan, to how the minimum payments are determined and to the timing of such payments.

2. *Fees to open the plan.* Section 226.16(d)(1)(i) requires a disclosure of any fees imposed by the creditor or a third party to open the plan. In providing the fee information required under this paragraph, the corresponding rules for disclosure of this information apply. For example, fees to open the plan may be stated as a range. Similarly, if property insurance is required to open the plan, a creditor either may estimate the cost of the insurance or provide a statement that such insurance is required. (See the commentary to sections 226.5b(d)(7) and (8).)

3. *Statements of tax deductibility.* An advertisement referring to deductibility for tax purposes is not misleading if it includes a statement such as "consult a tax advisor regarding the deductibility of interest."
4. *Misleading terms prohibited.* Under section 226.16(d)(5), advertisements may not refer to home equity plans as "free money" or use other misleading terms. For example, an advertisement could not state "no closing costs" or "we waive closing costs" if consumers may be required to pay any closing costs, such as recordation fees.
5. *Relation to other sections.* Advertisements for home equity plans must comply with all provisions in section 226.16, not solely the rules in section 226.16(d). If an advertisement contains information (such as the payment terms) that triggers the duty under section 226.16(d) to state the annual percentage rate, the additional disclosures in section 226.16(b) must be provided in the advertisement. While section 226.16(d) does not require a statement of fees to use or maintain the plan (such as membership fees and transaction charges), such fees must be disclosed under section 226.16(b)(1) and (3).
6. *Inapplicability of closed-end rules.* Advertisements for home equity plans are governed solely by the requirements in section 226.16, and not by the closed-end advertising rules in section 226.24. Thus, if a creditor states payment information about the repayment phase, this will trigger the duty to provide additional information under section 226.16, but not under section 226.24.

Subpart C—Closed-End Credit

Section 226.17—General Disclosure Requirements

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17(b) Time of Disclosures

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22. Comment 17(b)-2 is amended by revising the first sentence to read as follows:

2. *Converting open-end to closed-end credit.* Except for home equity plans subject to section 226.5b in which the agreement provides for a repayment phase, if an open-end credit account is converted to a closed-end transaction under a written agreement with the consumer, the creditor must provide a set of closed-end credit disclosures before consummation of the closed-end transaction. * * *

* * * * *

17(c) Basis of Disclosures and Use of Estimates
Paragraph 17(c)(1)

23. Comments to 17(c)(1) are revised by adding four sentences and parenthetical material at the end of comment 17(c)(1)-4; by adding a fourth bullet before the last sentence of comment 17(c)(1)-11; and by adding a new comment 17(c)(1)-17, to read as follows:

* * * * *

4. *Consumer buydowns.* * * * The rules regarding consumer buydowns do not apply to transactions known as "lender buydowns." In lender buydowns, a creditor pays an amount (either into an account or to the party to whom the obligation is sold) to reduce the consumer's payments or interest rate for all or a portion of the credit term. Typically, these transactions are structured as a buydown of the interest rate during an initial period of the transaction with a higher than usual rate for the remainder of the term. The disclosures for lender buydowns should be based on the terms of the legal obligation between the consumer and the creditor. (See comment 17(c)(1)-3 for the analogous rules concerning third-party buydowns.)

* * * * *

11. *Other variable-rate transactions.* * * *
— "Price level adjusted mortgages" or other indexed mortgages that have a fixed rate of interest but provide for periodic adjustments to payments and the loan balance to reflect changes in an index measuring prices or inflation. Disclosures are to be based on the fixed interest rate. * * *

* * * * *

17. *Special rules for tax refund anticipation loans.* Tax refund loans, also known as refund anticipation loans (RALs), are transactions in which a creditor will lend up to the amount of a consumer's expected tax refund. RAL agreements typically require repayment upon demand, but also may provide that repayment is required when the refund is made. The agreements also typically provide that if the amount of the refund is less than the payment due, the consumer must pay the difference. Repayment often is made by a preauthorized offset to a consumer's account held with the creditor when the refund has been deposited by electronic transfer. Creditors may charge fees for RALs in addition to fees for filing the consumer's tax return electronically. In RAL transactions subject to the regulation, the following special rules apply:
—If, under the terms of the legal obligation, repayment of the loan is required when the refund is received by the consumer (such as by deposit into the consumer's account), the disclosures should be based on the creditor's estimate of the time the refund will be delivered even if the loan also con-

tains a demand clause. The practice of a creditor to demand repayment upon delivery of refunds does not determine whether the legal obligation requires that repayment be made at that time; this determination must be made according to applicable state or other law. (See comment 17(c)(5)-1 for the rules regarding disclosures if the loan is payable solely on demand or is payable either on demand or on an alternate maturity date.)

—If the consumer is required to repay more than the amount borrowed, the difference is a finance charge unless excluded under section 226.4. In addition, to the extent that any fees charged in connection with the loan (such as for filing the tax return electronically) exceed those fees for a comparable cash transaction (that is, filing the tax return electronically without a loan), the difference must be included in the finance charge.

* * * * *

Section 226.19—Certain Residential Mortgage Transactions

19(a)(1) Time of Disclosure

* * * * *

24. Comment 19(a)(1)-3 is revised by adding parenthetical materials after the third sentence to read as follows:

3. *Written application.* * * * (See comment 19(b)-3 for guidance in determining whether or not the transaction involves an intermediary agent or broker.)

* * * * *

19(b) Certain Variable-Rate Transactions

25. Comments to 19(b) are amended by adding parenthetical information after the second sentence in comment 19(b)-2; by redesignating comments 19(b)-3 and -4 to be comments 19(b)-4 and -5, respectively; by adding new comment 19(b)-3; and by adding a third bullet before the last sentence of comment 19(b)-5 to read as follows:

* * * * *

2. *Timing.* * * * (See comment 19(b)-3 for guidance in determining whether or not the transaction involves an intermediary agent or broker.) * * *

3. *Intermediary agent or broker.* In certain transactions involving an "intermediary agent or broker," a creditor may delay providing disclosures. A creditor may not delay providing disclosures in transactions involving either a legal agent (as determined by applicable law) or any other third party that is not an "intermediary agent or broker." In determining whether or not a transaction involves an "intermediary agent or broker" the following factors should be considered:

—The number of applications submitted by the broker to the creditor as compared to the total number of applications received by the creditor. The greater the percentage of total loan applications submitted by the broker in any given period of time, the less likely it is that the broker would be considered an "intermediary agent or broker" of the creditor during the next period.

—The number of applications submitted by the broker to the creditor as compared to the total number of applications received by the broker. (This factor is applicable only if the creditor has such information.) The greater the percentage of total loan applications received by the broker that is submitted to a creditor in any given period of time, the less likely it is that the broker would be considered an "intermediary agent or broker" of the creditor during the next period.

—The amount of work (such as document preparation) the creditor expects to be done by the broker on an application based on the creditor's prior dealings with the broker and on the creditor's requirements for accepting applications. The more preparation that the creditor expects the broker to do on an application, the less likely it is that the broker would be considered an "intermediary agent or broker" of the creditor.

An example of an "intermediary agent or broker" is a broker who, customarily within a brief time after receiving an application, inquires about the credit terms of several creditors with whom the broker does business and submits the application to one of them. The broker is responsible for only a small percentage of the applications received by that creditor. During the time the broker has the application, it might request a credit report and an appraisal.

* * * * *

5. *Examples of variable-rate transactions.* * * *

—"Price level adjusted mortgages" or other indexed mortgages that have a fixed rate of interest but provide for periodic adjustments to payments and the loan balance to reflect changes in an index measuring prices or inflation. The disclosures under section 226.19(b)(1) are not applicable to such loans, nor are the following provisions to the extent they relate to the determination of the interest rate by the addition of a margin, changes in the interest rate, or interest rate discounts: Sections 226.19(b)(2)(i), (iii), (iv), (v), (vi), (vii), (viii), (ix), and (x). (See comments 20(c)-2 and 30-1 regarding the inapplicability of variable-rate adjustment notices and interest rate limitations to price level adjusted or similar mortgages.)

* * * * *

Section 226.20—Subsequent Disclosure Requirements

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20(c) Variable-Rate Adjustments

* * * * *

26. Comment 20(c)-2 is amended by revising it to read as follows:
2. *Exceptions.* Section 226.20(c) does not apply to "shared-equity," "shared-appreciation," or "price level adjusted" or similar mortgages.

* * * * *

Subpart D—Miscellaneous

Section 226.25—Record Retention

25(a) General Rule

* * * * *

27. Comment 25(a)-4 is added to read as follows:
4. *Home equity plans.* In home equity plans that are subject to the requirements of section 226.5b, written procedures for compliance with those requirements as well as a sample disclosure form and contract for each home equity program represent adequate evidence of compliance. (See comment 25(a)-2 pertaining to permissible methods of retaining the required disclosures.)

* * * * *

Section 226.28—Effect on State Laws

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28. Comments 28(d)-1 through 28(d)-3 and a heading are added to read as follows:
28(d) Special Rule for Credit and Charge Cards
1. *General.* The standard that applies to preemption of state laws as they affect transactions of the type subject to sections 226.5a and 226.9(e) differs from the preemption standards generally applicable under the Truth in Lending Act. The Fair Credit and Charge Card Disclosure Act fully preempts state laws relating to the disclosure of credit information in consumer credit or charge card applications or solicitations. (For purposes of this section, a single credit or charge card application or solicitation that may be used to open either an account for consumer purposes or an account for business purposes is deemed to be a "consumer credit or charge card application or solicitation.") For example, a state law requiring disclosure of credit terms in direct mail solicitations for consumer credit card accounts is preempted. A state law requiring disclosures in telephone applications for consumer credit card accounts also is preempted, even if it applies to applications initiated by the consumer rather than the issuer, because the state law relates to the disclosure of credit information in applications or solicitations within the general field of preemption, that is, consumer credit and charge cards.
2. *Limitations on field of preemption.* Preemption under the Fair Credit and Charge Card Disclosure Act does not extend to state laws applying to types of credit other than open-end consumer credit and charge card accounts. Thus, for example, a state law is not preempted as it applies to disclosures in credit and charge card applications and solicitations solely for business-purpose accounts. On the other hand, state credit disclosure laws will not apply to a single application or solicitation to open either an account for consumer purposes or an account for business purposes. Such "dual purpose" applications and solicitations are treated as "consumer credit or charge card applications or solicitations" under this section and state credit disclosure laws applicable to them are preempted. Preemption under this statute does not extend to state laws applicable to home equity plans; preemption determinations in this area are based on the Home Equity Loan Consumer Protection Act, as implemented in section 226.5b of the regulation.
3. *Laws not preempted.* State laws relating to disclosures concerning credit and charge cards other than in applications, solicitations, or renewal notices are not preempted under section 226.28(d). In addition, state laws regulating the terms of credit and charge card accounts are not preempted, nor are laws preempted that regulate the form or content of information unrelated to the information required to be disclosed under sections 226.5a and 226.9(e). Finally, state laws concerning the enforcement of the requirements of sections 226.5a and 226.9(e) and state laws prohibiting unfair or deceptive acts or practices concerning credit and charge card applications, solicitations and renewals are not preempted. Examples of laws that are not preempted include:
—A state law that requires card issuers to offer a grace period or that prohibits certain fees in credit and charge card transactions.
—A state retail installment sales law or a state plain language law, except to the extent that it regulates the disclosure of credit information in applications,

solicitations and renewals of accounts of the type subject to sections 226.5a and 226.9(e).
—A state law requiring notice of a consumer's rights under antidiscrimination or similar laws or a state law requiring notice about credit information available from state authorities.

* * * * *

Section 226.30—Limitations on Rates

29. Comment 30–1 is amended by revising the first sentence in the second bullet; by revising the first sentence in the fourth bullet; and by adding a sixth bullet before the last two sentences to read as follows:
1. *Scope of coverage.* * * * Examples of credit obligations subject to this section include: * * *
—Dwelling-secured open-end credit plans entered into before November 7, 1989 (the effective date of the home equity rules) that are not considered variable-rate obligations for purposes of disclosure under the regulation but where the creditor reserves the contractual right to increase the interest rate—periodic rate and corresponding annual percentage rate—during the term of the plan.

In contrast, credit obligations in which there is no contractual right to increase the interest rate during the term of the obligation are not subject to this section. Examples include: * * *
—Dwelling-secured fixed-rate closed-end balloon-payment mortgage loans and dwelling-secured fixed-rate open-end plans with a stated term that the creditor may renew at maturity. * * *
—"Price level adjusted mortgages" or other indexed mortgages that have a fixed rate of interest but provide for periodic adjustments to payments and the loan balance to reflect changes in an index measuring prices or inflation. * * *

* * * * *

30. Comment 30–11 is amended by revising the fourth sentence; by deleting the fifth sentence; and by adding a sentence after the fourth sentence, to read as follows:
11. *Increasing the maximum interest rate — general rule.* * * * Furthermore, where an open-end plan has a fixed maturity and a creditor renews the plan at maturity, or enters into a closed-end credit transaction, a new maximum interest rate may be set at that time. If the open-end plan provides for a repayment phase, the maximum interest rate cannot be increased when the repayment phase begins unless the agreement provided for such an increase. * * *

* * * * *

APPENDIX G—OPEN-END MODEL FORMS AND CLAUSES

* * * * *

31. Comments app. G-5 through app. G-7 are added to read as follows:
5. *Models G-10(A) through G-10(C).* Models G-10(A) and G-10(B) illustrate the tabular format for providing the disclosures required under section 226.5a for applications and solicitations for credit cards other than charge cards. Model G-10(A) illustrates the permissible inclusion in the tabular format of all of the disclosures. Model G-10(B) contains only the disclosures required to be included in the table, while the three additional disclosures are shown outside of the table. The two forms also illustrate two different levels of detail in disclosing the grace period, and different arrangements of the disclosures. Model G-10(C) illustrates the tabular format disclosure for charge card applications and solicitations and reflects all of the disclosures in the table. Disclosures may be arranged in an order different from that in model forms G-10(A), (B), and (C); may be arranged vertically or horizontally; need not be highlighted aside from being included in the table; and are not required to be in any particular type size. Various features from different model forms may be combined; for example, the shorter grace period disclosure in model form G-10(B) may be used in any disclosure. While proper use of the model forms will be deemed in compliance with the regulation, card issuers are permitted to use headings and disclosures other than those in the forms (with an exception relating to the use of "grace period") if they are clear and concise and are substantially similar to the headings and disclosures contained in model forms. For further discussion of requirements relating to form, see the commentary to section 226.5a(a)(2).
6. *Models G-11 and G-12.* Model G-11 contains clauses that illustrate the general disclosures required under section 226.5a(e) in applications and solicitations made available to the general public. Model G-12 is a model clause for the disclosure required under section 226.5a(f) when a charge card accesses an open-end plan offered by another creditor.
7. *Models G-13(A) and G-13(B).* These model forms illustrate the disclosures required under section 226.9(f) when the card issuer changes the entity providing insurance on a credit card account. Model G-13(A) contains the items set forth in section 226.9(f)(3) as examples of significant terms of coverage that may be affected by the change in insurance provider. The card issuer may either list all of these potential changes in coverage and place a check

mark by the applicable changes, or list only the actual changes in coverage. Under either approach, the card issuer must either explain the changes or refer to an accompanying copy of the policy or group certificate for details of the new terms of coverage. Model G-13(A) also illustrates the permissible combination of the two notices required by section 226.9(f)—the notice required for a planned change in provider and the notice required once a change has occurred. This form may be modified for use in providing only the disclosures required before the change if the card issuer chooses to send two separate notices. Thus, for example, the references to the attached policy or certificate would not be required in a separate notice prior to a change in the insurance provider since the policy or certificate need not be provided at that time. Model G-13(B) illustrates the disclosures required under section 226.9(f)(2) when the insurance provider is changed.

* * * * *

Amendment to Regulation CC

The Board of Governors is amending 12 C.F.R. Part 229, its Regulation CC (Availability of Funds and Collection of Checks), concerning the laws of California relating to commercial banks, branches of foreign banks, savings and loan associations, and savings banks. The Expedited Funds Availability Act provides standards for determining whether state laws governing funds availability supersede or are preempted by federal law. Under Regulation CC, the Board may issue preemption determinations with respect to state law upon request.

Effective March 22, 1990, 12 C.F.R. Part 229 is amended as follows:

Part 229—[Amended]

1. The authority citation for Part 229 continues to read as follows:

Authority: Title VI of Pub. L. 100–86, 101 Stat. 552, 635, 12 U.S.C. § 4001 *et seq.*

2. In Appendix F, the California preemption determination is amended by revising the second and third sentences of the second paragraph, and by adding, within the reserved sections, preemption determinations for Commercial Banks and Branches of Foreign Banks and for Savings Institutions.

Appendix F—Official Board Interpretations; Preemption Determinations

* * * * *

California

* * * * *

* * * The regulations applicable to commercial banks and branches of foreign banks located in California (Cal. Admin. Code tit. 10, §§ 10.190401–10.190402) were promulgated by the Superintendent of Banks. The regulations applicable to savings banks and savings and loan associations (Cal. Admin. Code tit. 10, §§ 106.200–106.202) were adopted by the Savings and Loan Commissioner. * * *

* * * * *

Commercial Banks and Branches of Foreign Banks

Coverage. The California State Banking Department regulations, which apply to California state commercial banks, California national banks, and California branch offices of foreign banks, provide that a depositary bank shall make funds deposited into a deposit account available for withdrawal as provided in Regulation CC with certain exceptions. The funds availability schedules in Regulation CC apply only to "accounts" as defined in Regulation CC, which generally consist of transaction accounts. The California funds availability law and regulations apply to accounts as defined by Regulation CC as well as savings accounts (other than time accounts), as defined in the Board's Regulation D (12 C.F.R. 204.2(d)). (Note, however, that under section 229.19(e) of Regulation CC, *Holds on other funds*, the federal availability schedules may apply to savings, time, and other accounts not defined as "accounts" under Regulation CC in certain circumstances.)

Availability Schedules

Temporary schedule—Regulation CC provides that, until September 1, 1990, nonlocal checks must be made available for withdrawal by the seventh business day after the banking day of deposit, except for certain nonlocal checks listed in Appendix B-1, which must be made available within a shorter time (by the fifth business day following deposit for those California checks listed). Under the temporary schedule in the California regulations, a depositary bank with a four-digit routing symbol of 1210 ("1210 bank") or of 1220 ("1220 bank") that receives for deposit a check drawn on a nonlocal, in-state commercial bank or foreign bank branch[1] must make the funds available for withdrawal by the fourth business day after the day of deposit. The California regulations provide that 1210 and 1220 banks must make deposited checks drawn on nonlocal in-state thrifts (defined as savings and loan associations, savings banks, and credit unions) available by the fifth business day after deposit. In addition, California law provides that all other depositary banks must make deposited checks drawn on a nonlocal in-state commercial bank or foreign bank branch available by the fifth business day after deposit and checks drawn on nonlocal in-state thrifts available by the sixth business day after deposit. To the extent that these schedules provide for shorter holds than Regulation CC and its Appendix B-1, the state schedules supersede the federal schedules.[2] For example, the California four-day schedule that applies to checks drawn on in-state nonlocal commercial banks or foreign bank branches and deposited in a 1210 or 1220 bank would be shorter than and would supersede the federal schedules.

The California regulations do not specify whether the state schedules apply to deposits of checks at nonproprietary ATMs. Under the temporary schedules in Regulation CC, deposits at nonproprietary ATMs must be made available for withdrawal by the seventh business day following deposit. To the extent that the California schedules provide for shorter availability for deposits at nonproprietary ATMs, they would supersede the temporary schedule in Regulation CC for deposits at nonproprietary ATMs specified in section 229.11(d).

Permanent schedule—Regulation CC provides that, as of September 1, 1990, nonlocal checks must be made available for withdrawal by the fifth business day after the banking day of deposit. Under the permanent schedule in the California regulations, a depositary bank with a four-digit routing symbol of 1210 or of 1220 that receives for deposit a check drawn a nonlocal, in-state commercial bank or foreign bank branch must make the funds available for withdrawal by the fourth business day after the day of deposit. These state schedules provide for shorter hold periods than and thus supersede the federal schedules.

Second-day availability—Section 867 of the California Financial Code requires depository institutions to make funds deposited by cashier's check, teller's check, certified check, or depository check available for withdrawal on the second business day following deposit, if certain conditions are met. The Regulation CC next-day availability requirement for cashier's checks and teller's checks applies only to those checks issued to a customer of the bank or acquired from the bank for remittance purposes. To the extent that the state second-day availability requirement applies to cashier's and teller's checks issued to a non-customer of the bank for other than remittance purposes, the state two-day requirements supersedes the federal local and nonlocal schedules.

Availability at start of day—The California regulations do not specify when during the day funds must be made available for withdrawal. Section 229.19(b) of Regulation CC provides that funds must be made available at the start of the business day. In those cases where federal and state law provide for holds for the same number of days, to the extent that the California regulations allow funds to be made available later in the day than does Regulation CC, the federal law would preempt state law.

Exceptions to the availability schedules—Under the state preemption standards of Regulation CC (see section 229.20(c) and accompanying Commentary), for deposits subject to the state availability schedules, a state exception may be used to extend the state availability schedule up to the federal availability schedule. Once the deposit is held up to the federal availability schedule limit under a state exception, the depositary bank may further extend the hold under any federal exception that can be applied to the deposit. If no state exceptions exist, then no exception holds may be placed on deposits covered by state schedules. Thus, to the extent that California law provides for exceptions to the California schedules that supersede Regulation CC, those exceptions may be applied in order to extend the state availability schedules up to the federal availability schedules or such later time as is permitted by a federal exception.

Disclosures. California law (Cal. Fin. Code § 866.2) requires depository institutions to provide written disclosures of their general availability policies to potential customers prior to opening any deposit accounts. The law also requires that preprinted deposit slips and ATM deposit envelopes contain a conspicuous summary of the general policy. Finally, the law requires depository institutions to provide specific notice of the time the

1. The California regulation uses the term "paying bank" when describing the institution on which these checks are drawn, but does not define "paying bank" or "bank." Regulation CC's definitions of "paying bank" and "bank" include savings institutions and credit unions as well as commercial banks and branches of foreign banks. However, because the California regulation makes separate provisions for checks drawn on savings institutions and credit unions, the Board concludes that the term "paying bank," as used in the California regulation, includes only commercial banks and foreign bank branches.

2. Appendix B-1 of Regulation CC provides that the federal schedules will be the same as the California schedules (5 days) in the following cases: a depositary bank bearing a 1210 routing number receiving for deposit checks bearing a 3220 or a 3223 routing number, and a depositary bank bearing a 1220 routing number receiving for deposit checks bearing a 3210 routing number. In the cases where federal and state law are the same, the state law is not preempted by, nor does it supersede, the federal law.

customer may withdraw funds deposited by check or similar instrument into a deposit account if the funds are not available for immediate withdrawal.

Section 229.20(c)(92) of Regulation CC provides that inconsistency may exist when a state law provides for disclosures or notices concerning funds availability relating to accounts. California Financial Code § 866.2 requires disclosures that differ from those required by Regulation CC and, therefore, is preempted to the extent that it applies to "accounts" as defined in Regulation CC. The state law continues to apply to savings accounts and other accounts not governed by Regulation CC disclosure requirements.

Savings Institutions

Coverage. The California Department of Savings and Loan regulations, which apply to California savings and loan associations and California savings banks, provide that a depositary bank shall make funds deposited into a transaction or non-transaction account available for withdrawal as provided in Regulation CC. The funds availability schedules in Regulation CC apply only to "accounts" as defined in Regulation CC, which generally consist of transaction accounts. The California funds availability law and regulations apply to accounts as defined by Regulation CC as well as savings accounts as defined in the Board's Regulation D (12 C.F.R. 204.2(d)). (Note, however, that under section 229.19(e) of Regulation CC, Holds on other funds, the federal availability schedules may apply to savings, time, and other accounts not defined as "accounts" under Regulation CC in certain circumstances.)

Availability Schedules

Second-day availability—Section 867 of the California Financial Code requires depository institutions to make funds deposited by cashier's check, teller's check, certified check, or depository check available for withdrawal on the second business day following deposit, if certain conditions are met. The Regulation CC next-day availability requirement for cashier's checks and teller's checks applies only to those checks issued to a customer of the bank or acquired from the bank for remittance purposes. To the extent that the state second-day availability requirement applies to cashier's and teller's checks issued to a non-customer of the bank for other than remittance purposes, the state two-day requirement supersedes the federal local and nonlocal schedules.

Temporary and Permanent Schedules—Other than the provisions of Section 867 discussed above, California law incorporates the Regulation CC availability requirements with respect to deposits to accounts covered by Regulation CC. Because the state requirements are consistent with the federal requirements, the California regulation is not preempted by, nor does it supersede, the federal law.

Disclosures. California law (Cal. Fin. Code § 866.2) requires depository institutions to provide written disclosures of their general availability policies to potential customers prior to opening any deposit account. The law also requires that preprinted deposit slips and ATM deposit envelopes contain a conspicuous summary of the general policy. Finally, the law requires depository institutions to provide specific notice of the time the customer may withdraw funds deposited by check or similar instrument into a deposit account if the funds are not available for immediate withdrawal. Section 229.20(c)(2) of Regulation CC provides that inconsistency may exist when a state law provides for disclosures or notices concerning funds availability relating to accounts. To the extent that California Financial Code § 866.2 requires disclosures that differ from those required by Regulation CC and apply to "accounts" as defined in Regulation CC (generally, transaction accounts), the California law is preempted by Regulation CC.

The Department of Savings and Loan regulations provide that for those non-transaction accounts covered by state law but not by federal law, disclosures in accordance with Regulation CC will be deemed to comply with the state law disclosure requirements. To the extent that the Department of Savings and Loan regulations permit reliance on Regulation CC disclosures for transaction accounts and to the extent the state regulations survive the preemption of California Financial Code § 866.2, they are not preempted by, nor do they supersede, the federal law. The state law continues to apply to savings accounts and other non-transaction accounts not governed by Regulation CC disclosure requirements.

Amendment to Regulations Regarding Foreign Gifts and Decorations

The Board of Governors is amending 12 C.F.R. Part 264b, its Regulations Regarding Foreign Gifts and Decorations. The Congress has permitted federal government employees to accept gifts from foreign governments in amounts up to a "minimal value" that is to be established by the General Services Administration ("GSA") in consultation with the Secretary of State. While the Board's Rules Regarding Foreign Gifts and Regulations set "minimal value" at $180 or such higher amount as might be established by the GSA, the GSA has since redefined minimal value, effective January 1, 1990, to be $200. Accordingly, this technical amendment will change the Board's definition of "minimal value" to be $200 or such higher amount as might be established by the GSA.

Effective January 1, 1990, 12 C.F.R. Part 264b is amended as follows:

Part 264b—Rules Regarding Foreign Gifts and Decorations

1. The authority citation for Part 264b continues to read as follows:

Authority: 5 U.S.C. § 7342, as amended; and sec. 11(i) of the Federal Reserve Act (12 U.S.C. § 248(i)); 5 U.S.C. § 552.

2. Section 264b.3(a) is amended by changing "$180" to read "$200".

* * * * *

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

First Citizens Banc Corp. Sandusky, Ohio

Order Approving Acquisition of a Bank and Establishment of a Branch

First Citizens Banc Corp., Sandusky, Ohio ("First Citizens"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied for the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire all of the voting shares of The Castalia Banking Company, Castalia, Ohio ("Bank"). First Citizens proposes to merge a new bank subsidiary, Citizens Interim Bank, with and into Bank. In connection with this proposal, Citizens Interim Bank has applied for the Board's approval under the Bank Merger Act (12 U.S.C. § 1828(c)) to merge with Bank and thereby to establish a branch pursuant to section 9 of the Federal Reserve Act (12 U.S.C. § 321).

Notice of the applications, affording interested persons an opportunity to comment, has been published (54 *Federal Register* 51,078 (1989)). 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 of the BHC Act and in the Bank Merger Act (12 U.S.C. § 1828(c)(5)).

First Citizens is the 43rd largest commercial banking organization in Ohio, controlling deposits of approximately $151.9 million, representing less than one percent of the total deposits in commercial banking organizations in the state.[1] Bank is one of the smaller commercial banking organizations in Ohio, controlling deposits of approximately $37.3 million, representing less than one percent of the total deposits in commercial banking organizations in the state. Upon consummation of the proposal, First Citizens would become the 32nd largest commercial banking organization in Ohio, controlling deposits of $189.2 million, representing less than one percent of the total deposits in commercial banking organizations in the state. Consummation of the proposal would not have a significantly adverse effect on the concentration of commercial banking resources in Ohio.

First Citizens and Bank compete directly in the Sandusky, Ohio, banking market.[2] First Citizens is the largest commercial banking organization in the market, controlling deposits of approximately $151.9 million, representing approximately 29.7 percent of the total deposits in commercial banking organizations in the market ("market deposits"). Bank is the fourth largest commercial banking organization in the market, controlling deposits of approximately $37.3 million, representing approximately 7.3 percent of market deposits. Upon consummation of this proposal, First Citizens would control deposits of approximately $189.2 million, representing approximately 37.0 percent of market deposits. The Sandusky banking market is considered highly concentrated. The Herfindahl–Hirschman Index ("HHI") for the market is 2203, and, upon consummation of this proposal, the HHI would increase by 434 points to 2637.[3]

Although consummation of this proposal would eliminate some existing competition in the Sandusky banking market, several factors mitigate the potential

1. Banking data are as of June 30, 1988.

2. The Sandusky banking market is approximated by Erie County, Ohio, excluding the City of Vermilion, Ohio.

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

anticompetitive effects of this proposal. Seven banks, including some of the largest commercial banking organizations in Ohio, would remain as competitors upon consummation of this proposal. In addition, the Board has considered the presence of thrift institutions in this market in its analysis of the proposal. The Board previously has indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks.[4] Four thrift institutions actively compete in the Sandusky market. Based upon the size and market share of the thrift institutions in the Sandusky banking market, the Board has concluded that thrift institutions exert a competitive influence that mitigates the anticompetitive effects of this proposal.[5]

In addition, several characteristics of the Sandusky market indicate that it is attractive for entry. The Sandusky market encompasses a significant urban area and the market's growth in total and *per capita* personal income, labor force, and retail sales exceeds the comparable averages of similar Ohio banking markets and of the state as a whole. Furthermore, recent evidence regarding entry into the Sandusky market demonstrates that the Sandusky market is attractive for entry. Since 1987, a commercial bank and a thrift have entered the market on a de novo basis. Finally, because Ohio banking law permits statewide branching and nationwide *de novo* entry on a reciprocal basis, there are many potential entrants into the Sandusky banking market.

In light of the facts of record, including the presence of thrifts in the market, the market's attractiveness for entry, and the substantial number of competitors that would remain in the market, the Board has concluded that consummation of the proposal is not likely to have a significantly adverse effect on competition in the Sandusky banking market.

The financial and managerial resources of First Citizens and Bank and their future prospects are consistent with approval. Considerations relating to the convenience and needs of the community to be served also are consistent with approval.

Citizens Interim Bank has applied under section 9 of the Federal Reserve Act (12 U.S.C. § 321) to establish a branch at the site of Bank. The Board has considered the factors it is required to consider when evaluating applications for the establishment of branches pursuant to section 9 of the Federal Reserve Act and finds those factors to be consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the 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 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 19, 1990.

Voting for this action: Vice Chairman Johnson and Governors Angell, Kelley, and LaWare. Absent and not voting: Chairman Greenspan and Governor Seger.

JENNIFER J. JOHNSON
Associate Secretary of the Board

First Interstate Corporation of Wisconsin Kohler, Wisconsin

Order Approving the Acquisition of a Bank Holding Company

First Interstate Corporation of Wisconsin, Kohler, Wisconsin ("First Interstate"), a bank holding company within the meaning of the Bank Holding Company Act ("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 First Illini Bancorp, Inc., Galesburg, Illinois ("First Illini"). In connection with this application, FIB Acquisition, Inc., Kohler, Wisconsin ("FIB"), a wholly owned subsidiary of First Interstate, has applied for the Board's approval under section 3(a)(1) of the BHC Act to become a bank holding company by merging with First Illini.[1]

Notice of the applications, affording interested persons an opportunity to submit comments, has been duly published (54 *Federal Register* 42,360 and 46,986 (1989)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3(c) of the BHC Act.

4. *Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *CB&T Bancshares, Inc.*, 75 *Federal Reserve Bulletin* 381 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984).

5. If 50 percent of the deposits held by thrift institutions were included in the calculation of market concentration, First Citizens would control approximately 27.6 percent of market deposits and Bank would control approximately 6.8 percent of market deposits. The HHI would increase by 375 points from 1929 to 2304.

1. First Interstate and FIB will acquire the following banks: First Galesburg National Bank and Trust Company, Galesburg, Illinois; Abingdon Bank and Trust Company, Abingdon, Illinois; Madison Park Bank, Peoria, Illinois; and Community Bank and Trust Company of Canton, Canton, Illinois.

Section 3(d) of the BHC Act, the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire control of any bank located outside of the bank holding company's home state, unless such acquisition is "specifically authorized by the statute laws of the State in which bank is located, by language to that effect and not merely by implication."[2] First Interstate's home state is Wisconsin,[3] while First Illini's home state is Illinois.

The statute laws of Illinois expressly authorize the acquisition of a banking institution located in Illinois by a bank holding company located in a number of states, including Wisconsin, if that other state authorizes the acquisition of a financial institution in that state on a reciprocal basis by an Illinois bank holding company.[4] Wisconsin law expressly authorizes the acquisition of a banking organization in Wisconsin by an Illinois bank holding company on a reciprocal basis.[5] The Board concludes that approval of First Interstate's proposal to acquire First Illini is not barred by the Douglas Amendment.

First Interstate operates seven banking subsidiaries located in Wisconsin and one banking subsidiary located in Indiana. First Interstate is the fifth largest banking organization in Wisconsin, controlling approximately $1.2 billion in deposits, representing approximately 3.4 percent of the total deposits in commercial banking organizations in the state. First Interstate is the 34th largest banking organization in Indiana, controlling approximately $224.4 million in deposits, representing less than one percent of the total deposits in commercial banking organizations in the state. First Illini operates four subsidiary banks located in Illinois. First Illini is the 68th largest banking organization in Illinois, controlling approximately $254.0 million in deposits, representing less than one percent of the total deposits in commercial banking organizations in the state.

First Interstate does not compete directly with First Illini in any banking market. Accordingly, consummation of this proposal would not have a significantly adverse effect on the concentration of banking resources in Illinois, or have a significantly adverse effect upon existing competition in any relevant banking market. In light of the existence of numerous potential entrants into the relevant banking markets, the Board has concluded that consummation of this proposal would not have any significantly adverse effect on probable future competition in any relevant market.

The Board has carefully reviewed the financial factors in this case. The Board notes that following the conclusion of First Interstate's negotiations to acquire First Illini, Norwest Corporation, Minneapolis, Minnesota, proposed to acquire First Interstate.[6] In light of this and other facts of record, the Board finds that the financial and managerial factors and future prospects of First Interstate, First Illini and their bank subsidiaries are consistent with approval.

In addition, considerations relating to the convenience and needs of the communities to be served by First Interstate and First Illini are consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the applications should be, and hereby are, 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 Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 26, 1990.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Angell, Kelley, and LaWare.

JENNIFER J. JOHNSON
Associate Secretary of the Board

First State Corporation
Waynesboro, Mississippi

Order Approving Acquisition of Shares of a Bank

First State Corporation, Waynesboro, Mississippi ("First State"), a bank holding company within the meaning of the Bank Holding Company Act (the "BHC Act"), has applied for the Board's approval under section 3(a)(3) of the BHC Act (12 U.S.C. § 1842(a)(3)) to acquire up to 24.9 percent of the

2. 12 U.S.C. § 1842(d).

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

4. Ill. Rev. Stat. ch. 17, paras. 2502 and 2510.01 (Smith-Hurd Supp. 1989).

5. Wis. Stat. Ann. § 221.58 (West Supp. 1989). Illinois law also has a longevity requirement for all Illinois banks chartered after January 1, 1982 (Ill. Rev. Stat. ch. 17, para. 2508 (Smith-Hurd Supp. 1989)), which does not affect the proposed acquisition since all of First Illini's subsidiary banks were chartered prior to this date. Finally, Illinois law requires the Illinois Commissioner of Banks and Trust Companies to impose all restrictions or conditions that the acquiring state imposes on interstate acquisitions but not intrastate acquisitions. (Ill. Rev. Stat. ch. 17, paras. 2510.01 (Smith-Hurd Supp. 1989)).

6. By order dated March 26, 1990, the Board approved Norwest Corporation's application to acquire First Interstate.

outstanding voting shares of First National Bank of Lucedale, Lucedale, Mississippi ("Lucedale Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been published (53 *Federal Register* 9143 (1988)). 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. The Board received comments in opposition to the application from Lucedale Bank and some of the customers of that bank ("Protestants").

The Board has previously indicated that the acquisition of less than a controlling interest in a bank is not a normal acquisition for a bank holding company.[1] However, the requirement in section 3(a)(3) of the BHC Act that the Board's approval be obtained before a bank holding company acquires more than 5 percent of the voting shares of a bank suggests that Congress contemplated the acquisition by bank holding companies of between 5 percent and 25 percent of the voting shares of banks. Moreover, nothing in section 3(c) of the BHC Act requires denial of an application solely because a bank holding company proposes to acquire less than a controlling interest in a bank or a bank holding company. On this basis, the Board has previously approved the acquisition by a bank holding company of less than a controlling interest in a bank.[2] For these reasons, the Board concludes that the purchase by First State of less than a controlling interest in Lucedale Bank is not a factor that, by itself, warrants denial of this application.

Mississippi Chain Banking Statute

In acting on an application under the BHC Act, the Board is required to consider, in addition to the competitive, financial, managerial, and convenience and needs factors set out in the BHC Act, whether the proposal would comply with the provisions of relevant state law. The Board may not approve an application that would result in a violation of state law.[3]

Under current Mississippi law, First State is prohibited from becoming a multibank holding company. The Mississippi banking statutes provide that no corporation shall operate in Mississippi if "any object, purpose, or power of such corporation be, directly or indirectly, the organization, ownership or operation of banks in groups or chains, or in systems commonly referred to as group banking systems or chain banking systems."[4] According to the Attorney General of the State of Mississippi, "group banking" means the control of a bank by a holding company that also controls another independent bank.[5]

The Mississippi Department of Banking and Consumer Finance regulation defining "control" of a bank for purposes of the statute is similar to the definition of control in the BHC Act (12 U.S.C. § 1841(a)(2)) and provides that a company controls a bank if:

(1) the company directly or indirectly owns, controls, or has power to vote 25 percent or more of any class of voting securities of the bank,

(2) the company controls in any manner the election of a majority of the directors or trustees of the bank, or

(3) the Mississippi Commissioner of the Department of Banking and Consumer Finance ("Mississippi Commissioner") determines that the company directly or indirectly exercises a controlling influence over the management or policies of the bank.

Protestants argue that, as the largest shareholder of Lucedale Bank, First State will be able to exercise a controlling influence over Lucedale Bank, and would, therefore, control Lucedale Bank in violation of Mississippi law. First State contends that it has no intention to exercise a controlling influence over Lucedale Bank and will not have the means, in any event, to control Lucedale Bank for purposes of Mississippi law. First State has offered a number of commitments to the Mississippi Commissioner and to the Board that the Board has previously found helpful in determining that an investing bank holding company will not be able to exercise a controlling influence over another bank for purposes of the BHC Act.[6] In particular, First State has committed not to:

(1) take any action causing Lucedale Bank to become a subsidiary of First State;

(2) acquire or retain shares that would cause the combined interests of First State and its officers, directors and affiliates to equal or exceed 25 percent of the outstanding voting shares of Lucedale Bank;

(3) exercise or attempt to exercise a controlling influence over the management or policies of Lucedale Bank;

1. *State Street Boston Corporation*, 67 *Federal Reserve Bulletin* 862, 863 (1981).

2. *See, e.g., Marine Midland Banks, Inc.*, 75 *Federal Reserve Bulletin* 455 (1989) (retention of warrants to acquire up to 24.99 percent of the voting shares of a bank holding company); *Midlantic Banks, Inc.*, 70 *Federal Reserve Bulletin* 776 (1984) (acquisition of 24.9 percent of the voting shares of a bank holding company); *Comerica Incorporated*, 69 *Federal Reserve Bulletin* 911 (1983) (acquisition of 21.6 percent of the voting shares of a bank).

3. *Whitney National Bank in Jefferson Parish v. Bank of New Orleans & Trust Co.*, 379 U.S. 441 (1965).

4. Miss. Code Ann. § 81-7-19 (1972).

5. *Bancorp of Mississippi, Inc.*, 72 *Federal Reserve Bulletin* 257, 259 (1986).

6. *See, e.g., United Counties Bancorporation*, 75 *Federal Reserve Bulletin* 714 (1989); *The Summit Bancorporation*, 75 *Federal Reserve Bulletin* 712 (1989).

(4) seek or accept representation on the board of directors of Lucedale Bank;
(5) have or seek to have any employees or representatives serve as an officer, agent or employee of Lucedale Bank;
(6) propose a director or slate of directors in opposition to a nominee or slate of nominees proposed by the management or board of directors of Lucedale Bank;
(7) solicit or participate in soliciting proxies with respect to any matter presented to the shareholders of Lucedale Bank;
(8) attempt to influence the dividend policies or practices of Lucedale Bank;
(9) attempt to influence the loan and credit decisions or policies of Lucedale Bank, the pricing of services, any personnel decision, the location of any offices, branching, the hours of operation, or similar activities of Lucedale Bank; or
(10) enter into any other banking or nonbanking transactions with Lucedale Bank, except in the ordinary course of business and on substantially the same terms as comparable transactions entered into with other unaffiliated banks.

The Mississippi Commissioner has indicated that, in light of the commitments made by First State, "it appears [First State] is willing to not violate the [Mississippi] regulation regarding control." Based on this, the Commissioner has informed the Board that he has "no current intention to initiate a control proceeding to determine whether [First State] is in violation of the Mississippi chain banking statute."

As noted above, in a number of previous cases, the Board has relied on similar commitments in finding that a proposed investment by a bank holding company in up to 24.9 percent of the stock of another bank or bank holding company would not permit the investing bank holding company to exercise a controlling influence over the subject of the acquisition. The Mississippi Commissioner's reliance on these commitments as a basis for not initiating a control proceeding at this time under Mississippi law would appear reasonable and is in accord with these previous Board decisions interpreting control provisions in the BHC Act identical to the Mississippi law.

In light of the Mississippi Commissioner's views and the other facts of record, including the commitments made by First State, the Board concludes that, as currently structured, First State's proposal is consistent with Mississippi law. The Board's approval of this application is conditioned on First State not taking any action to violate the Mississippi chain banking statute.[7] Based upon the facts of record, including commitments by First State discussed above, the Board also does not believe that First State would acquire control of Lucedale Bank for purposes of the BHC Act through this transaction.

Section 3(c) of the BHC Act requires the Board in every case under section 3 of the BHC Act to analyze competitive, financial, managerial, future prospects, and convenience and needs considerations. In accordance with the terms of this section of the BHC Act, the Board has considered these factors in its analysis of this application, even though First State's proposal involves less than a controlling interest in Lucedale Bank.[8]

Competitive Factors

First State is the twenty-sixth largest commercial banking organization in Mississippi, controlling one subsidiary bank with total deposits of $110.5 million, representing less than one percent of the total deposits in commercial banks in the state.[9] Lucedale Bank is the eighty-eighth largest commercial banking organization in Mississippi, controlling deposits of $30.6 million, also representing less than one percent of the total deposits in commercial banks in the state. First State and Lucedale Bank, if considered as a combined banking organization, would become the twenty-fourth largest banking organization in Mississippi, and would control total deposits of $141.1 million, representing less than one percent of the total deposits in commercial banks in the state. Based on all of the facts of record, the Board believes that consummation of the proposed acquisition would not have a significantly adverse effect on the concentration of commercial banking resources in Mississippi.

First State and Lucedale Bank compete directly in the Pascagoula and Perry-Greene banking markets in Mississippi. In the Pascagoula banking market,[10] First State is the smallest of eight commercial banking

7. On February 20, 1990, Mississippi enacted legislation that would permit multi-bank holding companies in Mississippi, with certain restrictions. Act to Amend Section 81-7-19, Mississippi Code of 1972, H.B. No. 1079, Laws of Mississippi, 1990 Regular Session (enacted February 20, 1990) (to be codified at Miss. Code Ann. § 81-7-19). This authorization becomes effective on July 1, 1990. First State's proposal is specifically contemplated in that legislation and appears to be permissible under that act.

8. *State Street Boston Corporation*, *supra*. In the event that First State proposes to acquire control of Lucedale Bank in the future, First State would be required to submit an application for such an acquisition, and the Board would reexamine the competitive effects of such an acquisition as well as all of the other factors in section 3(c) of the BHC Act in view of the new set of facts and circumstances.

9. State banking data are as of June 30, 1989.

10. The Pascagoula banking market is approximated by George and Jackson Counties in Mississippi minus the city of Ocean Springs in Jackson County.

organizations, controlling $8.8 million in deposits, which represents approximately 2.0 percent of the total deposits in banks in that market.[11] Lucedale Bank is the sixth largest commercial banking organization, controlling $24.4 million in deposits, which represents approximately 5.5 percent of total deposits in commercial banks in the market. If considered as a combined banking organization, upon consummation of this proposal First State and Lucedale Bank would become the fifth largest commercial banking organization in the market, controlling approximately 7.5 percent of the deposits in commercial banks in the market. The Herfindahl-Hirschman Index ("HHI") would increase by 21 points to 2066.[12] The Board also notes that 13 bank and thrift competitors would remain in the market. Based on these and the other facts of record, the Board believes that consummation of this proposal would not have a significantly adverse effect on competition in the Pascagoula banking market.

In the Perry-Greene banking market,[13] First State is the third largest of four commercial banking organizations, controlling $15.3 million in deposits which represents 21.8 percent of the total deposits in commercial banks in the market.[14] Lucedale Bank is the smallest commercial banking organization in the market, controlling $6.2 million in deposits, which represents 8.9 percent of the total commercial bank deposits in the market. If considered as a combined banking organization, upon consummation of this proposal First State and Lucedale Bank would control 30.7 percent of the deposits in commercial banks in the market. The HHI would increase by 386 points to 3553.

The Board believes that the proposal would raise serious competitive concerns in the Perry-Greene banking market if the proposal involved the acquisition of control of Lucedale Bank by First State. Based on the facts of record, including First State's commitments discussed above, the Board has concluded that First State would not acquire control or the ability to exercise a controlling influence over Lucedale Bank upon consummation of this proposal. The Board's inquiry does not end, however, with its finding that First State will not control Lucedale Bank. The Board views these acquisitions with concern and continues to believe that noncontrolling interests in directly competing banks or bank holding companies may raise serious questions under the BHC Act. The Board has previously noted that one company need not acquire control of another in order to substantially lessen competition between them, and that the specific facts of each case will determine whether the minority

11. Market data are as of June 30, 1989.

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

13. The Perry-Greene banking market is approximated by Greene County, Mississippi, minus the town of Stateline plus the towns of New Augusta, Beaumont and Richton in Perry County, Mississippi. Protestants have requested a public hearing to consider the appropriate definitions of the relevant banking markets, the effect of the proposal on competition, and the convenience and needs of the communities served by First State and Lucedale Bank. While the provisions of the BHC Act require that a hearing be held in certain cases, a hearing is not required by the BHC Act in this case. The parties in this case have had ample opportunity to present their arguments in writing concerning the issues raised by this application, including the market definitions. Moreover, in 1987 and 1989 the Federal Reserve Bank of Atlanta conducted an extensive analysis of the appropriate banking markets using an economics-based approach consistent with Board precedent. For these reasons, and based on a review of the record in this case, the Board does not believe that a hearing is necessary or appropriate in this case and denies the hearing request.

14. Protestants allege that consummation of First State's proposal would result in a monopoly in violation of the Clayton Act (15 U.S.C. § 18). Protestants base their claim on their argument that the appropriate banking market in this case should be George and Greene Counties, either as a single market or as two separate markets, rather than the markets as noted above, linking George County with Jackson County as one market, and Greene County with Perry County as another market.

In the Board's view, based on the facts of record, George County is more closely linked with Jackson County than with Greene County. Jackson County contains the city of Pascagoula, a major state population and commercial center. According to the Census Bureau's Place of Work Data, and Reserve Bank surveys, nearly 20 percent of the workers living in George County commute into Jackson County. Advertising from the Pascagoula area reaches George County residents, and George County residents can travel easily into Pascagoula, which offers numerous commercial and major shopping opportunities not offered by Greene County.

Similarly, the Board believes that Greene County is more closely linked with Perry County. Mississippi State Highway Department records indicate a significant amount of traffic between Perry and Greene Counties, and price data and deposit rates suggest that banks in Greene County and the relevant towns in Perry County are part of a single banking market. Moreover, the *Rand McNally Commercial Atlas* lists George and Greene Counties as being in separate trading areas, with Perry and Greene Counties being placed in the Hattiesburg Trading area, and George County being placed in the Biloxi (Pascagoula) Trading area.

Based on these and the other facts of record, including the market surveys conducted by the Reserve Bank, the Board believes that the market definitions adopted in this case are appropriate, and, for all of the reasons stated in this Order, this proposal would not violate federal antitrust law.

Furthermore, the Board has found no case law, interpretations or other legal precedents to support Protestants' contention that Mississippi's antitrust statute (Miss. Code Ann. § 75-21-13) should be interpreted more restrictively than the Clayton Act to bar approval of the application as Protestants have urged. For the reasons discussed in this Order, and based on all the facts of record, the Board believes that consummation of the proposed transaction would not violate Mississippi's antitrust statute.

investment in a company will be anticompetitive.[15] In this case, it is the Board's judgment, based upon careful analysis of the record, that no significant reduction in competition is likely to result from the proposed acquisition. The record shows that there will be no officer or director interlocks between First State and Lucedale Bank, that First State intends the acquisition to be a strictly passive investment, and that First State is prohibited by the BHC Act and its commitments from acting in concert with any other entity to control Lucedale Bank without prior approval from the Board. In addition, management of Lucedale Bank has vigorously opposed this proposed acquisition, and strongly indicated its intention to remain independent. Moreover, existing officers and directors of Lucedale Bank currently control in excess of 30 percent of the voting shares of Lucedale Bank.

The Board has also considered the presence and competition provided by other commercial banking organizations and thrift institutions in the market.[16] There are two thrift institutions located in the Perry-Greene banking market that provide additional sources of banking services to that market.[17]

In addition, the Board has considered the market conditions in the Perry-Greene banking market. The Board notes that the market is sparsely populated and has experienced only minimal growth in population in recent years. The market also has a relatively low per capita income level and is serviced by an above average number of depository institution offices per resident. Based upon these considerations, and the other facts of record, the Board concludes that consummation of this proposal would not have such a significantly adverse effect on competition in the Perry-Greene market as to warrant denial of this application.

Financial and Managerial Factors

On the basis of all of the facts of record, and after careful review of the comments submitted by Protestants, the Board believes that the financial and managerial resources of First State, its subsidiary bank, and Lucedale Bank and the future prospects of these organizations are consistent with approval.[18] In evaluating the managerial factors in this case, the Board has considered the allegation of Protestants that First State and its agents, acting in concert, have already acquired control of more than five percent of the shares of Lucedale Bank in violation of the BHC Act and the Change in Bank Control Act ("CBC Act").[19]

15. *The Summit Bancorporation*, 75 *Federal Reserve Bulletin* 712, 713 (1989). *See also Sun Banks, Inc.*, 71 *Federal Reserve Bulletin* 243 (1985).

16. The Board previously has indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984); *The Chase Manhattan Corporation*, 70 *Federal Reserve Bulletin* 529 (1984); *NCNB Bancorporation*, 70 *Federal Reserve Bulletin* 225 (1984); *General Bancshares Corporation*, 69 *Federal Reserve Bulletin* 802 (1983); *First Tennessee Corporation*, 69 *Federal Reserve Bulletin* 298 (1983).

17. If 50 percent of deposits held by thrift institutions in the Perry-Greene banking market were included in the calculation of market concentration, upon consummation of this proposal First State and Lucedale Bank would together control 29.3 percent of the market's deposits. The HHI would increase by 352 points to 3254.

18. Protestants' allege that First State made misrepresentations or omitted to state material facts in a tender offer for shares of Lucedale Bank and thus violated federal securities laws. Protestants argue that such a violation reflects so adversely on First State's management as to require denial of this application. Protestants have raised these securities claims in litigation with First State.

The Board has previously stated that it does not believe that the standards of section 3(c) of the BHC Act for review of bank holding company expansion proposals require the Board to adjudicate the type of securities law issues raised by Protestants, *See Suburban Bancorp, Inc.*, 71 *Federal Reserve Bulletin* 581 (1985), particularly in cases, such as this one, where the issues have previously been litigated and the courts were fully able to offer Lucedale Bank any relief to which it may have been entitled. The parties have settled the securities law aspect of the litigation. *First National Bank of Lucedale v. First State Corporation*, No. S87-0499 (S.D. Miss. settled December 17, 1987).

The Board previously has, however, considered allegations such as those made by Protestants in the context of its evaluation of managerial factors. *See* Benson Bancshares, Inc., 63 *Federal Reserve Bulletin* 1009 (1977). After careful review of these and the other facts in this case, the Board does not believe that the record of this application is sufficient to indicate that the alleged conduct of the management of First State that is the subject of the securities laws allegations would support an adverse finding with respect to managerial resources.

As discussed below, the solicitation of short-term options by a bank holding company is permissible under the Board's regulations under certain circumstances, and the Board understands that there are no SEC investigations or enforcement proceedings regarding this matter pending at this time.

19. First State acquired 4.1 percent of the shares of Lucedale Bank. Subsequently, an ESOP established by First State acquired an additional 4.9 percent of Lucedale Bank's shares. The ESOP acquired these shares without filing a CBC Act notice or a Bank Holding Company application, based on written advice from staff of the Federal Reserve Bank of Atlanta that appeared to state that no such application or notice was necessary. Because the ESOP was established by First State for its employees, an issue arises as to whether First State should be presumed to control the shares in the ESOP under the Board's Regulation Y. As a general matter, the Board now believes the shares held by the ESOP should be deemed to be controlled by First State. The facts of record indicate that the shares held by the ESOP are voted by trustees for the benefit of employees of First State. Under section 2(g)(2) of the BHC Act, those shares would be deemed to be indirectly controlled by First State. Adding the shares to those already controlled by First State directly would cause First State to exceed a 5 percent stake in the voting securities of Lucedale Bank, requiring an application under section 3(a)(3) of the BHC Act.

In this case, however, because First State's ESOP acquired the shares after consulting with the Federal Reserve Bank of Atlanta, and is now applying to retain the ESOP's shares, the Board concludes that First State's failure to apply for prior approval to acquire shares through its ESOP does not reflect so adversely upon First State's management as to warrant denial of the application. In the Board's opinion, the record does not establish that First State has otherwise acquired any shares of Lucedale Bank in violation of either the BHC Act or the CBC Act.

Protestants allege that shares of Lucedale Bank held by two individuals, amounting to 11.5 percent and 7.7 percent of outstanding stock, respectively, should be attributed to First State. Protestants contend that these individuals were acting on behalf of and in concert with First State in acquiring shares of Lucedale Bank.

In the Board's view, the shares held by these individuals should not be regarded as being controlled by First State. The record indicates that, upon acquiring shares of Lucedale Bank, one individual granted First State a three-month option to acquire the shares. The second individual granted First State a nine-month option to purchase her shares of Lucedale Bank. Both of these options have expired, and the individuals have stated that no agreement currently exists to sell shares of Lucedale Bank to First State. During the limited duration of the options and thereafter, the individuals retained all of the voting, dividend and other ownership rights of the shares.[20] In addition, both options appear to have been consistent with the Board's regulations regarding these types of options.[21] For these reasons and based on all the facts of record, it does not appear that the acquisition by First State of the options on these shares violated the BHC Act or the CBC Act.[22]

Considerations relating to the convenience and needs of the communities to be served are also consistent with approval.

Based on the foregoing and other facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval is subject to the condition that First State not take any action to cause First State to violate the Mississippi chain banking statute. The acquisition shall not be consummated before the thirtieth calendar day following the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 5, 1990.

Voting for this action: Vice Chairman Johnson and Governors Seger, Angell, and LaWare. Absent and not voting: Chairman Greenspan and Governor Kelley.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

The Mitsui Bank, Limited
Tokyo, Japan

The Taiyo Kobe Bank, Limited
Kobe, Japan

Order Approving Acquisition of Nonbank Company

The Mitsui Bank, Limited, Tokyo, Japan ("Mitsui"), and The Taiyo Kobe Bank, Limited, Kobe, Japan ("Taiyo Kobe"), both bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have applied for the Board's approval under section 4(c)(8) of the BHC Act (12 U.S.C.

In addition, the Department of Labor has investigated allegations that First State violated the Employee Retirement Income Security Act of 1974 ("ERISA") in purchasing shares of Lucedale Bank through the ESOP. The Department of Labor has concluded its investigation and reached a consent agreement with First State in which First State has neither admitted nor denied that the ESOP's purchase violated ERISA.

20. The daughter of one of these individuals is a vice president of First State's subsidiary bank, First State Bank. Under the Board's regulations, shares controlled by the management of a bank holding company (including members of the immediate families of such individuals) are, under certain circumstances, presumed to be controlled by the bank holding company and aggregated with shares owned directly by the bank holding company for purposes of determining whether the bank holding company has acquired in excess of 25 percent of the shares of another company. 12 C.F.R. 225.31(d)(2)(ii). The Board believes that this regulatory presumption by its terms does not govern this case, however, because, even if the individual's shares are attributed to First State, the combined interest of First State would be below 25 percent of Lucedale Bank. The record also indicates that the individual, who is an established businessman, acquired these shares in his own right and with his own resources, and was not part of an effort by First State to acquire control of Lucedale Bank.

21. The Board's regulations presume a company that enters into an agreement or understanding under which the rights of a holder of voting securities of a bank are restricted in any manner to control those securities unless the agreement relates to restrictions on transferability and continues only for the time necessary to obtain approval from the appropriate federal supervisory authority to acquire the securities subject to the agreement. *See* 12 C.F.R. 225.31(d)(1)(ii). *See also* Letter, dated June 17, 1987, from Michael Bradfield, General Counsel of the Board, to H. Rodgin Cohen, Esq. Bank holding companies are permitted, under the Board's regulations and federal statutes to enter into option agreements to purchase shares of banks.

22. In the Board's opinion, the record does not establish that additional shares of Lucedale Bank beyond those currently held by First State or its ESOP should be attributed to First State for purposes of the BHC Act or the CBC Act. The Board notes that because any acquisitions of Lucedale Bank shares by First State would be subject to section 3 of the BHC Act, the CBC Act, by its terms would not apply to such acquisitions by First State. 12 U.S.C. § 1817(j)(17)(A). In particular, Protestants contend that stock of Lucedale Bank held by a former director of Lucedale Bank should be attributed to First State for purposes of the BHC Act and the CBC Act. Protestants base this contention on the allegation that First State has had discussions with this director regarding the possible purchase of shares held by this director. Based on the record, the Board does not believe that this allegation would support denial of this application.

§ 1843(c)(8)) to acquire Taiyo Kobe Bank and Trust Company, New York, New York ("TKBTC"), a nonbank trust company.

Mitsui and Taiyo Kobe, both large Japanese city banks, have entered into an agreement to merge and to continue operation under Mitsui's charter and the name The Mitsui Taiyo Kobe Bank, Ltd. The merger has been approved by the Japanese Ministry of Finance and is scheduled to be consummated on April 1, 1990. No application is required under the BHC Act for this merger of foreign banks, neither of which is a federally insured depository institution. This application is required under the BHC Act for the limited purpose of permitting the merged entity, Mitsui Taiyo Kobe, to retain an interest in TKBTC after TKBTC converts to a nonbank trust company. The conversion of TKBTC has been proposed to comply with the interstate banking restrictions of the Douglas Amendment to the BHC Act.

The Douglas Amendment prohibits the Board from approving an application by a bank holding company to acquire a bank located outside of the holding company's home state, unless the state where the bank to be acquired is located has authorized the acquisition by statute. The law of the home state of Mitsui and Mitsui Taiyo Kobe after the merger (California) will not provide for the requisite reciprocity imposed by the interstate banking law of New York (where TKBTC is located) until January 1, 1991. The Douglas Amendment does not, however, prohibit the interstate acquisition of nonbank companies, such as non-depository trust companies. Accordingly, in order to avoid the closure of TKBTC, Mitsui Taiyo Kobe has proposed to convert TKBTC into a limited-purpose trust company and has applied to acquire the trust company under the nonbanking provisions of section 4 of the BHC Act. Upon consummation of this proposal, TKBTC will restrict its activities exclusively to those permissible for a limited-purpose trust company under the BHC Act.[1]

Notice of the application, affording interested persons an opportunity to submit comments, has been published (54 *Federal Register* 49,357 (1989)). 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 of the BHC Act.

Mitsui, with consolidated total assets equivalent to approximately $226 billion, is the 13th largest banking organization in the world.[2] In the United States, Mitsui owns a state nonmember bank, Mitsui Manufacturers Bank, Los Angeles, California, ("MMB") which has 12 branch offices in California and total assets of $1.3 billion. In addition, Mitsui operates a grandfathered branch in New York, a limited branch in Illinois, an agency in California, and representative offices in Georgia, Michigan, Texas, California, Washington, and Kentucky.[3]

Taiyo Kobe, with total consolidated assets equivalent to approximately $187.6 billion, is the 20th largest bank in the world. In the United States, Taiyo Kobe owns TKBTC, with total assets of approximately $48.8 million. In addition, Taiyo Kobe operates a branch in New York, a grandfathered branch in Washington State, a limited branch in Illinois, an agency in California, and representative offices in Georgia and Texas.[4]

As a result of the proposed merger, Mitsui's New York and Illinois branches and California agency will be combined with the duplicative Taiyo Kobe branches and agency in these respective states.[5] Mitsui will conform the deposit-taking activities of Taiyo Kobe's grandfathered branch in Washington to those of an Edge corporation under section 25(a) of the Federal Reserve Act (12 U.S.C. § 611 *et seq.*).[6]

In acting on this application, the Board must consider whether the standards in section 4(c)(8) of the BHC Act are satisfied. The Board has previously determined that trust activities are closely related to

1. Trust companies are exempt from the definition of "bank" under the BHC Act provided that the activities of the trust company conform with certain requirements specified in the BHC Act. 12 U.S.C. § 1841(c)(2)(D). Applicants have committed to operate TKBTC in conformance with these requirements immediately upon consummation of the proposal and have committed to divest TKBTC's existing loans and deposits no later than within one year of consummation. Until this divestiture has been effected, the Board will not act upon Mitsui Taiyo Kobe's application under section 3 of the BHC Act to convert TKBTC to a bank when authorized by California and New York interstate banking provisions.

2. Data are as of September 30, 1989.

3. Mitsui's nonbanking activities in the United States include a trust company business (Mitsui Finance Trust Company of New York, New York, New York) and a securities brokerage subsidiary (Mitsui Securities Company (USA), Inc., New York, New York).

4. Taiyo Kobe owns no nonbanking subsidiaries in the United States.

5. The New York branches of Mitsui and Taiyo Kobe will be merged and Mitsui Taiyo Kobe, as successor to Mitsui's charter, will continue to operate a branch in New York under the International Banking Act ("IBA"). Applicants have committed to complete all mergers within one year of consummation of the merger. Mitsui Taiyo Kobe may retain these branches pursuant to section 5 of the IBA (12 U.S.C. § 3103(a)).

6. Section 5 of the IBA generally provides that no foreign bank may establish a state branch outside of its home state unless the establishment of such branch is specifically authorized by state law and the foreign bank agrees to limit the deposit-taking activities of such branch to those permissible for an Edge corporation. Foreign banks may also retain branches established before July 27, 1978. Taiyo Kobe obtained its Washington State branch under this grandfather authority. However, Taiyo Kobe's grandfather rights to operate this branch will be extinguished by the proposed merger and Applicants have committed to conform the deposit-taking activities of the Washington branch as required by section 5 of the IBA within six months of consummating the merger.

banking within the meaning of section 4(c)(8) of the BHC Act and Applicants have proposed to conduct activities within the limitations specified in the Board's regulations. 12 C.F.R. 225.25(b)(3). The Board must also consider whether an applicant's performance of the proposed activities "can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."

In every case involving a nonbanking acquisition by a bank holding company under section 4 of the BHC Act, the Board considers the financial condition and resources of the applicant and the effect of the transaction on these resources.[7] In this case, the primary capital ratios of Mitsui and Taiyo Kobe, as publicly reported, are below the minimum level specified in the Board's Capital Adequacy Guidelines. After making adjustments to reflect Japanese banking and accounting practices, however, including consideration of a portion of the unrealized appreciation in Mitsui's and Taiyo Kobe's portfolios of equity securities consistent with the principles of the Basle capital framework, capital ratios for these institutions meet United States standards.

The Board also has considered additional factors that mitigate its concern in this case. The Board notes that Mitsui and Taiyo Kobe are in compliance with the capital and other financial requirements for banking organizations in Japan. In addition, the Board notes that the capital of Mitsui and Taiyo Kobe on a pro forma basis currently accords with the minimum requirements established by the Basle Committee capital framework for year-end 1990. Based on these and other facts of record, the Board concludes that the financial and managerial considerations are consistent with approval of the application.

Mitsui and Taiyo Kobe compete directly for trust services in New York. This market is highly competitive, however, with a number of sizable existing competitors as well as potential competitors, and the effect of the proposal on competition in this market would be *de minimis*. The Board has therefore determined that consummation of this proposal would not have significantly adverse effects on either existing or potential competition in any relevant market. In addition, 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, or unsound banking practices.

The Board has considered the public comments filed regarding this proposal. The Board has received adverse comments from 16 community-based organizations on the basis of the performance under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA") of Applicants and MMB, Mitsui's state nonmember bank subsidiary in California.[8] The Board also received comments urging that the Board convene a public meeting or hearing before acting on this application.

The CRA requires the federal bank supervisory agencies to encourage financial institutions—a term the CRA defines as federally insured depository institutions—to help meet the credit needs of the local communities in which they operate, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institutions. To accomplish this end, the CRA requires the appropriate agency to assess by examination the record of an insured depository institution in meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution and to take that record into account in evaluating "an application for a deposit facility by such institution." 12 U.S.C. § 2903. The CRA expressly recognizes that the obligation to help meet the credit needs of the local community rests with insured depository institutions and their deposit facilities. Nonbank companies that are affiliated with or that own depository institutions were not included by Congress within the provisions of the CRA. These companies are not local insured deposit-taking facilities that have either the advantages or obligations of federally insured depository institutions that Congress covered under the CRA.

In instructing the federal agencies to encourage insured depository institutions to help meet the credit needs of the community, the CRA expressly lists the

7. 12 C.F.R. 225.24; *The Fuji Bank Limited*, 75 *Federal Reserve Bulletin* 94 (1989); *Bayerische Vereinsbank AG*, 73 *Federal Reserve Bulletin* 155, 156 (1987).

8. Protestants principally allege the following deficiencies in MMB's record of CRA performance:
(i) lack of residential real estate lending or sufficient participation in programs to assist in financing housing in low- and moderate-income neighborhoods;
(ii) insufficient programs for outreach to minorities, including an inadequate number of branches in minority communities;
(iii) lack of basic banking services to senior citizens, minorities, and residents in low- and moderate-income neighborhoods;
(iv) insufficient provision of small business financing;
(v) lack of consumer credit products for residents of low-income neighborhoods; and
(vi) overall lack of financial commitment to low-income, minority, and inner-city economic development and residential lending for both home improvement and affordable housing. Moreover, Protestants have raised issues regarding the amount of MMB's financial commitment to CRA activities in light of its parent holding company's assets and record of real estate lending outside California.

type of expansion proposals by depository institutions in which the agency must review the institution's record of serving the needs of its community. Section 803 of the CRA expressly defines applications by depository institutions for a deposit facility to include applications to establish new branches and to relocate existing depository facilities, and applications to charter new insured depository institutions. As it relates to bank holding companies, section 803(3)(F) of the CRA defines the scope of "application for a deposit facility" as the "acquisition of shares in, or the assets of, a regulated financial institution requiring approval under section 1842 of [Title 12] [section 3 of the BHC Act]."[9] The fact that the applications enumerated in section 803 involve exclusively applications to establish or expand deposit-taking facilities is consistent with the Congressional finding in the CRA that federally insured deposit-taking institutions have an obligation to help meet the credit needs of the local community in which they are chartered to do business. Thus, while the CRA is expressly applicable to applications by bank holding companies to acquire banks under section 3 of the BHC Act, the CRA by its terms does not apply to applications by bank holding companies to acquire nonbanking companies under section 4(c)(8) of the BHC Act. The Board has interpreted the CRA in this manner since 1979.[10]

In this case, the acquisition and retention of TKBTC by Mitsui Taiyo Kobe is subject to approval under the nonbanking provisions of section 4 of the BHC Act and, thus, the analysis required under the CRA for section 3 applications to acquire banks is not applicable.

The Board notes that section 4(c)(8) of the BHC Act requires the Board to weigh the public benefits of each proposal reviewed under that section. Section 4(c)(8) focuses that analysis on whether permitting the affiliation of the applying bank holding company and the particular nonbank company to be acquired can reasonably be expected to produce public benefits that outweigh possible adverse effects that may result from the affiliation. The Board has previously stated that this analysis does not incorporate the provisions of the CRA or require an extensive analysis of the CRA performance of bank affiliates.

In this case, the Board has considered the public benefits associated with Mitsui Taiyo Kobe's proposal to retain TKBTC and to continue to offer trust services in the United States through TKBTC. The continued operation of this company will help serve the needs of trust customers in the United States. In this regard, the Board notes that this proposal involves retention of an existing operation in the United States in connection with the merger of two foreign organizations, and does not represent an expansion in the United States of the offices or activities of the foreign organization. This proposal represents a decision by the combined organization to continue to provide existing trust services to the community through TKBTC as an alternative to closing or otherwise disposing of this operation. The Board believes that the continued provision of these trust services weighs in favor of approval of this application. The record does not indicate that the proposal is likely to result in undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.

As stated above, the Board has received a number of comments regarding the record of Mitsui and MMB under the CRA as well as requests that the Board hold a public meeting or hearing on these matters. In this regard, the Board notes that Mitsui Taiyo Kobe has applied for Board approval under section 3 of the BHC Act to acquire TKBTC as a bank upon the effective date of the California interstate banking statute (January 1, 1991). Such an application is required before TKBTC may engage in deposit-taking activities. The comments submitted by the Protestants, and the performance of MMB under the CRA, are directly and materially relevant to Mitsui Taiyo Kobe's proposal under section 3 of the BHC Act to operate a bank in New York State after January 1, 1991.

In this regard, the Board notes that although MMB received a satisfactory CRA performance rating from the Federal Deposit Insurance Corporation in its latest CRA examination, that examination is two years old and does not resolve the issues raised by the Protestants. This examination also predates the Joint Agency Policy Statement regarding the CRA,[11] and MMB has not implemented in all respects the type of CRA program outlined in that Statement. Applicants have submitted information regarding the CRA performance of MMB and have made several commitments to improve their CRA performance along the guidelines outlined in the inter-agency CRA policy statement and to address concerns raised by Protestants.[12]

9. 12 U.S.C. § 2902(3)(F).

10. *Citicorp*, 65 *Federal Reserve Bulletin* 507, 512 (1979); *Mellon Bank Corporation*, 74 *Federal Reserve Bulletin* 773 (1988).

11. 54 *Federal Register* 13,742 (1989).

12. MMB has undertaken a review of its programs to meet the current needs of its community and has submitted a draft CRA plan for MMB. In that plan, MMB has stated it will:

(i) place increased emphasis on direct and systematic contact with community groups with special knowledge regarding the credit needs of low- and moderate-income areas within MMB's communities;

(ii) continue small- and medium-size business lending, including an increase in SBA loan activity and work with nonprofit community-based development corporations that originate loans to help meet the needs of low- and moderate-income groups; and

Mitsui and MMB have also conducted a series of private meetings with Protestants in an effort to clarify the issues regarding MMB's CRA performance. The Board notes that the FDIC has scheduled a new CRA examination of MMB for the near future that will include an evaluation of many of these matters, including a review of many of the issues raised by the Protestants.

Because interstate banking between California and New York will not be effective for nine months, the Board has not yet accepted for processing Mitsui Taiyo Kobe's section 3 application and does not expect to consider formally the merits of that application until later this year. In view of the issues raised regarding MMB's CRA performance, the Board would intend to hold a public meeting before it acts on the section 3 application, unless the record developed on the application over the next several months, in the Board's view, resolves the CRA issues. A public meeting would be convened at an appropriate location in California and would permit Applicant, MMB and members of the local community an opportunity to present testimony on these issues.

The Protestants and others have requested that the Board delay action on this section 4 application in order to permit a public meeting or hearing on the CRA issues. Given that this application under section 4 of the BHC Act is not covered by CRA, the pending section 3 application by Mitsui Taiyo Kobe, which is subject to the CRA, and the Board's intent to convene a public meeting on any unresolved CRA issues before consideration of the pending section 3 application, the Board has decided not to hold a public meeting or hearing or to delay action on the instant application under section 4(c)(8).[13] The Board also notes that delay in acting on the section 4 application might necessitate the closure of TKBTC, which is a small part (less that $50 million in assets) of the combined Mitsui Taiyo Kobe organization (approximately $410 billion in assets), in order to permit the merger of the two foreign banks to go forward—a merger that, as noted, is not subject to the Board's review under the BHC Act.

Given all of the above considerations bearing on the public interest, and based on all the facts of record, the Board has determined that the balance of the public interest factors that the Board is required to consider under section 4(c)(8) of the BHC Act is favorable. Based on the foregoing and all of the facts of record, including the Applicants' representations and commitments, the Board has determined that this application under section 4 of the BHC Act should be, and hereby is, approved. This determination is subject to all of the conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require such modifications or termination of activities of the bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or prevent evasions of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

The 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 San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 28, 1990.

Voting for this action: Chairman Greenspan and Governors Johnson, Angell, Kelley, and LaWare. Voting against this action: Governor Seger.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Dissenting Statement of Governor Seger

I dissent from the Board's action in this case. I believe that foreign banking organizations whose primary capital, based on U.S. accounting principles, is below the Board's minimum capital guidelines for U.S. banking organizations have an unfair competitive advantage in the United States over domestic banking organizations. In my view, such foreign organizations should be judged against the same financial and managerial standards, including the Board's capital adequacy guidelines, as are applied to domestic banking organizations. The majority concludes that Applicants' primary capital meets United States standards. To do so, however, the majority makes adjustments that are not available for U.S. banks under guidelines that have not yet become effective for U.S. or foreign banking organizations.

(iii) increase the amount of residential real estate lending through appropriate secondary market arrangements and financial intermediaries such as the California Community Reinvestment Corporation. Mitsui Taiyo Kobe should report quarterly to the Federal Reserve Bank of San Francisco on its progress in fulfilling its commitments.

13. The Board does not believe that the record in this application under section 4(c)(8) contains any relevant and material issue of fact that remains unresolved regarding the standards the Board must apply under section 4 of the BHC Act. Moreover, Protestants have not indicated why written submissions would not suffice in lieu of a formal administrative hearing, as required in the Board's Rules of Procedure. 12 C.F.R. 262.3(e). For these reasons and in view of the Board's conclusion that a CRA analysis is not required in this case on the section 4 application, the Board believes that a formal hearing before an administrative law judge under the Administrative Procedure Act on the section 4 application is not required or appropriate in this case. Accordingly, the Board has determined not to grant the request for a formal administrative hearing on this application.

In addition, I am concerned that while some progress is being made in opening Japanese markets to U.S. banking organizations, U.S. banking organizations and other financial institutions, in my opinion, are still far from being afforded the full opportunity to compete in Japan.

I am also unable to concur in the approval of the acquisition of Taiyo Kobe Bank and Trust Company as a New York trust company in light of the Applicants' section 3 application to reacquire this institution as a commercial bank when permitted by California and New York interstate banking laws on January 1, 1991. In my view, this proposal represents a transparent attempt to evade interstate banking laws and to permit in two steps a banking acquisition that currently is not authorized under New York law.

While I would not approve this application, I fully concur with the Board's decision and analysis that the Community Reinvestment Act ("CRA"), by its terms, does not apply to applications by bank holding companies to acquire nonbanking companies under section 4 of the Bank Holding Company Act. In view of the issues raised regarding the CRA performance of MMB, I also concur in the Board's intent to hold a public meeting on the related section 3 application, to which the CRA applies, unless the record developed on that application over the next several months resolves these issues.

March 28, 1990

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

Norwest Corporation Minneapolis, Minnesota

Order Approving the Merger of Bank Holding Companies

Norwest Corporation, Minneapolis, Minnesota ("Norwest"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied for the Board's approval under section 3(a)(5) of the BHC Act (12 U.S.C. § 1842(a)(5)) to merge with First Interstate Corporation of Wisconsin, Kohler, Wisconsin ("First Interstate"), and thereby indirectly also acquire First Illini Bancorp, Inc., Galesburg, Illinois ("First Illini").[1]

Norwest also has applied for the Board's approval under section 4(c)(8) of the BHC Act to acquire the nonbanking subsidiaries of First Interstate.[2]

Notice of the applications, affording interested persons an opportunity to submit comments, has been duly published (54 *Federal Register* 46,301 and 50,279 (1989)). The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in sections 3(c) and 4(c)(8) of the BHC Act.

Section 3(d) of the BHC Act, the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire control of any bank located outside of the bank holding company's home state, unless such acquisition is "specifically authorized by the statute laws of the State in which [the] bank is located, by language to that effect and not merely by implication."[3] Norwest's home state is Minnesota.[4] First Interstate owns banks located in Wisconsin and Indiana and has received Board approval to acquire First Illini and its bank subsidiaries located in Illinois. The statute laws of Wisconsin permit bank holding companies located in a certain region, which includes Minnesota, to acquire financial institutions located in Wisconsin on a reciprocal basis. Minnesota has enacted a similar interstate banking statute that includes Wisconsin.[5]

The laws of Illinois allow acquisitions of Illinois banks and bank holding companies by bank holding companies located within a region that includes

1. Upon the merger of Norwest into First Interstate, Norwest will acquire the following banks: First Interstate Bank of Wisconsin, Sheboygan, Wisconsin; First Interstate Bank of Wisconsin, N.A., Green Bay, Wisconsin; First Interstate Bank of Wisconsin-Northeast, Green Valley, Wisconsin; First Interstate Bank of Wisconsin, N.A., Eau Claire, Wisconsin; First Interstate Bank of Wisconsin-Southeast, New Berlin, Wisconsin; First Interstate Bank of Wisconsin, Appleton, Wisconsin; First Interstate Bank of Wisconsin, Waupun, Wisconsin; First Interstate Bank Northern Indiana, N.A., South Bend, Indiana; First Galesburg National Bank and Trust Company, Galesburg, Illinois; Abingdon Bank and Trust Company, Abingdon, Illinois; Madison Park Bank, Peoria, Illinois; and Community Bank and Trust Company of Canton, Canton, Illinois.

2. Norwest proposes to acquire First Interstate Trust Company of Wisconsin, Sheboygan, Wisconsin, and thereby engage in trust company activities; First Interstate Commercial Corporation of Wisconsin, Milwaukee, Wisconsin, and thereby engage in commercial finance activities; First Interstate Management Services of Wisconsin, Inc., Sheboygan, Wisconsin, and thereby engage in data processing activities, management consulting activities and courier services to be conducted in connection with the data processing activities; and First Brokerage Services, Sheboygan, Wisconsin, and thereby engage in brokerage activities. These activities are authorized for bank holding companies pursuant to the Board's Regulation Y, 12 C.F.R. 225.25(b)(1), (3), (10), (11), and (15).

3. 12 U.S.C. § 1842(d).

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

5. Wis. Stat. Ann. § 221.58 (West Supp. 1989). Minn. Stat. Ann. § 48.92, .93 (West 1988). *See also The Marine Corporation,* 73 *Federal Reserve Bulletin* 54 (1987). The Wisconsin interstate banking statute contains certain longevity requirements (Wis. Stat. Ann. § 221.58 (West Supp. 1989)), which all the banks in this case satisfy.

Wisconsin but does not include Minnesota. First Interstate is located in Wisconsin for purposes of Illinois law, and thus was entitled to acquire First Illini and its Illinois bank subsidiaries. First Interstate had publicly announced its agreement to acquire First Illini some time before Norwest made its proposal to acquire First Interstate. Norwest is located in Minnesota for purposes of the Illinois statute, and therefore is not authorized to acquire Illinois banks. The Illinois interstate banking statute provides that a regional bank holding company, such as First Interstate, that controls an Illinois bank and that is subsequently acquired by a bank holding company located outside the region must divest the Illinois bank within such time and under such conditions as the Illinois Commissioner of Banks and Trust Companies ("Illinois Commissioner") finds appropriate to protect the safety and soundness of the Illinois bank.[6]

The Illinois Commissioner has reviewed Norwest's proposal and determined that the Illinois statute would permit Norwest to acquire indirectly First Interstate's Illinois banks provided that Norwest divests these banks within such period as the Illinois Commissioner directs. Norwest has committed to divest the banks in accordance with the time period set by the Illinois Commissioner unless Norwest is permitted to own banks in Illinois before divestiture is required.[7]

First Interstate also has one subsidiary bank in Indiana. The laws of Indiana allow acquisitions of Indiana banks by "regional bank holding companies." First Interstate is a regional bank holding company, as defined by Indiana law. Norwest does not qualify as a regional bank holding company under the Indiana statute, and therefore is not authorized to acquire an Indiana bank. The Indiana interstate banking statute provides that a regional bank holding company that controls an Indiana bank must divest the Indiana bank within two years of being acquired by a bank holding company located outside the region.[8]

The Indiana Department of Financial Institutions has informed the Board that the Indiana statute authorizes Norwest to acquire First Interstate's Indiana bank, provided that Norwest divests the Indiana bank within two years of the date of its acquisition. Norwest has committed that, absent a change in law, it will divest First Interstate's Indiana bank subsidiary within two years of the acquisition of First Interstate by Norwest.[9]

For these reasons, and based on the above commitments made by Norwest in this case, the Board concludes that approval of Norwest's proposal to acquire First Interstate is not barred by the Douglas Amendment.

Norwest operates 30 banking subsidiaries located in Minnesota, Wisconsin, Arizona, Iowa, Montana, Nebraska, North Dakota, and South Dakota. Norwest is the second largest banking organization in Minnesota, controlling approximately $8.0 billion in deposits, representing approximately 19.9 percent of the total deposits in commercial banking organizations in the state.[10] Norwest is the 16th largest banking organization in Wisconsin, controlling approximately $196.3 million in deposits, representing less than one percent of the total deposits in commercial banking organizations in the state.

First Interstate controls seven banking subsidiaries located in Wisconsin, four banking subsidiaries located in Illinois, and one banking subsidiary located in Indiana. First Interstate is the fifth largest banking organization in Wisconsin, controlling approximately $1.2 billion in deposits, representing approximately 3.4 percent of the total deposits in commercial banking organizations in the state. First Interstate is the 34th largest banking organization in Indiana, controlling approximately $224.4 million in deposits, representing less than one percent of the total deposits in commercial banking organizations in the state. Finally, First Interstate is the 68th largest banking organization in Illinois, controlling approximately $254.0 million in deposits, representing less than one percent of the total deposits in commercial banking organizations in the state.

Upon consummation of this proposal, Norwest would remain the fifth largest banking organization in Wisconsin, controlling approximately $1.4 billion in deposits, representing approximately 3.9 percent of the total deposits in commercial banking organizations in the state. Consummation of this proposal would not have a significantly adverse effect on the concentration of banking resources in Wisconsin.

Norwest does not compete directly with First Interstate or First Illini in any banking market. Accordingly,

6. *See* section 3.071(g) of the Illinois Interstate Banking Act, Ill. Rev. Stat. ch. 17, para. 2510.01(g) (Smith-Hurd Supp. 1989).

7. Effective December 1, 1990, Illinois law will allow for the acquisition of an Illinois banking organization by an out-of-state banking organization on a reciprocal basis. Ill. Rev. Stat. ch. 17, para. 2510.01 (Smith-Hurd Supp. 1989), effective December 1, 1990. Minnesota already would permit the acquisition of banks in that state by bank holding companies located in Illinois on a reciprocal basis. Minn. Stat. Ann. § 48.92, .93 (West 1988, West Supp. 1990).

8. Ind. Code Ann. § 28-2-15-22(b) (Burns Supp. 1989).

9. Effective July 1, 1992, Indiana law (subject to certain deposit and age restrictions) will authorize the acquisition of an Indiana banking institution by any out-of-state banking institution located in a state which provides for reciprocal treatment of Indiana banking institutions. Ind. Code Ann. § 28-2-16-15, -16 (Burns Supp. 1989), effective July 1, 1992. Minnesota law, however, does not permit acquisitions of Minnesota banks by Indiana banking institutions. Minn. Stat. Ann. § 48.92, .93 (West 1988).

10. Banking data are as of December 31, 1989.

consummation of this proposal would not have any significantly adverse effect on the concentration of banking resources or result in any significantly adverse effect upon existing competition in any relevant banking market. In light of the existence of numerous potential entrants into the relevant banking markets, the Board has concluded that consummation of this proposal would not have any significantly adverse effect on probable future competition in any relevant market.

The Board notes that Norwest is an adequately capitalized institution and has the ability to serve as a source of financial strength to First Interstate's subsidiary banks. Furthermore, the Board has relied on Norwest's commitment to provide financial and managerial support to these banks. Based on these and the other facts of record, the Board believes that the financial resources of Norwest and its present and proposed bank subsidiaries, as well as their future prospects, are consistent with approval. The managerial resources of Norwest and its present and proposed subsidiaries are consistent with approval. Considerations relating to the convenience and needs of the communities to be served are also consistent with approval.

Norwest has also applied, pursuant to section 4(c)(8) of the BHC Act, to acquire certain nonbanking subsidiaries of First Interstate. The Board has determined by regulation that each of these activities is permissible for bank holding companies under section 4(c)(8) of the BHC Act, and Norwest proposes to conduct these activities in accordance with the Board's regulations. Norwest operates nonbanking subsidiaries engaged in commercial finance, trust services, data processing, and brokerage services that compete with First Interstate and its subsidiaries in these areas. Each of these subsidiaries has a small market share and there are numerous competitors for these services. Consummation of this proposal would have a *de minimus* effect on existing competition in each of these markets, and the Board concludes that the proposal would not have any significantly adverse effect on competition in the provision of these services in any relevant market. 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. Accordingly, the Board has determined that the balance of public interest factors it must consider under section 4(c)(8) of the BHC Act is favorable and consistent with approval of Norwest's application to acquire the nonbanking subsidiaries of First Interstate.

Based on the foregoing and other facts of record, including the commitments made by Norwest, the Board has determined that the applications should be, and hereby are, 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 Minneapolis, acting pursuant to delegated authority. The determinations as to Norwest's nonbanking activities are subject to all of the conditions contained in the Board's Regulation Y, including those in sections 225.4(d) and 25.23(b)(3) (12 C.F.R. 225.4(d) and 225.23(b)(3)), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or prevent evasions of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

By order of the Board of Governors, effective March 26, 1990.

Voting for this action: Chairman Greenspan and Governors Johnson, Seger, Angell, Kelley, and LaWare.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Financial Institutions Reform, Recovery, and Enforcement Act

March 2, 1990

Paul J. Polking
Executive Vice President and General Counsel
NCNB Corporation
One NCNB Plaza
Charlotte, North Carolina 28255

Dear Mr. Polking:

NCNB Corporation, Charlotte, North Carolina ("NCNB"), proposes that its bank subsidiary, NCNB Texas National Bank, Dallas, Texas, purchase the assets and assume the liabilities of Interim Three NCNB Texas, F.S.B., Dallas, Texas, its savings association subsidiary, ("Interim Three NCNB"). NCNB has requested Board approval of this transaction pursuant to section 5(d)(3) of the Federal Deposit Insurance Act ("FDI Act") as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Pub. L. No. 101–73, § 206, 103 Stat. 183, 199 (1989)). Interim Three NCNB has been established to acquire certain assets and assume deposit liabilities of Centennial Federal Savings and Loan Association, F.A., Greenville, Texas ("Centennial").

The record in this case shows that:

(1) The aggregate amount of the total assets of all

depository institution subsidiaries of NCNB is $66.0 billion, an amount which is not less than 200 percent of the total assets of Interim Three NCNB, which currently has $7.0 million in total assets;
(2) NCNB and all of its bank subsidiaries currently meet all applicable capital standards and, upon consummation of the proposed transactions, will continue to meet all applicable capital standards;
(3) The transaction is not in substance the acquisition of a Bank Insurance Fund member bank by a Savings Association Insurance Fund member;
(4) Centennial, the predecessor to Interim Three NCNB, had tangible capital of less than 4 percent during the quarter preceding its acquisition by NCNB;
(5) The transaction, which involves the purchase of assets and assumption of liabilities of Interim Three NCNB, a savings association located in Texas, by a bank subsidiary of NCNB, a bank holding company whose banking subsidiaries' operations are principally conducted in North Carolina, would comply with the requirements of section 3(d) of the Bank Holding Company Act if Interim Three NCNB were a state bank which NCNB was applying to acquire.

Based on the foregoing and all of the other facts of record, the Staff Director of the Division of Banking Supervision and Regulation and the General Counsel of the Board, acting pursuant to authority delegated by the Board of Governors, hereby approve your request to engage in the proposed transaction under section 5(d)(3) of the FDI Act. This approval is subject to NCNB obtaining the required approval of the appropriate Federal banking agency for the proposed merger under the Bank Merger Act.

Very truly yours,

William W. Wiles
Secretary of the Board

cc: Federal Reserve Bank of Richmond

March 16, 1990

Paul J. Polking
Executive Vice President and General Counsel
NCNB Corporation
One NCNB Plaza
Charlotte, North Carolina 28255

Dear Mr. Polking:

NCNB Corporation, Charlotte, North Carolina ("NCNB"), proposes that its bank subsidiary, NCNB Texas National Bank, Dallas, Texas, purchase the assets and assume the liabilities of Interim Four NCNB Texas, F.S.B., Dallas, Texas, its savings association subsidiary, ("Interim Four NCNB"). NCNB has requested Board approval of this transaction pursuant to section 5(d)(3) of the Federal Deposit Insurance Act ("FDI Act") as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Pub. L. No. 101–73, § 206, 103 Stat. 183, 199 (1989)). Interim Four NCNB has been established to acquire certain assets and assume deposit liabilities of Bankers Savings and Loan Association, Galveston, Texas ("Bankers").

The record in this case shows that:
(1) The aggregate amount of the total assets of all depository institution subsidiaries of NCNB is $66.0 billion, an amount which is not less than 200 percent of the total assets of Interim Four NCNB, which currently has $39.1 million in total assets;
(2) NCNB and all of its bank subsidiaries currently meet all applicable capital standards and, upon consummation of the proposed transactions, will continue to meet all applicable capital standards;
(3) The transaction is not in substance the acquisition of a Bank Insurance Fund member bank by a Savings Association Insurance Fund member;
(4) Bankers, the predecessor to Interim Four NCNB, had tangible capital of less than 4 percent during the quarter preceding its acquisition by NCNB;
(5) The transaction, which involves the purchase of assets and assumption of liabilities of Interim Four NCNB, a savings association located in Texas, by a bank subsidiary of NCNB, a bank holding company whose banking subsidiaries' operations are principally conducted in North Carolina, would comply with the requirements of section 3(d) of the Bank Holding Company Act if Interim Four NCNB were a state bank which NCNB was applying to acquire.

Based on the foregoing and all of the other facts of record, the Staff Director of the Division of Banking Supervision and Regulation and the General Counsel of the Board, acting pursuant to authority delegated by the Board of Governors, hereby approve your request to engage in the proposed transaction under section 5(d)(3) of the FDI Act. This approval is subject to NCNB obtaining the required approval of the appropriate Federal banking agency for the proposed merger under the Bank Merger Act.

Very truly yours,

William W. Wiles
Secretary of the Board

cc: Federal Reserve Bank of Richmond

APPLICATIONS APPROVED UNDER BANK HOLDING COMPANY ACT

By Federal Reserve Banks

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

Section 3

Applicant	Bank(s)	Reserve Bank	Effective date
Alameda Bancorporation, Alameda, California	Westside Bank, Tracy, California	San Francisco	March 2, 1990
AMCORE Financial, Inc., Rockford, Illinois	Central of Illinois, Inc., Sterling, Illinois	Chicago	March 7, 1990
American National Corporation, Omaha, Nebraska	The Northern Corporation, Omaha, Nebraska	Kansas City	March 21, 1990
Bancshares 2000, Inc., McLean, Virginia	Jefferson Bank and Trust Company, Greenbelt, Maryland	Richmond	March 7, 1990
Carrollton Bancorp, Baltimore, Maryland	The Carrollton Bank of Baltimore, Baltimore, Maryland	Richmond	March 14, 1990
Central National Bank Corporation, Winter Park, Florida	Central National Bank, Winter Park, Florida	Atlanta	March 15, 1990
Community Bankshares, Inc., Parkersburg, West Virginia	Community Bank of Parkersburg, Parkersburg, West Virginia	Richmond	March 5, 1990
El Paso Bancshares, Inc., Monument, Colorado	Mid-Continent Corporation, Mission Hills, Kansas	Kansas City	February 26, 1990
Exchange Bankshares Corporation of Kansas, Atchison, Kansas	Exchange National Bank and Trust Company, Atchison, Kansas Fort National Bank, Easton, Kansas	Kansas City	March 2, 1990
FCB Corporation, Manchester, Tennessee	Bank of Waynesboro, Waynesboro, Tennessee	Atlanta	March 16, 1990
First Colonial Bankshares Corporation, Chicago, Illinois	Burbank State Bank, Burbank, Illinois Inland Bancorp, Inc., Oak Brook, Illinois	Chicago	March 16, 1990
First Exchange Corp., Cape Girardeau, Missouri	First Exchange Bank of North St. Louis County, Florissant, Missouri	St. Louis	March 12, 1990
First National Financial Corporation, Albany, Georgia	First National Bank of South Georgia, Albany, Georgia	Atlanta	March 19, 1990
Fulton Financial Corporation, Lancaster, Pennsylvania	First Community Bancorp, Inc., Nazareth, Pennsylvania Danville Bank Corporation, Danville, Pennsylvania	Philadelphia	February 23, 1990

Section 3—Continued

Applicant	Bank(s)	Reserve Bank	Effective date
Great River Bancshares, Inc., Warsaw, Illinois	Hill-Dodge Banking Company, Warsaw, Illinois	Chicago	March 14, 1990
HNB Corporation, Arkansas City, Kansas	The First National Bank and Trust Company, Ponca City, Oklahoma	Kansas City	March 16, 1990
Hometown Bancshares, Inc., Middlebourne, West Virginia	The First National Bank of Powhatan Point, Powhatan Point, Ohio	Cleveland	March 16, 1990
INB Financial Corporation, Indianapolis, Indiana	CSB, Inc., Chesterton, Indiana	Chicago	March 14, 1990
Iowa National Bankshares Corp., Waterloo, Iowa	Monticello State Bank, Monticello, Iowa	Chicago	March 2, 1990
J.R. Montgomery Bancorporation, Lawton, Oklahoma	Fort Sill National Bank, Fort Sill, Oklahoma	Kansas City	February 28, 1990
M & F Financial Corp., Wilmington, Delaware	Texas Bank, Weatherford, Texas Texas Bank, Brownwood, Texas	Dallas	March 12, 1990
Mission-Valley Bancorp, Pleasanton, California	Concord Commercial Bank, Concord, California	San Francisco	February 23, 1990
Nashoba Bancshares, Inc., Memphis, Tennessee	Nashoba Bank, Memphis, Tennessee	St. Louis	February 28, 1990
NCNB Corporation, Charlotte, North Carolina	Carolina Mountain Holding Company, Highlands, North Carolina	Richmond	March 14, 1990
Northern Interstate Financial, Inc., Norway, Michigan	First National Bank, Norway, Michigan	Minneapolis	March 22, 1990
Peoples Banking Company, Blackshear, Georgia	Peoples Bank, Blackshear, Georgia	Atlanta	March 13, 1990
Peoples Bankshares, Inc., Mullens, West Virginia	The Peoples Bank of Mullens, Mullens, West Virginia	Richmond	March 21, 1990
Pioneer Bancshares, Inc., Trumann, Arkansas	First National Bank of Poinsett County, Trumann, Arkansas	St. Louis	March 20, 1990
Pittsburg Bancshares, Inc., Pittsburg, Kansas	City National Bank of Pittsburg, Pittsburg, Kansas	Kansas City	March 7, 1990
Southern Bancorp, Inc., Tulsa, Oklahoma	Southern National Bank, Tulsa, Oklahoma	Kansas City	February 21, 1990
States National Bancshares, Inc., Palco, Kansas	First National Bank of Palco, Palco, Kansas	Kansas City	March 8, 1990
Vandalia National Corporation, Morgantown, West Virginia	The National Bank of West Virginia, Morgantown, West Virginia	Richmond	February 27, 1990
West Suburban Bancorp, Inc., Lombard, Illinois	LBM Bank, Mascoutah, Illinois	Chicago	March 15, 1990
Yale Bancorporation, Yale, Iowa	Farmers State Bank, Yale, Iowa	Chicago	March 9, 1990

Section 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective date
AMCORE Financial, Inc., Rockford, Illinois	Mid-American Financial Services Company, Loves Park, Illinois	Chicago	February 27, 1990
CCNB Corporation, New Cumberland, Pennsylvania	Parent Federal Savings Bank, Lancaster, Pennsylvania	Philadelphia	March 9, 1990
Irwin Union Corporation, Columbus, Indiana	Affiliated Capital Corporation, Northbrook, Illinois	Chicago	March 2, 1990
Mid Am, Inc., Bowling Green, Ohio	The Citizens Loan and Building Company, Lima, Ohio	Cleveland	February 28, 1990

Sections 3 and 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective date
FDH Bancshares, Inc., Little Rock, Arkansas	Exchange Bancshares, Inc., El Dorado, Arkansas	St. Louis	March 19, 1990

APPLICATIONS APPROVED UNDER BANK MERGER ACT

By Federal Reserve Banks

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

Applicant(s)	Bank(s)	Reserve Bank	Effective date
First Virginia Bank - Damascus, Damascus, Virginia	First Virginia Bank of the Cumberlands, Clintwood, Virginia	Richmond	March 2, 1990
First Virginia Bank - South Central, Lynchburg, Virginia	First Virginia Bank - South, Danville, Virginia	Richmond	March 2, 1990
Iron and Glass Bank, Pittsburgh, Pennsylvania	Landmark Savings Association, Library, Pennsylvania	Cleveland	February 23, 1990
Kent City State Bank, Kent City, Michigan	Ameribank Federal Savings Bank, Muskegon, Michigan	Chicago	March 2, 1990
Pacific Western Bank, San Jose, California	Northern California Division of Household Bank, F.S.B., Newport Beach, California	San Francisco	March 8, 1990
The Peoples Bank of Mullens, Mullens, West Virginia	Peoples Interim Bank, Inc., Mullens, West Virginia	Richmond	March 21, 1990
United Jersey Bank/Commercial Trust, Jersey City, New Jersey	United Jersey Bank, Kackensack, New Jersey	New York	March 19, 1990

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.

California Association of Life Underwriters v. Board of Governors, No. 90-70123 (9th Circuit, filed March 15, 1990). Petition for review of Board order approving acquisition of bank subsidiary to engage in insurance activities pursuant to state law.

Burke v. Board of Governors, No. 90-9505 (10th Circuit, filed February 27, 1990). Petition for review of Board orders assessing civil money penalties and issuing orders of prohibition.

BancTEXAS Group, Inc. v. Board of Governors, No. CA 3-90-0236-R (N.D. Texas, filed February 2, 1990). Plaintiff seeks temporary restraining order and preliminary injunction enjoining the Board from enforcing a temporary order to cease and desist requiring injection of capital into plaintiff's subsidiary banks under the Board's source of strength doctrine. The district court denied plaintiff's request for a temporary restraining order on February 6, 1990.

Rutledge v. Board of Governors, No. CV90-L-0137S (N.D. Alabama, filed January 27, 1990). Tort suit challenging Board and Reserve Bank supervisory actions.

Woodward v. Board of Governors, No. 90-3031 (11th Cir., filed January 16, 1990); *Kaimowitz v. Board of Governors*, No. 90-3067 (11th Cir., filed January 23, 1990). Petitions for review of Board order dated December 22, 1989, approving application by First Union Corporation to acquire Florida National Banks. Petitioners object to approval on Community Reinvestment Act grounds. The court denied their motion for a stay of the Board's order on January 26, 1990, and is considering jurisdictional issues raised by the Board.

Securities Industry Association v. Board of Governors, No. 89-1730 (D.C. Cir., filed November 29, 1989). Petition for review of Board order approving application under section 4(c)(8) to engage in private placement and riskless principal activities. The case has been held in abeyance pending the outcome of *Securities Industry Association v. Board of Governors*, No. 89-1127 (D.C. Circuit).

Babcock and Brown Holdings, Inc. v. Board of Governors, No. 89-70518 (9th Cir., filed November 22, 1989). Petition for review of Board determination that a company would control a proposed insured bank for purposes of the Bank Holding Company Act.

Consumers Union of U.S., Inc. v. Board of Governors, No. 89-3008 (D.D.C., filed November 1, 1989). Challenge to various aspects of amendments to Regulation Z implementing the Home Equity Loan Consumer Protection Act. The Board and Consumers Union have filed cross-motions for summary judgment.

Synovus Financial Corp. v. Board of Governors, No. 89-1394 (D.C. Cir., filed June 21, 1989). Petition for review of Board order permitting relocation of a bank holding company's national bank subsidiary from Alabama to Georgia.

MCorp v. Board of Governors, No. 89-2816 (5th Cir., filed May 2, 1989). Appeal of preliminary injunction against the Board enjoining pending and future enforcement actions against bank holding company now in bankruptcy. Awaiting decision.

Independent Insurance Agents of America v. Board of Governors, No. 89-4030 (2d Cir., filed March 9, 1989). Petition for review of Board order ruling that the non-banking restrictions of section 4 of the Bank Holding Company Act apply only to non-bank subsidiaries of bank holding companies. The Board's order was upheld on November 29, 1989. Petitions in the Second Circuit and the Supreme Court for a stay pending review have been denied.

Securities Industry Association v. Board of Governors, No. 89-1127 (D.C. Cir., filed February 16, 1989). Petition for review of Board order permitting five bank holding companies to engage to a limited extent in additional securities underwriting and dealing activities. Awaiting decision.

American Land Title Assoc. v. Board of Governors, No. 88-1872 (D.C. Cir., filed December 16, 1988). Petition for review of Board order ruling that exemption G from the section 4(c)(8) prohibition on insurance activities, which grandfathers insurance agency activities by bank holding companies that conducted insurance agency activities before January 1, 1971, does not limit those grandfathered activities to the specific ones undertaken at that time. Board's order upheld on December 29, 1989.

MCorp v. Board of Governors, No. CA3-88-2693 (N.D. Tex., filed October 10, 1988). Application for injunction to set aside temporary cease and desist orders. Stayed pending outcome of *MCorp v. Board of Governors* in Fifth Circuit.

White v. Board of Governors, No. CU-S-88-623-RDF (D. Nev., filed July 29, 1988). Age discrimination complaint. Board's motion to dismiss or for summary judgment pending.

Cohen v. Board of Governors, No. 88-1061 (D.N.J., filed March 7, 1988). Action seeking disclosure of documents under the Freedom of Information Act.

Lewis v. Board of Governors, Nos. 87-3455, 87-3545 (11th Cir., filed June 25, August 3, 1987). Petition for review of Board orders approving applications of non-Florida bank holding companies to expand activities of Florida trust company subsidiaries. Matter stayed pending Supreme Court review of *Continental Illinois Corp. v. Lewis,* 827 F.2d 1517 (11th Cir. 1987).

Final Enforcement Orders Issued by Board of Governors

Bank of New England Corporation
Boston, Massachusetts

The Federal Reserve Board announced on March 1, 1990, the issuance of a Cease and Desist Order against the Bank of New England Corporation, Boston, Massachusetts.

Directors of Federal Reserve Banks and Branches

Regional decentralization and a combination of governmental and private characteristics are important hallmarks of the uniqueness of the Federal Reserve System. Under the Federal Reserve Act, decentralization was achieved by division of the country into twelve regions called Federal Reserve Districts and the establishment in each District of a separately incorporated Federal Reserve Bank, with its own board of directors. The blending of governmental and private characteristics is provided through ownership of the stock of the Reserve Bank by member banks in its District who also elect the majority of the board of directors, and by the general supervision of the Reserve Banks by the Board of Governors, an agency of the federal government. The Board also appoints a minority of each board of directors. Thus, there are essential elements of regional participation and counsel in the conduct of the System's affairs for which the Federal Reserve relies importantly on the contributions of the directors of the Federal Reserve Banks and Branches.

The following list of directors of Federal Reserve Banks and Branches shows for each director the class of directorship, the principal business affiliation, and the date the current term expires. Each Federal Reserve Bank has nine members on its board of directors: The member banks elect the three Class A and three Class B directors, and the Board of Governors appoints the three directors in Class C. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

Class A directors of each Reserve Bank represent the stockholding member banks of the Federal Reserve District. Class B and Class C directors represent the public and are chosen with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers; they may not be officers, directors, or employees of any bank. In addition, Class C directors may not be stockholders of any bank. The Board of Governors designates annually one Class C director as chairman of the board of directors of each District Bank, and designates another Class C director as deputy chairman.

Each of the twenty-five Branches of the Federal Reserve Banks has a board of either seven or five directors, a majority of whom are appointed by the parent Federal Reserve Bank; the others are appointed by the Board of Governors. One of the Board's appointees is designated annually as chairman of the board of that Branch in a manner prescribed by the parent Federal Reserve Bank.

The names of the chairman and deputy chairman of the board of directors of each Reserve Bank and of the chairman of each Branch are published monthly in the *Federal Reserve Bulletin*.[1]

1. The current list appears on page A80 of this *Bulletin*.

DISTRICT 1—BOSTON

Class A

		Term expires Dec. 31
Richard D. Wardell	President and Chief Executive Officer, National Bank of Salisbury, Salisbury, Connecticut	1990
William H. Chadwick	Vice Chairman of the Board and Chief Operating Officer, Banknorth Group, Inc., Burlington, Vermont	1991
Terrence Murray	Chairman of the Board, President, and Chief Executive Officer, Fleet/Norstar Financial Group, Inc., Providence, Rhode Island	1992

DISTRICT 1—Continued

Class B

		Term expires Dec. 31
Stephen R. Levy	Chairman of the Board and Chief Executive Officer, Bolt Beranek and Newman, Inc., Cambridge, Massachusetts	1990
Edward H. Ladd	Chairman and Chief Executive Officer, Standish, Ayer and Wood, Inc., Boston, Massachusetts	1991
Joan T. Bok	Chairman of the Board, New England Electric System, Westborough, Massachusetts	1992

Class C

Richard L. Taylor	President, Taylor Properties, Inc., Boston, Massachusetts	1990
Dr. Jerome H. Grossman	Chairman of the Board and Chief Executive Officer, New England Medical Center, Inc., Boston, Massachusetts	1991
Richard N. Cooper	Maurits C. Boas Professor of International Economics, Harvard University, Cambridge, Massachusetts	1992

DISTRICT 2—NEW YORK

Class A

J. Kirby Fowler	President and Chief Executive Officer, The Flemington National Bank and Trust Company, Flemington, New Jersey	1990
John F. McGillicuddy	Chairman of the Board and Chief Executive Officer, Manufacturers Hanover Trust Company, New York, New York	1991
Victor J. Riley, Jr.	Chairman of the Board, President, and Chief Executive Officer, KeyCorp, Albany, New York	1992

Class B

John F. Welch, Jr.	Chairman of the Board and Chief Executive Officer, GE, Fairfield, Connecticut	1990
Richard L. Gelb	Chairman of the Board and Chief Executive Officer, Bristol-Myers Squibb Company, New York, New York	1991
John A. Georges	Chairman of the Board and Chief Executive Officer, International Paper, Purchase, New York	1992

Class C

Ellen V. Futter	President, Barnard College, New York, New York	1990
Maurice R. Greenberg	President and Chief Executive Officer, American International Group, Inc., New York, New York	1991
Cyrus R. Vance	Presiding Partner, Simpson Thacher & Bartlett, New York, New York	1992

—BUFFALO BRANCH

Appointed by the Federal Reserve Bank

Norman W. Sinclair	Chairman of the Board, Lockport Savings Bank, Lockport, New York	1990
Richard H. Popp	Operating Partner, Southview Farm, Castile, New York	1991
Robert G. Wilmers	Chairman of the Board and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, New York	1991
Wilbur F. Beh	President and Chief Executive Officer, FNB Rochester Corp., Rochester, New York	1992

DISTRICT 2—Continued

BUFFALO BRANCH—Continued

Appointed by the Board of Governors

		Term expires Dec. 31
Paul E. McSweeney	Executive Vice President, United Food and Commercial Workers, District Union Local One, AFL-CIO, Amherst, New York	1990
Mary Ann Lambertsen	Vice President–Human Resources and Information Systems, Fisher–Price, Division of The Quaker Oats Company, East Aurora, New York	1991
Vacancy		1992

DISTRICT 3—PHILADELPHIA

Class A

Constantinos I. Costalas	Chairman of the Board, President, and Chief Executive Officer, Glendale National Bank of New Jersey, Voorhees, New Jersey	1990
Gary E. Burl	President, Delaware National Bank, Georgetown, Delaware	1991
Samuel A. McCullough	Chairman of the Board and Chief Executive Officer, Meridian Bancorp, Inc., Reading, Pennsylvania	1992

Class B

Charles F. Seymour	Chairman of the Board, Jackson–Cross Company, Philadelphia, Pennsylvania	1990
Nicholas Riso	Executive Vice President, AHOLD, U.S.A., Harrisburg, Pennsylvania	1991
David W. Huggins	President, R M S Technologies, Inc., Marlton, New Jersey	1992

Class C

Jane G. Pepper	President, The Pennsylvania Horticultural Society, Philadelphia, Pennsylvania	1990
Gunnar E. Sarsten	Chairman of the Board, President, and Chief Executive Officer, United Engineers & Constructors, Inc., Philadelphia, Pennsylvania	1991
Peter A. Benoliel	Chairman of the Board, Quaker Chemical Corporation, Conshohocken, Pennsylvania	1992

DISTRICT 4—CLEVELAND

Class A

William H. May	Chairman of the Board and President, First National Bank of Nelsonville, Nelsonville, Ohio	1990
William T. McConnell	President, The Park National Bank, Newark, Ohio	1991
Frank Wobst	Chairman of the Board and Chief Executive Officer, Huntington Bancshares Incorporated, Columbus, Ohio	1992

Class B

Verna K. Gibson	President, The Limited Stores, Inc., Columbus, Ohio	1990
Douglas E. Olesen	President and Chief Executive Officer, Battelle Memorial Institute, Columbus, Ohio	1991
Laban P. Jackson, Jr.	Chairman of the Board, Clearcreek Properties, Lexington, Kentucky	1992

DISTRICT 4—Continued

Class C

		Term expires Dec. 31
Robert D. Storey	Partner, Burke, Haber & Berick, Cleveland, Ohio	1990
John R. Miller	Former President and Chief Operating Officer, The Standard Oil Company (Ohio), Cleveland, Ohio	1991
Charles W. Parry	Retired Chairman and Chief Executive Officer, Aluminum Company of America, Pittsburgh, Pennsylvania	1992

—CINCINNATI BRANCH

Appointed by the Federal Reserve Bank

Jack W. Buchanan	President, Sphar & Company, Inc., Winchester, Kentucky	1990
Jerry L. Kirby	Chairman of the Board, President, and Chief Executive Officer, Citizens Federal Savings & Loan Association, Dayton, Ohio	1990
Allen L. Davis	President and Chief Executive Officer, The Provident Bank, Cincinnati, Ohio	1991
Clay Parker Davis	President and Chief Executive Officer, Citizens National Bank, Somerset, Kentucky	1992

Appointed by the Board of Governors

Marvin Rosenberg	Partner, Towne Properties, Ltd., Cincinnati, Ohio	1990
Kate Ireland	National Chairman of the Board, Frontier Nursing Service, Wendover, Kentucky	1991
Vacancy		1992

—PITTSBURGH BRANCH

Appointed by the Federal Reserve Bank

George A. Davidson, Jr.	Chairman of the Board and Chief Executive Officer, Consolidated Natural Gas Company, Pittsburgh, Pennsylvania	1990
Stephen C. Hansen	President and Chief Executive Officer, Dollar Bank, F.S.B., Pittsburgh, Pennsylvania	1990
E. James Trimarchi	President and Chief Executive Officer, First Commonwealth Financial Corporation, Indiana, Pennsylvania	1991
William F. Roemer	President and Chief Executive Officer, Integra Financial Corporation, Pittsburgh, Pennsylvania	1992

Appointed by the Board of Governors

Milton A. Washington	President and Chief Executive Officer, Allegheny Housing Rehabilitation Corporation, Pittsburgh, Pennsylvania	1990
Jack B. Piatt	Chairman of the Board and President, Millcraft Industries, Inc., Washington, Pennsylvania	1991
Robert P. Bozzone	President and Chief Operating Officer, Allegheny Ludlum Corporation, Pittsburgh, Pennsylvania	1992

DISTRICT 5—RICHMOND

Class A

John F. McNair III	Director, Wachovia Bank & Trust Company, N.A. and The Wachovia Corporation, Winston-Salem, North Carolina	1990
C.R. Hill, Jr.	Chairman of the Board and President, Merchants & Miners National Bank, Oak Hill, West Virginia	1991
A. Pierce Stone	Chairman, President, and Chief Executive Officer, Virginia Community Bank, Louisa, Virginia	1992

DISTRICT 5—Continued

Class B

		Term expires Dec. 31
Jack C. Smith	Chairman of the Board and Chief Executive Officer, K-VA-T Food Stores, Inc., Grundy, Virginia	1990
Edward H. Covell	President, The Covell Company, Easton, Maryland	1991
R.E. Atkinson, Jr.	Chairman, Dilmar Oil Company, Inc., Latta, South Carolina	1992

Class C

Hanne Merriman	Retail Business Consultant, Washington, D.C.	1990
Anne Marie Whittemore	Partner, McGuire, Woods, Battle & Boothe, Richmond, Virginia	1991
Henry J. Faison	President, Faison Associates, Charlotte, North Carolina	1992

—BALTIMORE BRANCH

Appointed by the Federal Reserve Bank

Raymond V. Haysbert, Sr.	President and Chief Executive Officer, Parks Sausage Company, Baltimore, Maryland	1990
H. Grant Hathaway	Chairman of the Board, Maryland National Bank, Baltimore, Maryland	1991
Joseph W. Mosmiller	Chairman of the Board, Loyola Federal Savings and Loan Association, Baltimore, Maryland	1991
Richard M. Adams	Chairman and Chief Executive Officer, United Bankshares, Inc., Parkersburg, West Virginia	1992

Appointed by the Board of Governors

Gloria L. Johnson	Deputy Director of Administration, The Baltimore Museum of Art, Baltimore, Maryland	1990
Thomas R. Shelton	President, Case Foods, Inc., Salisbury, Maryland	1991
John R. Hardesty, Jr.	President, Preston Energy, Inc., Kingwood, West Virginia	1992

—CHARLOTTE BRANCH

Appointed by the Federal Reserve Bank

James M. Culberson, Jr.	Chairman and President, The First National Bank of Randolph County, Asheboro, North Carolina	1990
Crandall C. Bowles	President, The Springs Company, Lancaster, South Carolina	1991
James G. Lindley	Chairman and Chief Executive Officer, South Carolina National Corporation, and Chairman, President, and Chief Executive Officer, The South Carolina National Bank, Columbia, South Carolina	1991
David B. Jordan	President, Chief Executive Officer and Director, Omni Capital Group, Inc. and Home Federal Savings Bank, Salisbury, North Carolina	1992

Appointed by the Board of Governors

William E. Masters	President, Perception, Inc., Easley, South Carolina	1990
Harold D. Kingsmore	President and Chief Operating Officer, Graniteville Company, Graniteville, South Carolina	1991
Anne M. Allen	President, Allen-Austin, Inc., Greensboro, North Carolina	1992

DISTRICT 6—ATLANTA

		Term expires Dec. 31
Class A		
E.B. Robinson, Jr.	Chairman of the Board and Chief Executive Officer, Deposit Guaranty National Bank and Deposit Guaranty Corporation, Jackson, Mississippi	1990
Virgil H. Moore, Jr.	Chairman of the Board and Chief Executive Officer, First Farmers and Merchants National Bank, Columbia, Tennessee	1991
W.H. Swain	Chairman of the Board, First National Bank, Oneida, Tennessee	1992
Class B		
Gary J. Chouest	President and Chief Executive Officer, Edison Chouest Offshore, Inc., Galliano, Louisiana	1990
Saundra H. Gray	Co-Owner, Gemini Springs Farm, DeBary, Florida	1991
J. Thomas Holton	Chairman of the Board and President, Sherman International Corporation, Birmingham, Alabama	1992
Class C		
Edwin A. Huston	Senior Executive Vice President–Finance, Ryder System, Inc., Miami, Florida	1990
Larry L. Prince	Chairman and Chief Executive Officer, Genuine Parts Company, Atlanta, Georgia	1991
Leo Benatar	Chairman of the Board and President, Engraph, Inc., Atlanta, Georgia	1992

—BIRMINGHAM BRANCH

Appointed by the Federal Reserve Bank		
Harry B. Brock, Jr.	Chairman of the Board and Chief Executive Officer, Central Bank of the South, Birmingham, Alabama	1990
Shelton E. Allred	Chairman of the Board, President, and Chief Executive Officer, Frit Industries, Inc., Ozark, Alabama	1991
William F. Childress	President, First American Federal Savings and Loan Association, Huntsville, Alabama	1991
Robert M. Barrett	Chairman and President, The First National Bank, Wetumpka, Alabama	1992
Appointed by the Board of Governors		
A.G. Trammell	President, Alabama Labor Council, AFL–CIO, Birmingham, Alabama	1990
Roy D. Terry	President and Chief Executive Officer, Terry Manufacturing Company, Inc., Roanoke, Alabama	1991
Nelda P. Stephenson	President, Nelda Stephenson Chevrolet, Inc., Florence, Alabama	1992

—JACKSONVILLE BRANCH

Appointed by the Federal Reserve Bank		
Hugh H. Jones, Jr.	Chairman of the Board and Chief Executive Officer, Barnett Bank of Jacksonville, N.A., Jacksonville, Florida	1990
Perry M. Dawson	President and Chief Executive Officer, Suncoast Schools Federal Credit Union, Tampa, Florida	1991
Samuel H. Vickers	President and Chief Executive Officer, Design Containers, Inc., Jacksonville, Florida	1991
Merle L. Graser	Chairman and Chief Executive Officer, First National Bank of Venice, Venice, Florida	1992

DISTRICT 6—Continued

JACKSONVILLE BRANCH—Continued

Term expires Dec. 31

Appointed by the Board of Governors

Joan Dial Ruffier	General Partner, Sunshine Cafes and Vice President, Vista Landscaping, Orlando, Florida	1990
Hugh M. Brown	President and Chief Executive Officer, BAMSI, Inc., Titusville, Florida	1991
Lana Jane Lewis-Brent	Vice Chairman of the Board, President, and Chief Executive Officer, Sunshine Jr. Stores, Inc., Panama City, Florida	1992

—MIAMI BRANCH

Appointed by the Federal Reserve Bank

Robert M. Taylor	Chairman of the Board and Chief Executive Officer, The Mariner Group, Inc., Fort Myers, Florida	1990
Frederick A. Teed	President and Chief Executive Officer, Community Savings, F.A., North Palm Beach, Florida	1990
Roberto G. Blanco	Vice Chairman of the Board and Chief Financial Officer, Republic National Bank of Miami, Miami, Florida	1991
A. Gordon Oliver	President and Chief Executive Officer, Citizens and Southern National Bank of Florida, Fort Lauderdale, Florida	1992

Appointed by the Board of Governors

Robert D. Apelgren	President, Apelgren Corporation, Pahokee, Florida	1990
Dorothy C. Weaver	Vice President, Intercap Investments, Inc., Miami, Florida	1991
Jose L. Saumat	Chairman of the Board, Kaufman and Roberts, Inc., Miami, Florida	1992

—NASHVILLE BRANCH

Appointed by the Federal Reserve Bank

Vincent K. Hickam	President and Chief Executive Officer, Executive Park National Bank, Kingsport, Tennessee	1990
William Baxter Lee III	Chairman of the Board and President, Southeast Services Corporation, Knoxville, Tennessee	1991
Edwin W. Moats, Jr.	Chairman of the Board and Chief Executive Officer, Metropolitan Federal Savings and Loan Association, Nashville, Tennessee	1991
James A. Rainey	Chairman of the Board, Sovran Financial Corporation/Central South, Nashville, Tennessee	1992

Appointed by the Board of Governors

Victoria B. Jackson	President and Chief Executive Officer, Diesel Sales and Service, Inc. and Prodiesel, Inc., Nashville, Tennessee	1990
Shirley A. Zeitlin	President, Shirley Zeitlin & Co. Realtors, Nashville, Tennessee	1991
Harold A. Black	Professor and Head, Department of Finance, College of Business Administration, University of Tennessee, Knoxville, Tennessee	1992

—NEW ORLEANS BRANCH

Appointed by the Federal Reserve Bank

Ronald M. Boudreaux	President and Chief Executive Officer, First National Bank of St. Landry Parish, Opelousas, Louisiana	1990
Joel B. Bullard, Jr.	President, Joe Bullard Automotive Companies, Mobile, Alabama	1991
Stanley S. Scott	President, Crescent Distributing Company, Harahan, Louisiana	1991
Earl W. Lundy	Chairman of the Board and Chief Executive Officer, First National Bank of Vicksburg, Vicksburg, Mississippi	1992

DISTRICT 6—Continued

NEW ORLEANS BRANCH—Continued

		Term expires Dec. 31
Appointed by The Board of Governors		
Vacancy		1990
Andre M. Rubenstein	Chairman of the Board and Chief Executive Officer, Rubenstein Brothers, Inc., New Orleans, Louisiana	1991
James A. Hefner	President, Jackson State University, Jackson, Mississippi	1992

DISTRICT 7—CHICAGO

Class A		
Barry F. Sullivan	Chairman of the Board, First Chicago Corporation, Chicago, Illinois	1990
John W. Gabbert	President and Chief Executive Officer, First of America Bank-LaPorte, N.A., LaPorte, Indiana	1991
B.F. Backlund	Chairman of the Board and Chief Executive Officer, Bartonville Bank, Bartonville, Illinois	1992
Class B		
Edward D. Powers	President, Fire Brick Engineers, Milwaukee, Wisconsin	1990
Max J. Naylor	President, Naylor Farms, Inc., Jefferson, Iowa	1991
Paul J. Schierl	Chairman of the Board and Chief Executive Officer, Fort Howard Corporation, Green Bay, Wisconsin	1992
Class C		
Marcus Alexis	Dean, College of Business Administration, University of Illinois at Chicago, Chicago, Illinois	1990
Charles S. McNeer	Chairman of the Board and Chief Executive Officer, Wisconsin Energy Corporation, Milwaukee, Wisconsin	1991
Richard G. Cline	Chairman of the Board, President, and Chief Executive Officer, NICOR, Inc., Naperville, Illinois	1992

—DETROIT BRANCH

Appointed by the Federal Reserve Bank		
James A. Aliber	Chairman of the Board and Chief Executive Officer, FirstFed Michigan Corporation, Detroit, Michigan	1990
Frederik G.H. Meijer	Chairman of the Board, Meijer, Incorporated, Grand Rapids, Michigan	1990
Robert J. Mylod	Chairman of the Board, President and Chief Executive Officer, Michigan National Corporation, Farmington Hills, Michigan	1991
Norman F. Rodgers	President and Chief Executive Officer, Hillsdale County National Bank, Hillsdale, Michigan	1992
Appointed by the Board of Governors		
Beverly Beltaire	President, P R Associates, Inc., Detroit, Michigan	1990
Phyllis E. Peters	Director, Professional Standards Review, Deloitte & Touche, Detroit, Michigan	1991
J. Michael Moore	Chairman of the Board and Chief Executive Officer, Invetech Company, Detroit, Michigan	1992

DISTRICT 8—ST. LOUIS

Class A

		Term expires Dec. 31
H.L. Hembree III	Chairman of the Executive Committee, Merchants National Bank, Fort Smith, Arkansas	1990
Henry G. River, Jr.	President and Chief Executive Officer, First National Bank in Pinckneyville, Pinckneyville, Illinois	1991
W.E. Ayres	Chairman of the Board and Chief Executive Officer, Simmons First National Bank of Pine Bluff, Pine Bluff, Arkansas	1992

Class B

Roger W. Schipke	Senior Vice President, GE Appliances, GE, Louisville, Kentucky	1990
Thomas F. McLarty III	Chairman of the Board and Chief Executive Officer, Arkla, Inc., Little Rock, Arkansas	1991
Frank M. Mitchener, Jr.	President, Mitchener Farms, Inc., Sumner, Mississippi	1992

Class C

Janet McAfee Weakley	President, Janet McAfee, Inc., Clayton, Missouri	1990
Robert H. Quenon	President and Chief Executive Officer, Peabody Holding Company, Inc., St. Louis, Missouri	1991
H. Edwin Trusheim	Chairman of the Board and Chief Executive Officer, General American Life Insurance Company, St. Louis, Missouri	1992

—LITTLE ROCK BRANCH

Appointed by the Federal Reserve Bank

David Armbruster	President, First America Federal Savings Bank, Fort Smith, Arkansas	1990
W. Wayne Hartsfield	President and Chief Executive Officer, First National Bank, Searcy, Arkansas	1990
Barnett Grace	President and Chief Executive Officer, First Commercial Bank, N.A., Little Rock, Arkansas	1991
Patricia M. Townsend	President, Townsend Company, Stuttgart, Arkansas	1992

Appointed by the Board of Governors

William E. Love	President, Sound-Craft Systems, Inc., Morrilton, Arkansas	1990
James R. Rodgers	Airport Manager, Little Rock Regional Airport, Little Rock, Arkansas	1991
L. Dickson Flake	President, Barnes, Quinn, Flake & Anderson, Inc., Little Rock, Arkansas	1992

—LOUISVILLE BRANCH

Appointed by the Federal Reserve Bank

Irving W. Bailey II	Chairman of the Board, President, and Chief Executive Officer, Capital Holding Corporation, Louisville, Kentucky	1990
Wayne G. Overall, Jr.	President, First Federal Savings Bank, Elizabethtown, Kentucky	1990
Douglas M. Lester	Chairman of the Board, President, and Chief Executive Officer, Trans Financial Bancorp, Inc., Bowling Green, Kentucky	1991
Morton Boyd	President, First Kentucky National Corporation, Louisville, Kentucky	1992

DISTRICT 8—Continued

LOUISVILLE BRANCH—Continued

Appointed by the Board of Governors

		Term expires Dec. 31
Raymond M. Burse	Partner, Wyatt, Tarrant and Combs, Louisville, Kentucky	1990
Lois H. Gray	Chairman of the Board, James N. Gray Construction Company, Inc., Glasgow, Kentucky	1991
Vacancy		1992

—MEMPHIS BRANCH

Appointed by the Federal Reserve Bank

Thomas M. Garrott	President and Chief Operating Officer, National Bank of Commerce and National Commerce Bancorporation, Memphis, Tennessee	1990
Larry A. Watson	Chairman of the Board and President, Liberty Federal Savings Bank, Paris, Tennessee	1990
Ray U. Tanner	Chairman of the Board and Chief Executive Officer, Jackson National Bank and Volunteer Bancshares, Inc., Jackson, Tennessee	1991
Michael J. Hennessey	President, Munro & Company, Inc., Wynne, Arkansas	1992

Appointed by the Board of Governors

Seymour B. Johnson	Owner, Kay Planting Company, Indianola, Mississippi	1990
Katherine Hinds Smythe	President, Memorial Park, Inc., Memphis, Tennessee	1991
Sandra B. Sanderson	President and Chief Executive Officer, Sanderson Plumbing Products, Inc., Columbus, Mississippi	1992

DISTRICT 9—MINNEAPOLIS

Class A

Joel S. Harris	President, Yellowstone Bank, Billings, Montana	1990
James H. Hearon III	Chairman of the Board and Chief Executive Officer, National City Bank, Minneapolis, Minnesota	1991
Rodney W. Fouberg	Chairman of the Board, Farmers and Merchants Bank and Trust Co., Aberdeen, South Dakota	1992

Class B

Earl R. St. John, Jr.	President, St. John Forest Products, Inc., Spalding, Michigan	1990
Duane E. Dingmann	President, Trubilt Auto Body, Inc., Eau Claire, Wisconsin	1991
Bruce C. Adams	Partner, Triple Adams Farms, Minot, North Dakota	1992

Class C

Delbert W. Johnson	President and Chief Executive Officer, Pioneer Metal Finishing, Minneapolis, Minnesota	1990
Michael W. Wright	Chairman of the Board, Chief Executive Officer, and President, Super Valu Stores, Inc., Minneapolis, Minnesota	1991
Gerald A. Rauenhorst	Chairman of the Board and Chief Executive Officer, Opus Corporation, Minneapolis, Minnesota	1992

DISTRICT 9—Continued

—HELENA BRANCH

		Term expires Dec. 31
Appointed by the Federal Reserve Bank		
Noble E. Vosburg	President and Chief Executive Officer, Pacific Hide and Fur Corporation, Great Falls, Montana	1990
Robert H. Waller	President and Chief Executive Officer, First Interstate Bank of Billings, N.A., Billings, Montana	1990
Beverly D. Harris	President, Empire Federal Savings and Loan Association, Livingston, Montana	1991
Appointed by the Board of Governors		
J. Frank Gardner	President, Montana Resources, Inc., Butte, Montana	1990
James E. Jenks	Jenks Farms, Hogeland, Montana	1991

DISTRICT 10—KANSAS CITY

Class A		
Roger L. Reisher	Co-Chairman of the Board, FirstBank Holding Company of Colorado, Lakewood, Colorado	1990
Robert L. Hollis	Chairman of the Board and Chief Executive Officer, First National Bank and Trust Co., Okmulgee, Oklahoma	1991
Harold L. Gerhart, Jr.	President and Chief Executive Officer, First National Bank, Newman Grove, Nebraska	1992
Class B		
S. Dean Evans, Sr.	Partner, Evans Grain Company, Salina, Kansas	1990
Frank J. Yaklich, Jr.	President, CF & I Steel Corporation, Pueblo, Colorado	1991
Frank A. McPherson	Chairman of the Board and Chief Executive Officer, Kerr-McGee Corporation, Oklahoma City, Oklahoma	1992
Class C		
Thomas E. Rodriguez	President and General Manager, Thomas E. Rodriguez & Associates, P.C., Aurora, Colorado	1990
Burton A. Dole, Jr.	Chairman of the Board and President, Puritan–Bennett Corporation, Overland Park, Kansas	1991
Fred W. Lyons, Jr.	President, Marion Merrell Dow Inc., Kansas City, Missouri	1992

—DENVER BRANCH

Appointed by the Federal Reserve Bank		
Junius F. Baxter	Denver, Colorado	1990
Norman R. Corzine	President and Chief Executive Officer, First National Bank in Albuquerque, Albuquerque, New Mexico	1991
W. Richard Scarlett III	Chairman of the Board and Chief Executive Officer, Jackson State Bank, Jackson Hole, Wyoming	1991
Henry A. True III	Partner, True Companies, Casper, Wyoming	1992
Appointed by the Board of Governors		
Gilbert Sanchez	President, New Mexico Highlands University, Las Vegas, New Mexico	1990
Barbara B. Grogan	President, Western Industrial Contractors, Inc., Denver, Colorado	1991
Sandra K. Woods	Vice President, Corporate Real Estate, Adolph Coors Company, Golden, Colorado	1992

DISTRICT 10—Continued

—OKLAHOMA CITY BRANCH

		Term expires Dec. 31
Appointed by the Federal Reserve Bank		
W. Dean Hidy	Chairman of the Board, Triad Bank, N.A., Tulsa, Oklahoma	1990
John Wm. Laisle	President, MidFirst Savings and Loan Association, Oklahoma City, Oklahoma	1990
C. Kendric Fergeson	Chairman of the Board and Chief Executive Officer, The National Bank of Commerce, Altus, Oklahoma	1991
Appointed by the Board of Governors		
John F. Snodgrass	President and Trustee, The Samuel Roberts Noble Foundation, Inc., Ardmore, Oklahoma	1990
Ernest L. Holloway	President, Langston University, Langston, Oklahoma	1991

—OMAHA BRANCH

Appointed by the Federal Reserve Bank		
John R. Cochran	President and Chief Executive Officer, Norwest Bank Nebraska, N.A., Omaha, Nebraska	1990
Sheila Griffin	Associate Director, Lied Center for Performing Arts, University of Nebraska–Lincoln, Lincoln, Nebraska	1991
John T. Selzer	Chairman of the Board and Chief Executive Officer, Scottsbluff National Bank and Trust Company, Scottsbluff, Nebraska	1991
Appointed by the Board of Governors		
Herman Cain	President and Chief Executive Officer, Godfather's Pizza, Inc., Omaha, Nebraska	1990
Leroy William Thom	President, T-L Irrigation Company, Hastings, Nebraska	1991

DISTRICT 11—DALLAS

Class A		
T.C. Frost	Chairman of the Board, The Frost National Bank, San Antonio, Texas	1990
Charles T. Doyle	Chairman of the Board and Chief Executive Officer, Gulf National Bank, Texas City, Texas	1991
Robert G. Greer	Chairman of the Board, Tanglewood Bank, N.A., Houston, Texas	1992
Class B		
Robert L. Pfluger	Rancher, San Angelo, Texas	1990
Charles Dickie Williamson	Chairman of the Board and Chief Executive Officer, Williamson-Dickie Manufacturing Company, Fort Worth, Texas	1991
Gary E. Wood	President, Texas Research League, Austin, Texas	1992
Class C		
Bobby R. Inman	Austin, Texas	1990
Hugh G. Robinson	Chairman of the Board and Chief Executive Officer, The Tetra Group, Inc., Dallas, Texas	1991
Leo E. Linbeck, Jr.	Chairman of the Board and Chief Executive Officer, Linbeck Construction Corporation, Houston, Texas	1992

DISTRICT 11—Continued

—EL PASO BRANCH

		Term expires Dec. 31
Appointed by the Federal Reserve Bank		
Henry B. Ellis	President and Chief Credit Officer, MBank El Paso, N.A., El Paso, Texas	1990
Ethel Ortega Olson	Owner, NAMBE of Ruidoso, Ruidoso, New Mexico	1990
Humberto F. Sambrano	President, SamCorp General Contractors, El Paso, Texas	1991
Wayne Merritt	Chairman of the Board and President, United Bank, N.A., Midland, Texas	1992
Appointed by the Board of Governors		
Diana S. Natalicio	President, The University of Texas at El Paso, El Paso, Texas	1990
Donald G. Stevens	Owner, Stevens Oil Company, Roswell, New Mexico	1991
W. Thomas Beard III	President, Leoncita Cattle Company, Alpine, Texas	1992

—HOUSTON BRANCH

Appointed by the Federal Reserve Bank		
Clive Runnells	President and Director, Runnells Cattle Company, Bay City, Texas	1990
David E. Sheffield	Member Relations Consultant, American Bankers Association, Washington, D.C.	1990
Jeff Austin, Jr.	President, First National Bank of Jacksonville, Jacksonville, Texas	1991
Jenard M. Gross	President, Gross Builders, Inc., Houston, Texas	1992
Appointed by the Board of Governors		
Andrew L. Jefferson, Jr.	Attorney, Jefferson and Mims, Houston, Texas	1990
Gilbert D. Gaedcke, Jr.	Chairman of the Board and Chief Executive Officer, Gaedcke Equipment Company, Houston, Texas	1991
Judy Ley Allen	Allen Investments, Houston, Texas	1992

—SAN ANTONIO BRANCH

Appointed by the Federal Reserve Bank		
Javier Garza	Executive Vice President, The Laredo National Bank, Laredo, Texas	1990
Sam R. Sparks	President, Sam R. Sparks, Inc., Progreso, Texas	1990
Jane Flato Smith	Investor and Rancher, San Antonio, Texas	1991
Gregory W. Crane	Chairman of the Board, President, and Chief Executive Officer, Broadway National Bank, San Antonio, Texas	1992
Appointed by the Board of Governors		
Vacancy		1990
Roger R. Hemminghaus	Chairman of the Board and Chief Executive Officer, Diamond Shamrock R&M, Inc., San Antonio, Texas	1991
Lawrence E. Jenkins	Austin, Texas	1992

DISTRICT 12—SAN FRANCISCO

Class A

		Term expires Dec. 31
R. Blair Hawkes	President and Chief Executive Officer, Ireland Bank, Malad City, Idaho	1990
William E.B. Siart	Chairman of the Board, President, and Chief Executive Officer, First Interstate Bank of California, Los Angeles, California	1991
Warren K.K. Luke	President and Director, Hawaii National Bancshares, Inc., and Vice Chairman of the Board, Hawaii National Bank, Honolulu, Hawaii	1992

Class B

John N. Nordstrom	Co-Chairman of the Board, Nordstrom, Inc., Seattle, Washington	1990
William L. Tooley	Chairman of the Board, Tooley & Company, Investment Builders, Los Angeles, California	1991
James A. Vohs	Chairman of the Board, President, and Chief Executive Officer, Kaiser Foundation Health Plan, Inc., and Kaiser Foundation Hospitals, Oakland, California	1992

Class C

Cordell W. Hull	Executive Vice President and Director, Bechtel Group, Inc., San Francisco, California	1990
Carolyn S. Chambers	President and Chief Executive Officer, Chambers Communications Corp., Eugene, Oregon	1991
Robert F. Erburu	Chairman of the Board and Chief Executive Officer, The Times Mirror Company, Los Angeles, California	1992

—LOS ANGELES BRANCH

Appointed by the Federal Reserve Bank

Ross M. Blakely	Chairman of the Executive Committee of the Board, Coast Savings and Loan, Los Angeles, California	1990
David R. Lovejoy	Vice Chairman of the Board, Security Pacific National Bank, Los Angeles, California	1991
Ignacio E. Lozano, Jr.	Editor-in-Chief, *La Opinion*, Los Angeles, California	1991
Fred D. Jensen	Chairman of the Board, President, and Chief Executive Officer, National Bank of Long Beach, Long Beach, California	1992

Appointed by the Board of Governors

Richard C. Seaver	Chairman, Hydril Company, Los Angeles, California	1990
Harry W. Todd	Managing Partner, Carlisle Enterprises, L.P., Coronado, California	1991
Yvonne Brathwaite Burke	Partner, Jones, Day, Reavis & Pogue, Los Angeles, California	1992

—PORTLAND BRANCH

Appointed by the Federal Reserve Bank

Stephen G. Kimball	President and Chief Executive Officer, Baker Boyer Bancorp, Walla Walla, Washington	1990
G. Dale Weight	Chairman of the Board, President, and Chief Executive Officer, The Benjamin Franklin Savings and Loan Association, Portland, Oregon	1990
Stuart H. Compton	Chairman of the Board and Chief Executive Officer, Pioneer Trust Bank, N.A., Salem, Oregon	1991
E. Kay Stepp	President, Portland General Electric, Portland, Oregon	1992

DISTRICT 12—Continued

PORTLAND BRANCH—Continued

Appointed by the Board of Governors

		Term expires Dec. 31
Sandra A. Suran	Business Consultant, Lake Oswego, Oregon	1990
William A. Hilliard	Editor, *The Oregonian*, Portland, Oregon	1991
Wayne E. Phillips, Jr.	Vice President, Phillips Ranch, Inc., Baker, Oregon	1992

—SALT LAKE CITY BRANCH

Appointed by the Federal Reserve Bank

Curtis H. Eaton	Vice President; Manager, Community Banking Area; and Member of the Board of Directors, First Security Bank of Idaho, N.A., Twin Falls, Idaho	1990
Virginia P. Kelson	Senior Consultant, Ralston & Associates, Management and Training Consultants, Salt Lake City, Utah	1990
Gerald R. Christensen	President and Chairman, First Federal Savings Bank, Salt Lake City, Utah	1991
Ronald S. Hanson	President, Zions First National Bank, Salt Lake City, Utah	1992

Appointed by the Board of Governors

Don M. Wheeler	President, Wheeler Machinery Company, Salt Lake City, Utah	1990
D.N. Rose	President and Chief Executive Officer, Mountain Fuel Supply Company, Salt Lake City, Utah	1991
Gary G. Michael	Vice Chairman, Chief Financial and Corporate Development Officer, Albertson's, Inc., Boise, Idaho	1992

—SEATTLE BRANCH

Appointed by the Federal Reserve Bank

B.R. Beeksma	Chairman of the Board, InterWest Savings Bank, Oak Harbor, Washington	1990
Gerry B. Cameron	President and Chief Operating Officer, U.S. Bank of Washington, N.A., Seattle, Washington	1990
Robert P. Gray	President, National Bank of Alaska, Anchorage, Alaska	1991
H.H. Larison	President, Columbia Paint & Coatings, Spokane, Washington	1992

Appointed by the Board of Governors

George F. Russell, Jr.	Chairman, Frank Russell Company, Tacoma, Washington	1990
Bruce R. Kennedy	Chairman and Chief Executive Officer, Alaska Air Group, Inc., Seattle, Washington	1991
Judith M. Runstad	Partner, Foster Pepper and Shefelman, Seattle, Washington	1992

Financial and Business Statistics

NOTE. *The following tables may have some discontinuities in historical data for some series beginning with the December 1989 issue: 1.12, 1.33, 1.44, 1.52, 1.57–1.60, 2.10, 2.12, 2.13, 3.10, 3.11, 3.15–3.20, 3.22–3.25, 3.27, 3.28, and 4.30. For a more detailed explanation of the changes, see the announcement on page 16 of the January 1990* BULLETIN.

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FEDERAL FINANCE

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

Annual rates of change, seasonally adjusted in percent[1]

Monetary and credit aggregates	1989				1989			1990	
	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.	Feb.
Reserves of depository institutions[2]									
1 Total	−3.1	−8.7	.6	5.1	7.1	.1	7.8	−2.7	6.4
2 Required	−3.2	−7.7	.5	5.0	5.5	1.7	8.4	−4.7	7.1
3 Nonborrowed	1.2	−10.2	8.7	7.2	10.0	4.3	9.5	−6.2	−13.9
4 Monetary base[3]	4.4	1.7	3.2	4.0	4.1	1.9	7.3	10.9	9.4
Concepts of money, liquid assets, and debt[4]									
5 M1	−.1	−4.4	1.8	5.1	7.8	2.0	8.2	−.1	9.8
6 M2	2.3	1.6	6.9	7.0	6.9	7.3	7.3	3.4	9.4
7 M3	3.9	3.3	3.9	1.8	1.2	3.7	3.4	1.4	5.5
8 L	5.2	5.0	4.2	2.7	2.1	3.8	4.3	−.1	n.a.
9 Debt	8.2	7.7	7.2	7.9	8.4	8.8	4.8	5.4	n.a.
Nontransaction components									
10 In M2[5]	3.2	3.7	8.7	7.6	6.6	9.0	7.0	4.5	9.2
11 In M3 only[6]	9.6	9.1	−6.8	−17.2	−19.8	−9.7	−11.5	−6.6	−9.9
Time and savings deposits									
Commercial banks									
12 Savings	−5.5	−11.5	.4	7.1	6.3	9.5	7.3	8.7	12.5
13 MMDA	−11.6	−10.8	5.2	12.3	10.1	16.6	10.6	2.9	11.9
14 Small-denomination time[7]	22.4	25.9	11.9	11.3	14.8	10.9	9.6	6.6	7.5
15 Large-denomination time[8,9]	16.5	16.3	3.0	2.7	5.0	8.0	−.1	−.7	−4.8
Thrift institutions									
16 Savings	−7.7	−14.9	−5.2	.3	−1.7	1.7	−.1	−.5	7.6
17 MMDA	−22.6	−30.6	−6.2	4.8	4.9	7.0	−1.0	2.7	8.2
18 Small-denomination time	5.7	10.7	8.8	−2.5	−5.8	−4.2	−.9	−5.1	−9.1
19 Large-denomination time[8]	.7	7.5	−10.7	−28.6	−32.8	−31.7	−20.2	−30.3	−22.3
Debt components[4]									
20 Federal	7.7	6.9	4.7	9.5	9.5	10.9	3.7	5.7	n.a.
21 Nonfederal	8.3	7.9	7.9	7.4	8.0	8.2	5.2	5.3	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 depository institutions; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (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.

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

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 the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

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

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

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

7. 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.

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

9. 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 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT

Millions of dollars

Factors	Monthly averages of daily figures			Weekly averages of daily figures for week ending						
	1989	1990		1990						
	Dec.	Jan.	Feb.	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28
SUPPLYING RESERVE FUNDS										
1 **Reserve Bank credit**	**269,244**	**269,857**	**265,438**	**269,192**	**267,901**	**265,235**	**262,966**	**263,407**	**264,181**	**265,438**
U.S. government securities[1, 2]										
2 Bought outright-system account	223,031	221,432	217,811	222,410	220,558	217,228	214,337	214,895	216,140	217,811
3 Held under repurchase agreements	1,111	985	0	0	0	0	0	0	0	0
Federal agency obligations[2]										
4 Bought outright	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525
5 Held under repurchase agreements	158	119	0	0	0	0	0	0	0	0
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions[2]										
7 Adjustment credit	182	341	75	158	305	763	815	996	1,600	75
8 Seasonal credit	87	44	61	39	42	50	37	40	59	61
9 Extended credit	20	27	1,738	22	32	38	28	36	229	1,738
10 Float	1,128	978	887	814	960	652	1,053	617	1,622	887
11 Other Federal Reserve assets	37,003	39,406	38,341	39,224	39,480	39,981	40,172	40,299	38,006	38,341
12 Gold stock	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059
13 Special drawing rights certificate account	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518
14 Treasury currency outstanding	19,585	19,650	19,724	19,640	19,645	19,655	19,669	19,683	19,710	19,724
ABSORBING RESERVE FUNDS										
15 Currency in circulation	256,870	256,669	254,967	257,350	255,231	253,232	253,650	254,651	255,230	254,967
16 Treasury cash holdings	448	468	498	468	472	476	485	495	495	498
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	4,787	6,302	6,133	4,108	5,930	9,550	6,106	6,446	4,783	6,133
18 Foreign	286	255	218	248	217	255	190	213	236	218
19 Service-related balances and adjustments	1,817	2,075	1,906	2,094	2,125	1,882	2,334	2,035	2,024	1,906
20 Other	397	364	398	227	209	625	326	234	343	398
21 Other Federal Reserve liabilities and capital	8,242	8,928	8,973	8,949	9,021	9,011	8,867	8,829	8,985	8,973
22 Reserve balances with Federal Reserve Banks[3]	35,559	34,023	31,646	34,965	33,918	29,436	30,254	29,762	31,372	31,646

Factors	End-of-month figures			Wednesday figures						
	1989	1990		1990						
	Dec.	Jan.	Feb.	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28
SUPPLYING RESERVE FUNDS										
23 **Reserve Bank credit**	**276,622**	**265,926**	**265,805**	**271,289**	**269,550**	**265,926**	**262,399**	**263,771**	**265,705**	**265,805**
U.S. government securities[1, 2]										
24 Bought outright-system account	226,775	218,392	219,132	221,748	221,961	218,392	212,469	215,312	215,814	219,132
25 Held under repurchase agreements	1,592	0	0	0	0	0	0	0	0	0
Federal agency obligations[2]										
26 Bought outright	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525
27 Held under repurchase agreements	525	0	0	0	0	0	0	0	0	0
28 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions[2]										
29 Adjustment credit	375	656	57	81	565	656	1,670	947	2,488	57
30 Seasonal credit	86	42	59	40	42	42	35	37	59	59
31 Extended credit	20	35	1,662	26	33	35	28	42	1,332	1,662
32 Float	1,093	216	266	3,649	768	216	1,504	472	1,505	266
33 Other Federal Reserve assets	39,631	40,061	38,103	39,222	39,656	40,061	40,168	40,436	37,981	38,103
34 Gold stock	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059
35 Special drawing rights certificate account	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518
36 Treasury currency outstanding	19,615	19,655	19,724	19,640	19,645	19,655	19,669	19,683	19,710	19,724
ABSORBING RESERVE FUNDS										
37 Currency in circulation	260,443	253,123	255,186	256,749	254,251	253,123	254,248	254,957	255,495	255,186
38 Treasury cash holdings	455	479	504	471	475	479	495	495	495	504
Deposits, other than reserve balances, with Federal Reserve Banks										
39 Treasury	6,217	13,153	6,613	6,948	6,044	13,153	6,411	5,654	5,310	6,613
40 Foreign	589	251	309	273	188	251	203	180	224	309
41 Service-related balances and adjustments	1,618	1,882	1,906	2,094	2,125	1,882	2,334	2,035	2,024	1,906
42 Other	1,298	357	409	257	206	357	242	218	302	409
43 Other Federal Reserve liabilities and capital	8,486	8,884	8,449	8,692	8,824	8,884	8,621	8,478	8,782	8,449
44 Reserve balances with Federal Reserve Banks[3]	36,709	27,029	31,729	35,022	36,658	27,029	29,090	31,013	32,358	31,729

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* any securities sold and scheduled to be bought back under matched sale-purchase transactions.
2. Beginning with the May 1990 *Bulletin*, this table has been revised to correspond with the H.4.1 statistical release.
3. Excludes required clearing balances and adjustments to compensate for float.

NOTE. For amounts of currency and coin held as reserves, see table 1.12. Components may not add to totals because of rounding.

1.12 RESERVES AND BORROWINGS Depository Institutions[1]

Millions of dollars

Reserve classification	Monthly averages[9]									
	1987	1988	1989	1989					1990	
	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 Reserve balances with Reserve Banks[2]	37,673	37,830	35,436	32,823	33,556	33,123	33,941	35,436	34,090[r]	30,933
2 Total vault cash[3]	26,185	27,205	28,782	28,362	28,089	28,897	28,519	28,782	30,354	31,641
3 Vault[4]	24,449	25,909	27,374	26,735	26,570	27,275	27,048	27,374	28,841	29,694
4 Surplus[5]	1,736	1,296	1,409	1,627	1,519	1,622	1,472	1,409	1,513	1,947
5 Total reserves[6]	62,123	63,739	62,810	59,559	60,126	60,397	60,989	62,810	62,931[r]	60,627
6 Required reserves	61,094	62,699	61,888	58,674	59,188	59,378	60,044	61,888	61,914	59,639
7 Excess reserve balances at Reserve Banks[7]	1,029	1,040	922	885	938	1,020	945	922	1,016[r]	988
8 Total borrowings at Reserve Banks	777	1,716	265	675	693	555	349	265	440	1,448
9 Seasonal borrowings at Reserve Banks	93	130	84	490	452	330	134	84	47	51
10 Extended credit at Reserve Banks[8]	483	1,244	20	41	22	21	21	20	26	535
	Biweekly averages of daily figures for weeks ending									
	1989					1990				
	Nov. 1	Nov. 15	Nov. 29	Dec. 13	Dec. 27	Jan. 10	Jan. 24	Feb. 7	Feb. 21	Mar. 7
11 Reserve balances with Reserve Banks[2]	32,778	34,468	33,394	35,399	35,130[r]	36,627	34,423[r]	29,799[r]	30,597	32,740
12 Total vault cash[3]	28,875	27,908	29,156	27,821	29,415	29,695	29,338	33,327	31,932	29,372
13 Vault[4]	27,177	26,552	27,574	26,509	27,903	28,335	28,045	31,156	29,956	27,707
14 Surplus[5]	1,698	1,357	1,582	1,312	1,513	1,360	1,294	2,171	1,976	1,665
15 Total reserves[6]	59,955	61,019[r]	60,967[r]	61,907[r]	63,033	64,961	62,468	60,955[r]	60,553	60,447
16 Required reserves	58,827	60,139	59,958	61,149	62,015	63,844	61,627	59,735[r]	59,585	59,651
17 Excess reserve balances at Reserve Banks[7]	1,128	881	1,009	759	1,018	1,117	841	1,220[r]	968	796
18 Total borrowings at Reserve Banks	345	272	441	151	351	339	300	865	1,480	1,967
19 Seasonal borrowings at Reserve Banks	280	147	115	87	89	58	41	44	50	60
20 Extended credit at Reserve Banks[8]	23	20	23	22	19	19	27	33	133	1,841

1. These data also appear in the Board's H.3 (502) release. For address, see inside front cover.
2. Excludes required clearing balances and adjustments to compensate for float.
3. 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.
4. 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.
5. 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.
6. 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.
7. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements less required reserves.
8. 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.
9. Data are prorated monthly averages of biweekly averages.

1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Member Banks[1]

Averages of daily figures, in millions of dollars

Maturity and source	1989 week ending Monday								
	Jan. 16	Jan. 23	Jan. 30	Feb. 6	Feb. 13	Feb. 20	Feb. 27	Mar. 6	Mar. 13
Federal funds purchased, repurchase agreements, and other selected borrowing in immediately available funds									
From commercial banks in the United States									
1 For one day or under continuing contract	70,344	69,604	66,372	71,750	71,162	69,950	72,395	74,375	74,764
2 For all other maturities	10,870	10,424	9,947	10,289	10,627	11,937	11,378	11,061	11,208
From other depository institutions, foreign banks and foreign official institutions, and U.S. government agencies									
3 For one day or under continuing contract	26,331	24,937	27,974	27,292	29,241	27,903	25,142	31,371	30,195
4 For all other maturities	7,431	6,694	6,345	6,524	6,787	7,467	7,403	7,190	8,378
Repurchase agreements on U.S. government and federal agency securities in immediately available funds									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	14,513	15,955	16,041	14,289	14,754	15,077	15,031	16,834	15,413
6 For all other maturities	11,235	11,280	12,425	13,279	14,100	13,592	13,484	13,598	14,456
All other customers									
7 For one day or under continuing contract	29,334	28,826	28,775	27,966	27,901	27,792	29,237	27,612	27,710
8 For all other maturities	9,547	9,389	9,750	9,980	10,178	10,299	9,978	10,104	10,085
MEMO: Federal funds loans and resale agreements in immediately available funds in maturities of one day or under continuing contract									
9 To commercial banks in the United States	40,105	40,596	40,075	41,248	39,096	38,742	37,275	43,328	40,929
10 To all other specified customers[2]	14,111	14,784	13,584	17,118	15,055	16,176	15,684	17,158	16,936

1. Banks with assets of $1 billion or more as of Dec. 31, 1977.
These data also appear in the Board's H.5 (507) release. For address, see inside front cover.

2. Brokers and nonbank dealers in securities; other depository institutions; foreign banks and official institutions; and United States government agencies.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit and Seasonal credit[1]			Extended credit[2]						
				First 30 days of borrowing			After 30 days of borrowing[3]			
	On 3/22/90	Effective date	Previous rate	On 3/22/90	Effective date	Previous rate	On 3/22/90	Effective date	Previous rate	Effective date
Boston	7	2/24/89	6½	7	2/24/89	6½	8.85	3/22/90	8.75	3/8/90
New York		2/24/89			2/24/89			3/22/90		3/8/90
Philadelphia		2/24/89			2/24/89			3/22/90		3/8/90
Cleveland		2/24/89			2/24/89			3/22/90		3/8/90
Richmond		2/24/89			2/24/89			3/22/90		3/8/90
Atlanta		2/24/89			2/24/89			3/22/90		3/8/90
Chicago		2/24/89			2/24/89			3/22/90		3/8/90
St. Louis		2/24/89			2/24/89			3/22/90		3/8/90
Minneapolis		2/24/89			2/24/89			3/22/90		3/8/90
Kansas City		2/24/89			2/24/89			3/22/90		3/8/90
Dallas		2/27/89			2/27/89			3/22/90		3/8/90
San Francisco	7	2/24/89	6½	7	2/24/89	6½	8.85	3/22/90	8.75	3/8/90

Range of rates for adjustment credit in recent years[4]

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1977	6	6
1978—Jan. 9	6–6½	6½
20	6½	6½
May 11	6½–7	7
12	7	7
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

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1980—July 28	10–11	10
29	10	10
Sept. 26	11	11
Nov. 17	12	12
Dec. 5	12–13	13
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

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
1984—Apr. 9	8½–9	9
13	9	9
Nov. 21	8½–9	8½
26	8½	8½
Dec. 24	8	8
1985—May 20	7½–8	7½
24	7½	7½
1986—Mar. 7	7–7½	7
10	7	7
Apr. 21	6½–7	6½
July 11	6	6
Aug. 21	5½–6	5½
22	5½	5½
1987—Sept. 4	5½–6	6
11	6	6
1988—Aug. 9	6–6½	6½
11	6½	6½
1989—Feb. 24	6½–7	7
27	7	7
In effect Mar. 22, 1990	7	7

1. Adjustment credit is available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. After May 19, 1986, the highest rate established for loans to depository institutions may be charged on adjustment credit loans of unusual size that result from a major operating problem at the borrower's facility.

Seasonal credit is available to help smaller depository institutions meet regular, seasonal needs for funds that cannot be met through special industry lenders and that arise from a combination of expected patterns of movement in their deposits and loans. A temporary simplified seasonal program was established on Mar. 8, 1985, and the interest rate was a fixed rate ½ percent above the rate on adjustment credit. The program was reestablished for 1986 and 1987 but was not renewed for 1988.

2. Extended credit is available to depository institutions, when similar assistance is not reasonably available from other sources, when exceptional circumstances or practices involve only a particular institution or when an institution is experiencing difficulties adjusting to changing market conditions over a longer period of time.

3. For extended-credit loans outstanding more than 30 days, a flexible rate somewhat above rates on market sources of funds ordinarily will be charged, but in no case will the rate charged be less than the basic discount rate plus 50 basis points. The flexible rate is reestablished on the first business day of each two-week reserve maintenance period. At the discretion of the Federal Reserve Bank, the time period for which the basic discount rate is applied may be shortened.

4. For 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*.

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than four weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980 through May 7, 1980. 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, 1981. As of Oct. 1, 1981 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[2]	Depository institution requirements after implementation of the Monetary Control Act	
	Percent of deposits	Effective date
Net transaction accounts[3,4]		
\$0 million–\$40.4 million	3	12/19/89
More than \$40.4 million	12	12/19/89
Nonpersonal time deposits[5]		
By original maturity		
Less than 1½ years	3	10/6/83
1½ years or more	0	10/6/83
Eurocurrency liabilities		
All types	3	11/13/80

1. Reserve requirements in effect on Dec. 31, 1989. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmember institutions may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* or the *Federal Reserve Bulletin*. Under provisions of the Monetary Control Act, depository institutions include commercial banks, mutual savings banks, savings and loan associations, credit unions, agencies and branches of foreign banks, and Edge corporations.

2. The Garn–St Germain Depository Institutions Act of 1982 (Public Law 97–320) requires that \$2 million of reservable liabilities (transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities) of each depository institution be subject to a zero percent reserve requirement. The Board is to adjust the amount of reservable liabilities subject to this zero percent reserve requirement each year for the succeeding calendar year by 80 percent of the percentage increase in the total reservable liabilities of all depository institutions, measured on an annual basis as of June 30. No corresponding adjustment is to be made in the event of a decrease. On Dec. 20, 1988, the exemption was raised from \$3.2 million to \$3.4 million. In determining the reserve requirements of depository institutions, the exemption shall apply in the following order: (1) net NOW accounts (NOW accounts less allowable deductions); (2) net other transaction accounts; and (3) nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio. With respect to NOW accounts and other transaction accounts, the exemption applies only to such accounts that would be subject to a 3 percent reserve requirement.

3. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers in excess of three per month for the purpose of making payments to third persons or others. However, MMDAs and similar accounts subject to the rules that permit no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks, are not transaction accounts (such accounts are savings deposits subject to time deposit reserve requirements).

4. The Monetary Control Act of 1980 requires that the amount of transaction accounts against which the 3 percent reserve requirement applies be modified annually by 80 percent of the percentage change in transaction accounts held by all depository institutions, determined as of June 30 each year. Effective Dec. 19, 1989 for institutions reporting quarterly and Dec. 26, 1989 for institutions reporting weekly, the amount was decreased from \$41.5 million to \$40.4 million.

5. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which a beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS[1]

Millions of dollars

Type of transaction	1987	1988	1989	1989 July	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.
U.S. TREASURY SECURITIES										
Outright transactions (*excluding matched transactions*)										
Treasury bills										
1 Gross purchases	18,983	8,223	14,284	0	0	0	219	8,794	1,883	423
2 Gross sales	6,051	587	12,818	5,517	934	0	1,633	0	0	1,489
3 Exchange	0	0	0	0	0	0	0	0	0	0
4 Redemptions	9,029	2,200	12,730	2,400	800	0	1,400	3,530	0	1,000
Others within 1 year										
5 Gross purchases	3,659	2,176	327	0	0	0	0	155	0	0
6 Gross sales	300	0	0	0	0	0	0	0	0	0
7 Maturity shift	21,504	23,854	28,848	1,749	4,200	1,832	852	3,915	1,268	1,201
8 Exchange	−20,388	−24,588	−25,783	−1,073	−4,025	0	−2,678	−5,502	0	−2,489
9 Redemptions	70	0	500	0	0	0	500	0	0	0
1 to 5 years										
10 Gross purchases	10,231	5,485	1,436	0	0	0	0	0	0	0
11 Gross sales	452	800	490	13	150	0	24	0	0	0
12 Maturity shift	−17,975	−17,720	−25,534	−1,584	−3,321	−1,832	−758	−2,869	−1,268	−1,163
13 Exchange	18,938	22,515	23,250	787	3,425	0	2,552	4,902	0	2,373
5 to 10 years										
14 Gross purchases	2,441	1,579	287	0	0	0	0	0	0	0
15 Gross sales	0	175	29	9	0	0	0	0	0	0
16 Maturity shift	−3,529	−5,946	−2,231	−165	−879	0	−95	−1,046	0	−38
17 Exchange	950	1,797	1,934	286	400	0	126	400	0	116
Over 10 years										
18 Gross purchases	1,858	1,398	284	0	0	0	0	0	0	0
19 Gross sales	0	0	0	0	0	0	0	0	0	0
20 Maturity shift	0	−188	−1,086	0	0	0	0	0	0	0
21 Exchange	500	275	600	0	200	0	0	200	0	0
All maturities										
22 Gross purchases	37,170	18,863	16,617	0	0	0	219	8,949	1,883	423
23 Gross sales	6,803	1,562	13,337	5,539	1,084	0	1,657	0	0	1,489
24 Redemptions	9,099	2,200	13,230	2,400	800	0	1,900	3,530	0	1,000
Matched transactions										
25 Gross sales	950,923	1,168,484	1,323,480	123,373	146,611	116,502	111,430	105,696	103,077	127,729
26 Gross purchases	950,935	1,168,142	1,326,542	118,221	147,228	120,144	111,893	105,243	104,827	121,411
Repurchase agreements[2]										
27 Gross purchases	314,621	152,613	129,518	4,961	0	9,396	0	15,350	22,737	16,185
28 Gross sales	324,666	151,497	132,688	4,961	0	9,396	0	15,350	21,145	17,777
29 Net change in U.S. government securities	11,234	15,872	−10,055	−13,091	−1,267	3,642	−2,875	4,966	5,225	−9,976
FEDERAL AGENCY OBLIGATIONS										
Outright transactions										
30 Gross purchases	0	0	0	0	0	0	0	0	0	0
31 Gross sales	0	0	0	0	0	0	0	0	0	0
32 Redemptions	276	587	442	45	0	54	30	0	0	0
Repurchase agreements[2]										
33 Gross purchases	80,353	57,259	38,835r	1,137	0	2,874r	0	1,247	2,992	1,741
34 Gross sales	81,350	56,471	40,411r	1,137	0	2,874r	0	1,247	2,467	2,266
35 Net change in federal agency obligations	−1,274	198	−2,018	−45	0	−54	−30	0	525	−525
36 **Total net change in System Open Market Account**	**9,961**	**16,070**	**−12,073**	**−13,136**	**−1,267**	**3,588**	**−2,905**	**4,966**	**5,750**	**−10,501**

1. 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.

2. In July 1984 the Open Market Trading Desk discontinued accepting bankers acceptances in repurchase agreements.

1.18 FEDERAL RESERVE BANKS Condition and Federal Reserve Note Statements[1]

Millions of dollars

Account	Wednesday					End of month		
	1990					1989	1990	
	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28	Dec.	Jan.	Feb.
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059
2 Special drawing rights certificate account	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518
3 Coin	524	544	561	568	568	456	524	568
Loans								
4 To depository institutions	733	1,733	1,027	3,879	1,779	481	733	1,779
5 Other	0	0	0	0	0	0	0	0
6 Acceptances held under repurchase agreements	0	0	0	0	0	0	0	0
Federal agency obligations								
7 Bought outright	6,525	6,525	6,525	6,525	6,525	6,525	6,525	6,525
8 Held under repurchase agreements	0	0	0	0	0	0	0	0
U.S. Treasury securities								
Bought outright								
9 Bills	96,197	90,274	93,118	93,620	96,937	104,581	96,197	96,937
10 Notes	91,381	91,381	91,381	91,239	91,239	91,381	91,381	91,239
11 Bonds	30,814	30,814	30,814	30,955	30,955	30,814	30,814	30,955
12 Total bought outright[2]	218,392	212,469	215,312	215,814	219,132	223,142	218,392	219,132
13 Held under repurchase agreements	0	0	0	0	0	1,592	0	0
14 Total U.S. Treasury securities	218,392	212,469	215,312	215,814	219,132	228,367	218,392	219,132
15 **Total loans and securities**	**225,649**	**220,726**	**222,864**	**226,218**	**227,435**	**235,898**	**225,649**	**227,435**
16 Items in process of collection	5,848	7,272	5,776	9,937	5,936	8,903	5,848	5,936
17 Bank premises	791	791	792	792	791	790	791	791
Other assets								
18 Denominated in foreign currencies[3]	31,920	31,935	31,964	31,286	31,041	31,333	31,920	31,041
19 All other[4]	7,723	7,494	7,568	6,099	6,320	7,465	7,723	6,320
20 **Total assets**	**292,033**	**288,340**	**289,102**	**294,478**	**291,669**	**304,424**	**292,033**	**291,669**
LIABILITIES								
21 Federal Reserve notes	234,471	235,619	236,331	236,849	236,534	241,739	234,471	236,534
Deposits								
22 To depository institutions	29,464	31,529	33,003	34,215	33,811	38,327	29,464	33,811
23 U.S. Treasury—General account	13,153	6,411	5,654	5,310	6,613	6,217	13,153	6,613
24 Foreign—Official accounts	251	203	180	224	309	590	251	309
25 Other	357	242	218	302	409	1,298	357	409
26 **Total deposits**	**43,228**	**38,385**	**39,055**	**40,051**	**41,142**	**46,430**	**43,228**	**41,142**
27 Deferred credit items	5,452	5,715	5,238	8,795	5,543	7,773	5,452	5,543
28 Other liabilities and accrued dividends[5]	3,911	3,740	3,599	3,852	3,853	3,994	3,911	3,853
29 **Total liabilities**	**287,060**	**283,459**	**284,223**	**289,548**	**287,073**	**299,935**	**287,060**	**287,073**
CAPITAL ACCOUNTS								
30 Capital paid in	2,249	2,255	2,260	2,274	2,275	2,243	2,249	2,275
31 Surplus	2,243	2,243	2,243	2,243	2,219	2,243	2,243	2,219
32 Other capital accounts	481	384	376	413	103	0	481	103
33 **Total liabilities and capital accounts**	**292,033**	**288,340**	**289,102**	**294,478**	**291,669**	**304,423**	**292,033**	**291,669**
34 MEMO: Marketable U.S. Treasury securities held in custody for foreign and international accounts	228,073	229,647	227,586	225,040	224,626	233,048	228,073	224,626
	Federal Reserve note statement							
35 Federal Reserve notes outstanding issued to bank	279,920	280,146	280,461	280,516	280,388	279,665	279,920	280,388
36 LESS: Held by bank	45,449	44,527	44,130	43,667	43,854	37,926	45,449	43,854
37 Federal Reserve notes, net	234,471	235,619	236,331	236,849	236,534	241,739	234,471	236,534
Collateral held against notes net:								
38 Gold certificate account	11,059	11,059	11,059	11,059	11,059	11,059	11,059	11,059
39 Special drawing rights certificate account	8,518	8,518	8,518	8,518	8,518	8,518	8,518	8,518
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. Treasury and agency securities	214,894	216,042	216,754	217,272	216,957	222,162	214,894	216,957
42 **Total collateral**	**234,471**	**235,619**	**236,331**	**236,849**	**236,534**	**241,739**	**234,471**	**236,534**

1. Some of these data also appear in the Board's H.4.1 (503) release. For address, see inside front cover. Components may not add to totals because of rounding.
2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale-purchase transactions.
3. Valued monthly at market exchange rates.
4. Includes special investment account at the Federal Reserve Bank of Chicago in Treasury bills maturing within 90 days.
5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign-exchange commitments.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holding

Millions of dollars

Type and maturity groupings	Wednesday					End of month		
	1990					1989	1990	
	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28	Dec. 29	Jan. 31	Feb. 28
1 Loans—Total	850	1,733	1,027	3,879	1,874	481	850	1,874
2 Within 15 days	848	1,715	1,025	3,878	1,867	469	848	1,867
3 16 days to 90 days	2	18	2	2	7	11	2	7
4 91 days to 1 year	0	0	0	0	0	0	0	0
5 Acceptances—Total	0	0	0	0	0	0	0	0
6 Within 15 days	0	0	0	0	0	0	0	0
7 16 days to 90 days	0	0	0	0	0	0	0	0
8 91 days to 1 year	0	0	0	0	0	0	0	0
9 U.S. Treasury securities—Total	218,392	212,469	215,312	215,814	219,132	228,367	218,392	219,132
10 Within 15 days[1]	10,372	11,871	15,178	7,624	10,656	9,413	10,372	10,656
11 16 days to 90 days	47,233	42,435	46,374	47,108	46,479	55,523	47,233	46,479
12 91 days to 1 year	68,022	65,398	60,995	65,655	66,657	70,687	68,022	66,657
13 Over 1 year to 5 years	53,452	53,452	53,452	56,568	56,481	53,509	53,452	56,481
14 Over 5 years to 10 years	12,607	12,607	12,607	12,607	12,607	12,529	12,607	12,607
15 Over 10 years	26,706	26,706	26,706	26,252	26,252	26,706	26,706	26,252
16 Federal agency obligations—Total	6,525	6,525	6,525	6,525	6,525	7,050	6,525	6,525
17 Within 15 days[1]	119	0	280	280	255	678	119	255
18 16 days to 90 days	668	723	498	498	558	568	668	558
19 91 days to 1 year	1,253	1,317	1,317	1,317	1,342	1,346	1,253	1,342
20 Over 1 year to 5 years	3,238	3,238	3,183	3,183	3,123	3,198	3,238	3,123
21 Over 5 years to 10 years	1,057	1,057	1,057	1,057	1,057	1,071	1,057	1,057
22 Over 10 years	188	188	188	188	188	189	188	188

1. Holdings under repurchase agreements are classified as maturing within 15 days in accordance with maximum maturity of the agreements.

NOTE: Components may not add to totals due to rounding.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE[1]

Billions of dollars, averages of daily figures

Item	1986 Dec.	1987 Dec.	1988 Dec.	1989 Dec.^r	1989^r July	Aug.	Sept.	Oct.	Nov.	Dec.	1990 Jan.^r	Feb.
	Seasonally adjusted											
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]												
1 **Total reserves**[3]	**58.02^r**	**58.57^r**	**60.59^r**	**60.03**	**58.87**	**58.91**	**59.29**	**59.64**	**59.65**	**60.03**	**59.90**	**60.22**
2 Nonborrowed reserves	57.20^r	57.80^r	58.87^r	59.77	58.17	58.23	58.60	59.08	59.30	59.77	59.46	58.77
3 Nonborrowed reserves plus extended credit[4]	57.50^r	58.28^r	60.11^r	59.79	58.28	58.27	58.62	59.11	59.32	59.79	59.48	59.31
4 Required reserves	56.65^r	57.55^r	59.55^r	59.11	57.90	58.02	58.35	58.62	58.70	59.11	58.88	59.23
5 Monetary base[5]	241.51^r	258.14^r	275.41^r	285.11	280.14	280.92	281.97	282.94	283.38	285.11	287.70	289.96
	Not seasonally adjusted											
6 **Total reserves**[3]	**59.46**	**60.06**	**62.21**	**61.67**	**59.04**	**58.40**	**59.02**	**59.27**	**59.87**	**61.67**	**61.58**	**59.20**
7 Nonborrowed reserves	58.64	59.28	60.50	61.40	58.35	57.72	58.33	58.72	59.52	61.40	61.14	57.76
8 Nonborrowed reserves plus extended credit[4]	58.94	59.76	61.74	61.42	58.46	57.77	58.35	58.74	59.54	61.42	61.17	58.29
9 Required reserves	58.09	59.03	61.17	60.75	58.08	57.51	58.09	58.25	58.92	60.75	60.56	58.21
10 Monetary base[5]	245.25	262.08	279.71	289.61	282.19	281.19	280.82	281.50	284.27	289.61	288.87	286.74
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[6]												
11 **Total reserves**[3]	**59.56**	**62.12**	**63.74**	**62.81**	**60.25**	**59.56**	**60.13**	**60.40**	**60.99**	**62.81**	**62.93**	**60.63**
12 Nonborrowed reserves	58.73	61.35	62.02	62.54	59.56	58.88	59.43	59.84	60.64	62.54	62.49	59.18
13 Nonborrowed reserves plus extended credit[4]	59.04	61.83	63.27	62.56	59.67	58.93	59.46	59.86	60.66	62.56	62.52	59.71
14 Required reserves	58.19	61.09	62.70	61.89	59.29	58.67	59.19	59.38	60.04	61.89	61.91	59.64
15 Monetary base[5]	247.71	266.16	283.18	292.71	285.39	284.23	283.78	284.49	287.35	292.71	292.33	290.27

1. 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 Monetary and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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. 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 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. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to helpdepository institutions deal with sustained liquidity pressures. Because there isnot 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.

5. 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 plus, for institutions not having required reserve balances, the excess of current vault cash over the amount applied to satisfy current reserve requirements. Currency and vault cash figures are measured over the weekly computation period ending Monday.

The seasonally adjusted monetary base 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.

6. 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.

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES[1]

Billions of dollars, averages of daily figures

	Item[2]	1986 Dec.[r]	1987 Dec.[r]	1988 Dec.[r]	1989 Dec.[r]	1989		1990	
						Nov.	Dec.	Jan.	Feb.
		Seasonally adjusted							
1	M1	724.7	750.4	787.5	794.8	789.4	794.8	794.7	801.2
2	M2	2,814.2	2,913.2	3,072.4	3,220.1	3,200.7	3,220.1	3,229.1	3,254.4
3	M3	3,494.5	3,678.7	3,918.4	4,040.1	4,028.7	4,040.1	4,044.7	4,063.2
4	L	4,135.5	4,338.9	4,676.0	4,863.9	4,846.5	4,863.9	4,863.5	n.a.
5	Debt	7,597.0	8,316.2	9,070.7	9,771.6	9,732.5	9,771.6	9,815.5	n.a.
	M1 components								
6	Currency[3]	180.6	196.7	211.8	221.9	220.4	221.9	224.6	226.6
7	Travelers checks[4]	6.5	7.0	7.5	7.4	7.4	7.4	7.5	7.6
8	Demand deposits[5]	302.1	287.0	287.0	279.7	278.8	279.7	277.3	280.2
9	Other checkable deposits[6]	235.5	259.7	281.3	285.7	282.8	285.7	285.3	286.8
	Nontransactions components								
10	In M2[7]	2,089.6	2,162.8	2,284.9	2,425.3	2,411.3	2,425.3	2,434.4	2,453.2
11	In M3 only[8]	680.3	765.5	845.9	820.1	828.0	820.1	815.6	808.9
	Money market deposit accounts								
12	Commercial banks	377.7	356.4	350.2	351.5	348.5	351.5	352.4	355.9
13	Thrift institutions	193.3	167.4	150.1	132.2	132.4	132.2	132.5	133.5
	Savings deposits								
14	Commercial Banks	155.8	178.3	192.0	188.5	187.3	188.5	189.9	191.8
15	Thrift institutions	214.3	236.6	235.9	220.5	220.6	220.5	220.5	221.9
	Small-denomination time deposits[9]								
16	Commercial Banks	366.3	388.1	447.5	528.6	524.4	528.6	531.5	534.8
17	Thrift institutions	489.9	529.7	583.5	613.6	614.1	613.6	611.0	606.4
	Money market mutual funds								
18	General purpose and broker-dealer	208.7	222.0	240.9	311.5	309.0	311.5	318.0	326.3
19	Institution-only	83.8	89.0	87.1	102.3	101.1	102.3	103.2	103.7
	Large-denomination time deposits[10]								
20	Commercial Banks[11]	289.8	326.9	368.2	401.4	401.5	401.4	401.2	399.6
21	Thrift institutions	150.0	161.9	172.9	156.8	159.5	156.8	152.9	150.0
	Debt components								
22	Federal debt	1,805.8	1,957.4	2,113.5	2,265.4	2,258.5	2,265.4	2,276.1	n.a.
23	Nonfederal debt	5,791.2	6,358.6	6,957.2	7,506.2	7,474.0	7,506.2	7,539.4	n.a.
		Not seasonally adjusted							
24	M1	740.5	766.4	804.5	812.1	791.7	812.1	802.2	787.8
25	M2	2,826.5	2,925.6	3,085.2	3,232.9	3,204.3	3,232.9	3,240.9	3,242.3
26	M3	3,508.8	3,692.7	3,932.5	4,054.2	4,038.4	4,054.2	4,053.8	4,051.8
27	L	4,151.5	4,355.2	4,692.7	4,881.3	4,855.4	4,881.3	4,882.1	n.a.
28	Debt	7,580.7	8,297.7	9,056.0	9,757.0	9,701.9	9,757.0	9,805.4	n.a.
	M1 components								
29	Currency[3]	183.0	199.3	214.8	225.3	221.0	225.3	222.9	224.3
30	Travelers checks[4]	6.0	6.5	6.9	6.9	7.0	6.9	7.0	7.2
31	Demand deposits[5]	314.0	298.6	298.9	291.6	281.5	291.6	283.0	271.4
32	Other checkable deposits[6]	237.5	262.0	283.8	288.4	282.1	288.4	289.3	285.0
	Nontransactions components								
33	M2[7]	2,086.0	2,159.2	2,280.8	2,420.8	2,412.6	2,420.8	2,438.7	2,454.5
34	M3 only[8]	682.3	767.0	847.3	821.3	834.1	821.3	812.9	809.5
	Money market deposit accounts								
35	Commercial Banks	379.8	359.0	353.2	355.0	350.3	355.0	356.3	357.7
36	Thrift institutions	192.9	167.5	150.6	132.9	132.8	132.9	133.0	133.4
	Savings deposits								
37	Commercial Banks	154.4	176.9	190.6	187.2	187.1	187.2	189.0	190.5
38	Thrift institutions	212.7	234.9	234.2	219.0	220.5	219.0	218.9	219.5
	Small-denomination time deposits[9]								
39	Commercial Banks	366.1	387.3	446.0	526.4	523.1	526.4	530.9	535.2
40	Thrift institutions	489.8	529.1	582.4	612.3	614.2	612.3	613.1	608.6
	Money market mutual funds								
41	General purpose and broker-dealer	208.0	221.5	240.5	311.2	309.7	311.2	316.8	327.8
42	Institution-only	84.4	89.6	87.6	102.9	102.1	102.9	106.0	107.0
	Large-denomination time deposits[10]								
43	Commercial Banks[11]	289.2	325.8	366.9	399.8	401.9	399.8	398.9	399.3
44	Thrift institutions	150.7	162.9	174.2	158.3	161.7	158.3	154.0	150.4
	Debt components								
45	Federal debt	1,803.9	1,955.6	2,111.8	2,264.2	2,250.8	2,264.2	2,275.5	n.a.
46	Nonfederal debt	5,776.8	6,342.0	6,944.2	7,492.8	7,451.0	7,492.8	7,529.9	n.a.

For notes see following page.

NOTES TO TABLE 1.21

1. Latest monthly and weekly figures are available from the Board's H.6 (508) release. Historical data are available from the Monetary and Reserves Projection section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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

M1: (1) currency outside the Treasury, Federal Reserve Banks, and the vaults of depository institutions; (2) travelers checks of nonbank issuers; (3) demand deposits at all commercial banks other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (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.

M2: M1 plus overnight (and continuing contract) repurchase agreements (RPs) issued by all depository institutions 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.

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 the estimated amount of overnight RPs and Eurodollars held by institution-only money market mutual funds.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper and bankers acceptances, net of money market mutual fund holdings of these assets.

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

3. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of depository institutions.

4. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

5. Demand deposits at commercial banks and foreign-related institutions other than those due to depository institutions, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float.

6. Consists of NOW and ATS balances at all depository institutions, credit union share draft balances, and demand deposits at thrift institutions.

7. Sum of overnight RPs and overnight Eurodollars, money market fund balances (general purpose and broker-dealer), MMDAs, and savings and small time deposits.

8. Sum of large time deposits, term RPs, and term Eurodollars of U.S. residents, money market fund balances (institution-only), less the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds.

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.

1.22 BANK DEBITS AND DEPOSIT TURNOVER[1]

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	1987[2]	1988[2]	1989[2]	1989 July	Aug.	Sept.	Oct.	Nov.	Dec.
DEBITS TO	Seasonally adjusted								
Demand deposits[3]									
1 All insured banks	217,116.2	226,888.4	272,793.1	276,453.7	292,446.5	281,432.2	293,424.9	296,768.7	280,074.4
2 Major New York City banks	104,496.3	107,547.3	121,727.5	114,991.8	121,378.1	125,206.9	136,039.0	130,440.2	131,681.3
3 Other banks	112,619.8	119,341.2	150,898.9	161,461.9	171,068.3	156,225.3	155,385.9	166,328.5	148,393.1
4 ATS-NOW accounts[4]	2,402.7	2,757.7	3,501.8	3,596.3	3,943.1	3,601.9	3,911.9	3,855.2	3,727.5
5 Savings deposits[5]	526.5	583.0	636.6	580.4	650.0	672.3	665.4	610.3	615.8
DEPOSIT TURNOVER									
Demand deposits[3]									
6 All insured banks	612.1	641.2	781.0	788.4	841.8	802.2	826.4	855.7	797.7
7 Major New York City banks	2,670.6	2,903.5	3,401.6	3,222.3	3,402.4	3,482.2	3,486.5	3,499.8	3,578.1
8 Other banks	357.0	376.8	481.5	512.6	548.8	496.2	492.5	537.3	472.1
9 ATS-NOW accounts[4]	13.8	14.7	18.3	19.1	20.6	18.8	20.1	19.7	18.9
10 Savings deposits[5]	3.1	3.1	3.5	3.2	3.6	3.7	3.6	3.3	3.3
DEBITS TO	Not seasonally adjusted								
Demand deposits[3]									
11 All insured banks	217,125.1	227,010.7	271,957.3	268,243.0	304,407.5	266,882.2	292,750.0	285,372.8	283,603.3
12 Major New York City banks	104,518.8	107,565.0	122,241.8	117,276.1	132,158.8	115,187.4	138,964.6	129,905.5	129,690.0
13 Other banks	112,606.2	119,445.7	149,715.5	150,966.9	172,248.7	151,694.7	153,785.5	155,467.3	153,913.3
14 ATS-NOW accounts[4]	2,404.8	2,754.7	3,496.5	3,549.0	3,762.6	3,702.7	3,891.4	3,611.5	3,904.0
15 MMDA[6]	1,954.2	2,430.1	2,790.8	2,686.7	3,068.7	2,554.3	2,651.5	2,569.1	2,880.5
16 Savings deposits[5]	526.8	578.0	635.8	610.4	656.7	665.2	690.4	555.9	630.1
DEPOSIT TURNOVER									
Demand deposits[3]									
17 All insured banks	612.3	641.7	779.0	761.3	891.5	763.1	829.6	815.6	769.3
18 Major New York City banks	2,674.9	2,901.4	3,415.4	3,247.5	3,911.6	3,279.7	3,594.8	3,548.5	3,250.4
19 Other banks	356.9	377.1	477.8	477.4	559.9	482.2	489.4	496.3	468.1
20 ATS-NOW accounts[4]	13.8	14.7	18.3	18.9	20.0	19.5	20.3	18.5	19.5
21 MMDA[6]	5.3	6.9	8.3	8.2	9.2	7.6	7.8	7.4	8.2
22 Savings deposits[5]	3.1	3.1	3.5	3.4	3.6	3.7	3.8	3.0	3.4

1. Historical tables containing revised data for earlier periods may be obtained from the Monetary and Reserves Projections Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

These data also appear on the Board's G.6 (406) release. For address, see inside front cover.

2. Annual averages of monthly figures.

3. Represents accounts of individuals, partnerships, and corporations and of states and political subdivisions.

4. Accounts authorized for negotiable orders of withdrawal (NOW) and accounts authorized for automatic transfer to demand deposits (ATS). ATS data are available beginning December 1978.

5. Excludes ATS and NOW accounts, MMDA and special club accounts, such as Christmas and vacation clubs.

6. Money market deposit accounts.

1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars; averages of Wednesday figures

Category	1989 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1990 Jan.	Feb.
	Seasonally adjusted											
1 **Total loans and securities**[2]	**2,460.3**	**2,469.2**	**2,482.9**	**2,496.0**	**2,512.4**	**2,527.4**	**2,538.9**	**2,562.6**	**2,577.7**	**2,581.2**	**2,585.0**	**2,603.5**
2 U.S. government securities	368.0	370.5	372.5	373.7	374.0	375.5	378.1	389.8	394.6	394.2	402.3	411.5
3 Other securities	189.3	188.3	187.8	187.3	186.3	183.8	183.1	181.0	179.4	180.4	180.2	180.8
4 Total loans and leases[2]	1,903.0	1,910.5	1,922.6	1,935.0	1,952.1	1,968.2	1,977.7	1,991.9	2,003.7	2,006.5	2,002.4	2,011.2
5 Commercial and industrial	619.1	621.7	626.6	627.1	631.8	636.1	637.7	641.3	645.0	641.6	638.1	637.2
6 Bankers acceptances held[3]	8.4	8.3	8.3	8.2	7.9	8.1	8.4	8.8	8.1	7.6	7.4	8.0
7 Other commercial and industrial	610.7	613.4	618.4	618.9	623.9	628.0	629.3	632.6	636.9	634.0	630.7	629.2
8 U.S. addressees[4]	604.2	607.0	612.8	613.2	619.8	624.3	625.4	628.4	631.8	628.6	623.0	623.4
9 Non-U.S. addressees[4]	6.5	6.4	5.6	5.8	4.0	3.7	3.9	4.2	5.1	5.5	7.7	5.8
10 Real estate	689.9	698.9	705.6	713.0	720.1	727.7	735.8	742.1	748.4	755.8	759.1	767.2
11 Individual	358.9	361.6	363.5	363.8	365.8	367.5	370.3	372.6	374.5	375.7	377.8	378.9
12 Security	43.8	40.0	38.5	40.6	40.1	39.1	39.8	41.3	41.6	39.6	39.2	39.7
13 Nonbank financial institutions	30.1	29.6	29.3	30.5	31.3	31.5	31.8	32.7	33.3	32.7	32.3	33.0
14 Agricultural	29.7	29.7	29.9	30.0	30.0	29.9	29.6	29.6	29.9	30.3	30.9	31.0
15 State and political subdivisions	43.4	43.3	43.1	42.8	42.5	42.2	41.7	41.3	40.8	40.1	38.6	38.9
16 Foreign banks	7.4	7.3	8.0	7.9	7.9	8.1	7.5	8.5	8.0	8.6	7.9	7.8
17 *Foreign official institutions*	4.7	4.7	4.5	4.2	4.0	3.8	3.8	3.6	3.3	3.3	2.9	2.8
18 Lease financing receivables	30.0	30.0	30.2	30.2	30.7	31.0	31.3	31.7	31.6	31.4	31.7	32.0
19 All other loans	46.1	43.7	43.3	44.9	47.9	51.2	48.3	47.2	47.2	47.4	43.9	42.7
	Not seasonally adjusted											
20 **Total loans and securities**[2]	**2,455.0**	**2,469.4**	**2,482.2**	**2,496.3**	**2,507.0**	**2,521.1**	**2,537.5**	**2,562.9**	**2,579.8**	**2,589.2**	**2,590.6**	**2,605.8**
21 U.S. government securities	369.5	370.4	371.6	371.3	372.1	376.1	377.2	387.1	394.7	395.4	404.0	416.1
22 Other securities	188.8	187.5	187.1	186.5	184.7	183.8	183.3	181.9	180.7	181.4	180.7	180.6
23 Total loans and leases[2]	1,896.7	1,911.5	1,923.5	1,938.5	1,950.2	1,961.2	1,977.0	1,993.9	2,004.5	2,012.5	2,005.9	2,009.2
24 Commercial and industrial	621.1	625.9	630.6	629.6	631.9	633.4	633.7	638.7	642.3	641.6	636.6	637.9
25 Bankers acceptances held[3]	8.3	8.1	8.1	8.0	7.6	8.1	8.4	8.9	8.2	7.7	7.5	8.1
26 Other commercial and industrial	612.8	617.9	622.5	621.6	624.3	625.3	625.3	629.8	634.0	633.8	629.1	629.8
27 U.S. addressees[4]	607.4	612.5	616.9	616.0	618.6	619.8	619.8	624.2	628.6	628.5	624.1	625.0
28 Non-U.S. addressees[4]	5.4	5.4	5.6	5.6	5.7	5.5	5.5	5.6	5.5	5.3	5.0	4.8
29 Real estate	687.5	697.2	704.6	712.9	720.7	729.2	737.8	743.4	750.1	756.6	759.1	764.7
30 Individual	355.8	359.0	361.2	362.1	364.3	367.7	372.1	373.7	375.9	380.2	381.4	378.1
31 Security	44.8	42.6	39.0	43.0	40.2	38.5	38.9	40.2	40.4	38.6	37.5	39.2
32 Nonbank financial institutions	29.4	29.5	29.2	30.8	31.4	31.3	31.4	32.4	33.6	33.7	33.0	32.6
33 Agricultural	28.7	28.8	29.5	30.3	30.7	30.7	30.5	30.4	30.2	30.2	30.3	30.1
34 State and political subdivisions	43.6	43.3	43.0	42.6	42.1	41.9	41.6	41.2	40.6	39.7	39.5	39.3
35 Foreign banks	7.0	7.0	7.9	8.1	8.0	8.1	7.8	8.8	8.1	8.4	8.0	7.7
36 Foreign official institutions	4.7	4.7	4.5	4.2	4.0	3.8	3.8	3.6	3.3	3.3	2.9	2.8
37 Lease financing receivables	29.9	30.1	30.2	30.2	30.4	30.9	31.1	31.6	31.6	31.5	32.1	32.2
38 All other loans	44.3	43.5	43.7	44.8	46.3	45.9	48.1	49.9	48.3	48.7	45.4	44.7

1. Data have been revised because of benchmarking and seasonal adjustment revisions beginning January 1973. These data also appear in the Board's G.7 (407) release. For address, see inside front cover.
2. Excludes loans to commercial banks in the United States.
3. Includes nonfinancial commercial paper held.
4. United States includes the 50 states and the District of Columbia.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Monthly averages, billions of dollars

Source	1989[r]										1990	
	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.
Seasonally adjusted												
1 Total nondeposit funds[2]	215.2	209.7	216.0	234.8	237.8	237.6	245.5	254.1	255.7	256.0	256.2	265.0
2 Net balances due to related foreign offices[3]	7.6	2.8	.3	7.3	10.4	8.7	10.3	10.4	9.0	7.6	10.8	14.5
3 Borrowings from other than commercial banks in United States[4]	207.6	206.9	215.6	227.5	227.3	228.9	235.2	243.7	246.8	248.4	245.5	250.5
4 Domestically chartered banks	168.7	167.5	173.8	185.4	182.8	183.9	189.1	195.3	196.8	198.5	194.4	198.4
5 Foreign-related banks	38.9	39.4	41.9	42.1	44.6	44.9	46.1	48.4	50.0	49.9	51.0	52.1
Not seasonally adjusted												
6 Total nondeposit funds[2]	219.9	211.4	223.7	238.8	233.4	237.1	242.1	249.4	254.6	249.5	252.8	268.1
7 Net balances due to related foreign offices[3]	6.6	.4	2.3	7.9	8.3	9.1	10.9	9.8	10.0	9.9	10.4	14.1
8 Domestically chartered banks	-19.5	-22.8	-21.9	-18.3	-16.4	-15.5	-14.2	-14.8	-15.2	-19.0	-14.7	-11.3
9 Foreign-related banks	26.1	23.2	24.2	26.3	24.7	24.6	25.1	24.6	25.2	28.9	25.1	25.3
10 Borrowings from other than commercial banks in United States[4]	213.3	211.0	221.4	230.9	225.2	228.0	231.2	239.5	244.6	239.6	242.4	254.0
11 Domestically chartered banks	173.5	171.0	178.9	187.0	180.2	183.5	186.1	192.3	197.0	192.2	190.5	200.4
12 Federal funds and security RP borrowings[5]	170.0	166.5	174.8	183.2	177.2	180.5	183.1	189.3	194.6	189.6	187.9	196.6
13 Other[6]	3.5	4.5	4.0	3.8	3.1	3.0	3.0	3.0	2.4	2.5	2.7	3.7
14 Foreign-related banks[6]	39.8	40.0	42.5	43.9	44.9	44.5	45.1	47.2	47.6	47.4	51.9	53.7
MEMO												
Gross large time deposits[7]												
15 Seasonally adjusted	447.1	452.3	457.0	460.0	463.4	462.0	460.0	461.4	464.0	464.3	462.7	460.5
16 Not seasonally adjusted	449.9	452.3	457.4	459.4	461.1	462.6	461.5	462.6	464.4	462.7	460.4	460.3
U.S. Treasury demand balances at commercial banks[8]												
17 Seasonally adjusted	20.9	21.3	25.5	25.7	22.4	22.3	22.8	21.5	20.4	21.1	20.2	17.8
18 Not seasonally adjusted	18.1	20.2	34.3	26.2	23.0	15.8	24.9	20.6	14.7	19.6	23.2	21.9

1. Data have been revised because of benchmarking and seasonal adjustment revisions beginning January 1973. 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.

These data also appear in the Board's G.10 (411) release. For address, see inside front cover.

2. Includes federal funds, RPs, and other borrowing from nonbanks and net balances due to related foreign offices.

3. Reflects net positions of U.S. chartered banks, Edge Act corporations, and U.S. branches and agencies of foreign banks with related foreign offices plus net positions with own IBFs.

4. Other borrowings are borrowings through 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, loan RPs, and sales of participations in pooled loans.

5. Based on daily average data reported weekly by approximately 120 large banks and quarterly or annual data reported by other banks.

6. Figures are partly daily averages and partly averages of Wednesday data.

7. Time deposits in denominations of $100,000 or more. Estimated averages of daily data.

8. U.S. Treasury demand deposits and Treasury tax-and-loan notes at commercial banks. Averages of daily data.

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKING INSTITUTIONS Last-Wednesday-of-Month Series[1]

Billions of dollars

Account	1989[r]									1990	
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.
ALL COMMERCIAL BANKING INSTITUTIONS[2]											
1 Loans and securities	2,624.7	2,661.2	2,664.8	2,679.0	2,694.2	2,700.5	2,733.9	2,769.8	2,776.9	2,787.3	2,795.5
2 Investment securities	538.3	539.7	541.0	538.2	542.8	541.4	544.6	548.2	548.9	561.2	568.1
3 U.S. government securities	356.2	357.5	360.9	359.6	364.7	365.1	369.8	374.2	373.8	387.4	394.6
4 Other	182.1	182.2	180.0	178.6	178.1	176.3	174.8	174.0	175.1	173.8	173.5
5 Trading account assets	17.8	19.2	18.2	19.8	18.7	18.3	26.6	27.6	23.4	32.0	30.5
6 Total loans	2,068.5	2,102.3	2,105.6	2,120.9	2,132.7	2,140.8	2,162.8	2,194.0	2,204.6	2,194.1	2,197.0
7 Interbank loans	156.3	169.4	163.9	168.6	170.4	165.4	171.8	187.6	189.8	188.0	185.7
8 Loans excluding interbank	1,912.2	1,932.9	1,941.8	1,952.4	1,962.3	1,975.3	1,991.0	2,006.3	2,014.8	2,006.1	2,011.3
9 Commercial and industrial	628.3	631.1	628.6	636.6	632.4	632.1	638.2	642.2	643.2	635.5	639.7
10 Real estate	699.6	706.7	716.2	722.4	732.6	739.6	744.5	752.7	758.0	760.6	766.7
11 Individual	360.3	361.4	363.1	364.9	369.6	373.8	374.2	376.7	382.2	381.4	377.9
12 All other	224.1	233.8	233.8	228.4	227.8	229.9	234.1	234.8	231.5	228.6	227.0
13 Total cash assets	212.1	245.8	212.2	210.5	210.6	218.5	212.2	234.4	258.3	221.9	228.6
14 Reserves with Federal Reserve Banks	33.4	27.8	28.0	30.6	28.8	31.8	28.5	38.7	42.8	24.5	29.3
15 Cash in vault	26.8	27.8	27.5	27.4	28.4	27.9	27.8	30.7	31.5	28.0	27.9
16 Cash items in process of collection	78.9	107.8	78.8	75.4	77.5	82.6	77.5	84.2	98.8	89.8	91.5
17 Demand balances at U.S. depository institutions	27.4	33.9	28.7	28.1	29.1	28.5	28.3	28.5	32.1	30.2	31.0
18 Other cash assets	45.6	48.5	49.2	49.1	46.9	47.6	50.1	52.4	53.1	49.4	48.9
19 Other assets	212.7	218.6	208.6	213.4	209.8	214.1	210.1	207.7	214.4	220.3	215.7
20 Total assets/total liabilities and capital	**3,049.4**	**3,125.5**	**3,085.6**	**3,102.9**	**3,114.6**	**3,133.1**	**3,156.2**	**3,211.9**	**3,249.6**	**3,229.5**	**3,239.8**
21 Deposits	2,137.2	2,185.8	2,140.9	2,154.2	2,169.0	2,177.0	2,195.9	2,223.0	2,267.4	2,243.7	2,257.8
22 Transaction deposits	592.7	626.7	578.5	577.4	581.4	586.5	585.8	600.4	641.4	611.8	615.9
23 Savings deposits	511.4	508.5	505.7	512.0	516.9	518.6	525.6	535.5	538.2	540.5	545.8
24 Time deposits	1,033.1	1,050.5	1,056.7	1,064.9	1,070.7	1,072.0	1,084.6	1,087.1	1,087.8	1,091.4	1,096.1
25 Borrowings	490.9	515.0	516.7	513.8	507.6	519.8	530.2	546.5	534.8	556.2	545.9
26 Other liabilities	217.4	218.5	219.5	226.3	227.4	226.0	223.7	235.1	239.3	222.6	227.3
27 Residual (assets less liabilities)	203.9	206.2	208.5	208.7	210.6	210.3	206.3	207.4	208.1	206.9	208.9
MEMO											
28 U.S. government securities (including trading account)	369.1	370.7	373.1	372.8	376.9	377.2	389.4	394.7	390.4	412.5	417.9
29 Other securities (including trading account)	187.0	188.2	186.1	185.2	184.6	182.5	181.8	181.2	181.9	180.7	180.7
DOMESTICALLY CHARTERED COMMERCIAL BANKS[3]											
30 Loans and securities	2,407.5	2,445.6	2,440.3	2,452.5	2,467.5	2,477.6	2,511.0	2,531.2	2,540.2	2,552.6	2,560.0
31 Investment securities	514.5	515.4	517.3	514.7	519.9	519.1	521.2	522.5	523.2	534.2	540.7
32 U.S. government securities	345.0	345.9	349.8	348.6	354.4	355.4	359.2	362.4	363.0	374.6	381.4
33 Other	169.5	169.5	167.5	166.1	165.5	163.7	162.0	160.1	160.2	159.6	159.3
34 Trading account assets	17.8	19.2	18.2	19.8	18.7	18.3	26.6	27.6	23.4	32.0	30.5
35 Total loans	1,875.2	1,911.0	1,904.9	1,918.0	1,928.8	1,940.2	1,963.2	1,981.0	1,993.5	1,986.5	1,988.8
36 Interbank loans	122.4	137.6	123.8	130.5	132.3	130.7	140.7	148.5	152.0	150.5	148.2
37 Loans excluding interbank	1,752.8	1,773.5	1,781.1	1,787.5	1,796.5	1,809.5	1,822.5	1,832.6	1,841.5	1,836.0	1,840.6
38 Commercial and industrial	511.9	515.3	511.3	516.0	512.4	511.3	516.4	517.7	518.4	515.0	519.2
39 Real estate	675.6	682.0	691.5	696.8	706.2	713.0	717.5	724.2	729.1	730.4	736.0
40 Individual	360.3	361.4	363.1	364.9	369.6	373.8	374.2	376.7	382.2	381.4	377.9
41 All other	205.0	214.8	215.2	209.9	208.3	211.4	214.4	213.9	211.8	209.2	207.6
42 Total cash assets	191.1	223.3	188.7	187.3	188.9	194.9	188.9	206.8	232.0	198.1	203.1
43 Reserves with Federal Reserve Banks	30.7	26.7	26.6	29.6	27.0	29.5	26.7	37.9	41.7	22.7	27.5
44 Cash in vault	26.8	27.8	27.5	27.3	28.4	27.9	27.8	30.6	31.5	28.0	27.8
45 Cash items in process of collection	77.9	106.8	77.9	74.5	76.6	81.3	76.2	82.3	97.4	88.3	90.2
46 Demand balances at U.S. depository institutions	25.7	31.9	26.7	26.4	27.4	26.8	26.4	26.6	30.2	28.3	28.9
47 Other cash assets	30.0	30.1	30.0	29.5	29.5	29.3	31.8	29.5	31.2	30.8	28.7
48 Other assets	142.1	141.8	139.7	136.5	136.2	140.1	130.7	136.8	140.8	143.3	139.8
49 Total assets/liabilities and capital	**2,740.7**	**2,810.8**	**2,768.7**	**2,776.2**	**2,792.6**	**2,812.5**	**2,830.6**	**2,874.8**	**2,913.0**	**2,894.0**	**2,902.9**
50 Deposits	2,058.7	2,105.9	2,061.2	2,073.2	2,088.9	2,095.8	2,113.7	2,140.6	2,184.2	2,161.2	2,175.6
51 Transaction deposits	583.1	616.9	569.1	568.0	572.6	576.6	576.1	590.5	631.2	601.4	605.7
52 Savings deposits	508.8	505.9	503.0	509.3	514.3	515.8	522.9	532.7	535.3	537.7	542.8
53 Time deposits	966.8	983.0	989.1	995.9	1,002.0	1,003.4	1,014.7	1,017.4	1,017.6	1,022.2	1,027.1
54 Borrowings	369.2	384.6	389.2	381.8	376.7	392.4	395.1	406.8	400.6	407.0	397.2
55 Other liabilities	112.4	117.6	113.5	116.2	120.0	117.5	119.1	123.6	123.7	122.5	124.8
56 Residual (assets less liabilities)	200.3	202.6	204.9	205.1	207.0	206.7	202.7	203.8	204.5	203.3	205.3
MEMO											
57 Real estate loans, revolving	43.5	44.5	45.2	45.5	46.8	47.6	48.1	48.7	49.4	50.6	50.8
58 Real estate loans, other	632.1	637.6	646.3	651.2	659.4	665.4	669.4	675.6	679.7	679.8	685.2

1. Data have been revised because of benchmarking to new call reports beginning January 1988. Back data are available from the Banking and Monetary Statistics section, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. These data also appear in the Board's weekly H.8 (510) release. Figures are partly estimated. They include all bank-premises subsidiaries and other significant majority-owned domestic subsidiaries. Loan and securities data for domestically chartered commercial banks are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition report data. Data for other banking institutions are estimates made for the last Wednesday of the month based on a weekly reporting sample of foreign-related institutions and quarter-end condition reports.

2. Commercial banking institutions include insured domestically chartered commercial banks, branches and agencies of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations.

3. Insured domestically chartered commercial banks include all member banks and insured nonmember banks.

1.26 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS[1]

Millions of dollars, Wednesday figures

Account	1990								
	Jan. 3	Jan. 10	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28
1 Cash and balances due from depository institutions	141,952	119,669	144,053	112,801	110,335r	102,833	107,714	119,830	113,345
2 **Total loans, leases, and securities, net**	**1,275,710r**	**1,268,787r**	**1,280,289r**	**1,272,610r**	**1,283,949r**	**1,282,507**	**1,285,586**	**1,288,336**	**1,285,681**
3 U.S. Treasury and government agency	163,514	166,819	168,891	170,776	173,950r	175,706	175,172	175,115	175,480
4 Trading account	20,969	23,342	25,605	24,812	25,135r	24,643	23,500	23,440	23,340
5 Investment account	142,545	143,477	143,286	145,964	148,814	151,064	151,671	151,675	152,139
6 Mortgage-backed securities[2]	72,119	71,800	72,905	75,745	76,674	77,348	76,997	76,228	77,080
All other maturing in									
7 One year or less	20,370	20,957	20,815	21,161	21,860	22,966	23,609	23,310	23,570
8 Over one through five years	33,986	34,508	34,016	34,381	34,396	34,483	34,553	35,072	34,404
9 Over five years	16,070	16,212	15,551	14,675	15,884	16,267	16,512	17,066	17,085
10 Other securities	67,485	67,070	67,140	67,226	67,004r	66,697	66,838	67,081	66,943
11 Trading account	1,244	1,056	960	887	800r	681	653	589	644
12 Investment account	66,241	66,014	66,180	66,338	66,204r	66,016	66,184	66,492	66,299
13 States and political subdivisions, by maturity	37,672	37,459	37,357	37,296	37,120	37,032	36,990	36,859	36,747
14 One year or less	4,778	4,644	4,614	4,643	4,676	4,783	4,752	4,728	4,777
15 Over one year	32,894	32,814	32,743	32,653	32,444	32,248	32,238	32,131	31,970
16 Other bonds, corporate stocks, and securities	28,568	28,555	28,823	29,043	29,085	28,985	29,194	29,633	29,551
17 Other trading account assets	5,576	6,000	5,471	6,011	6,011r	6,777	6,478	6,164	6,495
18 Federal funds sold[3]	72,872	66,654	71,534	65,054	71,328	69,807	71,047	71,072	69,583
19 To commercial banks	55,314	48,007	52,004	45,791	50,288	49,471	49,269	50,975	49,544
20 To nonbank brokers and dealers in securities	12,650	12,595	13,274	13,961	13,679	13,542	14,829	13,765	13,297
21 To others	4,907	6,052	6,255	5,302	7,361	6,794	6,949	6,332	6,742
22 Other loans and leases, gross	1,009,601r	1,005,166r	1,010,381r	1,007,135r	1,008,942r	1,006,947	1,009,522	1,012,388	1,010,540
23 Other loans, gross	983,137r	978,474r	983,598r	980,112r	981,923r	980,024	982,557	985,470	983,656
24 Commercial and industrial	321,721r	320,565r	319,291r	318,666r	319,513r	320,690	320,013	320,704	323,218
25 Bankers acceptances and commercial paper	1,425	1,387	1,451	1,325	1,425	1,508	1,495	1,493	1,536
26 All other	320,296r	319,178r	317,840r	317,341r	318,088r	319,182	318,518	319,211	321,682
27 U.S. addressees	318,503r	317,429r	316,158r	315,740r	316,514r	317,604	317,141	317,776	320,252
28 Non-U.S. addressees	1,793	1,749	1,682	1,601	1,574	1,578	1,377	1,435	1,430
29 Real estate loans	358,165r	358,529r	358,804r	359,144r	359,232r	360,878	362,020	362,364	362,538
30 Revolving, home equity	27,773	27,864	27,921	28,081	28,210	28,244	28,354	28,372	28,392
31 All other	330,392r	330,666r	330,883r	331,063r	331,023r	332,634	333,665	333,992	334,146
32 To individuals for personal expenditures	181,006r	180,659r	180,319r	180,383r	180,249r	178,152	178,150	178,348	177,369
33 To depository and financial institutions	50,448	49,918	53,596	52,485	52,183	51,869	50,784	51,244	49,768
34 Commercial banks in the United States	22,611	23,233	25,787	26,782	26,353	25,549	24,802	24,622	23,742
35 Banks in foreign countries	5,201	4,136	5,193	4,136	4,093	4,288	4,240	4,832	3,867
36 Nonbank depository and other financial institutions	22,636	22,548	22,616	21,566	21,737	22,031	21,742	21,791	22,159
37 For purchasing and carrying securities	14,650	14,767	16,453	16,251	16,041	14,704	17,909	18,492	16,465
38 To finance agricultural production	5,675	5,617	5,575	5,548	5,515	5,476	5,491	5,447	5,439
39 To states and political subdivisions	25,040	24,916	24,834	24,816	24,756	24,771	24,672	24,905	24,581
40 To foreign governments and official institutions	1,319	1,201	1,207	1,143	1,181	1,026	1,047	1,220	1,124
41 All other	25,114r	22,303r	23,518r	21,675r	23,251r	22,457	22,472	22,745	23,153
42 Lease financing receivables	26,464r	26,692r	26,784r	27,022	27,020	26,922	26,965	26,918	26,884
43 LESS: Unearned income	4,938	4,928	4,924	4,924	4,849r	4,847	4,855	4,851	4,811
44 Loan and lease reserve[4]	38,400	37,994	38,205	38,668	38,436r	38,580	38,615	38,633	38,549
45 Other loans and leases, net	966,263r	962,244r	967,253r	963,543r	965,657r	963,519	966,052	968,904	967,180
46 All other assets	139,807r	135,771r	134,499r	133,671r	138,638r	136,935	135,559	132,475	135,889
47 **Total assets**	**1,557,470r**	**1,524,228r**	**1,558,841r**	**1,519,083r**	**1,532,923r**	**1,522,275**	**1,528,860**	**1,540,641**	**1,534,915**
48 Demand deposits	271,700r	235,257r	260,734r	219,512r	232,147r	219,835	225,608	234,643	233,381
49 Individuals, partnerships, and corporations	214,962r	188,219r	204,598r	173,898r	184,992r	176,676	182,594	183,418	185,812
50 States and political subdivisions	8,112	6,170	6,770	6,560	7,160	6,016	6,291	6,350	6,935
51 U.S. government	2,730	3,554	4,504	4,127	2,246	3,495	3,185	3,815	2,987
52 Depository institutions in the United States	26,478	20,995r	27,495r	20,012	21,208	18,981	19,362	24,386	22,397
53 Banks in foreign countries	8,088	6,119	6,833	6,362	6,021	5,647	5,355	7,187	5,679
54 Foreign governments and official institutions	746	606	676	720	780	643	654	822	669
55 Certified and officers' checks	10,585	9,595	9,857	7,833	9,739	8,377	8,166	8,665	8,901
56 Transaction balances other than demand deposits	86,524	83,724	83,015	78,982	80,298r	81,684	79,712	80,104	81,177
57 Nontransaction balances	722,592	723,942	723,028	719,576	719,887	725,049	726,098	726,054	724,937
58 Individuals, partnerships, and corporations	684,634r	684,566r	683,887r	680,353r	680,906r	685,584	686,444	686,648	685,519
59 States and political subdivisions	29,478r	30,343r	30,188r	30,414r	30,154r	30,784	30,944	30,771	30,894
60 U.S. government	913	944	933	831	850	842	851	855	868
61 Depository institutions in the United States	6,995r	7,516r	7,422r	7,380	7,392	7,261	7,268	7,199	7,078
62 Foreign governments, official institutions, and banks	573	572	598	597	584	577	590	582	577
63 Liabilities for borrowed money	291,188	290,147	301,150	306,965	307,089r	306,967	303,467	307,943	299,912
64 Borrowings from Federal Reserve Banks	0	0	0	475	590	1,641	925	3,755	1,613
65 Treasury tax-and-loan notes	2,084	5,978	12,350	24,045	25,565	14,791	15,349	9,404	10,569
66 All other liabilities for borrowed money[5]	289,104	284,170	288,799	282,445	280,934r	290,535	287,193	294,784	287,730
67 Other liabilities and subordinated notes and debentures	86,885r	90,999r	92,084r	95,583r	93,367r	88,619	93,338	91,446	94,551
68 **Total liabilities**	**1,458,889r**	**1,424,071r**	**1,460,011r**	**1,420,618r**	**1,432,788r**	**1,422,155**	**1,428,223**	**1,440,191**	**1,433,958**
69 Residual (total assets minus total liabilities)[6]	98,581	100,157	98,830	98,464	100,134r	100,120	100,636	100,450	100,956
MEMO									
70 Total loans and leases (gross) and investments adjusted[7]	1,241,124r	1,240,469r	1,245,626r	1,243,629r	1,250,594r	1,250,914	1,254,984	1,256,223	1,255,755
71 Total loans and leases (gross) adjusted[7]	1,004,548r	1,000,580r	1,004,124r	999,616r	1,003,629r	1,001,733	1,006,498	1,007,863	1,006,837
72 Time deposits in amounts of $100,000 or more	218,564	218,338	217,513r	217,171	215,881r	217,110	217,571	216,759	215,330
73 U.S. Treasury securities maturing in one year or less	18,753	19,652	19,243	20,510	21,792	23,450	23,755	22,533	23,096
74 Loans sold outright to affiliates—total[8]	537	541	544	542	540	545	545	546	552
75 Commercial and industrial	239	242	239	253	242	243	245	249	254
76 Other	298	299	305	290	298	302	300	297	298
77 Nontransaction savings deposits (including MMDAs)	275,728	276,506	275,917	272,733	273,730	276,180	276,361	277,042	276,959

1. Beginning Jan. 6, 1988, the "Large bank" reporting group was revised somewhat, eliminating some former reporters with less than $2 billion of assets and adding some new reporters with assets greater than $3 billion.
2. Includes U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages.
3. Includes securities purchased under agreements to resell.
4. Includes allocated transfer risk reserve.
5. 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.
6. This is not a measure of equity capital for use in capital-adequacy analysis or for other analytic uses.
7. Exclusive of loans and federal funds transactions with domestic commercial banks.
8. Loans sold are those sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

1.28 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS IN NEW YORK CITY[1]

Millions of dollars, Wednesday figures

Account	1990 Jan. 3	Jan. 10	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28
1 Cash balances due from depository institutions	27,408	25,306	28,816	24,988	21,895	21,537	21,037	23,559	20,672
2 **Total loans, leases, and securities, net**[2]	**211,295**	**207,205**	**213,833**	**212,264**	**215,737**	**213,386**	**217,250**	**217,966**	**214,702**
Securities									
3 U.S. Treasury and government agency[3]	0	0	0	0	0	0	0	0	0
4 Trading account[3]	0	0	0	0	0	0	0	0	0
5 Investment account	16,076	16,172	16,809	18,641	19,307	19,274	19,487	19,155	19,568
6 Mortgage-backed securities[4]	8,242	8,235	9,000	10,807	11,138	11,117	11,286	11,355	11,886
All other maturing in									
7 One year or less	2,264	2,367	2,241	2,168	2,256	2,283	2,343	1,934	1,860
8 Over one through five years	3,536	3,536	3,524	3,620	3,658	3,572	3,543	3,592	3,542
9 Over five years	2,034	2,034	2,044	2,046	2,254	2,302	2,315	2,273	2,279
10 Other securities[3]	0	0	0	0	0	0	0	0	0
11 Trading account[3]	0	0	0	0	0	0	0	0	0
12 Investment account	14,525	14,576	14,625	14,849	14,847	14,795	14,695	15,019	14,832
13 States and political subdivisions, by maturity	7,829	7,816	7,789	7,807	7,749	7,727	7,698	7,650	7,616
14 One year or less	1,065	1,057	1,044	1,072	1,076	1,081	1,059	1,055	1,052
15 Over one year	6,763	6,759	6,745	6,734	6,673	6,647	6,639	6,596	6,564
16 Other bonds, corporate stocks, and securities	6,696	6,760	6,835	7,042	7,098	7,068	6,997	7,368	7,216
17 Other trading account assets[3]	0	0	0	0	0	0	0	0	0
Loans and leases									
18 Federal funds sold[5]	17,988	15,702	17,962	16,456	18,516	17,589	18,732	18,455	17,848
19 To commercial banks	11,957	8,731	10,819	10,452	10,403	9,846	9,658	11,373	10,376
20 To nonbank brokers and dealers in securities	3,332	3,425	3,574	3,081	3,539	3,898	4,764	3,414	3,425
21 To others	2,699	3,546	3,569	2,923	4,574	3,845	4,310	3,668	4,047
22 Other loans and leases, gross	182,400	179,833	183,517	181,408	182,285	181,033	183,650	184,665	181,713
23 Other loans, gross	176,691	174,135	177,830	175,721	176,611	175,368	178,011	179,086	176,149
24 Commercial and industrial	57,712[r]	57,762[r]	57,546[r]	57,608[r]	58,264[r]	58,741	59,046	58,912	59,658
25 Bankers acceptances and commercial paper	166	101	91	85	93	93	90	104	98
26 All other	57,546[r]	57,661[r]	57,455[r]	57,523[r]	58,170[r]	58,649	58,956	58,808	59,560
27 U.S. addressees	56,980[r]	57,093[r]	56,807[r]	56,949[r]	57,598[r]	58,079	58,406	58,219	58,964
28 Non-U.S. addressees	566	567	648	574	572	570	550	589	596
29 Real estate loans	61,652[r]	61,907[r]	61,872[r]	61,735[r]	62,006[r]	62,052	62,333	62,177	61,854
30 Revolving, home equity	3,941	3,949	3,955	3,964	3,969	3,966	3,974	3,976	3,978
31 All other	57,711[r]	57,958[r]	57,918[r]	57,771[r]	58,037[r]	58,086	58,358	58,201	57,875
32 To individuals for personal expenditures	20,096	20,096	20,081	20,117	20,121	20,076	20,098	20,146	20,060
33 To depository and financial institutions	20,511	19,024	21,044	19,603	19,296	18,999	18,419	19,177	17,934
34 Commercial banks in the United States	9,055	8,597	9,444	9,258	8,887	8,160	7,705	7,737	7,161
35 Banks in foreign countries	3,987	2,888	3,867	2,970	2,847	3,154	3,090	3,589	2,741
36 Nonbank depository and other financial institutions	7,469	7,539	7,732	7,375	7,562	7,685	7,623	7,851	8,032
37 For purchasing and carrying securities	5,208	5,260	6,551	6,658	5,988	5,068	7,494	7,656	5,768
38 To finance agricultural production	107	117	111	100	105	108	114	107	114
39 To states and political subdivisions	5,387	5,326	5,317	5,312	5,316	5,324	5,332	5,577	5,316
40 To foreign governments and official institutions	296	228	246	214	326	259	288	468	486
41 All other	5,723	4,414	5,061	4,374	5,189	4,740	4,886	4,865	4,958
42 Lease financing receivables	5,709	5,698	5,688	5,687	5,674	5,665	5,639	5,579	5,564
43 LESS: Unearned income	1,820	1,818	1,819	1,824	1,820	1,821	1,825	1,838	1,827
44 Loan and lease reserve	17,873	17,261	17,261	17,266	17,397	17,484	17,489	17,489	17,431
45 Other loans and leases, net[6]	162,707	160,754	164,437	162,318	163,068	161,728	164,335	165,337	162,455
46 All other assets[7]	65,902	62,252	64,560	61,211	63,950	62,525	62,415	61,492	64,191
47 **Total assets**	**304,605**	**294,763**	**307,210**	**298,464**	**301,583**	**297,449**	**300,702**	**303,017**	**299,566**
Deposits									
48 Demand deposits	60,264	53,284	58,254	49,609	51,287	48,206	49,689	53,008	49,208
49 Individuals, partnerships, and corporations	43,850	37,261	40,746	34,652	35,897	35,057	36,144	36,315	35,072
50 States and political subdivisions	1,040	916	834	689	773	668	580	718	613
51 U.S. government	295	661	611	784	278	651	569	771	450
52 Depository institutions in the United States	4,617	5,332	6,341	5,115	5,324	3,738	4,615	5,839	5,761
53 Banks in foreign countries	6,690	4,844	5,423	5,044	4,664	4,468	4,266	5,438	4,218
54 Foreign governments and official institutions	578	470	510	557	659	508	480	689	504
55 Certified and officers' checks	3,194	3,800	3,790	2,768	3,692	3,115	3,035	3,238	2,590
56 Transaction balances other than demand deposits (ATS, NOW, Super NOW, telephone transfers)	9,403	9,146	9,073	8,659	8,760	8,799	8,569	8,572	8,661
57 Nontransaction balances	117,550	116,804	117,392	116,209	116,676	116,706	116,821	117,382	117,022
58 Individuals, partnerships, and corporations	109,041	108,307	108,884	107,697	108,165	108,198	108,332	108,884	108,522
59 States and political subdivisions	6,447	6,504	6,523	6,527	6,540	6,606	6,604	6,618	6,643
60 U.S. government	25	26	26	27	28	27	28	30	39
61 Depository institutions in the United States	1,795	1,736	1,727	1,726	1,723	1,668	1,647	1,646	1,608
62 Foreign governments, official institutions, and banks	241	231	233	232	220	207	211	203	209
63 Liabilities for borrowed money	65,457	61,668	68,106	64,150	67,277	71,381	67,862	67,504	65,667
64 Borrowings from Federal Reserve Banks	0	0	0	0	0	921	0	2,465	0
65 Treasury tax-and-loan notes	322	1,091	2,799	6,541	6,721	3,621	3,639	1,910	2,237
66 All other liabilities for borrowed money[8]	65,135	60,577	65,307	57,609	60,556	66,839	64,223	63,130	63,431
67 Other liabilities and subordinated notes and debentures	27,880	29,828	30,482	35,893	33,717	28,384	33,530	32,536	34,973
68 **Total liabilities**	**280,554**	**270,731**	**283,308**	**274,519**	**277,717**	**273,475**	**276,471**	**279,002**	**275,531**
69 Residual (total assets minus total liabilities)[9]	24,051	24,032	23,901	23,945	23,866	23,973	24,230	24,015	24,034
MEMO									
70 Total loans and leases (gross) and investments adjusted[2,10]	209,977	208,956	212,650	211,644	215,665	214,685	219,202	218,185	216,423
71 Total loans and leases (gross) adjusted[10]	179,377	178,207	181,216	178,154	181,511	180,616	185,019	184,011	182,023
72 Time deposits in amounts of $100,000 or more	41,336	40,855	41,683	41,147	41,281	41,142	41,422	41,357	41,027
73 U.S. Treasury securities maturing in one year or less	2,615	2,744	2,835	2,950	3,391	3,659	3,736	3,403	3,224

1. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.
2. Excludes trading account securities.
3. Not available due to confidentiality.
4. Includes U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages.
5. Includes securities purchased under agreements to resell.
6. Includes allocated transfer risk reserve.
7. Includes trading account securities.
8. Includes federal funds purchased and securities sold under agreements to repurchase.
9. Not a measure of equity capital for use in capital adequacy analysis or for other analytic uses.
10. Exclusive of loans and federal funds transactions with domestic commercial banks.

1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS[1] Assets and Liabilities

Millions of dollars, Wednesday figures

Account	1990								
	Jan. 3	Jan. 10	Jan. 17	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28
1 Cash and due from depository institutions	12,719	13,077	12,920	13,708	12,637	13,280	12,785	13,347	13,155
2 Total loans and securities	143,274	142,536	140,223	141,533	143,025	140,770	141,852	145,442	144,228
3 U.S. Treasury and government agency securities	8,429	9,013	9,280	9,538	9,828	9,202	9,409	9,882	10,152
4 Other securities	7,038	6,893	6,741	6,770	6,747	6,738	6,646	6,704	6,685
5 Federal funds sold[2]	6,153	6,403	4,678	7,639	6,993	5,000	6,408	7,561	5,904
6 To commercial banks in the United States	4,626	4,942	3,165	5,989	5,643	3,598	5,052	5,942	4,482
7 To others	1,527	1,461	1,513	1,650	1,350	1,402	1,356	1,619	1,422
8 Other loans, gross	121,654	120,227	119,524	117,586	119,457	119,830	119,389	121,295	121,487
9 Commercial and industrial	74,243	72,964	73,060	72,006	72,210	73,544	72,388	72,780	72,330
10 Bankers acceptances and commercial paper	1,811	1,755	1,886	2,058	1,983	2,348	2,210	2,246	2,183
11 All other	72,432	71,209	71,174	69,948	70,227	71,196	70,178	70,534	70,147
12 U.S. addressees	70,822	69,751	69,701	68,388	68,732	69,662	68,635	69,148	68,723
13 Non-U.S. addressees	1,610	1,458	1,473	1,560	1,495	1,534	1,543	1,386	1,424
14 Loans secured by real estate[3]	18,950	19,138	19,450	19,433	19,488	19,606	19,696	19,814	19,848
15 To financial institutions	24,832	24,762	23,447	22,695	23,902	23,384	23,967	24,909	25,955
16 Commercial banks in the United States	17,900	17,817	16,900	16,628	17,943	17,671	17,704	18,666	19,569
17 Banks in foreign countries	1,833	1,867	1,421	1,231	1,144	921	1,370	1,478	1,651
18 Nonbank financial institutions	5,099	5,078	5,126	4,836	4,815	4,792	4,893	4,765	4,735
19 To foreign governments and official institutions	382	263	254	246	254	266	246	245	247
20 For purchasing and carrying securities	1,510	1,436	1,702	1,559	1,585	1,452	1,439	2,176	1,601
21 All other[3]	1,737	1,664	1,611	1,647	2,018	1,578	1,653	1,371	1,506
22 Other assets (claims on nonrelated parties)	37,674	37,111	35,294	35,407	36,563	36,364	36,020	34,393	35,868
23 Net due from related institutions	15,131	16,059	16,458	14,558	15,184	13,997	16,045	12,963	15,432
24 Total assets	208,798	208,785	204,898	205,206	207,410	204,412	206,702	206,144	208,684
25 Deposits or credit balances due to other than directly related institutions	50,156	49,780	50,664	50,089	50,151	50,569	49,965	50,370	49,483
26 Transaction accounts and credit balances[4]	4,085	3,917	4,210	4,531	4,574	4,084	3,991	4,884	4,036
27 Individuals, partnerships, and corporations	2,656	2,542	2,725	2,572	3,096	2,715	2,797	3,404	2,625
28 Other	1,429	1,375	1,485	1,959	1,478	1,369	1,194	1,480	1,411
29 Nontransaction accounts[5]	46,071	45,863	46,454	45,558	45,577	46,485	45,974	45,486	45,447
30 Individuals, partnerships, and corporations	38,881	38,392	38,272	38,352	38,761	39,073	39,091	38,686	38,497
31 Other	7,190	7,471	8,182	7,206	6,816	7,412	6,883	6,800	6,950
32 Borrowings from other than directly related institutions	92,991	94,130	93,780	95,181	96,982	92,696	95,358	91,557	96,665
33 Federal funds purchased[6]	42,000	41,983	41,876	42,456	44,025	40,690	43,716	41,695	47,077
34 From commercial banks in the United States	19,993	20,900	19,264	18,687	20,677	17,098	19,259	18,176	22,176
35 From others	22,007	21,083	22,612	23,769	23,348	23,592	24,457	23,519	24,901
36 Other liabilities for borrowed money	50,991	52,147	51,904	52,725	52,957	52,006	51,642	49,862	49,588
37 To commercial banks in the United States	32,549	32,566	33,265	33,537	33,864	32,675	32,074	31,207	30,819
38 To others	18,442	19,581	18,639	19,188	19,093	19,331	19,568	18,655	18,769
39 Other liabilities to nonrelated parties	37,341	36,900	34,957	35,253	36,724	35,824	35,547	34,244	36,336
40 Net due to related institutions	28,310	27,975	25,496	24,684	23,552	25,322	25,832	29,972	26,198
41 Total liabilities	208,798	208,785	204,898	205,206	207,410	204,412	206,702	206,144	208,684
MEMO									
42 Total loans (gross) and securities adjusted[7]	120,748	119,777	120,158	118,916	119,439	119,501	119,096	120,834	120,177
43 Total loans (gross) adjusted[7]	105,281	103,871	104,137	102,608	102,864	103,561	103,041	104,248	103,340

1. Effective Jan. 4, 1989, the reporting panel includes a new group of large U.S. branches and agencies of foreign banks. Earlier data included 65 U.S. branches and agencies of foreign banks that included those branches and agencies with assets of $750 million or more on June 30, 1980, plus those branches and agencies that had reached the $750 million asset level on Dec. 31, 1984. These data also appear in the Board's H.4.2 (504) release. For address, see inside front cover.
2. Includes securities purchased under agreements to resell.
3. Effective Jan. 4, 1989, loans secured by real estate are being reported as a separate component of Other loans, gross. Formerly, these loans were included in "All other", line 21.
4. Includes credit balances, demand deposits, and other checkable deposits.
5. Includes savings deposits, money market deposit accounts, and time deposits.
6. Includes securities sold under agreements to repurchase.
7. Exclusive of loans to and federal funds sold to commercial banks in the United States.

1.31 GROSS DEMAND DEPOSITS Individuals, Partnerships, and Corporations[1]

Billions of dollars, estimated daily-average balances, not seasonally adjusted

Type of holder	Commercial banks									
	1985[2] Dec.	1986 Dec.	1987 Dec.	1988 Dec.	1988		1989			
					Sept.	Dec.	Mar.	June	Sept.	Dec.
1 **All holders—Individuals, partnerships, and corporations**	**321.0**	**363.6**	**343.5**	**354.7**	**337.8**	**354.7**	**330.4**	**329.3**	**337.3**	**352.2**
2 Financial business	32.3	41.4	36.3	38.6	34.8	38.6	36.3	33.0	33.7	33.8
3 Nonfinancial business	178.5	202.0	191.9	201.2	190.3	201.2	182.2	185.9	190.4	202.5
4 Consumer	85.5	91.1	90.0	88.3	87.8	88.3	87.4	86.6	87.9	90.3
5 Foreign	3.5	3.3	3.4	3.7	3.2	3.7	3.7	2.9	2.9	3.1
6 Other	21.2	25.8	21.9	22.8	21.7	22.8	20.7	21.0	22.4	22.5
	Weekly reporting banks									
	1985[2] Dec.	1986 Dec.	1987 Dec.	1988 Dec.	1988		1989			
					Sept.	Dec.	Mar.	June	Sept.	Dec.
7 **All holders—Individuals, partnerships, and corporations**	**168.6**	**195.1**	**183.8**	**198.3**	**185.3**	**198.3**	**181.9**	**182.2**	**186.6**	**196.7**
8 Financial business	25.9	32.5	28.6	30.5	27.2	30.5	27.2	25.4	26.3	27.6
9 Nonfinancial business	94.5	106.4	100.0	108.7	101.5	108.7	98.6	99.8	101.6	108.8
10 Consumer	33.2	37.5	39.1	42.6	41.8	42.6	41.1	42.4	43.0	44.1
11 Foreign	3.1	3.3	3.3	3.6	3.1	3.6	3.3	2.9	2.8	3.0
12 Other	12.0	15.4	12.7	12.9	11.7	12.9	11.7	11.7	12.9	13.2

1. Figures include cash items in process of collection. Estimates of gross deposits are based on reports supplied by a sample of commercial banks. Types of depositors in each category are described in the June 1971 *Bulletin*, p. 466. Figures may not add to totals because of rounding.
2. Beginning in March 1984, these data reflect a change in the panel of weekly reporting banks, and are not comparable to earlier data. Estimates in billions of dollars for December 1983 based on the new weekly reporting panel are: financial business, 24.4; nonfinancial business, 80.9; consumer, 30.1; foreign, 3.1; other 9.5.

Beginning March 1985, financial business deposits and, by implication, total gross demand deposits have been redefined to exclude demand deposits due to thrift institutions. Historical data have not been revised. The estimated volume of such deposits for December 1984 is $5.0 billion at all insured commercial banks and $3.0 billion at weekly reporting banks.

Historical data back to March 1985 have been revised to account for corrections of bank reporting errors. Historical data before March 1985 have not been revised, and may contain reporting errors. Data for all commercial banks for March 1985 were revised as follows (in billions of dollars): all holders, −.3; financial business, −.8; nonfinancial business, −.4; consumer, .9; foreign, .1; other, −.1. Data for weekly reporting banks for March 1985 were revised as follows (in billions of dollars): all holders, −.1; financial business, −.7; nonfinancial business, −.5; consumer, 1.1; foreign, .1; other, −.2.
3. Beginning March 1988, these data reflect a change in the panel of weekly reporting banks, and are not comparable to earlier data. Estimates in billions of dollars for December 1987 based on the new weekly reporting panel are: financial business, 29.4; nonfinancial business, 105.1; consumer, 41.1; foreign, 3.4; other, 13.1.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Instrument	1985 Dec.	1986 Dec.	1987 Dec.	1988 Dec.	1989 Dec.	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	***298,779***	***329,991***	***357,129***	***455,017***	***525,266***	***516,476***	***507,090***	***508,043***	***517,574***	***525,266***	***533,137***
Financial companies[1]											
Dealer-placed paper[2]											
2 Total	78,443	101,072	101,958	159,947	186,362	182,083	177,080	175,722	182,459	186,362	183,401
3 Bank-related (not seasonally adjusted)[3]	1,602	2,265	1,428	1,248	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Directly placed paper[4]											
4 Total	135,320	151,820	173,939	192,442	209,551	208,915	206,521	210,855	210,560	209,551	214,996
5 Bank-related (not seasonally adjusted)[3]	44,778	40,860	43,173	43,155	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6 Nonfinancial companies[5]	85,016	77,099	81,232	102,628	129,353	125,478	123,489	121,466	124,555	129,353	134,740
	Bankers dollar acceptances (not seasonally adjusted)[6]										
7 **Total**	**68,413**	**64,974**	**70,565**	**66,631**	**62,972**	**65,764**	**63,814**	**63,660**	**63,802**	**62,972**	**60,019**
Holder											
8 Accepting banks	11,197	13,423	10,943	9,086	9,433	9,935	9,526	10,811	9,923	9,433	9,954
9 Own bills	9,471	11,707	9,464	8,022	8,510	8,874	8,779	9,108	8,548	8,510	8,467
10 Bills bought	1,726	1,716	1,479	1,064	924	1,061	747	1,703	1,375	924	1,488
Federal Reserve Banks											
11 Own account	0	0	0	0	0	0	0	0	0	0	0
12 Foreign correspondents	937	1,317	965	1,493	1,066	1,014	1,016	1,016	1,034	1,066	1,069
13 Others	56,279	50,234	58,658	56,052	52,473	54,815	53,370	51,833	52,846	52,473	48,996
Basis											
14 Imports into United States	15,147	14,670	16,483	14,984	15,651	16,140	16,101	16,157	15,691	15,651	15,100
15 Exports from United States	13,204	12,960	15,227	14,410	13,683	14,895	14,304	14,275	14,385	13,683	13,437
16 All other	40,062	37,344	38,855	37,237	33,638	34,729	33,409	33,228	33,726	33,638	n.a.

1. 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.
2. Includes all financial company paper sold by dealers in the open market.
3. Beginning January 1989, bank-related series have been discontinued.
4. As reported by financial companies that place their paper directly with investors.
5. Includes public utilities and firms engaged primarily in such activities as communications, construction, manufacturing, mining, wholesale and retail trade, transportation, and services.
6. Beginning January 1988, the number of respondents in the bankers acceptance survey were reduced from 155 to 111 institutions—those with $100 million or more in total acceptances. The panel is revised every January and currently has about 100 respondents. The current reporting group accounts for over 90 percent of total acceptances activity.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1987—Apr. 1	7.75	1987	8.21	1988—Jan.	8.75	1989—July	10.98
May 1	8.00	1988	9.32	Feb.	8.51	Aug.	10.50
15	8.25	1989	10.87	Mar.	8.50	Sept.	10.50
Sept. 4	8.75			Apr.	8.50	Oct.	10.50
Oct. 7	9.25	1987—Jan.	7.50	May	8.84	Nov.	10.50
22	9.00	Feb.	7.50	June	9.00	Dec.	10.50
Nov. 5	8.75	Mar.	7.50	July	9.29		
		Apr.	7.75	Aug.	9.84	1990—Jan.	10.11
1988—Feb. 2	8.50	May	8.14	Sept.	10.00	Feb.	10.00
May 11	9.00	June	8.25	Oct.	10.00	Mar.	n.a.
July 14	9.50	July	8.25	Nov.	10.05		
Aug. 11	10.00	Aug.	8.25	Dec.	10.50		
Nov. 28	10.50	Sept.	8.70				
		Oct.	9.07	1989—Jan.	10.50		
1989—Feb. 10	11.00	Nov.	8.78	Feb.	10.93		
24	11.50	Dec.	8.75	Mar.	11.50		
June 5	11.00			Apr.	11.50		
July 31	10.50			May	11.50		
				June	11.07		
1990—Jan. 8	10.00						

NOTE. *These data also appear in the Board's H.15 (519) and G.13 (415) releases.* For address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Averages, percent per year; weekly, monthly and annual figures are averages of business day data unless otherwise noted.

Instrument	1987	1988	1989	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.	1990 Jan. 26	1990 Feb. 2	1990 Feb. 9	1990 Feb. 16	1990 Feb. 23
MONEY MARKET RATES												
1 Federal funds[1,2]	6.66	7.57	9.21	8.55	8.45	8.23	8.24	8.23	8.24	8.22	8.21	8.25
2 Discount window borrowing[1,2,3]	5.66	6.20	6.93	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Commercial paper[4,5]												
3 1-month	6.74	7.58	9.11	8.47	8.61	8.20	8.22	8.19	8.22	8.23	8.19	8.22
4 3-month	6.82	7.66	8.99	8.35	8.29	8.10	8.14	8.12	8.14	8.15	8.12	8.15
5 6-month	6.85	7.68	8.80	8.00	7.93	7.96	8.04	8.02	8.04	8.04	8.00	8.05
Finance paper, directly placed[4,5]												
6 1-month	6.61	7.44	8.99	8.33	8.40	8.09	8.13	8.09	8.14	8.15	8.11	8.13
7 3-month	6.54	7.38	8.72	8.07	8.01	7.90	7.97	7.89	7.96	7.98	7.95	7.99
8 6-month	6.37	7.14	8.16	7.45	7.33	7.34	7.40	7.33	7.38	7.41	7.34	7.41
Bankers acceptances[5,6]												
9 3-month	6.75	7.56	8.87	8.21	8.15	7.97	8.03	8.00	8.01	8.02	8.01	8.05
10 6-month	6.78	7.60	8.67	7.86	7.78	7.83	7.91	7.88	7.91	7.91	7.88	7.95
Certificates of deposit, secondary market[7]												
11 1-month	6.75	7.59	9.11	8.44	8.65	8.17	8.19	8.17	8.18	8.19	8.18	8.20
12 3-month	6.87	7.73	9.09	8.39	8.32	8.16	8.22	8.19	8.20	8.22	8.20	8.24
13 6-month	7.01	7.91	9.08	8.21	8.12	8.17	8.26	8.22	8.25	8.27	8.22	8.29
14 Eurodollar deposits, 3-month[8]	7.07	7.85	9.16	8.42	8.39	8.22	8.24	8.26	8.25	8.25	8.23	8.23
U.S. Treasury bills[5]												
Secondary market[9]												
15 3-month	5.78	6.67	8.11	7.69	7.63	7.64	7.74	7.69	7.76	7.80	7.66	7.74
16 6-month	6.03	6.91	8.03	7.49	7.42	7.55	7.70	7.59	7.71	7.74	7.63	7.74
17 1-year	6.33	7.13	7.92	7.25	7.21	7.38	7.55	7.46	7.54	7.58	7.50	7.61
Auction average[10]												
18 3-month	5.82	6.68	8.12	7.65	7.64	7.64	7.76	7.66	7.77	7.83	7.65	7.80
19 6-month	6.05	6.92	8.04	7.46	7.45	7.52	7.72	7.58	7.73	7.72	7.65	7.77
20 1-year	6.33	7.17	7.91	7.17	7.14	7.21	7.42	n.a.	n.a.	n.a.	7.42	n.a.
CAPITAL MARKET RATES												
U.S. Treasury notes and bonds[11]												
Constant maturities[12]												
21 1-year	6.77	7.65	8.53	7.77	7.72	7.92	8.11	8.01	8.09	8.13	8.05	8.19
22 2-year	7.42	8.10	8.57	7.80	7.78	8.09	8.37	8.22	8.31	8.37	8.30	8.48
23 3-year	7.68	8.26	8.55	7.80	7.77	8.13	8.39	8.28	8.38	8.38	8.30	8.49
24 5-year	7.94	8.47	8.50	7.81	7.75	8.12	8.42	8.27	8.39	8.44	8.36	8.53
25 7-year	8.23	8.71	8.52	7.86	7.85	8.20	8.48	8.33	8.43	8.47	8.40	8.60
26 10-year	8.39	8.85	8.49	7.87	7.84	8.21	8.47	8.36	8.47	8.48	8.39	8.58
27 20-year	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
28 30-year	8.59	8.96	8.45	7.90	7.90	8.26	8.50	8.40	8.50	8.51	8.43	8.61
Composite[13]												
29 Over 10 years (long-term)	8.64	8.98	8.58	8.03	8.02	8.39	8.66	8.53	8.64	8.66	8.61	8.78
State and local notes and bonds												
Moody's series[14]												
30 Aaa	7.14	7.36	7.00	6.77	6.72	6.81	7.05	7.05	7.05	7.05	6.95	7.15
31 Baa	8.17	7.83	7.40	7.16	7.03	7.35	7.26	7.40	7.30	7.10	7.21	7.41
32 *Bond Buyer* series[15]	7.63	7.68	7.23	7.14	6.98	7.10	7.22	7.19	7.24	7.20	7.16	7.27
Corporate bonds												
Seasoned issues[16]												
33 All industries	9.91	10.18	9.66	9.32	9.30	9.43	9.64	9.50	9.60	9.64	9.62	9.69
34 Aaa	9.38	9.71	9.26	8.89	8.86	8.99	9.22	9.05	9.15	9.22	9.21	9.27
35 Aa	9.68	9.94	9.46	9.14	9.11	9.27	9.45	9.32	9.41	9.45	9.43	9.49
36 A	9.99	10.24	9.74	9.42	9.39	9.54	9.75	9.61	9.71	9.75	9.72	9.82
37 Baa	10.58	10.83	10.18	9.81	9.82	9.94	10.14	10.00	10.10	10.13	10.11	10.19
38 A-rated, recently offered utility bonds[17]	9.96	10.20	9.79	9.28	9.36	9.63	9.84	9.75	9.83	9.75	9.84	9.94
MEMO: Dividend/price ratio[18]												
39 Preferred stocks	8.37	9.23	9.05	8.73	8.75	8.80	8.90	8.82	8.88	8.82	8.90	8.96
40 Common stocks	3.08	3.64	3.45	3.39	3.33	3.41	3.54	3.52	3.54	3.50	3.53	3.58

1. Weekly, monthly and annual 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 in an investment yield basis (which would give a higher figure).
6. Dealer closing offered rates for top-rated banks. Most representative rate (which may be, but need not be, the average of the rates quoted by the dealers).
7. Unweighted average of offered rates quoted by at least five dealers early in the day.
8. Calendar week average. For indication purposes only.
9. Unweighted average of closing bid rates quoted by at least five dealers.
10. Rates are recorded in the week in which bills are issued. Beginning with the Treasury bill auction held on Apr. 18, 1983, bidders were required to state the percentage yield (on a bank discount basis) that they would accept to two decimal places. Thus, average issuing rates in bill auctions will be reported using two rather than three decimal places.
11. Yields are based on closing bid prices quoted by at least five dealers.
12. Yields adjusted to constant maturities by the U.S. Treasury. That is, yields are read from a yield curve at fixed maturities. Based on only recently issued, actively traded securities.
13. Averages (to maturity or call) for all outstanding bonds neither due nor callable in less than 10 years, including one very low yielding "flower" bond.
14. General obligations based on Thursday figures; Moody's Investors Service.
15. General obligations only, with 20 years to maturity, issued by 20 state and local governmental units of mixed quality. Based on figures for Thursday.
16. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
17. Compilation of the Federal Reserve. This series is an estimate of the yield on recently-offered, A-rated utility bonds with a 30-year maturity and 5 years of call protection. Weekly data are based on Friday quotations.
18. Standard and Poor's corporate series. Preferred stock ratio based on a sample of ten issues: four public utilities, four industrials, one financial, and one transportation. Common stock ratios on the 500 stocks in the price index.

NOTE. These data also appear in the Board's H.15 (519) and G.13 (415) releases. For address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1987	1988	1989	1989 June	1989 July	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.
	Prices and trading (averages of daily figures)											
Common stock prices												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	161.78	149.97	180.13	180.76	185.15	192.93	193.02	192.49	188.50	192.67	187.96	182.55
2 Industrial	195.31	180.83	228.04	216.75	221.74	231.32	230.86	229.40	224.38	230.12	225.79	220.60
3 Transportation	140.52	134.09	174.90	173.47	179.32	197.53	202.02	190.36	174.26	177.25	173.67	166.69
4 Utility	74.29	72.22	94.33	87.95	90.40	92.90	93.44	94.67	94.95	99.73	95.69	92.15
5 Finance	146.48	127.41	162.01	154.08	157.78	164.86	165.51	166.55	160.89	155.63	150.11	142.68
6 Standard & Poor's Corporation (1941–43 = 10)[1]	287.00	265.88	323.05	323.73	331.92	346.61	347.33	347.40	340.22	348.57	339.97	330.45
7 American Stock Exchange (Aug. 31, 1973 = 50)[2]	316.78	295.08	356.67	362.73	368.52	379.28	382.75	383.63	371.92	373.87	367.40	355.30
Volume of trading (thousands of shares)												
8 New York Stock Exchange	188,922	161,386	165,568	180,680	162,501	171,683	151,752	182,394	144,389	160,671	172,420	155,960
9 American Stock Exchange	13,832	9,955	13,124	13,519	11,702	14,538	12,631	13,853	12,001	13,298	14,831	13,735
	Customer financing (end-of-period balances, in millions of dollars)											
10 **Margin credit at broker-dealers**[3]	**31,990**	**32,740**	**34,320**	**34,730**	**34,360**	**33,940**	**35,020**	**35,110**	**34,630**	**34,320**	**32,640**	**31,480**
Free credit balances at brokers[4]												
11 Margin-account[5]	4,750	5,660	7,040	6,900	5,420	5,580	5,680	6,000	5,815	7,040	6,755	6,575
12 Cash-account	15,640	16,595	18,505	19,080	16,345	16,015	15,310	16,340	16,345	18,505	17,370	16,200

	Margin requirements (percent of market value and effective date)[6]					
	Mar. 11, 1968	June 8, 1968	May 6, 1970	Dec. 6, 1971	Nov. 24, 1972	Jan. 3, 1974
13 Margin stocks	70	80	65	55	65	50
14 Convertible bonds	50	60	50	50	50	50
15 Short sales	70	80	65	55	65	50

1. Effective July 1976, includes a new financial group, banks and insurance companies. With this change the index includes 400 industrial stocks (formerly 425), 20 transportation (formerly 15 rail), 40 public utility (formerly 60), and 40 financial.
2. Beginning July 5, 1983, the American Stock Exchange rebased its index effectively cutting previous readings in half.
3. Beginning July 1983, under the revised Regulation T, margin credit at broker-dealers includes credit extended against stocks, convertible bonds, stocks acquired through exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984.
4. Free credit balances are in accounts with no unfulfilled commitments to the brokers and are subject to withdrawal by customers on demand.
5. New series beginning June 1984.
6. These regulations, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities other than options are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

On Jan. 1, 1977, the Board of Governors for the first time established in Regulation T the initial margin required for writing options on securities, setting it at 30 percent of the current market-value of the stock underlying the option. On Sept. 30, 1985, the Board changed the required initial margin, allowing it to be the same as the option maintenance margin required by the appropriate exchange or self-regulatory organization; such maintenance margin rules must be approved by the Securities and Exchange Commission. Effective Jan. 31, 1986, the SEC approved new maintenance margin rules, permitting margins to be the price of the option plus 15 percent of the market value of the stock underlying the option.

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1987	1988	1989									
			Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	SAIF-insured institutions											
1 **Assets**	**1,250,855**	**1,350,500**	**1,340,502**	**1,345,347**	**1,346,564**	**1,338,576**	**1,331,940**	**1,318,118**	**1,301,059**	**1,288,722**	**1,279,067**	**1,251,844**
2 Mortgages	721,593	764,513	769,398	773,386	774,358	772,720	771,716	770,117	764,699	757,718	753,993	743,441
3 Mortgage-backed securities	201,828	214,587	215,203	216,129	216,256	211,325	204,364	195,308	188,436	181,627	176,541	170,883
4 Contra-assets to mortgage assets[1]	42,344	37,950	37,842	37,791	37,504	37,540	37,172	36,763	36,292	34,925	33,990	34,149
5 Commercial loans	23,163	33,889	32,866	32,812	33,009	33,073	33,198	33,026	32,925	32,562	32,334	32,218
6 Consumer loans	57,902	61,922	61,402	61,710	61,869	60,769	61,098	60,978	60,423	59,793	59,496	58,780
7 Contra-assets to nonmortgage loans[2]	3,467	3,056	3,074	2,899	2,918	3,192	3,203	3,167	3,120	3,106	3,202	3,461
8 Cash and investment securities	169,717	186,986	177,094	175,841	174,333	175,222	175,135	171,565	169,582	172,612	172,333	165,882
9 Other[3]	122,462	129,610	125,455	126,065	127,161	126,200	126,803	127,055	124,415	122,440	121,561	118,250
10 **Liabilities and net worth**	**1,250,855**	**1,350,500**	**1,340,502**	**1,345,347**	**1,346,564**	**1,338,576**	**1,331,940**	**1,318,118**	**1,301,059**	**1,288,722**	**1,279,067**	**1,251,844**
11 Savings capital	932,616	971,700	956,663	954,495	955,566	960,073	963,158	960,344	958,911	948,512	946,668	945,582
12 Borrowed money	249,917	299,400	312,988	318,671	318,367	312,093	301,572	289,634	281,474	275,977	268,462	252,139
13 FHLBB	116,363	134,168	146,007	148,000	146,520	144,217	141,875	138,331	133,633	130,514	127,671	124,739
14 Other	133,554	165,232	166,981	170,671	171,847	167,876	159,697	151,303	147,841	145,463	140,791	127,400
15 Other	21,941	24,216	29,593	31,629	33,585	29,892	31,881	33,807	29,899	30,960	31,991	27,539
16 Net worth	46,382	55,185	57,113	56,068	54,596	52,741	50,907	49,930	46,685	48,345	47,177	33,764
	SAIF-insured federal savings banks											
17 **Assets**	**284,270**	**425,983**	**443,167**	**455,143**	**469,939**	**495,739**	**507,020**	**504,187**	**501,128**	**502,589**		
18 Mortgages	161,926	227,869	241,076	249,940	257,187	276,613	285,072	285,503	283,188	283,674		
19 Mortgage-backed securities	45,826	64,957	68,086	69,964	73,963	73,943	74,341	72,082	72,438	72,318		
20 Contra-assets to mortgage assets[1]	9,100	13,140	12,896	13,049	13,227	13,662	13,972	13,859	13,821	13,492		
21 Commercial loans	6,504	16,731	16,313	16,497	16,934	18,014	18,279	18,169	18,195	18,301		
22 Consumer loans	17,696	24,222	26,096	26,768	27,957	28,157	28,996	28,985	28,766	28,326		
23 Contra-assets to nonmortgage loans[2]	678	889	977	863	888	976	980	987	1,029	1,051	n.a.	n.a.
24 Finance leases plus interest	591	880	1,011	1,047	1,072	1,083	1,088	1,075	1,092	1,087		
25 Cash and investment	35,347	61,029	60,272	61,278	62,002	65,778	66,068	65,109	64,232	65,277		
26 Other	24,069	35,428	34,964	37,333	38,021	39,644	40,340	40,534	40,680	40,756		
27 **Liabilities and net worth**	**284,270**	**425,983**	**443,167**	**455,143**	**469,939**	**495,739**	**507,020**	**504,187**	**501,128**	**502,589**		
28 Savings capital	203,196	298,197	307,580	315,725	324,369	342,145	352,547	352,099	353,461	355,903		
29 Borrowed money	60,716	99,286	107,179	110,004	114,854	121,895	121,195	117,970	115,628	114,232		
30 FHLBB	29,617	46,265	51,532	53,519	55,463	58,505	59,781	59,189	57,941	57,793		
31 Other	31,099	53,021	55,647	56,485	59,391	63,390	61,414	58,781	57,687	56,439		
32 Other	5,324	8,075	8,649	9,306	10,174	9,825	10,697	11,443	9,904	10,298		
33 Net worth	15,034	20,235	23,090	23,404	23,926	25,677	26,266	26,369	26,134	26,126		

1.37—Continued

Account	1987	1988	1989 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov	Dec..
	Credit unions[4]											
34 **Total assets/liabilities and capital**		**174,593**	**178,175**	**177,417**	**178,812**	**180,664**	**179,029**	**180,035**	**181,812**	**181,527**	**182,856**	**183,688**
35 Federal		114,566	117,555	115,416	116,705	117,632	117,475	117,463	118,746	118,887	119,682	120,666
36 State		60,027	60,620	62,001	62,107	63,032	61,554	62,572	63,066	62,640	63,174	63,022
37 Loans outstanding	n.a.	113,191	114,572	115,249	116,947	119,101	119,720	120,577	122,522	122,997	122,899	122,608
38 Federal		73,766	74,395	75,003	76,052	77,729	78,472	78,946	80,548	80,570	80,601	80,272
39 State		39,425	40,177	40,246	40,895	41,372	41,248	41,631	41,874	42,427	42,298	42,336
40 Savings		159,010	164,322	161,388	162,134	164,415	162,405	162,754	164,050	164,695	165,533	167,371
41 Federal		104,431	107,368	105,208	105,787	106,984	106,266	106,038	106,633	107,588	108,319	109,653
42 State		54,579	56,954	56,180	56,347	57,431	56,139	56,716	57,417	57,107	57,214	57,718
	Life insurance companies											
43 **Assets**	***1,044,459***	***1,157,140***	***1,199,125***	***1,209,242***	***1,221,332***	***1,232,195***	***1,247,341***	***1,257,045***	***1,266,773***	***1,276,181***	***1,289,467***	
Securities												
44 Government	84,426	84,051	84,485	82,873	83,847	84,564	84,438	83,225	82,867	83,727	83,609	
45 United States[5]	57,078	58,564	58,417	57,127	57,790	57,817	57,698	56,978	56,684	57,726	57,290	
46 State and local	10,681	9,136	8,860	8,911	8,953	9,036	9,061	9,002	9,037	9,019	9,280	
47 Foreign[6]	16,667	16,351	17,208	16,835	17,104	17,711	17,679	17,245	17,146	16,982	17,039	
48 Business	569,199	660,416	687,777	697,703	706,960	714,398	726,599	735,441	742,537	748,075	758,803	n.a.
49 Bonds	472,684	556,043	579,232	587,889	595,500	601,786	606,686	614,585	621,856	628,695	637,690	
50 Stocks	96,515	104,373	108,545	109,814	111,460	112,612	119,913	120,856	120,681	119,380	121,113	
51 Mortgages	203,545	232,863	234,632	235,312	236,651	237,444	237,865	238,944	240,189	242,391	243,728	
52 Real estate	34,172	37,371	37,842	37,976	38,598	38,190	38,622	38,822	38,942	39,343	39,339	
53 Policy loans	53,626	54,236	54,921	55,201	55,525	55,746	55,812	56,077	56,403	56,727	56,916	
54 Other assets	89,586	93,358	99,468	100,173	99,751	101,853	104,005	104,536	105,835	105,918	107,072	

1. Contra-assets are credit-balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels. Contra-assets to mortgage loans, contracts, and pass-through securities include loans in process, unearned discounts and deferred loan fees, valuation allowances for mortgages "held for sale," and specific reserves and other valuation allowances.

2. Contra-assets are credit-balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels. Contra-assets to nonmortgage loans include loans in process, unearned discounts and deferred loan fees, and specific reserves and valuation allowances.

3. Holding of stock in Federal Home Loan Bank and Finance leases plus interest are included in "Other" (line 9).

4. Data include all federally insured credit unions, both federal and state chartered, serving natural persons.

5. Direct and guaranteed obligations. Excludes federal agency issues not guaranteed, which are shown in the table under "Business" securities.

6. Issues of foreign governments and their subdivisions and bonds of the International Bank for Reconstruction and Development.

NOTE. *FSLIC-insured institutions:* Estimates by the FHLBB for all institutions insured by the FSLIC and based on the FHLBB thrift Financial Report.

FSLIC-insured federal savings banks: Estimates by the FHLBB for federal savings banks insured by the FSLIC and based on the FHLBB thrift Financial Report.

Savings banks: Estimates by the National Council of Savings Institutions for all savings banks in the United States and for FDIC-insured savings banks that have converted to federal savings banks.

Credit unions: Estimates by the National Credit Union Administration for federally chartered and federally insured state-chartered credit unions serving natural persons.

Life insurance companies: Estimates of the American Council of Life Insurance for all life insurance companies in the United States. Annual figures are annual-statement asset values, with bonds carried on an amortized basis and stocks at year-end market value. Adjustments for interest due and accrued and for differences between market and book values are not made on each item separately but are included, in total, in "other assets."

As of June 1989 Savings bank data are no longer available.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year 1987	Fiscal year 1988	Fiscal year 1989	Calendar year					
				1989				1990	
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
U.S. budget[1]									
1 Receipts, total	854,143	908,166	990,789	99,233	68,426	71,213	89,130	99,542	65,170
2 On-budget	640,741	666,675	727,123	75,711	50,122	51,989	69,052	74,247	44,133
3 Off-budget	213,402	241,491	263,666	23,522	18,304	19,223	20,077	25,295	21,037
4 Outlays, total	1,003,804	1,063,318	1,142,777	105,299	94,515	100,172	103,770	89,622	101,588
5 On-budget	809,972	860,626	931,556	86,548	75,096	80,794	91,249	71,082	82,025
6 Off-budget	193,832	202,691	211,221	18,750	19,419	19,378	12,522	18,540	19,563
7 Surplus, or deficit (−), total	−149,661	−155,151	−151,988	−6,066	−26,089	−28,959	−14,641	9,920	−36,417
8 On-budget	−169,231	−193,951	−204,433	−10,837	−24,974	−28,804	−22,196	3,165	−37,892
9 Off-budget	19,570	38,800	52,445	4,771	−1,115	−155	7,556	6,755	1,474
Source of financing (total)									
10 Borrowing from the public	151,717	166,139	140,156	6,618	36,690	19,790	6,821	15,841	18,221
11 Operating cash (decrease, or increase (−))	−5,052	−7,963	3,425	−15,589	−2,513	21,772	−5,221	−18,116	25,462
12 Other[2]	2,996	−3,025	8,407	14,977	−8,088	−12,603	13,040	−7,644	−7,266
MEMO									
13 Treasury operating balance (level, end of period)	36,436	44,398	40,973	40,973	43,486	21,715	26,935	45,051	19,589
14 Federal Reserve Banks	9,120	13,024	13,452	13,452	13,124	5,501	6,217	13,153	6,613
15 Tax and loan accounts	27,316	31,375	27,521	27,521	30,362	16,214	20,718	31,899	12,976

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. The Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act has also moved two social security trust funds (Federal old-age survivors insurance and Federal disability insurance trust funds) off-budget.

2. Includes SDRs; reserve position on the U.S. quota in the IMF; loans to international monetary fund; other cash and monetary assets; accrued interest payable to the public; allocations of special drawing rights; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain/loss for U.S. currency valuation adjustment; net gain/loss for IMF valuation adjustment; and profit on the sale of gold.

SOURCE. *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government* and the *Budget of the U.S. Government*.

1.39 U.S. BUDGET RECEIPTS AND OUTLAYS[1]

Millions of dollars

Source or type	Fiscal year 1988	Fiscal year 1989	Calendar year 1988 H1	1988 H2	1989 H1	1989 H2	1989 Dec.	1990 Jan.	1990 Feb.
RECEIPTS									
1 **All sources**	**908,166**	**990,691**	**475,724**	**449,320**	**527,574**	**470,329**	**89,130**	**99,538**	**65,170**
2 Individual income taxes, net	401,181	445,690	207,659	200,300	233,572	218,661	37,385	56,044	28,830
3 Withheld	341,435	361,386	169,300	179,600	174,230	193,296	35,443	34,172	32,852
4 Presidential Election Campaign Fund	33	32	28	4	28	3	0	0	4
5 Nonwithheld	132,199	154,839	101,614	29,880	121,563	33,303	2,717	22,389	960
6 Refunds	72,487	70,567	63,283	9,186	62,251	7,943	775	517	4,986
Corporation income taxes									
7 Gross receipts	109,683	117,015	58,002	56,409	61,585	52,269	19,731	4,277	2,678
8 Refunds	15,487	13,723	8,706	7,250	7,259	6,842	853	1,159	1,447
9 Social insurance taxes and contributions, net	334,335	359,416	181,058	157,603	200,127	162,574	25,805	32,863	29,055
10 Employment taxes and contributions[2]	305,093	332,859	164,412	144,983	184,569	152,407	25,266	31,767	26,473
11 Self-employment taxes and contributions[3]	17,691	18,405	14,839	3,032	16,371	1,947	0	1,213	1,500
12 Unemployment insurance	24,584	22,011	14,363	10,359	13,279	7,909	161	742	2,230
13 Other net receipts[4]	4,659	4,547	2,284	2,262	2,277	2,260	377	354	352
14 Excise taxes	35,540	34,386	16,440	19,299	16,814	16,844	2,763	2,624	2,260
15 Customs deposits	15,411	16,334	7,522	8,107	7,918	8,667	1,293	1,440	1,228
16 Estate and gift taxes	7,594	8,745	3,863	4,054	4,583	4,451	850	805	664
17 Miscellaneous receipts[5]	19,909	22,829	9,950	10,799	10,235	13,703	2,156	2,644	1,902
OUTLAYS									
18 **All types**	**1,063,318**	**1,142,680**	**512,856**	**552,727**	**565,524**	**587,303**	**103,903r**	**90,118r**	**101,588**
19 National defense	290,361	303,551	143,080	150,496	148,098	149,613	28,570	21,978	24,870
20 International affairs	10,471	9,596	7,150	2,636	6,605	5,981	1,306	1,248	1,144
21 General science, space, and technology	10,841	12,891	5,361	5,852	6,238	7,091	1,202	1,058	1,066
22 Energy	2,297	3,745	555	1,966	2,221	1,397r	293r	40r	83
23 Natural resources and environment	14,625	15,985	6,776	9,072	7,022	9,183	1,319	1,129r	1,034
24 Agriculture	17,210	16,948	7,872	6,911	9,619	4,132	1,097	1,113	949
25 Commerce and housing credit	18,828	27,810	5,951	19,836	4,129	22,200	1,107	−2,286	3,040
26 Transportation	27,272	27,623	12,700	14,922	13,035	14,982	2,515	2,409	2,097
27 Community and regional development	5,294	5,755	2,765	2,690	1,833	4,879	841	848	575
28 Education, training, employment, and social services	31,938	35,697	15,451	16,152	18,083	18,663	3,151	3,496	3,421
29 Health	44,490	48,391	22,643	23,360	24,078	25,339	4,435	4,663	4,459
30 Social security and medicare	297,828	317,506	135,322	149,017	162,195	162,322	27,166	28,228	28,291
31 Income security	129,332	136,765	65,555	64,978	70,937	67,950	13,217	12,010	13,609
32 Veterans benefits and services	29,406	30,066	13,241	15,797	14,891	14,864	3,664	1,086	2,608
33 Administration of justice	8,436	9,396	4,379	4,361	4,801	4,963	968	811	819
34 General government	9,518	8,940	4,337	5,137	3,858	4,753	745	972	484
35 General-purpose fiscal assistance	1,816	n.a.	448	0	0	n.a.	n.a.	n.a.	n.a.
36 Net interest[6]	151,748	169,314	76,098	78,317	86,009	87,927	14,579	14,281	15,924
37 Undistributed offsetting receipts[7]	−36,967	−37,212	−17,766	−18,771	−18,131	−18,935	−2,271	−2,967	−2,884

1. Functional details do not add to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for outlays does not correspond to calendar year data because revisions from the *Budget* have not been fully distributed across months.
2. Old-age, disability, and hospital insurance, and railroad retirement accounts.
3. Old-age, disability, and hospital insurance.
4. Federal employee retirement contributions and civil service retirement and disability fund.
5. Deposits of earnings by Federal Reserve Banks and other miscellaneous receipts.
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.

SOURCES. U.S. Department of the Treasury, *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government*, and the U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 1990*.

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars

Item	1987	1988				1989			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
1 **Federal debt outstanding**	**2,435.2**	**2,493.2**	**2,555.1**	**2,614.6**	**2,707.3**	**2,763.6**	**2,824.0**	**2,881.1**	**2,975.5**
2 Public debt securities	2,431.7	2,487.6	2,547.7	2,602.2	2,684.4	2,740.9	2,799.9	2,857.4	2,953.0
3 Held by public	1,954.1	1,996.7	2,013.4	2,051.7	2,095.2	2,133.4	2,142.1	2,180.7	2,245.2[r]
4 Held by agencies	477.6	490.8	534.2	550.4	589.2	607.5	657.8	676.7	707.8[r]
5 Agency securities	3.5	5.6	7.4	12.4	22.9	22.7	24.0	23.7	22.5[r]
6 Held by public	2.7	5.1	7.0	12.2	22.6	22.3	23.6	23.5	22.4[r]
7 Held by agencies	.8	.6	.5	.2	.3	.4	.5	.1	.1[r]
8 **Debt subject to statutory limit**	**2,417.4**	**2,472.6**	**2,532.2**	**2,586.9**	**2,669.1**	**2,725.6**	**2,784.6**	**2,829.8**	**2,921.7**
9 Public debt securities	2,416.3	2,472.1	2,532.1	2,586.7	2,668.9	2,725.5	2,784.3	2,829.5	2,921.4
10 Other debt[1]	1.1	.5	.1	.1	.2	.2	.2	.3	.3
11 MEMO: Statutory debt limit	2,800.0	2,800.0	2,800.0	2,800.0	2,800.0	2,800.0	2,800.0	2,870.0	3,122.7

1. Includes guaranteed debt of Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCES. *Treasury Bulletin* and *Monthly Statement of the Public Debt of the United States*.

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1986	1987	1988	1989	1989			
					Q1	Q2	Q3	Q4
1 **Total gross public debt**	**2,214.8**	**2,431.7**	**2,684.4**	**2,953.0**	**2,740.9**	**2,799.9**	**2,857.4**	**2,953.0**
By type								
2 Interest-bearing debt	2,212.0	2,428.9	2,663.1	2,931.8	2,738.3	2,797.4	2,836.3	2,931.8
3 Marketable	1,619.0	1,724.7	1,821.3	1,945.4	1,871.7	1,877.3	1,892.8	1,945.4
4 Bills	426.7	389.5	414.0	430.6	417.0	397.1	406.6	430.6
5 Notes	927.5	1,037.9	1,083.6	1,151.5	1,121.4	1,137.2	1,133.2	1,151.5
6 Bonds	249.8	282.5	308.9	348.2	318.4	328.0	338.0	348.2
7 Nonmarketable[1]	593.1	704.2	841.8	986.4	866.6	920.1	943.5	986.4
8 State and local government series	110.5	139.3	151.5	163.3	154.4	156.0	158.6	163.3
9 Foreign issues[2]	4.7	4.0	6.6	6.8	6.7	6.2	6.8	6.8
10 Government	4.7	4.0	6.6	6.8	6.7	6.2	6.8	6.8
11 Public	.0	.0	.0	.0	.0	.0	.0	.0
12 Savings bonds and notes	90.6	99.2	107.6	115.7	110.4	112.3	114.0	115.7
13 Government account series[3]	386.9	461.3	575.6	695.6	594.7	645.2	663.7	695.6
14 Non-interest-bearing debt	2.8	2.8	21.3	21.2	2.6	2.5	21.1	21.2
By holder[4]								
15 U.S. government agencies and trust funds	403.1	477.6	589.2	707.8	607.5	657.8	676.7	707.8
16 Federal Reserve Banks	211.3	222.6	238.4	228.4	228.6	231.8	220.6	228.4
17 Private investors	1,602.0	1,745.2	1,852.8	2,011.0	1,900.2	1,905.4	1,954.0[r]	2,011.0
18 Commercial banks	203.5	201.5	193.8	190.0	200.9	199.2[r]	181.5	190.0
19 Money market funds	28.0	14.6	11.8[r]	14.4	13.0	11.3[r]	12.9[r]	14.4
20 Insurance companies	105.6	104.9	107.3[r]	n.a.	107.4[r]	106.3	107.7	n.a.
21 Other companies	68.8	84.6	87.1[r]	93.8	90.6[r]	92.1[r]	93.5	93.8
22 State and local Treasurys	262.8	284.6	313.6	n.a.	320.4	322.1	325.2	n.a.
Individuals								
23 Savings bonds	92.3	101.1	109.6	117.7	112.2	114.0	115.7	117.7
24 Other securities	70.4	70.2	76.4[r]	91.5	87.4[r]	92.5[r]	92.1	91.5
25 Foreign and international[5]	263.4	299.7	362.1	392.9	375.6	367.9	393.5	392.9
26 Other miscellaneous investors[6]	506.6	584.0	591.1[r]	n.a.	592.7[r]	600.0	631.9	n.a.

1. Includes (not shown separately): Securities issued to the Rural Electrification Administration; depository bonds, retirement plan bonds, and individual retirement bonds.
2. Nonmarketable dollar-denominated and foreign currency-denominated series held by foreigners.
3. Held almost entirely by U.S. Treasury agencies and trust funds.
4. Data for Federal Reserve Banks and U.S. Treasury agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
5. Consists of investments of foreign and international accounts. Excludes non-interest-bearing notes issued to the International Monetary Fund.
6. Includes savings and loan associations, nonprofit institutions, credit unions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain U.S. Treasury deposit accounts, and federally-sponsored agencies.

SOURCES. Data by type of security, U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States;* data by holder and the *Treasury Bulletin*.

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Par value; averages of daily figures, in millions of dollars

	Item	1987	1988	1989	1989	1990		1990					
					Dec.	Jan.	Feb.	Jan. 24	Jan. 31	Feb. 7	Feb. 14	Feb. 21	Feb. 28
	Immediate delivery[2]												
1	**U.S. Treasury securities**	**110,050**	**101,623**	**112,715**	**84,153**	**118,584**	**124,931**	**123,689r**	**133,945**	**123,692**	**140,580**	**118,794**	**115,431**
	By maturity												
2	Bills	37,924	29,387	30,733	26,756	32,817	31,798	30,796	35,767	28,536	37,376	31,729	29,538
3	Other within 1 year	3,271	3,426	3,182	2,559	3,438	3,048	2,568	4,216	2,527	3,652	3,110	2,913
4	1–5 years	27,918	27,777	33,662	25,884	32,925	37,110	36,446	37,091	36,094	36,241	42,228	34,902
5	5–10 years	24,014	24,939	28,679	18,240	31,345	31,836	33,252	34,744	34,801	36,006	23,094	31,697
6	Over 10 years	16,923	16,093	16,458	10,714	18,059	21,139	20,628	22,126	21,734	27,305	18,633	16,381
	By type of customer												
7	U.S. government securities dealers	2,936	2,761	3,287	2,545	3,141	3,943	3,149	3,890	3,837	4,564	3,794	3,547
8	U.S. government securities brokers	61,539	59,844	66,417	45,753	71,886	72,038	76,535	81,668	69,300	83,014	68,474	66,652
9	All others[3]	45,575	39,019	43,011	35,854	43,557	48,950	44,006	48,387	50,555	53,003	46,527	45,232
10	Federal agency securities	18,084	15,903	18,623	17,939	19,950	19,069	18,123	18,496	22,328	20,747	14,101	18,111
11	Certificates of deposit	4,112	3,369	2,798	1,597	2,283	1,756	2,476	2,142	1,698	1,946	1,575	1,767
12	Bankers acceptances	2,965	2,316	2,222	1,635	1,843	1,574	1,744	1,550	1,434	1,477	1,654	1,748
13	Commercial paper	17,135	22,927	31,805	32,267	37,311	35,190	35,886	35,764r	33,625	32,510	38,480	36,805
	Futures contracts[4]												
14	Treasury bills	3,233	2,627	2,525	2,523	2,684	2,393	2,784	2,464	1,864	3,550	2,284	1,852
15	Treasury coupons	8,963	9,695	9,603	5,836	12,345	13,730	12,746	16,908	13,760	13,686	13,244	14,133
16	Federal agency securities	5	1	8	3	14	23	24	4	1	30	49	16
	Forward transactions[5]												
17	U.S. Treasury securities	2,029	2,095	2,126	1,821	1,786	3,009	2,770	1,358	5,971	1,360	2,690	1,952
18	Federal agency securities	9,290	8,008	9,484	9,520	11,594	12,885	10,104	8,710	14,363	15,509	10,749	10,495

1. Transactions are market purchases and sales of securities as reported to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers.

Averages for transactions are based on the number of trading days in the period. The figures exclude allotments of, and exchanges for, new U.S. Treasury securities, redemptions of called or matured securities, purchases or sales of securities under repurchase agreement, reverse repurchase (resale), or similar contracts.

2. Data for immediate transactions do not include forward transactions.

3. Includes, among others, all other dealers and brokers in commodities and securities, nondealer departments of commercial banks, foreign banking agencies, and the Federal Reserve System.

4. Futures contracts are standardized agreements arranged on an organized exchange in which parties commit to purchase or sell securities for delivery at a future date.

5. Forward transactions are agreements arranged in the over-the-counter market in which securities are purchased (sold) for delivery after 5 business days from the date of the transaction for Treasury securities (Treasury bills, notes, and bonds) or after 30 days for mortgage-backed agency issues.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Averages of daily figures, in millions of dollars

Item	1987	1988	1989	1989 Dec.	1990 Jan.	1990 Feb.	1990 Jan. 31	1990 Feb. 7	1990 Feb. 14	1990 Feb. 21	1990 Feb. 28
	Positions										
Net immediate[2]											
1 **U.S. Treasury securities**	−6,216	**−22,765**	**−5,948**	**25,224**	**18,285r**	**7,869**	**17,227r**	**7,191**	**9,738**	**5,169**	**8,836**
2 Bills	4,317	2,238	7,831	26,823	24,925	19,033	25,234	22,067	19,784	17,484	16,485
3 Other within 1 year	1,557	−2,236	−1,528	−1,171	−836	−950	−1,007	−528	−363	−1,415	−1,589
4 1–5 years	649	−3,020	2,334	12,398	13,976	11,238	15,787	11,343	13,123	8,802	11,198
5 5–10 years	−6,564	−9,663	−8,133	−7,230	−10,475r	−8,493	−11,943r	−11,907	−9,283	−7,221	−5,307
6 Over 10 years	−6,174	−10,084	−6,452	−5,596	−9,305	−12,959	−10,845	−13,784	−13,524	−12,482	−11,951
7 Federal agency securities	31,911	28,230	31,914	35,928	35,551	36,745	33,184	35,261	40,719	36,991	34,056
8 Certificates of deposit	8,188	7,300	6,674	6,884	5,972	5,338	5,993	5,942	5,394	4,958	4,981
9 Bankers acceptances	3,660	2,486	2,089	1,736	1,703	1,653	1,692	1,708	1,670	1,796	1,467
10 Commercial paper	7,496	6,152	8,243	8,152	7,663	7,925	8,286	8,014	7,239	8,291	8,228
Futures positions											
11 Treasury bills	−3,373	−2,210	−4,599	−10,135	−9,896	−12,782	−12,323	−11,936	−12,397	−13,115	−13,748
12 Treasury coupons	5,988	6,224	−2,919	−11,022	−6,388	−4,845	−4,241	−4,847	−5,423	−3,910	−5,014
13 Federal agency securities	−95	0	14	30	27	103	31	35	49	148	188
Forward positions											
14 U.S. Treasury securities	−1,211	346	−546	−145	−2,093r	−1,046	−2,188r	−1,929	−899	−1,047	−310
15 Federal agency securities	−18,817	−16,348	−16,878	−16,522	−13,814	−15,942	−10,056	−13,195	−19,405	−16,205	−15,016
	Financing[3]										
Reverse repurchase agreements[4]											
16 Overnight and continuing	126,709	136,327	157,955	143,024	150,660	167,362	159,429	159,916	183,488	154,675	171,370
17 Term	148,288	177,477	225,126	219,169	216,646	216,957	231,526	248,679	213,418	206,934	198,798
Repurchase agreements[5]											
18 Overnight and continuing	170,763	172,695	219,083	233,258	240,341	242,687	243,687	241,664	257,221	228,467	243,396
19 Term	121,270	137,056	179,555	179,487	179,484	180,708	194,294	208,420	180,123	171,805	162,483

1. Data for dealer positions and sources of financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. Treasury securities dealers on its published list of primary dealers.

Data for positions are averages of daily figures, in terms of par value, based on the number of trading days in the period. Positions are net amounts and are shown on a commitment basis. Data for financing are in terms of actual amounts borrowed or lent and are based on Wednesday figures.

2. Immediate positions are net amounts (in terms of par values) of securities owned by nonbank dealer firms and dealer departments of commercial banks on a commitment, that is, trade-date basis, including any such securities that have been sold under agreements to repurchase (RPs). The maturities of some repurchase agreements are sufficiently long, however, to suggest that the securities involved are not available for trading purposes. Immediate positions include reverses to maturity, which are securities that were sold after having been obtained under reverse repurchase agreements that mature on the same day as the securities. Data for immediate positions do not include forward positions.

3. Figures cover financing involving U.S. Treasury and federal agency securities, negotiable CDs, bankers acceptances, and commercial paper.

4. Includes all reverse repurchase agreements, including those that have been arranged to make delivery on short sales and those for which the securities obtained have been used as collateral on borrowings, that is, matched agreements.

5. Includes both repurchase agreements undertaken to finance positions and "matched book" repurchase agreements.

NOTE. Data on positions for the period May 1 to Sept. 30, 1986, are partially estimated.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1986	1987	1988	1989	1989				1990
					Sept.	Oct.	Nov.	Dec.	Jan.
1 **Federal and federally sponsored agencies**	**307,361**	**341,386**	**381,498**	**411,805**	**408,591**	**409,113**	**412,234**	**411,805**	n.a.
2 Federal agencies	36,958	37,981	35,668	35,664	36,584	36,378	35,855	35,664	34,995
3 Defense Department[1]	33	13	8	7	7	7	7	7	7
4 Export-Import Bank[2,3]	14,211	11,978	11,033	10,985	10,990	10,990	10,990	10,985	10,985
5 Federal Housing Administration[4]	138	183	150	328	295	301	308	328	239
6 Government National Mortgage Association participation certificates[5]	2,165	1,615	0	0	0	0	0	0	0
7 Postal Service[6]	3,104	6,103	6,142	6,445	6,445	6,445	6,445	6,445	6,445
8 Tennessee Valley Authority	17,222	18,089	18,335	17,899	18,847	18,635	18,105	17,899	17,319
9 United States Railway Association[6]	85	0	0	0	0	0	0	0	0
10 Federally sponsored agencies[7]	270,553	303,405	345,830	376,141	372,007	372,735	376,379	376,141	n.a.
11 Federal Home Loan Banks	88,758r	115,727r	135,836r	136,087	143,578	140,854	138,229	136,087	133,699
12 Federal Home Loan Mortgage Corporation	13,589	17,645	22,797	26,882	26,738	25,097	27,018	26,882	n.a.
13 Federal National Mortgage Association	93,563	97,057	105,459	116,064	111,507	111,776	115,774	116,064	115,164
14 Farm Credit Banks[8]	62,478	55,275	53,127	54,864	54,015	54,029	54,131	54,864	55,809
15 Student Loan Marketing Association[9]	12,171	16,503	22,073	28,705	27,126	27,440	27,688	28,705	n.a.
16 Financing Corporation[10]	0	1,200	5,850	8,170	8,170	8,170	8,170	8,170	8,170
17 Farm Credit Financial Assistance Corporation[11]	0	0	690	847	847	847	847	847	847
18 Resolution Funding Corporation[12]	0	0	0	4,522	0	4,522	4,522	4,522	9,524
MEMO									
19 **Federal Financing Bank debt[13]**	**157,510**	**152,417**	**142,850**	**134,873**	**136,092**	**135,841**	**135,213**	**134,873**	**134,263**
Lending to federal and federally sponsored agencies									
20 Export-Import Bank[3]	14,205	11,972	11,027	10,979	10,984	10,984	10,984	10,979	10,979
21 Postal Service[6]	2,854	5,853	5,892	6,195	6,195	6,195	6,195	6,195	6,195
22 Student Loan Marketing Association	4,970	4,940	4,910	4,880	4,910	4,880	4,880	4,880	4,880
23 Tennessee Valley Authority	15,797	16,709	16,955	16,519	17,467	17,255	16,725	16,519	15,939
24 United States Railway Association[6]	85	0	0	0	0	0	0	0	0
Other Lending[14]									
25 Farmers Home Administration	65,374	59,674	58,496	53,311	53,311	53,311	53,311	53,311	53,461
26 Rural Electrification Administration	21,680	21,191	19,246	19,265	19,275	19,233	19,249	19,265	19,212
27 Other	32,545	32,078	26,324	23,724	23,950	23,983	23,869	23,724	23,597

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. Off-budget Aug. 17, 1974, through Sept. 30, 1976; on-budget thereafter.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration; Department of Health, Education, and Welfare; Department of Housing and Urban Development; Small Business Administration; and the Veterans Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Some data are estimated.
8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, shown in line 17.
9. Before late 1981, the Association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 21.
10. The Financing Corporation, established in August 1987 to recapitalize the Federal Savings and Loan Insurance Corporation, undertook its first borrowing in October 1987.
11. The Farm Credit Financial Assistance Corporation (established in January 1988 to provide assistance to the Farm Credit System) undertook its first borrowing in July 1988.
12. The Resolution Funding Corporation, established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, undertook its first borrowing in October 1989.
13. 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.
14. 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.

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1987	1988	1989	1989						1990	
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.
1 **All issues, new and refunding**[1]	**102,407**	**114,522**	**113,646**	**8,735**	**9,824**	**10,818**	**9,075**	**9,564**	**13,636**	**6,694**	**5,040**
Type of issue											
2 General obligation	30,589	30,312	35,774	3,789	2,199	3,500	3,273	3,328	2,158	2,675	2,691
3 Revenue	71,818	84,210	77,873	4,946	7,625	7,318	5,802	6,237	11,478	4,019	2,349
Type of issuer											
4 State	10,102	8,830	11,819[r]	970	694	764	1,330	930	911[r]	712	1,024
5 Special district and statutory authority[2]	65,460	74,409	71,022	4,868	7,027	7,567	4,770	5,473	9,391	4,744	2,643
6 Municipalities, counties, and townships	26,845	31,193	30,805	2,897	2,103	2,487	2,975	3,161	3,334	1,238	1,373
7 **Issues for new capital, total**	**56,789**	**79,665**	**84,062**	**6,816**	**6,612**	**7,470**	**7,266**	**7,777**	**10,195**	**6,263**	**4,538**
Use of proceeds											
8 Education	9,524	15,021	15,133	998	1,302	1,639	1,006	1,058	1,495	1,374	1,210
9 Transportation	3,677	6,825	6,870	500	556	976	280	675	645	98	416
10 Utilities and conservation	7,912	8,496	11,427	551	813	622	718	1,137	2,219	1,747	432
11 Social welfare	11,106	19,027	16,703	1,632	1,553	1,242	1,803	1,441	2,518	1,017	349
12 Industrial aid	7,474	5,624	5,036	440	447	381	345	444	1,119	200	107
13 Other purposes	18,020	24,672	28,894	2,695	1,941	2,610	3,114	3,022	2,199	1,827	2,024

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts beginning 1986.

SOURCES. Securities Data/Bond Buyer Municipal Data Base beginning 1986. Public Securities Association for earlier data.

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue or issuer, or use	1987	1988	1989	1989							1990
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 **All issues**[1]	**392,339**	**409,925**	**232,307**[r]	**24,770**[r]	**18,094**[r]	**14,950**[r]	**14,629**	**24,654**[r]	**20,697**[r]	**21,537**[r]	**14,278**
2 **Bonds**[2]	**325,838**	**352,124**	**201,031**[r]	**21,942**[r]	**13,040**[r]	**12,915**[r]	**12,356**	**20,974**[r]	**16,457**[r]	**17,592**[r]	**12,000**
Type of offering											
3 Public, domestic	209,455	201,246	178,433[r]	19,034[r]	11,620[r]	12,099[r]	11,156	19,866[r]	14,383[r]	15,987[r]	10,000
4 Private placement, domestic[3]	92,070	127,700	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Sold abroad	24,308	23,178	22,598[r]	2,908	1,420	816	1,200	1,108	2,074	1,605[r]	2,000
Industry group											
6 Manufacturing	61,266	70,595	42,366[r]	3,502	2,850	2,670	2,247	3,646	3,551[r]	4,193[r]	1,847
7 Commercial and miscellaneous	49,773	62,070	15,968[r]	1,649	1,354[r]	1,090	1,393	1,830	1,253	347	551
8 Transportation	11,974	10,076	3,586	480	0	423	30	906	312	1,083	35
9 Public utility	23,004	19,318	13,682[r]	2,936	1,346	705	1,059	1,748[r]	1,022[r]	1,098[r]	825
10 Communication	7,340	5,951	3,859	4	300	358	308	632	812	577	15
11 Real estate and financial	172,474	184,114	121,574[r]	13,372[r]	7,190[r]	7,669[r]	7,320	12,213	9,507[r]	10,296[r]	8,727
12 **Stocks**[2]	**66,508**	**57,802**	**32,225**	**2,828**	**5,054**	**2,035**	**2,273**	**3,680**	**4,240**	**3,945**	**2,278**
Type											
13 Preferred	10,123	6,544	6,194	335	920	1,013	519	570	160	626	50
14 Common	43,225	35,911	26,030	2,493	4,134	1,023	1,754	3,110	4,080	3,319	2,228
15 Private placement[3]	13,157	15,346	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Industry group											
16 Manufacturing	13,880	7,608	5,081	630	593	393	193	190	378	279	835
17 Commercial and miscellaneous	12,888	8,449	4,428	512	438	343	155	728	498	1,045	248
18 Transportation	2,439	1,535	532	0	0	0	0	50	0	0	0
19 Public utility	4,322	1,898	2,297	125	25	137	709	465	211	244	106
20 Communication	1,458	515	471	25	29	20	0	0	0	0	0
21 Real estate and financial	31,521	37,798	19,250	1,536	3,969	1,020	1,195	2,214	3,153	2,377	1,090

1. Figures which represent gross proceeds of issues maturing in more than one year, are principal amount or number of units multiplied by offering price. Excludes secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, equities sold abroad, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.
2. Monthly data include only public offerings.
3. Data are not available on a monthly basis. Before 1987, annual totals include underwritten issues only.

SOURCES. IDD Information Services, Inc., the Board of Governors of the Federal Reserve System, and before 1989, the U.S. Securities and Exchange Commission.

1.47 OPEN-END INVESTMENT COMPANIES Net Sales and Asset Position

Millions of dollars

Item	1988	1989	1989							1990
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.
INVESTMENT COMPANIES[1]										
1 **Sales of own shares**[2]	**271,237**	**306,445**	**25,817**	**25,330**	**26,800**	**23,911**	**23,872**	**24,673**	**30,982**	**35,620**
2 Redemptions of own shares[3]	267,451	272,165	22,562	20,053	22,262	21,499	21,702	19,573	24,967	27,331
3 Net sales	3,786	34,280	3,255	5,277	4,538	2,412	2,170	5,100	6,015	8,289
4 **Assets**[4]	**472,297**	**553,871**	**515,814**	**535,910**	**539,553**	**539,814**	**534,922**	**549,892**	**553,871**	**535,185**
5 Cash position[5]	45,090	44,780	48,428	47,888	47,209	47,163	46,146	47,875	44,780	48,898
6 Other	427,207	509,091	467,386	488,022	492,344	492,651	488,776	502,017	509,091	486,287

1. Data on sales and redemptions exclude money market mutual funds but include limited maturity municipal bond funds. Data on asset positions exclude both money market mutual funds and limited maturity municipal bond 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.

SOURCE. *Survey of Current Business* (Department of Commerce).

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Account	1987	1988	1989[r]	1988				1989			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 Corporate profits with inventory valuation and capital consumption adjustment	298.7	328.6	299.2	318.1	325.3	330.9	340.2	316.3	307.8	295.2	n.a.
2 Profits before tax	266.7	306.8	288.5	288.8	305.3	314.4	318.8	318.0	296.0	275.0	n.a.
3 Profits tax liability	124.7	137.9	129.2	129.0	138.4	141.2	143.2	144.4	134.9	122.6	n.a.
4 Profits after tax	142.0	168.9	159.3	159.9	166.9	173.2	175.6	173.6	161.1	152.4	n.a.
5 Dividends	98.7	110.4	122.1	105.7	108.6	112.2	115.2	118.5	120.9	123.3	125.6
6 *Undistributed profits*	43.3	58.5	37.2	54.2	58.3	61.1	60.4	55.1	40.2	29.1	n.a.
7 Inventory valuation	−18.9	−25.0	n.a.	−20.7	−28.8	−30.4	−20.1	−38.3	−21.0	n.a.	n.a.
8 Capital consumption adjustment	50.9	46.8	29.4	49.9	48.9	46.9	41.5	36.6	32.3	26.5	22.0[r]

Source. *Survey of Current Business* (Department of Commerce).

1.50 TOTAL NONFARM BUSINESS EXPENDITURES on New Plant and Equipment ▲

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Industry	1988	1989	1990[1]	1988			1989				1990
				Q2	Q3	Q4	Q1	Q2	Q3	Q4[1]	Q1[1]
1 **Total nonfarm business**	**430.17**	**475.18**	**505.49**	**427.54**	**435.61**	**442.11**	**459.47**	**470.86**	**484.93**	**485.45**	**503.46**
Manufacturing											
2 Durable goods industries	77.75	83.05	83.22	77.38	79.15	80.56	81.26	82.97	85.66	82.30	86.84
3 Nondurable goods industries	86.79	100.11	106.94	85.24	89.62	92.76	93.96	98.57	102.00	105.90	106.92
Nonmanufacturing											
4 Mining	12.57	12.50	12.01	13.15	12.53	12.38	12.15	12.70	12.59	12.58	12.23
Transportation											
5 Railroad	7.21	8.12	7.78	6.99	6.84	7.45	8.02	7.37	8.16	8.93	7.91
6 Air	7.00	9.50	10.60	6.91	8.09	7.69	7.04	9.49	12.48	8.99	10.12
7 Other	7.15	7.62	8.03	7.05	7.08	6.89	8.07	7.40	7.89	7.13	8.58
Public utilities											
8 Electric	31.75	33.96	34.32	31.31	32.07	33.69	33.69	35.34	33.73	33.07	35.47
9 Gas and other	14.63	16.10	15.82	14.49	14.61	15.04	17.12	16.67	15.84	14.79	16.42
10 Commercial and other[2]	185.32	204.22	226.78	185.21	185.61	185.65	198.15	200.36	206.59	211.76	218.97

▲Trade and services are no longer being reported separately. They are included in Commercial and other, line 10.

1. Anticipated by business.
2. "Other" consists of construction; wholesale and retail trade; finance and insurance; personal and business services; and communication.

SOURCE. *Survey of Current Business* (Department of Commerce).

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities[1]

Billions of dollars, end of period

Account	1985	1986	1987	1988				1989		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
Assets										
Accounts receivable, gross[2]										
1 Consumer	111.9	134.7	141.1	141.5	144.4	146.3	146.2	140.2	144.9	147.2
2 Business	157.5	173.4	207.4	219.7	224.0	223.3	236.5	243.1	250.5	248.8
3 Real estate	28.0	32.6	39.5	41.4	42.5	43.1	43.5	45.4	47.4	48.9
4 Total	297.4	340.6	388.1	402.6	410.9	412.7	426.2	428.7	442.8	444.9
Less:										
5 Reserves for unearned income	39.2	41.5	45.3	46.8	46.3	48.4	50.0	50.9	52.1	53.7
6 Reserves for losses	4.9	5.8	6.8	6.8	6.8	7.1	7.3	7.4	7.5	7.8
7 Accounts receivable, net	253.3	293.3	336.0	348.9	357.8	357.3	368.9	370.4	383.2	383.5
8 All other	45.3	58.6	58.3	60.1	70.5	68.7	72.4	75.1	81.5	83.1
9 **Total assets**	**298.6**	**351.9**	**394.2**	**409.1**	**428.3**	**426.0**	**441.3**	**445.5**	**464.6**	**466.6**
Liabilities										
10 Bank loans	18.0	18.6	16.4	14.9	13.3	11.9	15.4	11.6	12.2	12.3
11 Commercial paper	99.2	117.8	128.4	125.2	131.6	129.4	142.0	147.9	149.2	147.4
Debt										
12 Other short-term	12.7	17.5	28.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13 Long-term	94.4	117.5	137.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
14 Due to parent	n.a.	n.a.	n.a.	49.0	51.4	51.5	50.6	56.8	59.7	60.4
15 Not elsewhere classified	n.a.	n.a.	n.a.	132.4	139.8	139.3	137.9	134.5	141.3	146.1
16 All other liabilities	41.5	44.1	52.8	56.1	58.7	58.9	59.8	58.1	63.5	60.4
17 Capital, surplus, and undivided profits	32.8	36.4	31.5	31.5	33.5	34.9	35.6	36.6	38.7	40.0
18 **Total liabilities and capital**	**298.6**	**351.9**	**394.2**	**409.1**	**428.3**	**426.0**	**441.3**	**445.5**	**464.6**	**466.6**

1. Components may not add to totals because of rounding.
2. Excludes pools of securitized assets.

1.52 DOMESTIC FINANCE COMPANIES Business Credit Outstanding and Net Change[1]

Millions of dollars, seasonally adjusted

Type	1987	1988	1989	1989					1990
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 **Total**	**205,810**	**234,529**	**257,762**	**253,822**	**258,851**	**259,083**	**257,930**	**257,762**	**253,802**
Retail financing of installment sales									
2 Automotive	35,782	36,548	38,534	39,355	39,258	38,952	38,187	38,534	38,297
3 Equipment	25,170	28,298	29,781	29,039	29,639	29,594	29,568	29,781	29,810
4 Pools of securitized assets[2]	n.a.	n.a.	698	793	755	715	739	698	720
Wholesale									
5 Automotive	30,507	33,300	34,357	33,566	37,243	35,210	33,537	34,357	30,422
6 Equipment	5,600	5,983	6,945	6,497	6,602	6,843	6,933	6,945	7,119
7 All other	8,342	9,341	9,949	9,990	9,957	9,927	9,895	9,949	9,939
8 Pools of securitized assets[2]	n.a.	n.a.	0	0	0	0	0	0	0
Leasing									
9 Automotive	21,952	24,673	26,856	26,739	26,865	27,442	27,547	26,856	26,567
10 Equipment	43,335	57,455	67,506	64,186	65,170	66,787	67,677	67,506	67,783
11 Pools of securitized assets[2]	n.a.	n.a.	1,247	990	948	1,199	1,093	1,247	1,242
12 Loans on commercial accounts receivable and factored commercial accounts receivable	18,078	17,796	18,442	20,098	19,611	19,487	18,892	18,442	18,019
13 All other business credit	17,043	21,134	23,447	22,571	22,804	22,926	23,861	23,447	23,884
	Net change (during period)								
14 **Total**	**33,750**	**22,662**	**21,789**	**2,697**	**5,029**	**232**	**−1,153**	**−168**	**−3,960**
Retail financing of installment sales									
15 Automotive	9,767	766	1,988	172	−97	−305	−765	347	−237
16 Equipment	2,058	1,384	1,483	911	600	−45	−25	213	29
17 Pools of securitized assets[2]	n.a.	n.a.	−26	24	−38	−40	24	−41	22
Wholesale									
18 Automotive	7,497	2,793	1,057	332	3,677	−2,033	−1,673	820	−3,935
19 Equipment	252	226	962	253	104	242	90	11	174
20 All other	1,309	999	609	−11	−32	−30	−32	54	−11
21 Pools of securitized assets[2]	n.a.	n.a.	0	0	0	0	0	0	0
Leasing									
22 Automotive	2,125	2,721	2,184	38	126	577	105	−691	−290
23 Equipment	5,156	9,962	8,646	99	984	1,618	890	−171	277
24 Pools of securitized assets[2]	n.a.	n.a.	526	103	−42	251	−106	154	−5
25 Loans on commercial accounts receivable and factored commercial accounts receivable	2,100	−282	646	109	−487	−124	−595	−450	−422
26 All other business credit	3,486	4,091	3,719	667	234	122	934	−414	437

1. These data also appear in the Board's G.20 (422) release. For address, see inside front cover.
2. Data on pools of securitized assets are not seasonally adjusted.

1.53 MORTGAGE MARKETS

Millions of dollars; exceptions noted.

Item	1987	1988	1989	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Conventional mortgages on new homes										
Terms[1]										
1 Purchase price (thousands of dollars)	137.0	150.0	159.6	160.8	160.6	153.1	152.8	162.7	148.5	148.9
2 Amount of loan (thousands of dollars)	100.5	110.5	117.0	119.4	118.6	111.3	110.4	119.9	107.3	109.0
3 Loan/price ratio (percent)	75.2	75.5	74.5	75.6	75.3	73.2	73.0	74.4	73.4	74.6
4 Maturity (years)	27.8	28.0	28.1	28.3	28.4	27.3	27.1	27.9	27.1	27.4
5 Fees and charges (percent of loan amount)[2]	2.26	2.19	2.06	2.31	2.14	1.95	1.81	2.18	1.85	1.87
6 Contract rate (percent per year)	8.94	8.81	9.76	9.83	9.87	9.77	9.78	9.70	9.59	9.56
Yield (percent per year)										
7 OTS series[3]	9.31	9.18	10.11	10.22	10.24	10.11	10.09	10.07	9.91	9.88
8 HUD series[4]	10.17	10.30	10.21r	10.05	10.04	9.79	9.72	9.72r	10.00	10.12
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (HUD series)[5]	10.16	10.49	10.24	9.95	9.94	9.73	9.69	9.72	10.01	10.22
10 GNMA securities[6]	9.44	9.83	9.70	9.56	9.44	9.18	9.07	9.07	9.28	9.45
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	95,030	101,329	104,974	105,896	107,052	108,180	109,076	110,721	111,329	111,628
12 FHA/VA-insured	21,660	19,762	19,640	19,589	19,608	19,843	19,953	20,283	20,471	20,614
13 Conventional	73,370	81,567	85,335	86,307	87,444	88,337	89,123	90,438	90,858	91,014
Mortgage transactions (during period)										
14 Purchases	20,531	23,110	22,518	2,724	2,223	2,267	2,376	2,982	2,214	1,537
Mortgage commitments[7]										
15 Contracted (during period)	25,415	23,435	27,409	2,842	2,328	2,963	2,536	2,495	1,787	3,216
16 Outstanding (end of period)	4,886	2,148	6,037	5,755	5,865	6,548	6,645	6,037	5,619	4,977
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[8]										
17 Total	12,802	15,105	20,105	21,024	20,650	21,342	21,809	21,852	n.a.	n.a.
18 FHA/VA	686	620	590	589	589r	588	588	584	n.a.	n.a.
19 Conventional	12,116	14,485	19,516	20,435	20,061r	20,754r	21,221	21,269	n.a.	n.a.
Mortgage transactions (during period)										
20 Purchases	76,845	44,077	78,588	7,283	7,889	7,884	7,653	8,718	n.a.	n.a.
21 Sales	75,082	39,780	73,446r	6,650	8,050	7,058	7,058r	8,526	6,845	5,789
Mortgage commitments[9]										
22 Contracted (during period)	71,467	66,026	88,519	5,705	7,708	7,555	10,949	7,820	n.a.	n.a.

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rates on loans closed, assuming prepayment at the end of 10 years.
4. Average contract rates on new commitments for conventional first mortgages; from Department of Housing and Urban Development.
5. Average gross yields on 30-year, minimum-downpayment, Federal Housing Administration-insured first mortgages for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements in average yields may reflect market adjustments to changes in maximum permissable contract rates.
6. Average net yields to investors on Government National Mortgage Association guaranteed, mortgage-backed, fully modified pass-through securities, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate. Monthly figures are averages of Friday figures from the *Wall Street Journal*.
7. Includes some multifamily and nonprofit hospital loan commitments in addition to 1- to 4-family loan commitments accepted in FNMA's free market auction system, and through the FNMA-GNMA tandem plans.
8. Includes participation as well as whole loans.
9. Includes conventional and government-underwritten loans. FHLMC's mortgage commitments and mortgage transactions include activity under mortgage/securities swap programs, while the corresponding data for FNMA exclude swap activity.

1.54 MORTGAGE DEBT OUTSTANDING[1]

Millions of dollars, end of period

Type of holder, and type of property	1987	1988	1989[p]	1988	1989			
				Q4	Q1	Q2	Q3	Q4[p]
1 **All holders**	**2,977,293**	**3,268,285**	**3,524,474**	**3,268,285**	**3,328,824**	**3,391,259**	**3,454,053**	**3,524,474**
2 1- to 4-family	1,959,607	2,189,475	2,384,076	2,189,475	2,230,006	2,281,317	2,331,366	2,384,076
3 Multifamily	273,954	290,355	306,652	290,355	296,139	297,860	302,121	306,652
4 Commercial	654,863	701,652	747,277	701,652	716,695	725,341	733,988	747,277
5 Farm	88,869	86,803	86,468	86,803	85,984	86,741	86,578	86,468
6 Selected financial institutions	1,664,211	1,831,446	1,919,269	1,831,446	1,859,663	1,884,903	1,901,728	1,919,269
7 Commercial banks[2]	591,369	669,160	756,786	669,160	688,662	715,049	737,979	756,786
8 1- to 4-family	276,270	314,283	358,652	314,283	324,681	338,872	349,739	358,652
9 Multifamily	33,330	34,131	36,994	34,131	34,172	34,954	36,075	36,994
10 Commercial	267,340	305,242	343,841	305,242	313,941	324,878	335,296	343,841
11 Farm	14,429	15,504	17,299	15,504	15,868	16,345	16,869	17,299
12 Savings institutions[3]	860,467	929,647	921,410	929,647	936,091	933,694	927,982	921,410
13 1- to 4-family	602,408	678,263	675,891	678,263	682,658	684,828	680,572	675,891
14 Multifamily	106,359	111,302	108,534	111,302	112,507	110,009	109,353	108,534
15 Commercial	150,943	139,416	136,343	139,416	140,255	138,201	137,406	136,343
16 Farm	757	666	641	666	671	656	651	641
17 Life insurance companies	212,375	232,639	241,073	232,639	234,910	236,160	235,767	241,073
18 1- to 4-family	13,226	15,284	13,531	15,284	12,690	12,745	13,045	13,531
19 Multifamily	22,524	23,562	26,646	23,562	24,636	25,103	25,913	26,646
20 Commercial	166,722	184,124	191,369	184,124	188,073	188,756	187,208	191,369
21 Farm	9,903	9,669	9,527	9,669	9,511	9,556	9,601	9,527
22 Finance companies[4]	40,349	43,521	50,728	43,521	45,389	47,251	48,906	50,728
23 Federal and related agencies	192,721	200,570	212,370	200,570	199,847	201,909	206,673	212,370
24 Government National Mortgage Association	444	26	24	26	26	24	23	24
25 1- to 4-family	25	26	24	26	26	24	23	24
26 Multifamily	419	0	0	0	0	0	0	0
27 Farmers Home Administration[5]	43,051	42,018	42,080	42,018	41,780	40,711	41,117	42,080
28 1- to 4-family	18,169	18,347	19,091	18,347	18,347	18,391	18,405	19,091
29 Multifamily	8,044	8,513	9,168	8,513	8,615	8,778	8,916	9,168
30 Commercial	6,603	5,343	4,463	5,343	5,101	3,885	4,366	4,463
31 Farm	10,235	9,815	9,358	9,815	9,717	9,657	9,430	9,358
32 Federal Housing and Veterans Administration	5,574	5,973	6,220	5,973	6,075	6,424	6,023	6,220
33 1- to 4-family	2,557	2,672	3,009	2,672	2,550	2,827	2,900	3,009
34 Multifamily	3,017	3,301	3,211	3,301	3,525	3,597	3,123	3,211
35 Federal National Mortgage Association	96,649	103,013	110,970	103,013	101,991	103,309	107,052	110,970
36 1- to 4-family	89,666	95,833	102,863	95,833	94,727	95,714	99,168	102,863
37 Multifamily	6,983	7,180	8,107	7,180	7,264	7,595	7,884	8,107
38 Federal Land Banks	34,131	32,115	30,788	32,115	31,261	31,467	30,943	30,788
39 1- to 4-family	2,008	1,890	1,889	1,890	1,839	1,851	1,821	1,889
40 Farm	32,123	30,225	28,899	30,225	29,422	29,616	29,122	28,899
41 Federal Home Loan Mortgage Corporation	12,872	17,425	22,289	17,425	18,714	19,974	21,515	22,289
42 1- to 4-family	11,430	15,077	19,182	15,077	16,192	17,305	18,493	19,182
43 Multifamily	11,430	15,077	3,107	15,077	16,192	17,305	18,493	3,107
44 Mortgage pools or trusts[6]	718,297	810,887	931,619	810,887	839,684	861,827	898,388	931,619
45 Government National Mortgage Association	317,555	340,527	374,650	340,527	348,622	353,154	361,291	374,650
46 1- to 4-family	309,806	331,257	362,865	331,257	337,563	341,951	349,830	362,865
47 Multifamily	7,749	9,270	11,785	9,270	11,059	11,203	11,461	11,785
48 Federal Home Loan Mortgage Corporation	212,634	226,406	266,407	226,406	234,695	242,789	256,896	266,407
49 1- to 4-family	205,977	219,988	259,443	219,988	228,389	236,404	250,123	259,443
50 Multifamily	6,657	6,418	6,965	6,418	6,306	6,385	6,773	6,965
51 Federal National Mortgage Association	139,960	178,250	216,600	178,250	188,071	196,501	208,894	216,600
52 1- to 4-family	137,988	172,331	207,765	172,331	181,352	188,774	200,302	207,765
53 Multifamily	1,972	5,919	8,835	5,919	6,719	7,727	8,592	8,835
54 Farmers Home Administration[5]	245	104	79	104	96	85	78	79
55 1- to 4-family	121	26	23	26	24	23	22	23
56 Multifamily	0	0	0	0	0	0	0	0
57 Commercial	63	38	22	38	34	26	22	22
58 Farm	61	40	34	40	38	36	34	34
59 Individuals and others[7]	402,064	425,382	461,216	425,382	429,630	442,620	447,264	461,216
60 1- to 4-family	242,053	258,598	285,966	258,598	260,768	272,310	275,694	285,966
61 Multifamily	75,458	78,411	83,299	78,411	78,814	79,840	81,009	83,299
62 Commercial	63,192	67,489	71,239	67,489	69,291	69,595	69,690	71,239
63 Farm	21,361	20,884	20,711	20,884	20,757	20,875	20,871	20,711

1. Based on data from various institutional and governmental sources, with some quarters estimated in part by the Federal Reserve. Multifamily debt refers to loans on structures of five or more units.

2. Includes loans held by nondeposit trust companies but not bank trust departments.

3. Includes savings banks and savings and loan associations. Beginning 1987:1, data reported by FSLIC-insured institutions include loans in process and other contra assets (credit balance accounts that must be subtracted from the corresponding gross asset categories to yield net asset levels).

4. Assumed to be entirely 1- to 4-family loans.

5. FmHA-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:4, because of accounting changes by the Farmers Home Administration.

6. Outstanding principal balances of mortgage pools backing securities insured or guaranteed by the agency indicated. Includes private pools which are not shown as a separate line item.

7. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and other U.S. agencies.

1.55 CONSUMER INSTALLMENT CREDIT[1] Total Outstanding, and Net Change, seasonally adjusted

Millions of dollars

Holder, and type of credit	1988	1989[r]	1989 May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	1990 Jan.
	Amounts outstanding (end of period)										
1 **Total**	**659,507**	**716,508**	**698,132**	**700,849**	**700,344**	**703,001**	**704,371**	**707,562**	**712,160**	**716,508**	**720,051**
By major holder											
2 Commercial banks	318,925	334,541	323,363	324,438	323,621	326,135	327,327	330,746	332,675	334,541	337,009
3 Finance companies[2]	145,180	140,484	145,523	146,055	145,488	144,386	144,188	141,273	141,396	140,484	141,481
4 Credit unions	86,118	89,717	89,890	90,073	89,852	90,016	89,892	89,856	89,677	89,717	90,367
5 Retailers[3]	43,498	42,744	41,323	41,649	41,798	41,989	42,221	42,319	42,554	42,744	42,724
6 Savings institutions	62,099	57,285	61,311	59,920	60,092	59,229	59,883	58,890	58,264	57,285	57,229
7 Gasoline companies	3,687	3,835	3,897	4,017	3,936	3,976	3,886	3,804	3,828	3,835	3,811
8 Pools of securitized assets[4]	n.a.	47,902	32,826	34,696	35,557	37,270	36,974	40,675	43,766	47,902	47,429
By major type of credit											
9 Automobile	281,174	289,111	290,741	290,192	288,526	288,533	287,754	288,747	289,200	289,111	290,975
10 Commercial banks	123,259	127,028	125,118	125,592	124,881	126,597	126,759	128,238	128,654	127,028	128,662
11 Credit unions	41,326	42,784	42,687	42,684	42,624	42,747	42,733	42,761	42,720	42,784	43,094
12 Finance companies	97,204	83,572	90,976	91,184	90,213	89,439	88,317	84,814	84,707	83,572	83,836
13 Savings institutions	19,385	17,210	18,566	18,032	17,972	17,603	17,990	17,692	17,504	17,210	17,193
14 Pools of securitized assets[4]	n.a.	18,517	13,395	12,700	12,835	12,147	11,955	15,243	15,615	18,517	18,189
15 Revolving	174,792	203,175	186,502	189,622	191,028	194,398	195,302	196,379	199,240	203,175	203,418
16 Commercial banks	117,572	122,364	115,407	115,561	115,967	117,012	117,868	118,801	119,254	122,364	122,624
17 Retailers	38,692	37,804	36,504	36,814	36,963	37,134	37,355	37,435	37,639	37,804	37,810
18 Gasoline companies	3,687	3,835	3,897	4,017	3,936	3,976	3,886	3,804	3,828	3,835	3,811
19 Savings institutions	10,151	10,698	11,008	10,951	11,176	11,206	11,183	10,998	10,881	10,698	10,688
20 Credit unions	4,691	5,396	5,109	5,162	5,192	5,244	5,279	5,319	5,351	5,396	5,435
21 Pools of securitized assets[4]	n.a.	23,077	14,578	17,117	17,795	19,827	19,731	20,021	22,286	23,077	23,050
22 Mobile home	25,744	22,558	23,952	23,685	23,630	22,938	22,991	22,947	22,567	22,558	22,541
23 Commercial banks	8,974	9,019	8,878	8,847	8,830	8,808	8,788	8,724	8,941	9,019	8,978
24 Finance companies	7,186	4,846	5,684	5,674	5,624	5,100	5,087	5,272	4,783	4,846	4,877
25 Savings institutions	9,583	8,694	9,390	9,163	9,176	9,030	9,116	8,951	8,843	8,694	8,685
26 Other	177,798	201,664	196,936	197,349	197,161	197,132	198,324	199,490	201,154	201,664	203,117
27 Commercial banks	69,120	76,131	73,960	74,438	73,944	73,718	73,912	74,983	75,826	76,131	76,744
28 Finance companies	40,790	52,066	48,863	49,197	49,650	49,847	50,784	51,187	51,906	52,066	52,768
29 Credit unions	40,102	41,537	42,094	42,228	42,036	42,025	41,880	41,776	41,606	41,537	41,838
30 Retailers	4,807	4,940	4,819	4,834	4,835	4,855	4,866	4,884	4,914	4,940	4,915
31 Savings institutions	22,981	20,683	22,347	21,773	21,769	21,390	21,593	21,249	21,036	20,683	20,663
32 Pools of securitized assets[4]	n.a.	6,308	4,853	4,879	4,927	5,296	5,288	5,411	5,865	6,308	6,190
	Net change (during period)										
33 **Total**	**51,786**	**57,001**	**4,221**	**2,717**	**−505**	**2,657**	**1,371**	**3,191**	**4,598**	**4,347**	**3,543**
By major holder											
34 Commercial banks	36,015	15,616	2,904	1,076	−817	2,514	1,192	3,418	1,930	1,866	2,467
35 Finance companies[2]	4,899	−4,696	1,145	532	−567	−1,102	−198	−2,915	124	−913	998
36 Credit unions	6,031	3,599	560	184	−222	164	−124	−36	−179	40	650
37 Retailers[3]	2,523	−754	21	326	149	192	231	98	235	190	−20
38 Savings institutions	2,248	−4,814	−609	−1,390	172	−863	654	−993	−626	−980	−56
39 Gasoline companies	69	148	110	120	−81	39	−89	−82	23	7	−24
40 Pools of securitized assets[4]	n.a.	19,075	89	1,870	861	1,713	−296	3,701	3,091	4,136	−473
By major type of credit											
41 Automobile	15,198	7,937	1,087	−549	−1,667	7	−779	993	453	−89	1,864
42 Commercial banks	14,058	3,769	1,239	474	−711	1,716	162	1,479	416	−1,626	1,634
43 Credit unions	975	1,458	177	−3	−60	123	−14	28	−40	64	310
44 Finance companies	−991	−13,632	708	208	−970	−775	−1,122	−3,503	−107	−1,135	264
45 Savings institutions	1,157	−2,175	−300	−533	−61	−369	387	−298	−188	−294	−17
46 Pools of securitized assets[4]	n.a.	3,475	−737	−695	135	−688	−192	3,288	372	2,902	−328
47 Revolving	20,908	28,383	2,002	3,120	1,406	3,370	904	1,076	2,861	3,935	243
48 Commercial banks	18,453	4,792	1,277	154	405	1,045	856	933	453	3,110	260
49 Retailers	2,303	−888	7	310	149	171	221	80	205	165	5
50 Gasoline companies	69	148	110	120	−81	39	−89	−82	23	7	−24
51 Savings institutions	−216	547	90	−57	225	30	−22	−185	−117	−183	−10
52 Credit unions	300	705	74	53	30	52	35	40	32	45	39
53 Pools of securitized assets[4]	n.a.	12,588	444	2,539	678	2,032	−96	290	2,265	791	−27
54 Mobile home	−643	−3,186	−41	−267	−56	−692	53	−44	−380	−9	−18
55 Commercial banks	−246	45	42	−31	−18	−22	−20	−64	218	77	−41
56 Finance companies	−576	−2,340	25	−10	−50	−524	−13	185	−489	63	32
57 Savings institutions	177	−889	−108	−227	12	−146	86	−165	−109	−149	−8
58 Other	16,323	23,866	1,173	413	−189	−29	1,192	1,166	1,664	510	1,453
59 Commercial banks	3,750	7,011	346	478	−494	−226	194	1,071	843	304	613
60 Finance companies	6,466	11,276	412	334	453	197	937	403	719	159	702
61 Credit unions	4,758	1,435	309	133	−191	−11	−145	−104	−170	−69	301
62 Retailers	221	133	15	16	0	21	11	18	30	25	−25
63 Savings institutions	1,131	−2,298	−291	−574	−5	−379	203	−344	−212	−354	−20
64 Pools of securitized assets[4]	n.a.	3,012	382	26	48	369	−8	123	454	443	−118

1. The Board's series cover most short- and intermediate-term credit extended to individuals that is scheduled to be repaid (or has the option of repayment) in two or more installments.

These data also appear in the Board's G.19 (421) release. For address, see inside front cover.

2. More detail for finance companies is available in the G. 20 statistical release.

3. Excludes 30-day charge credit held by travel and entertainment companies.

4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT[1]

Percent unless noted otherwise

	Item	1987	1988	1989	1989						1990
					July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	INTEREST RATES										
	Commercial banks[2]										
1	48-month new car[3]	10.45	10.85	12.07	n.a.	12.13	n.a.	n.a.	11.94	n.a.	n.a.
2	24-month personal	14.22	14.68	15.44	n.a.	15.45	n.a.	n.a.	15.42	n.a.	n.a.
3	120-month mobile home[3]	13.38	13.54	14.11	n.a.	14.13	n.a.	n.a.	13.97	n.a.	n.a.
4	Credit card	17.92	17.78	18.02	n.a.	18.07	n.a.	n.a.	18.07	n.a.	n.a.
	Auto finance companies										
5	New car	10.73	12.60	12.62	11.94	12.22	12.42	13.04	13.27	13.27	12.64
6	Used car	14.60	15.11	16.18	16.37	16.31	16.22	16.17	16.09	16.10	15.77
	OTHER TERMS[4]										
	Maturity (months)										
7	New car	53.5	56.2	54.2	52.9	52.9	53.1	54.4	55.1	55.1	54.7
8	Used car	45.2	46.7	46.6	46.4	46.2	46.2	45.8	45.6	45.5	45.5
	Loan-to-value ratio										
9	New car	93	94	91	91	90	88	88	89	89	89
10	Used car	98	98	97	97	96	96	96	96	96	95
	Amount financed (dollars)										
11	New car	11,203	11,663	12,001	12,108	11,949	11,841	11,965	12,279	12,301	12,381
12	Used car	7,420	7,824	7,954	7,988	7,874	7,856	7,904	8,063	8,096	8,040

1. These data also appear in the Board's G.19 (421) release. For address, see inside front cover.
2. Data for midmonth of quarter only.
3. Before 1983 the maturity for new car loans was 36 months, and for mobile home loans was 84 months.
4. At auto finance companies.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS

Billions of dollars; quarterly data are at seasonally adjusted annual rates.

Transaction category, sector	1985	1986	1987	1988	1989	1988			1989			
						Q2	Q3	Q4	Q1	Q2[r]	Q3[r]	Q4
	Nonfinancial sectors											
1 **Total net borrowing by domestic nonfinancial sectors**	**846.3**	**831.1**	**693.2**	**754.5[r]**	**695.2**	**817.5[r]**	**749.3[r]**	**734.2[r]**	**770.6[r]**	**641.7**	**693.6**	**675.1**
By sector and instrument												
2 U.S. government	223.6	215.0	144.9	157.5	149.8	113.7	162.5	142.1	199.9	70.9	149.0	179.4
3 Treasury securities	223.7	214.7	143.4	140.0	150.0	106.0	141.6	100.5	201.1	65.8	149.1	184.0
4 Agency issues and mortgages	−.1	.4	1.5	17.4	−.2	7.7	20.9	41.6	−1.2	5.1	−.2	−4.6
5 Private domestic nonfinancial sectors	622.7	616.1	548.3	597.1[r]	545.4	703.8[r]	586.8[r]	592.2[r]	570.6[r]	570.8	544.7	495.7
6 *Debt capital instruments*	451.4	460.3	458.5	454.6[r]	393.8	551.0[r]	458.8[r]	432.4[r]	418.0[r]	396.9	374.8	385.6
7 Tax-exempt obligations	135.4	22.7	34.1	34.0	24.2	37.9	34.8	34.3	29.3	23.0	32.2	12.4
8 Corporate bonds	73.8	121.3	99.9	114.1[r]	114.2	135.2[r]	110.9[r]	98.4[r]	100.0[r]	127.9	102.4	126.4
9 Mortgages	242.2	316.3	324.5	306.5[r]	255.5	377.9[r]	313.1[r]	299.7	288.7[r]	246.1	240.2	246.9
10 *Home mortgages*	156.8	218.7	234.9	231.0[r]	196.1	299.8[r]	230.9[r]	214.0	206.6[r]	197.6	180.6	199.8
11 Multifamily residential	29.8	33.5	24.4	16.7[r]	15.8	14.5[r]	19.4[r]	17.3	27.4[r]	7.9	19.0	8.7
12 Commercial	62.2	73.6	71.6	60.8[r]	43.9	65.2[r]	65.4	67.7	59.1[r]	38.5	40.6	37.3
13 *Farm*	−6.6	−9.5	−6.4	−2.1	−.3	−1.6	−2.6	.7	−4.4	2.1	.0	1.0
14 Other debt instruments	171.3	155.8	89.7	142.5[r]	151.6	152.8[r]	128.0[r]	159.8[r]	152.6[r]	173.9	169.9	110.0
15 Consumer credit	82.5	58.0	32.9	51.1	46.1	51.9	35.5	73.1	34.8	46.0	34.5	69.2
16 Bank loans n.e.c.	38.6	66.7	10.8	38.4	33.0	58.8	7.3	66.6	23.1	29.9	59.0	20.0
17 Open market paper	14.6	−9.3	2.3	11.6	20.8	6.8	17.1	20.0	41.4[r]	39.2	16.7	−14.3
18 Other	35.6	40.5	43.8	41.5[r]	51.7	35.2[r]	68.0[r]	.1[r]	53.3[r]	58.7	59.7	35.1
19 By borrowing sector	622.7	616.1	548.3	597.1[r]	545.4	703.8[r]	586.8[r]	592.2[r]	570.6[r]	570.8	544.7	495.7
20 State and local governments	90.9	36.2	33.6	29.8	24.7	37.0	28.1	30.6	29.7	27.6	29.5	11.9
21 Households	284.6	289.2	271.9	289.8[r]	258.5	346.2[r]	291.4[r]	283.5[r]	264.5[r]	239.4	258.4	271.9
22 Nonfinancial business	247.2	290.7	242.8	277.5[r]	262.2	320.6[r]	267.3[r]	278.0[r]	276.4[r]	303.7	256.8	211.9
23 Farm	−14.5	−16.3	−10.6	−7.5	.3	−3.3	−2.2	−11.8	−2.2	.2	4.7	−1.5
24 Nonfarm noncorporate	129.3	103.2	107.9	87.4[r]	65.9	83.6	100.5	80.4[r]	85.9[r]	65.8	67.2	44.7
25 Corporate	132.4	203.7	145.5	197.5[r]	196.0	240.3[r]	169.0[r]	209.4[r]	192.8[r]	237.7	184.9	168.7
26 Foreign net borrowing in United States	1.2	9.7	4.9	6.9	8.0	5.4	4.1	13.3	−1.1	−1.9	24.3	10.6
27 Bonds	3.8	3.1	7.4	6.9	5.1	2.6	5.9	5.1	3.2	10.7	8.4	−1.9
28 Bank loans n.e.c.	−2.8	−1.0	−3.6	−1.8	1.0	−3.3	.0	−5.7	4.9	1.7	−1.2	−1.4
29 Open market paper	6.2	11.5	2.1	9.6	12.3	6.5	10.3	21.0	12.1	−8.1	20.4	24.9
30 U.S. government loans	−6.0	−3.9	−1.0	−7.8	−10.5	−.4	−12.1	−7.1	−21.4	−6.3	−3.3	−10.9
31 **Total domestic plus foreign**	**847.5**	**840.9**	**698.1**	**761.4[r]**	**703.2**	**822.9[r]**	**753.3[r]**	**747.6[r]**	**769.5[r]**	**639.8**	**718.0**	**685.7**
	Financial sectors											
32 **Total net borrowing by financial sectors**	**201.3**	**318.9**	**315.0**	**246.5[r]**	**201.5**	**245.9[r]**	**216.3[r]**	**302.5[r]**	**384.0[r]**	**119.0**	**141.1**	**161.9**
By instrument												
33 U.S. government related	101.5	187.9	185.8	119.8[r]	140.4	86.3[r]	128.6[r]	156.7[r]	205.7[r]	101.4	129.7	124.8
34 Sponsored credit agency securities	20.6	15.2	30.2	44.9	25.0	11.1	46.5	62.3	84.9	12.5	10.0	−7.4
35 Mortgage pool securities	79.9	173.1	156.4	74.9[r]	115.4	75.1[r]	82.1[r]	94.4[r]	120.8[r]	88.9	119.6	132.2
36 Loans from U.S. government	1.1	−.4	−.8	.0	.0	.0	.0	.0	.0	.0	.0	.0
37 Private financial sectors	99.7	131.0	129.2	126.7	61.1	159.6	87.7	145.8	178.3	17.6	11.4	37.1
38 Corporate bonds	50.9	82.9	78.9	51.7	38.7	71.1	32.5	43.0	52.7	31.4	25.5	45.0
39 Mortgages	.1	.1	.4	.3	−.1	.1	−.1	1.2	.3	.0	.0	−.5
40 Bank loans n.e.c.	2.6	4.0	−3.3	1.4	1.3	5.7	−5.6	−.3	3.0	.3	1.7	.1
41 Open market paper	32.0	24.2	28.8	53.6	32.2	70.5	35.1	70.4	53.2	2.8	27.9	44.9
42 Loans from Federal Home Loan Banks	14.2	19.8	24.4	19.7	−11.0	12.3	25.8	31.4	69.1	−16.9	−43.7	−52.4
By sector												
43 **Total**	**201.3**	**318.9**	**315.0**	**246.5[r]**	**201.5**	**245.9[r]**	**216.3[r]**	**302.5[r]**	**384.0[r]**	**119.0**	**141.1**	**161.9**
44 Sponsored credit agencies	21.7	14.9	29.5	44.9	25.0	11.1	46.5	62.3	84.9	12.5	10.0	−7.4
45 Mortgage pools	79.9	173.1	156.4	74.9[r]	115.4	75.1[r]	82.1[r]	94.4[r]	120.8[r]	88.9	119.6	132.2
46 Private financial sectors	99.7	131.0	129.2	126.7	61.1	159.6	87.7	145.8	178.3	17.6	11.4	37.1
47 Commercial banks	−4.9	−3.6	7.1	−3.9	.7	−1.6	−.9	3.7	−13.4	−.9	12.3	4.7
48 Bank affiliates	16.6	15.2	14.3	5.2	7.5	22.4	6.1	.8	6.4	6.5	16.5	.8
49 Savings and loan associations	17.3	20.9	19.6	19.9	−14.6	19.1	24.1	26.3	71.3	−16.2	−48.3	−65.2
50 Mutual savings banks	1.5	4.2	8.1	1.9	−1.6	1.1	.5	3.8	−2.8	−1.1	−3.3	.8
51 Finance companies	57.2	54.5	40.3	67.0	49.0	85.4	40.7	63.6	78.4	32.8	29.7	55.0
52 REITs	.5	1.0	.8	4.1	−1.2	1.7	−5.9	15.0	−.9	−2.2	−1.4	−.4
53 SCO Issuers	11.5	39.0	39.1	32.5	21.3	31.5	23.1	32.5	39.3	−1.4	5.9	41.5

1.57—Continued

	Transaction category, sector	1985	1986	1987	1988	1989	1988			1989			
							Q2	Q3	Q4	Q1	Q2[r]	Q3[r]	Q4
		All sectors											
54	**Total net borrowing**	**1,048.8**	**1,159.8**	**1,013.2**	**1,007.9[r]**	**904.7**	**1,068.8[r]**	**969.7[r]**	**1,050.1[r]**	**1,153.4[r]**	**758.8**	**859.1**	**847.6**
55	U.S. government securities	324.2	403.4	331.5	277.2[r]	290.2	200.0[r]	291.1[r]	298.8[r]	405.6[r]	172.3	278.6	304.2
56	State and local obligations	135.4	22.7	34.1	34.0	24.2	37.9	34.8	34.3	29.3	23.0	32.2	12.4
57	Corporate and foreign bonds	128.4	207.3	186.3	172.7[r]	157.9	208.8[r]	149.3[r]	146.4[r]	155.9[r]	170.0	136.3	169.5
58	Mortgages	242.2	316.4	324.9	306.7[r]	255.4	378.0[r]	313.0[r]	300.8	289.0[r]	246.1	240.3	246.4
59	Consumer credit	82.5	58.0	32.9	51.1	46.1	51.9	35.5	73.1	34.8	46.0	34.5	69.2
60	Bank loans n.e.c.	38.3	69.7	3.8	38.0	35.3	61.2	1.7	60.7	31.1	31.9	59.6	18.7
61	Open market paper	52.8	26.4	33.2	74.9	65.3	83.9	62.5	111.5	106.8[r]	34.0	65.0	55.5
62	Other loans	45.0	56.1	66.5	53.4[r]	30.2	47.1[r]	81.7[r]	24.4[r]	101.0[r]	35.5	12.7	-28.2
63	MEMO: U.S. government, cash balance	14.4	.0	-7.9	10.4	-10.7	1.2	10.6	-17.9	-22.5	43.7	-16.6	-47.5
	Totals net of changes in U.S. government cash balances												
64	Net borrowing by domestic nonfinancial	831.9	831.2	701.1	744.2[r]	706.0	816.3[r]	738.6[r]	752.2[r]	793.1[r]	598.0	710.2	722.6
65	Net borrowing by U.S. government	209.3	215.0	152.8	147.1	160.5	112.5	151.8	160.0	222.4	27.2	165.6	227.0
		External corporate equity funds raised in United States											
66	**Total net share issues**	**20.1**	**90.5**	**14.3**	**-117.9**	**-60.9**	**-133.7**	**-73.5**	**-163.5**	**-163.9[r]**	**-48.8**	**-40.8**	**10.0**
67	Mutual funds	84.4	159.0	71.6	-.7	38.2	-6.6	1.5	11.9	3.6	24.0	54.3	70.9
68	All other	-64.3	-68.5	-57.3	-117.2	-99.0	-127.0	-75.0	-175.4	-167.4[r]	-72.7	-95.1	-60.9
69	Nonfinancial corporations	-81.5	-80.8	-76.5	-130.5	-130.8	-140.0	-92.0	-195.0	-180.0	-105.0	-145.0	-93.0
70	Financial corporations	13.5	11.1	21.4	12.4	14.1	19.0	14.6	13.5	9.0[r]	17.3	16.0	14.0
71	Foreign shares purchased in United States	3.7	1.2	-2.1	.9	17.7	-6.0	2.4	6.1	3.6	15.0	33.9	18.2

1.58 DIRECT AND INDIRECT SOURCES OF FUNDS TO CREDIT MARKETS

Billions of dollars, except as noted; quarterly data are at seasonally adjusted annual rates.

Transaction category, or sector	1985	1986	1987	1988r	1989	1988r			1989			
						Q2	Q3	Q4	Q1r	Q2r	Q3r	Q4
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**846.3**	**831.1**	**693.2**	**754.5**	**695.2**	**817.5**	**749.3**	**734.2**	**770.6**	**641.7**	**693.6**	**675.1**
By public agencies and foreign												
2 Total net advances	202.0	314.0	262.8	215.5	202.8	167.5	181.2	255.8	326.4	-1.1	255.0	230.7
3 U.S. government securities	45.9	69.4	70.1	85.0	45.9	43.3	24.1	119.6	97.6	-103.9	130.2	59.5
4 Residential mortgages	94.6	170.1	153.2	86.3	129.7	89.9	82.4	105.5	122.9	102.2	139.3	154.3
5 FHLB advances to thrifts	14.2	19.8	24.4	19.7	-11.0	12.3	25.8	31.4	69.1	-16.9	-43.7	-52.4
6 Other loans and securities	47.3	54.7	15.1	24.4	38.2	22.1	49.0	-.7	36.8	17.6	29.2	69.4
Total advanced, by sector												
7 U.S. government	17.8	9.7	-7.9	-9.4	-.9	-7.6	4.3	-27.1	-2.4	-3.7	-5.6	8.1
8 Sponsored credit agencies	103.5	187.2	183.4	112.0	127.4	87.7	114.4	152.8	211.0	11.2	157.9	129.5
9 Monetary authorities	18.4	19.4	24.7	10.5	-7.3	5.0	15.5	18.9	5.2	-3.9	-30.7	.1
10 Foreign	62.3	97.8	62.7	102.3	83.6	82.5	47.0	111.2	112.5	-4.6	133.3	93.0
Agency and foreign borrowing not in line 1												
11 Sponsored credit agencies and mortgage pools	101.5	187.9	185.8	119.8	140.4	86.3	128.6	156.7	205.7	101.4	129.7	124.8
12 Foreign	1.2	9.7	4.9	6.9	8.0	5.4	4.1	13.3	-1.1	-1.9	24.3	10.6
Private domestic funds advanced												
13 Total net advances	747.0	714.8	621.1	665.8	640.8	741.6	700.8	648.5	648.8	742.2	592.6	579.7
14 U.S. government securities	278.2	333.9	261.4	192.2	244.3	156.7	267.0	179.3	308.0	276.2	148.5	244.7
15 State and local obligations	135.4	22.7	34.1	34.0	24.2	37.9	34.8	34.3	29.3	23.0	32.2	12.4
16 Corporate and foreign bonds	40.8	84.2	87.5	97.6	98.3	117.5	86.8	66.5	80.5	131.0	103.8	78.0
17 Residential mortgages	91.8	82.0	106.1	161.3	82.2	224.5	167.9	125.8	111.1	103.3	60.4	54.2
18 Other mortgages and loans	214.8	211.8	156.5	200.3	180.7	217.4	170.0	274.0	188.9	191.8	204.2	138.0
19 LESS: Federal Home Loan Bank advances	14.2	19.8	24.4	19.7	-11.0	12.3	25.8	31.4	69.1	-16.9	-43.7	-52.4
Private financial intermediation												
20 Credit market funds advanced by private financial institutions	579.9	744.0	560.8	561.2	492.4	553.6	429.1	634.9	600.6	492.1	308.7	568.5
21 Commercial banking	186.0	197.5	136.8	155.3	171.6	194.5	118.4	220.5	120.6	158.6	166.6	240.6
22 Savings institutions	87.9	107.6	136.8	120.4	-75.3	135.0	156.9	94.0	62.6	-100.2	-136.3	-127.2
23 Insurance and pension funds	154.4	174.6	210.9	198.0	177.1	182.5	152.2	190.1	257.1	162.7	121.6	166.9
24 Other finance	151.6	264.2	76.3	87.4	219.1	41.6	1.7	130.3	160.4	271.1	156.8	288.2
25 Sources of funds	579.9	744.0	560.8	561.2	492.4	553.6	429.1	634.9	600.6	492.1	308.7	568.5
26 Private domestic deposits and RPs	214.3	262.6	144.1	219.9	215.1	103.5	191.3	277.9	146.8	186.8	271.9	254.7
27 Credit market borrowing	99.7	131.0	129.2	126.7	61.1	159.6	87.7	145.8	178.3	17.6	11.4	37.1
28 Other sources	265.9	350.4	287.5	214.6	216.3	290.5	150.1	211.2	275.5	287.7	25.3	276.6
29 Foreign funds	19.7	12.9	43.7	9.3	-1.1	94.5	-41.5	45.2	-28.6	-19.4	22.7	20.9
30 Treasury balances	10.3	1.7	-5.8	7.3	-8.3	-16.3	5.6	-4.1	-21.6	26.6	-15.0	-23.1
31 Insurance and pension reserves	131.9	149.3	176.1	177.6	143.7	176.0	87.3	253.9	187.9	123.1	33.8	229.8
32 Other, net	104.1	186.5	73.6	20.4	82.0	36.4	98.8	-83.7	137.7	157.3	-16.2	49.1
Private domestic nonfinancial investors												
33 Direct lending in credit markets	266.8	101.8	189.6	231.3	209.5	347.6	359.3	159.4	226.5	267.7	295.4	48.4
34 U.S. government securities	157.8	60.9	100.0	131.8	141.6	78.0	209.3	140.5	194.7	126.8	164.6	80.4
35 State and local obligations	37.7	-21.7	45.6	33.9	14.7	37.4	56.0	22.1	35.8	-9.1	33.0	-.9
36 Corporate and foreign bonds	4.2	39.3	24.1	-4.1	11.3	63.2	-6.1	-29.4	-34.7	72.5	8.9	-1.5
37 Open market paper	47.5	5.4	6.6	37.2	17.3	95.0	75.6	-1.3	50.4	16.3	63.8	-61.2
38 Other	19.6	17.9	13.3	32.6	24.6	74.0	24.5	27.4	-19.7	61.3	25.1	31.5
39 Deposits and currency	224.6	283.0	160.2	222.5	236.4	111.4	215.1	248.7	192.0	226.2	248.1	279.4
40 Currency	12.4	14.4	19.0	14.7	12.5	13.8	29.3	5.1	19.3	12.6	9.1	9.0
41 Checkable deposits	41.9	95.0	-3.0	12.4	6.8	-30.2	-22.3	97.8	-56.3	-91.4	-2.9	178.0
42 Small time and savings accounts	138.5	120.6	76.0	122.8	105.1	131.8	73.1	86.1	23.7	114.5	124.0	158.4
43 Money market fund shares	8.9	38.3	27.2	22.8	85.2	-21.0	-3.5	58.1	51.1	111.8	124.3	53.6
44 Large time deposits	7.4	-11.4	26.7	40.7	2.3	-3.6	136.9	12.6	96.8	24.4	14.6	-126.7
45 Security RPs	17.7	20.2	17.2	21.2	15.6	26.5	7.0	23.3	31.6	27.5	12.0	-8.6
46 Deposits in foreign countries	-2.1	5.9	-2.8	-12.1	8.9	-5.9	-5.5	-34.4	25.9	26.8	-32.9	15.7
47 **Total of credit market instruments, deposits, and currency**	**491.4**	**384.8**	**349.8**	**453.8**	**445.9**	**459.1**	**574.4**	**408.1**	**418.5**	**493.9**	**543.5**	**327.8**
48 Public holdings as percent of total	23.8	37.3	37.6	28.3	28.8	20.4	24.1	34.2	42.4	-.2	35.5	33.7
49 Private financial intermediation (in percent)	77.6	104.1	90.3	84.3	76.8	74.7	61.2	97.9	92.6	66.3	52.1	98.1
50 Total foreign funds	82.0	110.7	106.4	111.6	82.5	177.0	5.4	156.4	83.9	-24.0	156.0	113.9
MEMO: Corporate equities not included above												
51 **Total net issues**	**20.1**	**90.5**	**14.3**	**-117.9**	**-60.9**	**-133.7**	**-73.5**	**-163.5**	**-163.9**	**-48.8**	**-40.8**	**10.0**
52 Mutual fund shares	84.4	159.0	71.6	-.7	38.2	-6.6	1.5	11.9	3.6	24.0	54.3	70.9
53 Other equities	-64.3	-68.5	-57.3	-117.2	-99.0	-127.0	-75.0	-175.4	-167.4	-72.7	-95.1	-60.9
54 Acquisitions by financial institutions	45.6	53.7	21.4	.5	5.7	-.6	13.2	20.9	-1.1	-8.4	-7.0	39.3
55 Other net purchases	-25.5	36.8	-7.1	-118.4	-66.6	-133.1	-86.7	-184.4	-162.8	-40.4	-33.8	-29.4

NOTES BY LINE NUMBER.

1. Line 1 of table 1.57.

2. Sum of lines 3–6 or 7–10.

6. Includes farm and commercial mortgages.

11. Credit market funds raised by federally sponsored credit agencies, and net issues of federally related mortgage pool securities.

13. Line 1 less line 2 plus line 11 and 12. Also line 20 less line 27 plus line 33. Also sum of lines 28 and 47 less lines 40 and 46.

18. Includes farm and commercial mortgages.

26. Line 39 less lines 40 and 46.

27. Excludes equity issues and investment company shares. Includes line 19.

29. Foreign deposits at commercial banks, bank borrowings from foreign branches, and liabilities of foreign banking agencies to foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.

30. Demand deposits and note balances at commercial banks.

31. Excludes net investment of these reserves in corporate equities.

32. Mainly retained earnings and net miscellaneous liabilities.

33. Line 13 less line 20 plus line 27.

34–38. Lines 14–18 less amounts acquired by private finance plus amounts borrowed by private finance. Line 38 includes mortgages.

40. Mainly an offset to line 9.

47. Lines 33 plus 39, or line 13 less line 28 plus 40 and 46.

48. Line 2/line 1.

49. Line 20/line 13.

50. Sum of lines 10 and 29.

51, 53. Includes issues by financial institutions.

NOTE. Full statements for sectors and transaction types in flows and in amounts outstanding may be obtained from Flow of Funds Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING

Billions of dollars; period-end levels.

Transaction category, sector	1985	1986	1987	1988	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3[r]	1989 Q4
	Nonfinancial sectors										
1 **Total credit market debt owed by domestic nonfinancial sectors**	**6,795.1**	**7,631.2**	**8,335.0**	**9,080.8**	**8,682.6[r]**	**8,856.6[r]**	**9,080.8[r]**	**9,246.2[r]**	**9,413.0[r]**	**9,591.5**	**9,790.1**
By sector and instrument											
2 U.S. government	1,600.4	1,815.4	1,960.3	2,117.8	2,022.3	2,063.9	2,117.8	2,155.7	2,165.7	2,204.3	2,267.6
3 Treasury securities	1,597.1	1,811.7	1,955.2	2,095.2	2,015.3	2,051.7	2,095.2	2,133.4	2,142.1	2,180.7	2,245.2
4 Agency issues and mortgages	3.3	3.6	5.2	22.6	7.0	12.2	22.6	22.3	23.6	23.5	22.4
5 Private domestic nonfinancial sectors	5,194.7	5,815.8	6,374.7	6,963.1	6,660.4[r]	6,792.7[r]	6,963.1[r]	7,090.5[r]	7,247.3[r]	7,387.3	7,522.5
6 Debt capital instruments	3,485.5	3,957.5	4,428.0	4,881.8	4,648.4[r]	4,763.3[r]	4,881.8[r]	4,973.4[r]	5,073.3[r]	5,173.3	5,275.7
7 Tax-exempt obligations	655.5	679.1	713.2	759.8	727.2	746.1	759.8	764.7	769.9[r]	780.8	784.0
8 Corporate bonds	542.9	664.2	764.1	878.2	825.9[r]	853.6[r]	878.2[r]	903.2[r]	935.2[r]	960.7	992.3
9 Mortgages	2,287.1	2,614.2	2,950.7	3,243.8	3,095.3[r]	3,163.6[r]	3,243.8[r]	3,305.5[r]	3,368.2[r]	3,431.7	3,499.3
10 Home mortgages	1,490.2	1,720.8	1,943.1	2,173.9	2,055.1[r]	2,117.8[r]	2,173.9[r]	2,215.4[r]	2,266.8[r]	2,317.3	2,370.1
11 Multifamily residential	213.0	246.2	270.0	286.7	276.6	281.0	286.7[r]	292.6	294.4	298.8	302.5
12 Commercial	478.1	551.4	648.7	696.4	675.9[r]	677.9[r]	696.4[r]	711.5[r]	720.3[r]	729.0	740.2
13 Farm	105.9	95.8	88.9	86.8	87.8	87.0	86.8	86.0	86.7	86.6	86.5
14 Other debt instruments	1,709.3	1,858.4	1,946.7	2,081.3	2,012.0	2,029.4	2,081.3[r]	2,117.0[r]	2,174.0[r]	2,214.0	2,246.8
15 Consumer credit	601.8	659.8	692.7	743.7	705.8	721.2	743.7	745.0	761.0	776.2	797.9
16 Bank loans n.e.c.	592.7	656.1	664.3	702.6	687.2	687.7	702.6	717.6	729.8	743.8	745.6
17 Open market paper	72.2	62.9	73.8	85.4	77.8	80.3	85.4	96.1	110.1	113.3	107.1
18 Other	442.6	479.6	516.0	549.5	541.1[r]	540.2	549.5[r]	558.3[r]	573.2[r]	580.7	596.2
19 By borrowing sector	5,194.7	5,815.8	6,374.7	6,963.1	6,660.4[r]	6,792.7[r]	6,963.1[r]	7,090.5[r]	7,247.3[r]	7,387.3	7,522.5
20 State and local governments	473.9	510.1	543.7	573.5	556.0	565.7	573.5	578.5	584.8	595.1	598.2
21 Households	2,295.5	2,591.8	2,864.5	3,151.7	2,989.9[r]	3,068.0[r]	3,151.7[r]	3,206.1[r]	3,269.2[r]	3,342.1	3,423.2
22 Nonfinancial business	2,425.4	2,714.0	2,966.5	3,237.9	3,114.4[r]	3,159.0[r]	3,237.9[r]	3,305.9[r]	3,393.2[r]	3,450.1	3,501.1
23 Farm	173.4	156.6	145.5	137.6	143.9	143.6	137.6	135.9	139.5	141.2	137.9
24 Nonfarm noncorporate	898.3	1,001.6	1,109.4	1,200.9	1,151.9	1,172.6	1,200.9[r]	1,223.3[r]	1,239.1[r]	1,251.2	1,266.8
25 Corporate	1,353.6	1,555.8	1,711.6	1,899.4	1,818.6[r]	1,842.9[r]	1,899.4[r]	1,946.6[r]	2,014.7[r]	2,057.8	2,096.4
26 Foreign credit market debt held in United States	234.7	236.4	242.9	249.8	245.9	246.1	249.8[r]	249.8[r]	249.4[r]	254.6	257.6
27 Bonds	71.8	74.9	82.3	89.2	86.0	87.4	89.2	90.5	92.1[r]	94.2	94.3
28 Bank loans n.e.c.	27.9	26.9	23.3	21.5	22.4	22.7	21.5	21.6	22.7	22.6	22.5
29 Open market paper	33.9	37.4	41.2	50.9	44.0	46.3	50.9	54.9	52.7	57.5	63.0
30 U.S. government loans	101.1	97.1	96.1	88.3	93.5	89.8	88.3[r]	82.8[r]	81.9[r]	80.3	77.8
31 **Total domestic plus foreign**	**7,029.9**	**7,867.6**	**8,578.0**	**9,330.7**	**8,928.5[r]**	**9,102.8[r]**	**9,330.7[r]**	**9,496.0[r]**	**9,662.4[r]**	**9,846.1**	**10,047.7**
	Financial sectors										
32 **Total credit market debt owed by financial sectors**	**1,213.2**	**1,563.6**	**1,885.5**	**2,084.1**	**1,942.8[r]**	**1,996.5[r]**	**2,084.1[r]**	**2,190.5[r]**	**2,229.6[r]**	**2,264.5**	**2,318.1**
By instrument											
33 U.S. government related	632.7	844.2	1,026.5	1,098.4	1,019.2[r]	1,054.6[r]	1,098.4[r]	1,140.8[r]	1,166.5[r]	1,202.6	1,238.7
34 Sponsored credit agency securities	257.8	273.0	303.2	348.1	317.9	328.5	348.1	364.3	369.0	370.4	373.1
35 Mortgage pool securities	368.9	565.4	718.3	745.3	696.3[r]	721.1[r]	745.3[r]	771.5[r]	792.5[r]	827.2	860.7
36 Loans from U.S. government	6.1	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
37 Private financial sectors	580.5	719.5	859.0	985.7	923.6	941.9	985.7	1,049.7	1,063.1	1,062.0	1,079.3
38 Corporate bonds	204.5	287.4	366.3	418.0	397.9	406.4	418.0	458.2	465.8	472.5	484.6
39 Mortgages	2.7	2.7	3.1	3.4	3.1	3.1	3.4	3.5	3.5	3.5	3.3
40 Bank loans n.e.c.	32.1	36.1	32.8	34.2	34.3	32.9	34.2	32.2	33.8	34.1	35.5
41 Open market paper	252.4	284.6	323.8	377.4	353.4	358.0	377.4	392.0	398.3	400.8	414.1
42 Loans from Federal Home Loan Banks	88.8	108.6	133.1	152.8	134.8	141.6	152.8	163.8	161.9	151.1	141.8
43 **Total, by sector**	**1,213.2**	**1,563.6**	**1,885.5**	**2,084.1**	**1,942.8[r]**	**1,996.5[r]**	**2,084.1[r]**	**2,190.5[r]**	**2,229.6[r]**	**2,264.5**	**2,318.1**
44 Sponsored credit agencies	263.9	278.7	308.2	353.1	322.9	333.5	353.1	369.3	374.0	375.4	378.1
45 Mortgage pools	368.9	565.4	718.3	745.3	696.3[r]	721.1[r]	745.3[r]	771.5[r]	792.5[r]	827.2	860.7
46 Private financial sectors	580.5	719.5	859.0	985.7	923.6	941.9	985.7	1,049.7	1,063.1	1,062.0	1,079.3
47 Commercial banks	79.2	75.6	82.7	78.8	77.2	76.6	78.8	73.3	74.5	77.0	79.4
48 Bank affiliates	106.2	116.8	131.1	136.2	136.3	136.3	136.2	140.0	141.2	143.9	143.8
49 Savings and loan associations	98.9	119.8	139.4	159.3	141.9	148.1	159.3	170.1	167.9	155.7	144.7
50 Mutual savings banks	4.4	8.6	16.7	18.6	17.6	18.1	18.6	17.8	17.7	17.5	17.1
51 Finance companies	261.2	328.1	378.8	445.8	419.8	427.7	445.8	463.8	478.0	483.0	499.2
52 REITs	5.6	6.5	7.3	11.4	9.1	7.6	11.4	11.1	10.6	10.3	10.2
53 SCO issuers	25.0	64.0	103.1	135.7	121.8	127.5	135.7	173.5	173.1	174.6	185.0
	All sectors										
54 **Total credit market debt**	**8,243.1**	**9,431.2**	**10,463.4**	**11,414.8**	**10,871.3[r]**	**11,099.3[r]**	**11,414.8[r]**	**11,686.5[r]**	**11,892.0[r]**	**12,110.7**	**12,365.7**
55 U.S. government securities	2,227.0	2,653.8	2,981.8	3,211.1	3,036.4[r]	3,113.5[r]	3,211.1[r]	3,291.5[r]	3,327.2[r]	3,401.8	3,501.3
56 State and local obligations	655.5	679.1	713.2	759.8	727.2	746.1	759.8	764.7	769.9[r]	780.8	784.0
57 Corporate and foreign bonds	819.2	1,026.4	1,212.7	1,385.4	1,309.8[r]	1,347.4[r]	1,385.4[r]	1,451.9[r]	1,493.1[r]	1,527.5	1,571.3
58 Mortgages	2,289.8	2,617.0	2,953.8	3,247.2	3,098.5[r]	3,166.7[r]	3,247.2[r]	3,309.0[r]	3,371.7[r]	3,435.2	3,502.6
59 Consumer credit	601.8	659.8	692.7	743.7	705.8	721.2	743.7	745.0	761.0	776.2	797.9
60 Bank loans n.e.c.	652.7	719.1	720.3	758.3	744.0	743.3	758.3	771.4	786.2	800.5	803.6
61 Open market paper	358.5	384.9	438.8	513.6	475.3	484.6	513.6	543.1	561.1	571.6	584.2
62 Other loans	638.6	691.1	750.2	795.6	774.4[r]	776.5[r]	795.6[r]	809.9[r]	821.9[r]	817.1	820.8

1.60 SUMMARY OF CREDIT MARKET CLAIMS, BY HOLDER

Billions of dollars, except as noted; period-end levels.

Transaction category, or sector	1985	1986	1987	1988	1988[r] Q2	1988[r] Q3	1988[r] Q4	1989 Q1[r]	1989 Q2[r]	1989 Q3[r]	1989 Q4
1 **Total funds advanced in credit markets to domestic nonfinancial sectors**	**6,795.1**	**7,631.2**	**8,335.0**	**9,080.8**	**8,682.6**	**8,856.6**	**9,080.8**	**9,246.2**	**9,413.0**	**9,591.5**	**9,790.1**
By public agencies and foreign											
2 Total held	1,460.5	1,794.7	2,044.9	2,196.5	2,093.6	2,130.2	2,196.5	2,256.3	2,262.5	2,328.6	2,394.3
3 U.S. government securities	423.8	493.2	563.3	648.3	610.1	613.3	648.3	666.2	644.2	673.6	694.2
4 Residential mortgages	518.2	712.3	862.0	900.4	848.3	873.3	900.4	927.1	951.2	990.9	1,030.1
5 FHLB advances to thrifts	88.8	108.6	133.1	152.8	134.8	141.6	152.8	163.8	161.9	151.1	141.8
6 Other loans and securities	429.7	480.5	486.6	495.0	500.3	502.1	495.0	499.3	505.1	513.0	528.2
7 Total held, by type of lender	1,460.5	1,794.7	2,044.9	2,196.5	2,093.6	2,130.2	2,196.5	2,256.3	2,262.5	2,328.6	2,394.3
8 U.S. government	246.7	253.3	238.0	212.7	235.8	226.3	212.7	208.0	207.7	206.7	206.8
9 Sponsored credit agencies and mortgage pools	659.8	869.8	1,048.9	1,113.0	1,037.9	1,071.2	1,113.0	1,155.3	1,159.6	1,204.1	1,240.4
10 Monetary authority	186.0	205.5	230.1	240.6	229.7	230.8	240.6	235.4	238.4	227.6	233.3
11 Foreign	367.9	466.1	527.9	630.3	590.2	601.9	630.3	657.6	656.8	690.2	713.8
Agency and foreign debt not in line 1											
12 Sponsored credit agencies and mortgage pools	632.7	844.2	1,026.5	1,098.4	1,019.2	1,054.6	1,098.4	1,140.8	1,166.5	1,202.6	1,238.7
13 Foreign	234.7	236.4	242.9	249.8	245.9	246.1	249.8	249.8	249.4	254.6	257.6
Private domestic holdings											
14 Total private holdings	6,202.1	6,917.1	7,559.5	8,232.5	7,854.1	8,027.2	8,232.5	8,380.4	8,566.4	8,720.2	8,892.1
15 U.S. government securities	1,803.2	2,160.6	2,418.5	2,562.8	2,426.4	2,500.3	2,562.8	2,625.3	2,683.0	2,728.2	2,807.2
16 State and local obligations	655.5	679.1	713.2	759.8	727.2	746.1	759.8	764.7	769.9	780.8	784.0
17 Corporate and foreign bonds	517.6	601.3	689.6	787.2	748.9	770.6	787.2	808.6	840.0	865.9	885.6
18 Residential mortgages	1,185.1	1,254.7	1,351.1	1,560.2	1,483.3	1,525.5	1,560.2	1,581.0	1,610.0	1,625.3	1,642.5
19 Other mortgages and loans	2,129.7	2,330.0	2,520.1	2,715.2	2,603.2	2,626.3	2,715.2	2,764.6	2,825.4	2,871.1	2,914.7
20 LESS: Federal Home Loan Bank advances	88.8	108.6	133.1	152.8	134.8	141.6	152.8	163.8	161.9	151.1	141.8
Private financial intermediation											
21 Credit market claims held by private financial institutions	5,283.1	6,025.7	6,604.6	7,167.5	6,903.0	7,002.7	7,167.5	7,310.3	7,456.5	7,537.9	7,676.6
22 Commercial banking	1,978.9	2,176.3	2,313.1	2,468.4	2,382.6	2,421.6	2,468.4	2,490.9	2,538.2	2,588.6	2,640.0
23 Savings institutions	1,191.2	1,297.9	1,445.5	1,567.7	1,505.5	1,535.2	1,567.7	1,567.3	1,551.1	1,521.1	1,491.0
24 Insurance and pension funds	1,369.7	1,544.3	1,755.2	1,953.3	1,861.4	1,901.9	1,953.3	2,007.0	2,051.1	2,085.0	2,130.3
25 Other finance	743.4	1,007.1	1,090.7	1,178.1	1,153.5	1,144.0	1,178.1	1,245.1	1,316.1	1,343.2	1,415.2
26 Sources of funds	5,283.1	6,025.7	6,604.6	7,167.5	6,903.0	7,002.7	7,167.5	7,310.3	7,456.5	7,537.9	7,676.6
27 Private domestic deposits and RPs	2,930.0	3,188.4	3,324.8	3,560.2	3,438.6	3,480.0	3,560.2	3,589.0	3,639.0	3,702.4	3,775.3
28 Credit market debt	580.5	719.5	859.0	985.7	923.6	941.9	985.7	1,049.7	1,063.1	1,062.0	1,079.3
29 Other sources	1,772.7	2,117.9	2,420.8	2,621.5	2,540.7	2,580.7	2,621.5	2,671.6	2,754.4	2,773.6	2,822.0
30 Foreign funds	5.6	18.6	62.2	71.5	62.2	52.0	71.5	61.8	50.0	55.7	70.4
31 Treasury balances	25.8	27.5	21.6	29.0	32.6	34.2	29.0	13.5	34.4	30.3	20.7
32 Insurance and pension reserves	1,289.4	1,427.9	1,597.2	1,761.8	1,692.5	1,722.3	1,761.8	1,811.1	1,843.8	1,861.9	1,898.5
33 Other, net	451.8	643.9	739.6	759.2	753.5	772.4	759.2	785.2	826.2	825.7	832.3
Private domestic nonfinancial investors											
34 Credit market claims	1,499.5	1,610.8	1,813.9	2,050.7	1,874.8	1,966.4	2,050.7	2,119.9	2,173.1	2,244.2	2,294.9
35 U.S. government securities	814.7	899.1	992.0	1,077.8	962.4	1,022.3	1,077.8	1,105.2	1,127.4	1,177.5	1,219.4
36 Tax-exempt obligations	231.9	211.2	256.8	303.7	270.3	289.0	303.7	307.2	308.8	315.6	318.4
37 Corporate and foreign bonds	38.0	77.8	102.2	93.9	104.8	106.1	93.9	125.3	135.4	140.6	134.6
38 Open market paper	131.0	136.4	160.7	200.9	177.4	185.8	200.9	209.4	218.7	224.7	223.5
39 Other	283.8	286.2	302.3	374.5	359.9	363.2	374.5	372.8	382.8	385.9	399.0
40 Deposits and currency	3,120.4	3,399.2	3,553.9	3,791.9	3,668.5	3,710.3	3,791.9	3,824.0	3,887.8	3,939.6	4,028.4
41 Currency	171.9	186.3	205.4	220.1	209.9	213.4	220.1	220.7	226.4	224.4	232.6
42 Checkable deposits	422.5	517.4	514.0	525.3	510.4	495.9	525.3	492.3	493.8	485.1	532.2
43 Small time and savings accounts	1,831.9	1,948.3	2,017.1	2,156.5	2,117.0	2,137.3	2,156.5	2,170.2	2,191.5	2,225.1	2,261.7
44 Money market fund shares	227.3	265.6	292.8	315.6	306.1	303.6	315.6	340.3	359.9	389.2	400.8
45 Large time deposits	339.9	328.5	355.2	395.9	349.0	384.7	395.9	412.1	415.4	421.0	398.2
46 Security RPs	108.3	128.5	145.7	166.9	156.2	158.6	166.9	174.1	178.4	182.0	182.5
47 Deposits in foreign countries	18.5	24.5	23.7	11.6	19.9	16.8	11.6	14.4	22.5	12.8	20.5
48 **Total of credit market instruments, deposits, and currency**	**4,619.9**	**5,010.0**	**5,367.8**	**5,842.6**	**5,543.2**	**5,676.7**	**5,842.6**	**5,943.9**	**6,060.9**	**6,183.8**	**6,323.2**
49 Public holdings as percent of total	20.8	22.8	23.8	23.5	23.4	23.4	23.5	23.8	23.4	23.6	23.8
50 Private financial intermediation (in percent)	85.2	87.1	87.4	87.1	87.9	87.2	87.1	87.2	87.0	86.4	86.3
51 Total foreign funds	373.5	484.7	590.2	701.8	652.4	653.8	701.8	719.4	706.8	745.9	784.3
MEMO: Corporate equities not included above											
52 **Total market value**	**2,823.9**	**3,360.6**	**3,325.0**	**3,620.3**	**3,622.7**	**3,577.6**	**3,620.3**	**3,731.5**	**4,072.2**	**4,398.7**	**4,311.7**
53 Mutual fund shares	240.2	413.5	460.1	478.3	486.8	478.1	478.3	486.3	514.8	539.6	548.0
54 Other equities	2,583.7	2,947.1	2,864.9	3,142.0	3,136.0	3,099.5	3,142.0	3,245.2	3,557.4	3,859.1	3,763.7
55 Holdings by financial institutions	800.0	972.1	1,013.8	1,186.1	1,167.4	1,160.0	1,186.1	1,253.4	1,377.4	1,509.4	1,496.7
56 Other holdings	2,023.9	2,388.4	2,311.2	2,434.2	2,455.4	2,417.6	2,434.2	2,478.1	2,694.8	2,889.3	2,815.0

NOTES BY LINE NUMBER.
1. Line 1 of table 1.59.
2. Sum of lines 3–6 or 7–10.
6. Includes farm and commercial mortgages.
12. Credit market debt of federally sponsored agencies, and net issues of federally related mortgage pool securities.
14. Line 1 less line 2 plus line 12 and 13. Also line 21 less line 28 plus line 34. Also sum of lines 29 and 48 less lines 41 and 47.
19. Includes farm and commercial mortgages.
27. Line 40 less lines 41 and 47.
28. Excludes equity issues and investment company shares. Includes line 20.
30. Foreign deposits at commercial banks plus bank borrowings from foreign affiliates, less claims on foreign affiliates and deposits by banking in foreign banks.
31. Demand deposits and note balances at commercial banks.
32. Excludes net investment of these reserves in corporate equities.
33. Mainly retained earnings and net miscellaneous liabilities.
34. Line 14 less line 21 plus line 28.
35–39. Lines 15–19 less amounts acquired by private finance plus amounts borrowed by private finance. Line 39 includes mortgages.
41. Mainly an offset to line 10.
48. Lines 34 plus 40, or line 14 less line 29 plus 41 and 47.
49. Line 2/line 1 and 13.
50. Line 21/line 14.
51. Sum of lines 11 and 30.
52–54. 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, Stop 95, Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures[1]

1977 = 100; monthly and quarterly data are seasonally adjusted. Exceptions noted.

Measure	1987	1988	1989	1989							1990	
				June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	Jan.[r]	Feb.
1 **Industrial production**	**129.8**	**137.2**	n.a.	**142.0**	**141.9**	**142.5**	**142.3**	**141.8**	**142.3**	**142.4**	**141.0**	**141.8**
Market groupings												
2 Products, total	138.3	145.9	n.a.	152.5	151.8	152.5	152.4	151.5	152.4	153.4	151.5	152.8
3 Final, total	136.8	144.3	n.a.	151.2	150.2	151.1	150.8	149.4	150.1	151.3	148.9	150.5
4 *Consumer goods*	127.7	133.9	n.a.	139.9	138.7	139.3	139.0	140.2	140.3	141.0	138.0	139.7
5 Equipment	148.8	158.2	n.a.	166.1	165.5	166.8	166.5	161.7	163.2	164.8	163.5	164.9
6 Intermediate	143.3	151.5	n.a.	157.0	157.5	157.5	157.8	158.6	160.1	160.9	160.5	160.6
7 Materials	118.3	125.3	n.a.	127.7	128.3	128.8	128.6	128.7	128.6	127.3	126.7	126.8
Industry groupings												
8 Manufacturing	134.6	142.8	n.a.	148.7	148.5	149.2	148.8	148.0	148.6	148.4	147.4	148.5
Capacity utilization (percent)[2]												
9 Manufacturing	81.1	83.5	83.9	84.4	84.0	84.2	83.7	83.1	83.1	82.8	82.0	82.4
10 Industrial materials industries	80.5	83.7	83.7	83.6	83.7	83.9	83.6	83.5	83.3	82.3	81.7	81.6
11 Construction contracts (1982 = 100)[3]	164.8[r]	166.1[r]	167.0[r]	166.0[r]	168.0[r]	168.0[r]	181.0[r]	173.0[r]	158.0	160.0	154.0	147.0
12 Nonagricultural employment, total[4]	123.9	128.0	131.6	131.7	131.9	132.0	132.3	132.4	132.7	132.9	133.3	133.7
13 Goods-producing, total	101.5	103.7	105.3	105.4	105.4	105.5	105.2	105.2	105.2	104.9	104.8	105.4
14 Manufacturing, total	96.7	98.6	99.6	99.8	99.8	99.8	99.4	99.2	99.1	99.0	98.3	98.8
15 Manufacturing, production- worker	91.9	93.9	94.8	94.8	94.8	94.8	94.2	94.1	93.9	93.8	92.9	93.5
16 Service-producing	133.3	138.2	142.7	142.7	143.0	143.1	143.6	143.8	144.2	144.6	145.2	145.6
17 Personal income, total	235.0	252.8	275.5	274.8	276.4	277.3	277.9	280.1[r]	282.7	284.1	286.3	n.a.
18 Wages and salary disbursements	226.3	244.4	264.7[r]	263.8	266.1	266.7	268.5	271.0[r]	271.1	272.8	274.4	n.a.
19 Manufacturing	183.8	196.5	207.3	207.0	207.5	208.8	208.8	211.1	209.1	209.2	208.4	n.a.
20 Disposable personal income[5]	232.4	252.1	274.0	273.8	275.4	276.1	276.5	278.5[r]	281.2	282.4	284.8	287.3
21 Retail sales[6]	213.6[r]	228.0[r]	240.6[r]	240.5[r]	242.2[r]	244.2[r]	245.2[r]	241.9[r]	243.7	242.8	249.8	247.7
Prices[7]												
22 Consumer (1982–84 = 100)	113.6	118.3	124.0	124.1	124.4	124.6	125.0	125.6	125.9	126.1	127.4	128.0
23 Producer finished goods (1982 = 100)	105.4	108.0	113.5	114.3	114.1	113.4	113.6	114.9[r]	114.8	115.3	117.5	117.4

1. A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the *Federal Reserve Bulletin*, vol. 71 (July 1985), pp. 487–501. The revised indexes for January through June 1985 were shown in the September *Bulletin*.

2. Ratios of indexes of production to indexes of capacity. Based on data from Federal Reserve, McGraw-Hill Economics Department, Department of Commerce, and other sources.

3. Index of dollar value of total construction contracts, including residential, nonresidential and heavy engineering, from McGraw-Hill Information Systems Company, F. W. Dodge Division.

4. Based on data in *Employment and Earnings* (U.S. Department of Labor). Series covers employees only, excluding personnel in the Armed Forces.

5. Based on data in *Survey of Current Business* (U.S. Department of Commerce).

6. Based on Bureau of Census data published in *Survey of Current Business*.

7. Data without seasonal adjustment, as published in *Monthly Labor Review*. Seasonally adjusted data for changes in the price indexes may be obtained from the Bureau of Labor Statistics, U.S. Department of Labor.

NOTE. Basic data (not index numbers) for series mentioned in notes 4, 5,and 6, and indexes for series mentioned in notes 3 and 7 may also be found in the *Survey of Current Business*.

Figures for industrial production for the last two months are preliminary and estimated, respectively.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data are seasonally adjusted. Exceptions noted.

Category	1987	1988	1989	1989						1990	
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population**[1]	**185,010**	**186,837**	**188,601**	**188,672**	**188,808**	**188,948**	**189,096**	**189,238**	**189,381**	**189,506**	**189,607**
2 Labor force (including Armed Forces)[1]	122,122	123,893	126,077	126,202	126,280	126,245	126,373	126,709	126,762	126,610	126,825
3 Civilian labor force	*119,865*	*121,669*	*123,869*	*124,013*	*124,070*	*124,023*	*124,148*	*124,488*	*124,546*	*124,397*	*124,630*
Employment											
4 Nonagricultural industries[2]	109,232	111,800	114,142	114,219	114,275	114,200	114,388	114,676	114,691	114,728	114,957
5 Agriculture	3,208	3,169	3,199	3,217	3,275	3,219	3,197	3,160	3,197	3,134	3,079
Unemployment											
6 Number	7,425	6,701	6,528	6,577	6,520	6,604	6,563	6,652	6,658	6,535	6,594
7 Rate (percent of civilian labor force)	6.2	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
8 Not in labor force	62,888	62,944	62,524	62,470	62,528	62,703	62,723	62,529	62,619	62,896	62,782
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment**[3]	**102,200**	**105,584**	**108,573**	**108,767**	**108,887**	**109,096**	**109,171**	**109,452**	**109,570[r]**	**109,902**	**110,274**
10 Manufacturing	19,024	19,403	19,611	19,649	19,644	19,559	19,537	19,517	19,489	19,359	19,449
11 Mining	717	721	722	706	729	730	731	737	739	746	747
12 Contract construction	4,967	5,125	5,302	5,314	5,321	5,325	5,335	5,355	5,304[r]	5,408	5,468
13 Transportation and public utilities	5,372	5,548	5,703	5,736	5,618	5,709	5,729	5,753	5,834[r]	5,855	5,876
14 Trade	24,327	25,139	25,807	25,823	25,877	25,896	25,957	26,044	26,029[r]	26,162	26,173
15 Finance	6,547	6,676	6,814	6,815	6,836	6,852	6,851	6,871	6,885[r]	6,897	6,912
16 Service	24,236	25,600	26,889	26,973	27,058	27,159	27,188	27,345	27,419[r]	27,564	27,710
17 Government	17,010	17,372	17,726	17,751	17,804	17,866	17,843	17,830	17,871[r]	17,911	17,939

1. Persons 16 years of age and over. Monthly figures, which are based on sample data, relate to the calendar week that contains the 12th day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2. Includes self-employed, unpaid family, and domestic service workers.

3. Data include all full- and part-time employees who worked during, or received pay for, the pay period that includes the 12th day of the month, and exclude proprietors, self-employed persons, domestic servants, unpaid family workers, and members of the Armed Forces. Data are adjusted to the March 1984 benchmark and only seasonally adjusted data are available at this time. Based on data from *Employment and Earnings* (U.S. Department of Labor).

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION[1]

Seasonally adjusted

Series	1989				1989				1989			
	Q1	Q2	Q3	Q4[r]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4[r]
	Output (1977 = 100)				Capacity (percent of 1977 output)				Utilization rate (percent)			
1 **Total industry**	**140.7**	**141.8**	**142.2**	**142.2**	**167.5**	**168.7**	**169.9**	**171.1**	**84.0**	**84.1**	**83.7**	**83.1**
2 Mining	101.8	102.0	102.7	103.7	125.1	124.7	124.3	123.8	81.3	81.8	82.6	83.8
3 Utilities	116.0	115.7	113.9	118.4	141.0	141.4	141.7	142.0	82.3	81.8	80.4	83.4
4 **Manufacturing**	**147.0**	**148.3**	**148.8**	**148.3**	**174.3**	**175.7**	**177.2**	**178.7**	**84.4**	**84.4**	**84.0**	**83.0**
5 Primary processing	127.8	127.6	128.8	128.5	146.5	147.8	149.1	150.4	87.3	86.4	86.4	85.5
6 Advanced processing	158.6	160.8	160.9	160.2	191.0	192.6	194.2	195.8	83.0	83.5	82.9	81.9
7 **Materials**	**127.6**	**127.9**	**128.6**	**128.2**	**151.7**	**152.6**	**153.5**	**154.4**	**84.1**	**83.9**	**83.8**	**83.0**
8 Durable goods	138.6	139.0	140.4	138.6	170.1	171.3	172.5	173.7	81.5	81.1	81.4	79.8
9 Metal materials	98.4	96.0	97.8	93.6	110.2	110.6	111.0	111.4	83.8	81.4	82.3	78.4
10 Nondurable goods	136.3	137.1	137.9	137.8	152.7	154.2	155.8	157.4	89.3	88.9	88.5	87.6
11 Textile, paper, and chemical	139.2	139.8	141.1	140.3	153.5	155.3	157.0	158.8	90.7	90.0	89.8	88.4
12 Paper	148.4	146.1	149.8	151.7	154.0	155.8	157.6	159.4	96.4	93.8	95.1	95.1
13 Chemical	145.4	145.7	146.5	145.3	161.4	163.7	165.9	168.2	90.1	89.0	88.3	86.4
14 Energy materials	100.7	100.7	99.8	101.6	118.4	118.3	118.1	118.0	85.0	85.1	84.5	86.1

Series	Previous cycle		Latest cycle		1989								1990	
	High	Low	High	Low	Feb.	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	Jan.[r]	Feb.
	Capacity utilization rate (percent)													
15 **Total industry**	**88.6**	**72.1**	**86.9**	**69.5**	**83.9**	**84.0**	**83.7**	**83.9**	**83.6**	**83.1**	**83.2**	**83.0**	**82.0**	**82.3**
16 Mining	92.8	87.8	95.2	76.9	80.6	81.5	82.1	82.4	83.4	84.2	84.6	82.6	84.8	84.4
17 Utilities	95.6	82.9	88.5	78.0	82.6	80.8	80.5	80.0	80.8	81.4	81.3	87.3	78.0	77.3
18 **Manufacturing**	**87.7**	**69.9**	**86.5**	**68.0**	**84.3**	**84.4**	**84.0**	**84.2**	**83.7**	**83.1**	**83.1**	**82.8**	**82.0**	**82.4**
19 Primary processing	91.9	68.3	89.1	65.0	87.0	86.2	86.7	86.6	85.8	86.2	85.6	84.6	85.0	84.4
20 Advanced processing	86.0	71.1	85.1	69.5	83.0	83.5	82.9	83.2	82.6	81.6	82.0	82.0	80.7	81.5
21 **Materials**	**92.0**	**70.5**	**89.1**	**68.5**	**84.0**	**83.6**	**83.7**	**83.9**	**83.6**	**83.5**	**83.3**	**82.3**	**81.7**	**81.6**
22 Durable goods	91.8	64.4	89.8	60.9	81.5	81.1	81.3	81.7	81.2	80.3	80.0	79.0	78.3	78.8
23 Metal materials	99.2	67.1	93.6	45.7	83.8	80.6	82.3	82.7	81.9	81.5	77.7	76.1	79.0	78.3
24 Nondurable goods	91.1	66.7	88.1	70.7	89.0	88.7	89.2	88.8	87.5	88.3	87.8	86.7	86.6	85.7
25 Textile, paper, and chemical	92.8	64.8	89.4	68.8	90.3	89.8	90.6	90.1	88.8	89.4	88.6	87.1	87.4	86.4
26 Paper	98.4	70.6	97.3	79.9	95.8	93.7	95.0	95.1	95.1	96.4	94.7	94.3	93.5	......
27 Chemical	92.5	64.4	87.9	63.5	89.8	88.5	89.5	88.6	86.7	87.4	87.0	84.8	85.9	......
28 Energy materials	94.6	86.9	94.0	82.3	84.9	83.8	83.9	84.3	85.4	86.1	86.3	85.9	84.9	84.3

1. These data also appear in the Board's G.3 (402) release. For address, see inside front cover.
2. Monthly high 1973; monthly low 1975.
3. Monthly highs 1978 through 1980; monthly lows 1982.

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]

Monthly data are seasonally adjusted

Groups	1977 proportion	1989 avg.	1989											1990	
			Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.	Jan.[p]	Feb.[e]
			Index (1977 = 100)												
MAJOR MARKET															
1 **Total index**	**100.00**	....	**140.5**	**140.7**	**141.7**	**141.6**	**142.0**	**141.9**	**142.5**	**142.3**	**141.8**	**142.3**	**142.4**	**141.0**	**141.8**
2 Products	57.72	....	150.0	150.5	151.6	151.7	152.5	151.8	152.5	152.4	151.5	152.4	153.4	151.5	152.8
3 Final products	44.77	....	148.6	148.9	150.2	150.4	151.2	150.2	151.1	150.8	149.4	150.1	151.3	148.9	150.5
4 Consumer goods	25.52	....	138.7	138.4	139.5	139.2	139.9	138.7	139.3	139.0	140.2	140.3	141.0	138.0	139.7
5 Equipment	19.25	....	161.6	162.8	164.3	165.4	166.1	165.5	166.8	166.5	161.7	163.2	164.8	163.5	164.9
6 Intermediate products	12.94	....	155.1	156.1	156.5	156.3	157.0	157.5	157.5	157.8	158.6	160.1	160.9	160.5	160.6
7 Materials	42.28	....	127.4	127.3	128.2	127.9	127.7	128.3	128.8	128.6	128.7	128.6	127.3	126.7	126.8
Consumer goods															
8 Durable consumer goods	6.89	....	131.6	130.1	132.2	131.2	130.8	127.3	128.7	127.9	127.9	127.5	128.3	119.6	127.2
9 Automotive products	2.98	....	131.6	128.9	131.7	128.6	125.6	120.2	122.3	120.6	119.2	120.3	123.9	100.3	117.9
10 Autos and trucks	1.79	....	133.1	128.3	131.7	127.4	123.3	114.6	119.3	117.1	113.1	114.7	118.3	79.5	109.6
11 Autos, consumer	1.16	....	96.0	95.0	98.8	96.0	91.4	81.2	86.4	92.7	91.5	84.3	84.2	56.4	79.0
12 Trucks, consumer	.63	....	201.9	190.0	192.8	185.5	182.5	176.7	180.5	162.4	153.3	171.2	181.7	122.3	166.4
13 Auto parts and allied goods	1.19	....	129.4	129.8	131.7	130.4	129.1	128.7	126.7	125.9	128.3	128.8	132.3	131.7	130.4
14 Home goods	3.91	....	131.6	131.1	132.6	133.3	134.8	132.7	133.5	133.4	134.4	133.0	131.7	134.2	134.3
15 Appliances, A/C and TV	1.24	....	153.9	151.6	151.7	151.3	155.6	148.1	152.1	151.9	151.7	145.0	141.8	148.5	148.8
16 Appliances and TV	1.19	....	153.0	152.3	152.5	151.4	155.0	147.0	149.4	148.3	147.3	142.3	137.7	146.8	....
17 Carpeting and furniture	.96	....	141.3	140.7	142.8	144.3	143.1	141.3	139.8	139.9	141.9	143.6	144.7	147.1	....
18 Miscellaneous home goods	1.71	....	110.1	110.9	113.0	114.1	115.0	116.8	116.6	116.5	117.8	118.3	117.1	116.7	....
19 Nondurable consumer goods	18.63	....	141.4	141.4	142.2	142.1	143.3	142.8	143.2	143.1	144.7	145.0	145.7	144.8	144.4
20 Consumer staples	15.29	....	149.7	149.9	150.7	150.7	151.9	151.4	152.0	151.8	153.8	154.6	155.6	154.1	154.0
21 Consumer foods and tobacco	7.80	....	144.3	143.3	144.7	144.7	145.7	144.2	145.6	145.9	147.9	149.1	148.8	148.5	....
22 Nonfood staples	7.49	....	155.4	156.9	156.9	156.9	158.4	158.9	158.7	157.9	160.0	160.4	162.6	159.9	160.0
23 Consumer chemical products	2.75	....	187.8	188.9	187.3	189.1	191.0	193.1	192.5	187.9	192.0	190.6	192.8	194.1	....
24 Consumer paper products	1.88	....	177.0	180.4	180.9	180.9	183.6	183.0	184.7	186.6	188.3	191.3	190.0	189.8	....
25 Consumer energy	2.86	....	110.1	110.7	112.0	110.1	110.7	110.4	109.2	110.3	110.8	111.1	115.6	107.5	106.4
26 Consumer fuel	1.44	....	95.0	95.6	97.3	93.6	95.6	97.0	96.0	95.7	96.1	95.7	94.5	96.8	....
27 Residential utilities	1.42	....	125.4	126.1	127.0	127.0	126.1	124.0	122.7	125.1	125.8	126.8	137.1	....	....
Equipment															
28 Business and defense equipment	18.01	....	167.9	168.9	170.3	171.5	172.0	171.3	172.5	172.1	167.1	168.6	170.5	168.9	170.3
29 Business equipment	14.34	....	165.0	166.3	167.8	169.1	169.6	168.5	169.9	169.6	164.8	166.7	168.8	166.6	168.3
30 Construction, mining, and farm	2.08	....	75.6	76.9	77.6	76.3	74.8	73.0	72.1	74.7	75.2	75.5	76.0	76.0	77.1
31 Manufacturing	3.27	....	137.8	138.6	139.7	140.9	142.8	143.8	143.5	143.1	142.0	141.8	141.2	142.6	142.5
32 Power	1.27	....	92.7	93.0	93.6	93.3	92.5	92.8	94.2	93.8	94.8	94.9	94.2	95.0	93.7
33 Commercial	5.22	....	254.3	257.6	260.1	263.2	264.5	263.8	265.6	265.1	259.3	262.4	263.2	263.3	261.7
34 Transit	2.49	....	125.2	123.9	124.8	125.3	124.8	120.1	124.4	122.2	107.7	111.7	122.9	107.7	120.7
35 Defense and space equipment	3.67	....	179.3	178.7	179.9	180.7	181.1	182.0	182.7	182.1	176.0	176.3	177.2	177.9	178.2
Intermediate products															
36 Construction supplies	5.95	....	139.5	139.3	140.2	140.2	141.2	142.2	141.5	140.9	142.6	144.5	145.8	145.8	145.3
37 Business supplies	6.99	....	168.4	170.4	170.4	170.0	170.4	170.6	171.2	172.3	172.3	173.3	173.8	172.9	....
38 General business supplies	5.67	....	175.4	177.4	177.9	177.3	177.9	177.8	178.8	180.1	179.9	181.6	181.0	182.1	....
39 Commercial energy products	1.31	....	138.3	140.3	138.0	138.2	138.4	139.6	138.1	138.5	139.5	137.5	142.6	133.4	....
Materials															
40 Durable goods materials	20.50	....	138.6	137.9	139.0	138.7	139.4	139.9	140.9	140.4	139.2	139.0	137.5	136.6	137.8
41 Durable consumer parts	4.92	....	112.1	110.7	110.8	111.8	111.6	109.9	111.9	110.7	108.9	108.4	104.7	99.0	104.1
42 Equipment parts	5.94	....	175.2	175.3	176.9	177.1	177.5	179.1	180.0	179.6	177.6	179.5	178.3	179.1	179.9
43 Durable materials n.e.c.	9.64	....	129.7	128.8	130.0	128.9	130.0	131.0	131.6	131.4	131.1	129.8	129.1	129.7	129.1
44 Basic metal materials	4.64	....	98.4	95.9	98.0	94.4	95.5	97.7	98.4	97.4	96.4	92.7	91.7	94.5	93.5
45 Nondurable goods materials	10.09	....	135.9	136.0	137.1	136.8	137.3	138.5	138.3	136.7	138.4	138.2	136.8	137.3	136.3
46 Textile, paper, and chemical materials	7.53	....	138.6	139.0	140.3	139.1	140.0	141.8	141.5	140.0	141.4	140.7	138.9	139.9	138.8
47 Textile materials	1.52	....	110.7	111.8	114.6	116.4	117.2	116.4	117.0	115.6	115.1	113.6	113.8	112.2	....
48 Pulp and paper materials	1.55	....	147.5	147.3	146.7	145.2	146.5	149.1	149.9	150.5	153.1	151.0	151.0	150.2	....
49 Chemical materials	4.46	....	145.0	145.4	146.8	144.7	145.5	147.9	147.0	144.6	146.3	146.3	143.3	145.8	....
50 Miscellaneous nondurable materials	2.57	....	128.0	127.2	127.8	129.9	129.4	129.0	128.9	127.3	129.8	131.1	130.8	....	....
51 Energy materials	11.69	....	100.5	101.0	101.7	101.1	99.1	99.1	99.5	100.9	101.7	101.9	101.3	100.2	99.4
52 Primary energy	7.57	....	104.4	103.7	104.1	104.6	103.0	103.2	104.2	105.6	107.0	107.0	103.6	105.9	....
53 Converted fuel materials	4.12	....	93.3	96.1	97.4	94.7	92.0	91.6	91.0	92.2	91.9	92.5	97.1	89.6	....

2.13 INDUSTRIAL PRODUCTION Indexes and Gross Value[1]—Continued

Groups	SIC code	1977 proportion	1989 avg.	1989 Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.	1990 Jan.[p]	Feb.[e]
				Index (1977 = 100)												
MAJOR INDUSTRY																
1 Mining and utilities	......	15.79	....	106.8	107.5	107.9	107.2	106.3	106.6	106.5	107.7	108.6	108.8	110.4	107.1	106.4
2 Mining	......	9.83	....	100.9	101.5	102.4	102.0	101.5	102.1	102.4	103.5	104.4	104.7	102.2	104.7	104.2
3 Utilities	......	5.96	....	116.5	117.5	117.1	115.6	114.3	114.0	113.3	114.5	115.6	115.5	124.1	111.0	110.1
4 Manufacturing	......	84.21	....	146.8	147.0	148.0	148.1	148.7	148.5	149.2	148.8	148.0	148.6	148.4	147.4	148.5
5 Nondurable	......	35.11	....	148.1	148.6	149.6	149.5	150.5	150.8	151.1	151.1	152.4	152.6	151.9	152.5	152.2
6 Durable	......	49.10	....	145.9	145.8	146.9	147.1	147.4	146.8	147.8	147.2	144.9	145.6	145.9	143.7	145.8
Mining																
7 Metal	10	.50	....	98.6	98.1	96.8	94.0	101.2	106.2	103.7	104.3	104.0	106.6	111.8	....	....
8 Coal	11,12	1.60	....	134.7	137.7	145.5	137.1	129.2	130.2	135.4	144.2	144.4	144.4	138.3	152.4	146.3
9 Oil and gas extraction	13	7.07	....	89.5	89.6	89.1	90.5	90.6	90.8	90.3	90.0	90.9	91.2	88.2	87.8	....
10 Stone and earth minerals	14	.66	....	142.5	143.5	144.5	146.6	150.2	152.1	151.5	148.8	151.8	151.8	157.0	165.7	....
Nondurable manufactures																
11 Foods	20	7.96	....	146.3	145.4	146.6	147.2	147.9	147.3	148.3	148.8	150.3	151.6	151.3	150.7	....
12 Tobacco products	21	.62	....	104.7	101.5	109.2	105.9	104.2	97.1	99.9	97.3	99.2	98.4	....	....	....
13 Textile mill products	22	2.29	....	119.4	119.7	122.5	123.6	123.8	123.5	123.2	123.2	123.5	120.2	121.4	120.6	....
14 Apparel products	23	2.79	....	110.2	109.9	111.3	111.5	111.9	111.4	111.1	111.2	110.0	109.3	108.5	109.1	....
15 Paper and products	26	3.15	....	151.7	151.7	150.7	150.1	150.2	152.4	152.8	153.4	155.5	153.5	153.1	153.2	....
16 Printing and publishing	27	4.54	....	194.6	198.5	200.1	199.0	200.5	199.9	200.6	203.1	204.8	206.9	205.6	207.8	209.3
17 Chemicals and products	28	8.05	....	158.5	159.2	159.3	158.2	159.9	162.2	161.5	159.3	161.3	162.1	161.0	163.2	....
18 Petroleum products	29	2.40	....	96.3	97.0	97.3	96.9	97.9	98.3	97.7	98.4	98.1	98.3	95.6	97.9	97.8
19 Rubber and plastic products	30	2.80	....	175.0	176.4	178.0	180.5	182.3	182.3	183.6	184.2	186.0	185.4	185.2	182.0	....
20 Leather and products	31	.53	....	62.9	61.2	61.4	60.3	60.5	60.8	60.2	60.4	60.0	57.5	58.0	58.8	....
Durable manufactures																
21 Lumber and products	24	2.30	....	132.8	133.4	135.1	135.5	137.2	136.9	136.5	135.7	137.4	140.4	142.6	142.6	....
22 Furniture and fixtures	25	1.27	....	164.8	165.8	168.0	170.2	170.8	169.0	168.0	167.6	167.5	167.8	168.4	170.4	....
23 Clay, glass, and stone products	32	2.72	....	125.4	125.5	124.7	123.9	123.9	122.9	123.9	123.4	123.6	124.3	124.6	124.2	....
24 Primary metals	33	5.33	....	91.1	88.4	90.1	87.2	87.3	89.2	90.3	89.2	89.0	85.0	82.7	86.5	85.3
25 Iron and steel	331,2	3.49	....	79.1	75.9	77.0	73.2	72.9	75.4	75.9	75.4	76.4	72.0	70.2	74.3	....
26 Fabricated metal products	34	6.46	....	124.5	123.8	123.1	124.8	125.2	125.4	125.5	124.4	124.1	125.3	124.5	122.9	124.1
27 Nonelectrical machinery	35	9.54	....	180.8	183.0	184.7	186.5	187.5	186.7	187.8	188.2	184.1	187.5	188.1	187.4	187.3
28 Electrical machinery	36	7.15	....	181.7	181.6	182.2	181.6	181.9	181.4	183.7	182.7	182.2	181.6	180.0	181.0	181.2
29 Transportation equipment	37	9.13	....	136.4	134.8	136.4	135.5	134.2	131.3	133.2	131.9	123.9	125.3	129.0	115.4	126.5
30 Motor vehicles and parts	371	5.25	....	123.4	120.4	122.0	119.7	116.4	110.4	114.2	112.7	110.1	110.4	110.7	86.3	104.8
31 Aerospace and miscellaneous transportation equipment	372–6,9	3.87	....	154.0	154.4	155.9	157.1	158.4	159.6	159.0	157.9	142.7	145.6	153.9	154.9	155.9
32 Instruments	38	2.66	....	161.3	161.8	163.0	164.3	165.7	166.0	164.1	163.1	162.5	162.4	160.1	162.4	162.7
33 Miscellaneous manufactures	39	1.46	117.4	107.6	110.0	114.5	114.7	117.1	119.6	118.5	119.2	122.9	125.8	125.9	122.6	....
Utilities																
34 Electric	......	4.17	....	135.3	137.0	137.1	135.8	134.6	134.9	134.2	135.5	136.8	136.7	147.0	131.5	130.4
				Gross value (billions of 1982 dollars, annual rates)												
MAJOR MARKET																
35 Products, total	......	**517.5**	....	**1,879.2**	**1,878.0**	**1,893.9**	**1,885.5**	**1,886.2**	**1,868.0**	**1,875.4**	**1,874.8**	**1,875.0**	**1,884.7**	**1,894.3**	**1,847.8**	**1,883.5**
36 Final	......	405.7	....	1,449.6	1,442.8	1,460.4	1,449.6	1,450.2	1,430.0	1,438.1	1,436.5	1,432.7	1,439.0	1,449.7	1,405.3	1,443.0
37 Consumer goods	......	272.7	....	934.3	928.0	939.4	928.5	929.3	915.5	919.9	917.7	926.2	930.0	937.6	905.9	927.9
38 Equipment	......	133.0	....	515.2	514.8	521.1	521.1	520.9	514.5	518.2	518.8	506.5	509.1	512.1	499.4	515.1
39 Intermediate	......	111.9	....	429.6	435.3	433.5	435.9	436.0	438.0	437.3	438.3	442.3	445.6	444.6	442.5	440.5

1. These data also appear in the Board's G.12.3 (414) release. For address, see inside front cover.

A major revision of the industrial production index and the capacity utilization rates was released in July 1985. See "A Revision of the Index of Industrial Production" and accompanying tables that contain revised indexes (1977=100) through December 1984 in the *Federal Reserve Bulletin*, vol. 71 (July 1985), pp. 487–501. The revised indexes for January through June 1985 were shown in the September *Bulletin*.

2.14 HOUSING AND CONSTRUCTION

Monthly figures are at seasonally adjusted annual rates except as noted.

Item	1987	1988	1989r	1989 Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.r	Dec.r	1990 Jan.
	Private residential real estate activity (thousands of units)												
NEW UNITS													
1 Permits authorized	1,535	1,456	1,332	1,334	1,347	1,308	1,281	1,328	1,319	1,356	1,342	1,376	1,745
2 1-family	1,024	994	934	954	905	874	906	927	946	961	979	970	1,004
3 2-or-more-family	511	462	398	380	442	434	375	401	373	395	363	406	741
4 Started	1,621	1,488	1,376	1,341	1,308	1,414	1,424	1,325	1,263	1,423	1,347	1,273	1,588
5 1-family	1,146	1,081	1,003	1,028	977	971	1,029	987	969	1,023	1,010	931	1,109
6 2-or-more-family	474	407	373	313	331	443	395	338	294	400	337	342	479
7 Under construction, end of period[1]	987	919	851	923r	912r	915r	918	901r	892r	894	881	886	895
8 1-family	591	570	536	578r	573r	572	576	565	565r	565	558	567	573
9 2-or-more-family	397	350	316	345	339	343r	342	336r	327	329	323	319	322
10 Completed	1,669	1,530	1,423	1,546r	1,444r	1,355	1,375r	1,437r	1,366r	1,317	1,486	1,304	1,424
11 1-family	1,123	1,085	1,026	1,109r	1,038r	964	967r	1,037r	959r	987	1,078	928	1,003
12 2-or-more-family	546	445	397	437	406r	391	408r	400r	407r	330	408	376	421
13 Mobile homes shipped	233	218	198	202	205	200	179	194	186	190	189	189	230
Merchant builder activity in 1-family units													
14 Number sold	672	675	650	610r	651r	646r	741r	719r	638r	636r	687	632	589
15 Number for sale, end of period[1]	366r	367r	361	376r	379r	376r	369	364	364	363r	363	361	364
Price (thousands of dollars)[2]													
Median													
16 Units sold	104.7	113.3	120.4	116.7	119.0	122.8	116.0	122.9	120.0	123.0	125.0	125.0	125.0
Average													
17 Units sold	127.9	139.0	148.5	144.7	145.1	153.6	140.3	158.6	151.1	147.8r	151.4	156.0	154.2
EXISTING UNITS (1-family)													
18 Number sold	3,530	3,594	3,439	3,440r	3,250r	3,330r	3,380r	3,440r	3,510r	3,490	3,560	3,560	3,520
Price of units sold (thousands of dollars)[2]													
19 Median	85.6	89.2	92.9	92.9	92.6	93.5r	95.2r	95.8r	93.8r	92.4	93.1	92.5	96.3
20 Average	106.2	112.5	118.0	117.9r	118.0	119.0r	121.0r	121.6r	118.3r	116.7r	117.9	118.1	120.0
	Value of new construction[3] (millions of dollars)												
CONSTRUCTION													
21 Total put in place	**397,721**	**409,663**	**414,683**	**411,891**	**416,540**	**412,523**	**410,269**	**416,279**	**416,176**	**414,590**	**416,869**	**416,561**	**424,033**
22 Private	320,108	328,738	330,425	332,537	330,591	329,035	328,785	331,884	329,564	329,782	328,000	321,695	333,112
23 Residential	194,656	198,101	163,854	200,735	196,984	194,229	195,165	194,393	192,765	193,124	191,129	190,205	195,750
24 Nonresidential, total	125,452	130,637	166,571	131,802	133,607	134,806	133,620	137,491	136,799	136,658	136,871	131,490	137,362
Buildings													
25 Industrial	13,707	14,931	16,756	16,245	15,945	16,302	16,424	17,526	17,927	17,746	18,014	17,312	19,865
26 Commercial	55,448	58,104	57,485	55,581	56,796	57,434	56,640	57,680	57,132	58,238	57,672	54,516	55,654
27 Other	15,464	17,278	17,366	16,645	17,343	17,179	16,768	18,455	17,962	17,277	17,790	16,218	17,347
28 Public utilities and other	40,833	40,324	74,964	43,331	43,523	43,891	43,788	43,830	43,778	43,397	43,395	43,444	44,496
29 Public	77,612	80,922	84,254	80,420	85,130	81,914	81,484	84,395	86,612	84,807	88,869	94,865	90,920
30 Military	4,327	3,579	3,663	2,054	3,870	4,324	3,194	3,779	4,916	3,342	3,919	3,922	3,667
31 Highway	25,343	28,524	27,663	27,772	27,432	27,321	26,128	27,367	27,581	26,062	28,503	33,165	28,872
32 Conservation and development	5,162	4,474	4,814	3,068	6,053	4,699	4,567	4,708	4,906	5,860	5,095	5,669	5,338
33 Other	42,780	44,345	48,114	47,526	47,775	45,570	47,595	48,541	49,209	49,543	51,352	52,109	53,043

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 previous periods because of changes by the Bureau of the Census in its estimating techniques. For a description of these changes see *Construction Reports* (C-30-76-5), issued by the Bureau in July 1976.

NOTE. Census Bureau estimates for all series except (1) mobile homes, which are private, domestic shipments as reported by the Manufactured Housing Institute and seasonally adjusted by the Census Bureau, and (2) sales and prices of existing units, which are published by the National Association of Realtors. All back and current figures are available from the originating agency. Permit authorizations are those reported to the Census Bureau from 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. 1990
	1989 Feb.	1990 Feb.	1989 Mar.	1989 June	1989 Sept.	1989 Dec.	1990 Oct.	1990 Nov.	1990 Dec.	1990 Jan.	1990 Feb.	
CONSUMER PRICES[2] (1982–84=100)												
1 **All items**	**4.8**	**5.3**	**6.1**	**5.3**	**2.3**	**4.9**	**.5**	**.3**	**.4**	**1.1**	**.5**	**128.0**
2 Food	6.2	6.8	7.8	5.6	3.6	5.5	.4	.5	.5	2.0	.5	131.3
3 Energy items	2.6	8.0	9.7	22.7	-12.6	3.9	1.0	-.3	.3	5.1	-.7	96.4
4 All items less food and energy	4.8	4.6	5.5	3.8	3.5	4.7	.5	.4	.3	.6	.5	132.8
5 Commodities	4.2	3.5	3.8	2.4	1.3	3.4	.4	.2	.2	.4	1.0	122.2
6 Services	5.0	5.2	5.9	4.6	4.5	5.7	.5	.4	.4	.7	.4	138.9
PRODUCER PRICES (1982=100)												
7 Finished goods	5.3	5.1	9.0	5.8	.4	5.0	.5	.1	.6	1.8	.0	117.4
8 Consumer foods	7.1	6.1	11.2	-2.3	.7	12.0	1.4	.9	.6	2.1	.9	124.4
9 Consumer energy	5.6	11.7	33.0	34.3	-15.3	-4.8	.2	-3.2	1.9	13.6	-5.0	69.0
10 Other consumer goods	5.0	4.0	5.4	6.0	2.3	4.6	.3	.2	.6	.0	.6	127.5
11 Capital equipment	3.8	3.3	4.6	4.5	4.4	1.7	-.1r	.2r	.2	.2	.2	121.4
12 Intermediate materials[3]	6.1	1.6	7.9	2.9	-.7	.4	.2	-.1	.0	1.2	-.7	112.6
13 Excluding energy	6.9	.2	5.5	.3	-.7	-1.3	.1	.0	-.4	.1	.1	120.1
Crude materials												
14 Foods	11.3	3.1	14.8	-16.9	-2.2	18.4	.0r	1.7r	2.5	1.0	1.0	114.4
15 Energy	2.3	14.6	48.3	23.6	-7.0	13.2	.7	.3	2.2	5.0	.1	82.5
16 Other	6.6	-6.4	9.7	-7.7	.6	-16.3	.1r	-2.4r	-2.1	.2	-.8	131.3

1. Not seasonally adjusted.
2. Figures for consumer prices are those for all urban consumers and reflect a rental equivalence measure of homeownership after 1982.
3. Excludes intermediate materials for food manufacturing and manufactured animal feeds.

SOURCE. Bureau of Labor Statistics.

2.16 GROSS NATIONAL PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data are at seasonally adjusted annual rates.

Account	1987	1988	1989[r]	1988	1989			
				Q4	Q1	Q2	Q3	Q4[r]
GROSS NATIONAL PRODUCT								
1 **Total**	**4,524.3**	**4,880.6**	**5,234.0**	**5,017.3**	**5,113.1**	**5,201.7**	**5,281.0**	**5,340.2**
By source								
2 Personal consumption expenditures	3,010.8	3,235.1	3,471.1	3,324.0	3,381.4	3,444.1	3,508.1	3,550.6
3 Durable goods	421.0	455.2	473.2	467.4	466.4	471.0	486.1	469.5
4 Nondurable goods	998.1	1,052.3	1,123.4	1,078.4	1,098.3	1,121.5	1,131.4	1,142.4
5 Services	1,591.7	1,727.6	1,874.4	1,778.2	1,816.7	1,851.7	1,890.6	1,938.7
6 Gross private domestic investment	699.9	750.3	773.4	752.8	769.6	775.0	779.1	770.1
7 Fixed investment	670.6	719.6	746.3	734.1	742.0	747.6	751.7	744.0
8 Nonresidential	444.3	487.2	511.7	495.8	503.1	512.5	519.6	511.4
9 Structures	133.8	140.3	144.9	142.5	144.7	142.4	146.2	146.4
10 Producers' durable equipment	310.5	346.8	366.7	353.3	358.5	370.1	373.4	365.0
11 Residential structures	226.4	232.4	234.6	238.4	238.8	235.1	232.1	232.6
12 Change in business inventories	29.3	30.6	27.1	18.7	27.7	27.4	27.4	26.1
13 Nonfarm	30.5	34.2	22.2	40.8	19.1	23.6	19.8	26.4
14 Net exports of goods and services	-112.6	-73.7	-47.1	-70.8	-54.0	-50.6	-45.1	-38.8
15 Exports	448.6	547.7	625.9	579.7	605.6	626.1	628.5	643.5
16 Imports	561.2	621.3	673.0	650.5	659.6	676.6	673.6	682.3
17 Government purchases of goods and services	926.1	968.9	1,036.6	1,011.4	1,016.0	1,033.2	1,038.9	1,058.3
18 Federal	381.6	381.3	403.2	406.4	399.0	406.0	402.7	405.1
19 State and local	544.5	587.6	633.4	604.9	617.0	627.2	636.2	653.2
By major type of product								
20 Final sales, total	4,495.0	4,850.0	5,206.9	4,998.7	5,085.4	5,174.3	5,253.6	5,314.2
21 Goods	1,785.2	1,931.9	2,072.3	1,987.4	2,030.9	2,079.1	2,096.3	2,082.8
22 Durable	777.6	863.6	909.1	888.5	894.7	905.2	930.1	906.5
23 Nondurable	1,007.6	1,068.3	1,163.2	1,098.9	1,136.2	1,173.9	1,166.2	1,176.3
24 Services	2,304.5	2,499.2	2,702.7	2,570.0	2,620.8	2,667.5	2,728.1	2,794.2
25 Structures	434.6	449.5	459.1	459.9	461.3	455.1	456.6	463.2
26 Change in business inventories	29.3	30.6	27.1	18.7	27.7	27.4	27.4	26.1
27 Durable goods	22.0	25.0	11.9	32.0	22.0	6.0	5.2	14.2
28 Nondurable goods	7.2	5.6	15.3	-13.3	5.7	21.4	22.2	11.8
MEMO								
29 **Total GNP in 1982 dollars**	**3,853.7**	**4,024.4**	**4,144.1**	**4,069.4**	**4,106.8**	**4,132.5**	**4,162.9**	**4,174.1**
NATIONAL INCOME								
30 **Total**	**3,665.4**	**3,972.6**	**4,266.5**	**4,097.4**	**4,185.2**	**4,249.6**	**4,287.3**	**4,343.9**
31 Compensation of employees	2,690.0	2,907.6	3,144.4	2,997.2	3,061.7	3,118.2	3,171.9	3,225.9
32 Wages and salaries	2,249.4	2,429.0	2,631.1	2,505.1	2,560.7	2,608.8	2,654.7	2,700.1
33 Government and government enterprises	419.2	446.5	476.9	456.3	466.9	473.5	480.2	487.0
34 Other	1,830.1	1,982.5	2,154.2	2,048.9	2,093.8	2,135.3	2,174.5	2,213.1
35 Supplement to wages and salaries	440.7	478.6	513.3	492.0	501.0	509.4	517.2	525.8
36 Employer contributions for social insurance	227.8	249.7	265.0	255.6	259.7	263.4	266.6	270.4
37 Other labor income	212.8	228.9	248.3	236.5	241.3	246.0	250.7	255.3
38 Proprietors' income[1]	311.6	327.8	352.1	328.3	359.3	355.5	343.3	350.3
39 Business and professional[1]	270.0	288.0	305.9	296.3	300.3	304.2	307.2	311.8
40 Farm[1]	41.6	39.8	46.2	32.0	59.0	51.3	36.1	38.5
41 Rental income of persons[2]	13.4	15.7	7.9	16.1	11.8	9.8	5.4	4.8
42 Corporate profits[1]	298.7	328.6	301.3	340.2	316.3	307.8	295.2	285.7
43 Profits before tax[3]	266.7	306.8	290.6	318.8	318.0	296.0	275.0	273.5
44 Inventory valuation adjustment	-18.9	-25.0	-18.7	-20.1	-38.3	-20.5	-6.3	-9.7
45 Capital consumption adjustment	50.9	46.8	29.3	41.5	36.6	32.3	26.5	21.9
46 Net interest	351.7	392.9	460.8	415.7	436.1	458.4	471.5	477.2

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	1987	1988	1989[r]	1988	1989			
				Q4	Q1	Q2	Q3	Q4[r]
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**3,777.6**	**4,064.5**	**4,427.3**	**4,185.2**	**4,317.8**	**4,400.3**	**4,455.9**	**4,535.3**
2 Wage and salary disbursements	2,249.4	2,429.0	2,631.1	2,505.1	2,560.7	2,608.8	2,654.7	2,700.1
3 Commodity-producing industries	649.9	696.3	738.2	714.7	726.6	733.7	742.6	749.7
4 Manufacturing	490.3	524.0	552.9	538.1	546.3	549.9	555.7	559.6
5 Distributive industries	531.9	571.9	615.1	587.5	598.8	610.8	619.4	631.2
6 Service industries	648.3	714.4	801.0	746.7	768.4	790.8	812.4	832.2
7 Government and government enterprises	419.2	446.5	476.9	456.3	466.9	473.5	480.2	487.0
8 Other labor income	212.8	228.9	248.3	236.5	241.3	246.0	250.7	255.3
9 Proprietors' income[1]	311.6	327.8	352.1	328.3	359.3	355.5	343.3	350.3
10 Business and professional[1]	270.0	288.0	305.9	296.3	300.3	304.2	307.2	311.8
11 Farm[1]	41.6	39.8	46.2	32.0	59.0	51.3	36.1	38.5
12 Rental income of persons[2]	13.4	15.7	7.9	16.1	11.8	9.8	5.4	4.8
13 Dividends	92.0	102.2	112.4	106.4	109.4	111.4	113.2	115.7
14 Personal interest income	523.2	571.1	657.4	598.6	629.0	655.1	667.8	677.7
15 Transfer payments	548.2	584.7	632.3	593.8	616.4	626.8	636.4	649.7
16 Old-age survivors, disability, and health insurance benefits	282.9	300.5	325.3	304.0	316.9	322.9	327.9	333.4
17 LESS: Personal contributions for social insurance	172.9	194.9	214.2	199.6	210.0	213.0	215.4	218.2
18 EQUALS: Personal income	3,777.6	4,064.5	4,427.3	4,185.2	4,317.8	4,400.3	4,455.9	4,535.3
19 LESS: Personal tax and nontax payments	571.7	586.6	648.5	597.8	628.3	652.6	649.1	664.1
20 EQUALS: Disposable personal income	3,205.9	3,477.8	3,778.8	3,587.4	3,689.5	3,747.7	3,806.8	3,871.3
21 LESS: Personal outlays	3,104.1	3,333.1	3,574.4	3,424.0	3,483.8	3,547.0	3,611.7	3,655.3
22 EQUALS: Personal saving	101.8	144.7	204.4	163.4	205.7	200.7	195.1	216.0
MEMO								
Per capita (1982 dollars)								
23 Gross national product	15,793.9	16,332.8	16,656.4	16,455.3	16,566.4	16,629.8	16,711.8	16,709.8
24 Personal consumption expenditures	10,302.0	10,545.5	10,729.9	10,625.6	10,653.5	10,678.9	10,799.3	10,783.4
25 Disposable personal income	10,970.0	11,337.0	11,680.0	11,466.0	11,625.0	11,622.0	11,717.0	11,755.0
26 Saving rate (percent)	3.2	4.2	5.4	4.6	5.6	5.4	5.1	5.6
GROSS SAVING								
27 **Gross saving**	**553.8**	**642.4**	**701.7**	**647.4**	**693.5**	**695.8**	**709.9**	**707.5**
28 Gross private saving	663.8	738.6	806.2	769.3	792.1	793.7	809.7	829.4
29 Personal saving	101.8	144.7	204.4	163.4	205.7	200.7	195.1	216.0
30 Undistributed corporate profits[1]	75.3	80.3	49.5	81.7	53.4	52.0	49.3	43.3
31 Corporate inventory valuation adjustment	−18.9	−25.0	−18.7	−20.1	−38.3	−20.5	−6.3	−9.7
Capital consumption allowances								
32 Corporate	303.1	321.7	344.9	329.7	335.2	339.7	349.9	354.9
33 Noncorporate	183.6	191.9	207.4	194.4	197.8	201.3	215.3	215.2
34 Government surplus, or deficit (−), national income and product accounts	−110.1	−96.1	−104.6	−121.9	−98.7	−97.9	−99.8	−121.9
35 Federal	−161.4	−145.8	−148.5	−167.6	−147.5	−145.4	−144.7	−156.6
36 State and local	51.3	49.7	44.0	45.7	48.8	47.5	44.9	34.7
37 **Gross investment**	**549.0**	**632.8**	**677.3**	**630.8**	**669.3**	**677.5**	**684.3**	**677.8**
38 Gross private domestic	699.9	750.3	773.4	752.8	769.6	775.0	779.1	770.1
39 Net foreign	−150.9	−117.5	−96.2	−122.0	−100.3	−97.5	−94.8	−92.2
40 **Statistical discrepancy**	**−4.7**	**−9.6**	**−24.4**	**−16.6**	**−24.1**	**−18.3**	**−25.5**	**−29.6**

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. *Survey of Current Business* (Department of Commerce).

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data are seasonally adjusted except as noted.[1]

Item credits or debits	1987	1988	1989	1988	1989			
				Q4	Q1	Q2	Q3[r]	Q4[p]
1 Balance on current account	−143,700	−126,548	−105,879	−28,677	−30,391[r]	−31,999[r]	−22,909	−20,571
2 Not seasonally adjusted	....	....	....	−28,191	−25,994	−31,888	−27,854	−20,142
3 Merchandise trade balance[2]	−159,500	−127,215	−113,248	−32,019	−28,355[r]	−27,529[r]	−28,558	−28,806
4 Merchandise exports	250,266	319,251	361,872	83,729	87,783[r]	91,284[r]	90,691	92,114
5 Merchandise imports	−409,766	−446,466	−475,120	−115,748	−116,138[r]	−118,813[r]	−119,249	−120,920
6 Military transactions, net	−2,856	−4,606	−5,662	−1,604	−1,498	−1,518	−1,175	−1,471
7 Investment income, net	71,151	61,974	76,170	21,329	15,459[r]	13,417[r]	21,360	25,934
8 Other service transactions, net	10,585	17,702	26,279	5,475	5,433[r]	5,981[r]	7,449	7,425
9 Remittances, pensions, and other transfers	−4,063	−4,279	−4,028	−1,090	−1,147[r]	−972[r]	−975	−935
10 U.S. government grants (excluding military)	−10,149	−10,377	−10,248	−3,928	−2,340	−1,857	−2,510	−3,541
11 Change in U.S. government assets, other than official reserve assets, net (increase, −)	997	2,999	1,037	3,413	1,049	−309	502	−206
12 Change in U.S. official reserve assets (increase, −)	9,149	−3,566	−25,293	2,271	−4,000	−12,095	−5,996	−3,202
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	−509	474	−535	173	−188	68	−211	−204
15 Reserve position in International Monetary Fund	2,070	1,025	471	307	316	−159	337	−23
16 Foreign currencies	7,588	−5,064	−25,229	1,791	−4,128	−12,004	−6,122	−2,975
17 Change in U.S. private assets abroad (increase, −)	−86,363	−81,544	−101,451	−38,332	−27,939[r]	13,210[r]	−39,228	−47,495
18 Bank-reported claims[3]	−42,119	−54,481	−47,244	−30,916	−22,132	27,238	−20,700	−31,650
19 Nonbank-reported claims	5,201	−1,684	608	4,569	1,835	−2,954	1,727	....
20 U.S. purchase of foreign securities, net	−5,251	−7,846	−22,551	−3,047	−2,568	−5,737	−10,392	−3,854
21 U.S. direct investments abroad, net	−44,194	−17,533	−32,264	−8,938	−5,074[r]	−5,337[r]	−9,863	−11,991
22 *Change in foreign official assets in United States (increase, +)*	45,193	38,882	7,369	10,589	7,477	−5,201	12,097	−7,005
23 U.S. Treasury securities	43,238	41,683	323	11,897	4,634	−9,738	12,746	−7,319
24 Other U.S. government obligations	1,564	1,309	1,383	697	721	−97	190	569
25 Other U.S. government liabilities[4]	−2,520	−1,284	55	−232	−304	417	−385	326
26 Other U.S. liabilities reported by U.S. banks[3]	3,918	−331	3,751	−1,036	1,974	3,620	−1,097	−746
27 Other foreign official assets[5]	−1,007	−2,495	1,857	−737	452	597	643	165
28 Change in foreign private assets in United States (increase, +)	172,847	180,417	189,302	70,170	52,529	3,412	58,619	74,742
29 U.S. bank-reported liabilities[3]	89,026	68,832	57,983	32,223	13,261	−21,422	25,177	40,967
30 U.S. nonbank-reported liabilities	2,450	6,558	313	2,702	2,852	−361	−2,178	....
31 Foreign private purchases of U.S. Treasury securities, net	−7,643	20,144	29,411	5,336	8,590	2,252	12,714	5,855
32 Foreign purchases of other U.S. securities, net	42,120	26,448	40,334	6,871	8,665	9,676	10,470	11,523
33 Foreign direct investments in United States, net	46,894	58,435	61,261	23,038	19,161	13,267	12,436	16,397
34 Allocation of SDRs	0	0	0	0	0	0	0	0
35 Discrepancy	1,878	−10,641	34,914	−19,434	1,275[r]	32,982[r]	−3,085	3,737
36 Owing to seasonal adjustments	....	....	....	4,431	3,700[r]	−2,825[r]	−5,370	4,490
37 Statistical discrepancy in recorded data before seasonal adjustment	1,878	−10,641	34,914	−23,865	−2,425	35,807	2,285	−753
MEMO								
Changes in official assets								
38 U.S. official reserve assets (increase, −)	9,149	−3,566	−25,293	2,271	−4,000	−12,095	−5,996	−3,202
39 Foreign official assets in United States (increase, +) excluding line 25	47,713	40,166	7,314	10,821	7,781	−5,618	12,482	−7,331
40 *Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22 above)*	−9,956	−3,109	10,680	672	7,143	433	4,515	−1,411
41 Transfers under military grant programs (excluded from lines 4, 6, and 10 above)	53	92	47	40	12	13	8	14

1. Seasonal factors are not calculated for lines 6, 10, 12–16, 18–20, 22–34, and 38–41.
2. Data are on an international accounts (IA) basis. Differs from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise data and are included in line 6.
3. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
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[1]

Millions of dollars; monthly data are seasonally adjusted.

Item	1987	1988	1989r	1989 July r	1989 Aug. r	1989 Sept. r	1989 Oct. r	1989 Nov. r	1989 Dec. r	1990 Jan. p
1 EXPORTS of domestic and foreign merchandise excluding grant-aid shipments, f.a.s. value	254,073	322,426	363,983	29,662	30,249	30,367	31,474	30,627	30,843	32,072
GENERAL IMPORTS including merchandise for immediate consumption plus entries into bonded warehouses										
2 Customs value	406,241	440,952	472,977	39,216	40,424	38,524	41,915	40,739	38,522	41,325
Trade balance										
3 **Customs value**	**−152,169**	**−118,526**	**−108,994**	**−9,553**	**−10,176**	**−8,157**	**−10,441**	**−10,112**	**−7,678**	**−9,253**

1. 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 adjustment is the exclusion of military sales (which are combined with other military transactions and reported separately in the "service account" in table 3.10, line 6). On the *import side*, additions are made for gold, ship purchases, imports of electricity from Canada, and other transactions; military payments are excluded and shown separately as indicated above. As of Jan. 1, 1987 census data are released 45 days after the end of the month; the previous month is revised to reflect late documents. Total exports and the trade balance reflect adjustments for undocumented exports to Canada.

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	1986	1987	1988	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb. p
1 **Total**	**48,511**	**45,798**	**47,802**	**62,364**	**68,418**	**70,560**	**70,560**	**74,609**	**75,506**	**74,173**
2 Gold stock, including Exchange Stabilization Fund[1]	11,064	11,078	11,057	11,066	11,065	11,062	11,060	11,059	11,059	11,059
3 Special drawing rights[2,3]	8,395	10,283	9,637	9,240	9,487	9,473	9,751	9,951	10,041	10,216
4 Reserve position in International Monetary Fund[2]	11,730	11,349	9,745	8,644	8,786	8,722	9,047	9,048	9,173	8,985
5 Foreign currencies[4]	17,322	13,088	17,363	33,413	39,080	41,552	42,702	44,551	45,233	43,913

1. Gold held under earmark at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13. Gold stock is valued at $42.22 per fine troy ounce.
2. Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; from January 1981, 5 currencies have been used. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.
3. Includes allocations by the International Monetary Fund of SDRs as follows: $867 million on Jan. 1, 1970; $717 million on Jan. 1, 1971; $710 million on Jan. 1, 1972; $1,139 million on Jan. 1, 1979; $1,152 million on Jan. 1, 1980; and $1,093 million on Jan. 1, 1981; plus transactions in SDRs.
4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS[1]

Millions of dollars, end of period

Assets	1986	1987	1988	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb. p
1 Deposits	287	244	347	265	325	252	307	589	251	309
Assets held in custody										
2 U.S. Treasury securities[2]	155,835	195,126	232,547	238,007	235,597	230,804	231,059	224,911	225,618	221,798
3 Earmarked gold[3]	14,048	13,919	13,636	13,516	13,506	13,460	13,458	13,456	13,458	13,458

1. Excludes deposits and U.S. Treasury securities held for international and regional organizations.
2. Marketable U.S. Treasury bills, notes, and bonds; and nonmarketable U.S. Treasury securities payable in dollars and in foreign currencies.
3. Earmarked gold and the gold stock are valued at $42.22 per fine troy ounce. Earmarked gold is gold held for foreign and international accounts and is not included in the gold stock of the United States.

3.14 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data[1]

Millions of dollars, end of period

Asset account	1986	1987	1988	1989						1990
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	All foreign countries									
1 **Total, all currencies**	***456,628***	***518,618***	***505,595***	***534,425***	***522,489***	***520,845***	***533,641***	***548,074^r***	***545,366^r***	***549,367***
2 Claims on United States	114,563	138,034	169,111	179,839	177,299	182,440	184,505	195,913^r	198,835^r	192,887
3 Parent bank	83,492	105,845	129,856	133,359	134,479	142,339	145,034	154,825^r	157,092^r	149,245
4 Other banks in United States	13,685	16,416	14,918	15,744	15,225	14,164	14,248	15,301	17,042	17,768
5 Nonbanks	17,386	15,773	24,337	30,736	27,595	25,937	25,223	25,787	24,701	25,874
6 Claims on foreigners	312,955	342,520	299,728	310,426	299,265	289,996	300,814	302,525^r	300,575^r	307,802
7 Other branches of parent bank	96,281	122,155	107,179	117,438	108,893	104,683	110,684	111,053	113,810	119,271
8 Banks	105,237	108,859	96,932	95,621	92,465	90,510	93,357	95,098	90,703	92,649
9 Public borrowers	23,706	21,832	17,163	16,948	16,656	16,215	16,721	16,148	16,456	15,418
10 Nonbank foreigners	87,731	89,674	78,454	80,419	81,251	78,588	80,052	80,226^r	79,606^r	80,464
11 Other assets	29,110	38,064	36,756	44,160	45,925	48,409	48,322	49,636^r	45,956^r	48,678
12 **Total payable in U.S. dollars**	**317,487**	**350,107**	**357,573**	**372,076**	**369,287**	**359,924**	**369,898**	**380,282^r**	**382,414^r**	**374,995**
13 Claims on United States	110,620	132,023	163,456	171,265	170,497	174,628	176,228	188,105^r	191,184^r	184,981
14 Parent bank	82,082	103,251	126,929	128,287	130,168	137,481	139,224	149,908^r	152,294^r	144,015
15 Other banks in United States	12,830	14,657	14,167	14,734	14,688	13,217	13,597	14,543	16,386	16,946
16 Nonbanks	15,708	14,115	22,360	28,244	25,641	23,930	23,407	23,654	22,504	24,020
17 Claims on foreigners	195,063	202,428	177,685	181,441	177,911	164,461	171,691	168,404^r	169,690^r	167,599
18 Other branches of parent bank	72,197	88,284	80,736	90,077	83,036	77,858	83,945	79,585	82,949	85,029
19 Banks	66,421	63,707	54,884	49,913	50,885	46,786	47,349	48,966	48,396	46,322
20 Public borrowers	16,708	14,730	12,131	11,616	11,774	11,646	11,579	11,446	10,961	10,358
21 Nonbank foreigners	39,737	35,707	29,934	29,835	32,216	28,171	28,818	28,407^r	27,384^r	25,890
22 Other assets	11,804	15,656	16,432	19,370	20,879	20,835	21,979	23,773^r	21,540^r	22,415
	United Kingdom									
23 **Total, all currencies**	**140,917**	**158,695**	**156,835**	**161,882**	**158,860**	**157,673**	**164,155**	**164,916**	**161,947**	**166,915**
24 Claims on United States	24,599	32,518	40,089	42,147	41,914	40,085	42,424	44,661	39,212	41,208
25 Parent bank	19,085	27,350	34,243	37,713	38,031	36,046	38,938	40,848	35,847	37,292
26 Other banks in United States	1,612	1,259	1,123	1,121	1,112	1,265	1,200	1,199	1,058	1,441
27 Nonbanks	3,902	3,909	4,723	3,313	2,771	2,774	2,286	2,614	2,307	2,475
28 Claims on foreigners	109,508	115,700	106,388	106,586	102,231	102,097	106,430	105,349	107,657	109,837
29 Other branches of parent bank	33,422	39,903	35,625	35,440	32,392	32,611	35,252	35,064	37,728	37,701
30 Banks	39,468	36,735	36,765	36,519	36,073	37,146	38,048	36,317	36,159	37,668
31 Public borrowers	4,990	4,752	4,019	3,788	3,586	3,265	3,346	3,181	3,293	3,128
32 Nonbank foreigners	31,628	34,310	29,979	30,839	30,180	29,075	29,784	30,787	30,477	31,340
33 Other assets	6,810	10,477	10,358	13,149	14,715	15,491	15,301	14,906	15,078	15,870
34 **Total payable in U.S. dollars**	**95,028**	**100,574**	**103,503**	**103,512**	**104,036**	**99,238**	**106,869**	**106,086**	**103,427**	**103,038**
35 Claims on United States	23,193	30,439	38,012	38,506	39,135	37,108	39,715	41,504	36,404	38,261
36 Parent bank	18,526	26,304	33,252	36,041	36,375	34,537	37,404	39,304	34,329	35,731
37 Other banks in United States	1,475	1,044	964	821	1,007	1,017	951	861	843	1,118
38 Nonbanks	3,192	3,091	3,796	1,644	1,753	1,554	1,360	1,339	1,232	1,412
39 Claims on foreigners	68,138	64,560	60,472	59,137	57,706	55,340	59,389	56,872	59,062	56,939
40 Other branches of parent bank	26,361	28,635	28,474	27,955	25,368	25,542	28,084	26,961	29,872	28,655
41 Banks	23,251	19,188	18,494	17,080	18,298	17,612	18,275	16,884	16,579	16,399
42 Public borrowers	3,677	3,313	2,840	2,702	2,679	2,521	2,553	2,404	2,371	2,321
43 Nonbank foreigners	14,849	13,424	10,664	11,400	11,361	9,665	10,477	10,623	10,240	9,564
44 Other assets	3,697	5,575	5,019	5,869	7,195	6,790	7,765	7,710	7,961	7,838
	Bahamas and Caymans									
45 **Total, all currencies**	**142,592**	**160,321**	**170,639**	**173,014**	**165,401**	**164,684**	**164,836**	**172,762**	**176,006^r**	**167,384**
46 Claims on United States	78,048	85,318	105,320	108,055	106,693	111,043	109,910	118,037	124,205^r	117,376
47 Parent bank	54,575	60,048	73,409	67,641	69,404	76,426	75,900	82,605	87,882^r	79,485
48 Other banks in United States	11,156	14,277	13,145	13,712	13,294	12,141	12,059	13,185	15,071	15,331
49 Nonbanks	12,317	10,993	18,766	26,702	23,995	22,476	21,951	22,247	21,252	22,560
50 Claims on foreigners	60,005	70,162	58,393	57,135	50,808	45,962	47,214	46,391	44,168	42,475
51 Other branches of parent bank	17,296	21,277	17,954	24,462	16,802	14,688	16,961	14,414	11,309	12,283
52 Banks	27,476	33,751	28,268	21,591	20,688	20,162	19,579	21,641	22,611	21,056
53 Public borrowers	7,051	7,428	5,830	5,405	5,407	5,435	5,289	5,340	5,217	4,790
54 Nonbank foreigners	8,182	7,706	6,341	5,677	7,911	5,677	5,385	4,996	5,031	4,346
55 Other assets	4,539	4,841	6,926	7,824	7,900	7,679	7,712	8,334	7,633	7,533
56 ***Total payable in U.S. dollars***	**136,813**	**151,434**	**163,518**	**167,484**	**160,821**	**160,274**	**159,643**	**167,182**	**170,780^r**	**160,843**

1. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3.14—Continued

Liability account	1986	1987	1988	1989						1990
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	All foreign countries									
57 **Total, all currencies**	**456,628**	**518,618**	**505,595**	**534,425**	**522,489**	**520,845**	**533,641**	**548,074r**	**545,366r**	**549,367**
58 Negotiable CDs	31,629	30,929	28,511	28,882	29,524	26,679	26,776	26,555	23,500	23,510
59 To United States	152,465	161,390	185,577	177,769	177,542	183,203	183,576	190,149	197,239r	183,530
60 Parent bank	83,394	87,606	114,720	110,326	110,917	121,003	123,229	128,799	138,187r	115,378
61 Other banks in United States	15,646	20,355	14,737	13,353	13,269	13,015	11,476	10,811	11,704r	18,174
62 Nonbanks	53,425	53,429	56,120	54,090	53,356	49,185	48,871	50,539	47,348r	49,978
63 To foreigners	253,775	304,803	270,923	301,583	288,566	283,435	294,486	302,346	296,850	310,909
64 Other branches of parent bank	95,146	124,601	111,267	119,765	113,752	104,853	114,180	115,484	119,591	121,335
65 Banks	77,809	87,274	72,842	80,069	75,589	77,618	75,758	81,200	76,452	82,217
66 Official institutions	17,835	19,564	15,183	18,846	17,591	17,349	19,361	18,938	16,750	18,927
67 Nonbank foreigners	62,985	73,364	71,631	82,903	81,634	83,615	85,187	86,724	84,057	88,430
68 Other liabilities	18,759	21,496	20,584	26,191	26,857	27,528	28,803	29,024r	27,777r	31,418
69 **Total payable in U.S. dollars**	**336,406**	**361,438**	**367,483**	**382,104**	**379,771**	**371,301**	**384,495**	**392,983r**	**396,282r**	**384,735**
70 Negotiable CDs	28,466	26,768	24,045	24,914	25,483	22,927	22,260	22,539	19,619	18,512
71 To United States	144,483	148,442	173,190	163,834	166,041	170,512	171,458	179,927	187,286r	172,560
72 Parent bank	79,305	81,783	107,150	100,726	103,396	112,255	115,314	122,910	132,338r	109,116
73 Other banks in United States	14,609	18,951	13,468	11,875	11,964	11,837	10,273	9,512	10,519r	16,884
74 Nonbanks	50,569	47,708	52,572	51,233	50,681	46,420	45,871	47,505	44,429r	46,560
75 To foreigners	156,806	177,711	160,766	181,166	175,270	165,321	177,703	177,459	176,460	180,539
76 Other branches of parent bank	71,181	90,469	84,021	91,907	87,123	77,987	85,781	82,912	87,636	86,207
77 Banks	33,850	35,065	28,493	31,215	31,939	30,232	31,986	33,370	30,537	32,910
78 Official institutions	12,371	12,409	8,224	11,176	10,680	10,195	11,445	11,713	9,873	10,986
79 Nonbank foreigners	39,404	39,768	40,028	46,868	45,528	46,907	48,491	49,464	48,414	50,436
80 Other liabilities	6,651	8,517	9,482	12,190	12,977	12,541	13,074	13,058r	12,917r	13,124
	United Kingdom									
81 **Total, all currencies**	**140,917**	**158,695**	**156,835**	**161,882**	**158,860**	**157,673**	**164,155**	**164,916**	**161,947**	**166,915**
82 Negotiable CDs	27,781	26,988	24,528	25,342	25,905	23,122	23,152	22,837	20,056	19,791
83 To United States	24,657	23,470	36,784	29,954	31,551	31,076	34,181	33,101	36,036	31,893
84 Parent bank	14,469	13,223	27,849	19,885	21,841	24,013	25,061	25,430	29,726	23,256
85 Other banks in United States	2,649	1,536	2,037	1,852	1,767	1,687	2,002	1,096	1,256	1,545
86 Nonbanks	7,539	8,711	6,898	8,217	7,943	5,376	7,118	6,575	5,054	7,092
87 To foreigners	79,498	98,689	86,026	94,335	88,661	91,101	93,700	96,509	92,307	99,720
88 Other branches of parent bank	25,036	33,078	26,812	26,556	24,326	24,769	26,936	26,656	27,397	29,216
89 Banks	30,877	34,290	30,609	33,047	30,790	31,330	30,688	33,016	29,780	33,568
90 Official institutions	6,836	11,015	7,873	9,586	8,868	8,878	10,132	9,724	8,551	9,368
91 Nonbank foreigners	16,749	20,306	20,732	25,146	24,677	26,124	25,944	27,113	26,579	27,568
92 Other liabilities	8,981	9,548	9,497	12,251	12,743	12,374	13,122	12,469	13,548	15,511
93 **Total payable in U.S. dollars**	**99,707**	**102,550**	**105,907**	**105,700**	**106,915**	**102,361**	**110,358**	**109,116**	**108,178**	**106,676**
94 Negotiable CDs	26,169	24,926	22,063	23,132	23,679	21,156	20,433	20,715	18,143	16,931
95 To United States	22,075	17,752	32,588	24,618	27,232	26,592	30,433	30,130	33,056	28,542
96 Parent bank	14,021	12,026	26,404	16,909	19,580	21,588	23,247	24,578	28,812	22,428
97 Other banks in United States	2,325	1,308	1,752	1,477	1,502	1,511	1,835	863	1,065	1,217
98 Nonbanks	5,729	4,418	4,432	6,232	6,150	3,493	5,351	4,689	3,179	4,897
99 To foreigners	48,138	55,919	47,083	52,179	49,913	48,557	52,902	52,135	50,517	54,574
100 Other branches of parent bank	17,951	22,334	18,561	18,388	17,060	16,673	18,926	16,845	18,384	19,660
101 Banks	15,203	15,580	13,407	14,173	13,578	12,331	13,177	13,587	12,244	14,701
102 Official institutions	4,934	7,530	4,348	6,131	5,825	5,532	6,605	6,755	5,454	5,649
103 Nonbank foreigners	10,050	10,475	10,767	13,487	13,450	14,021	14,194	14,948	14,435	14,564
104 Other liabilities	3,325	3,953	4,173	5,771	6,091	6,056	6,590	6,136	6,462	6,629
	Bahamas and Caymans									
105 **Total, all currencies**	**142,592**	**160,321**	**170,639**	**173,014**	**165,401**	**164,684**	**164,836**	**172,762**	**176,006r**	**167,384**
106 Negotiable CDs	847	885	953	717	691	669	669	671	678	681
107 To United States	106,081	113,950	122,332	116,324	113,179	117,611	114,701	121,021	124,859r	119,637
108 Parent bank	49,481	53,239	62,894	61,263	58,765	64,859	66,292	70,107	74,963r	63,170
109 Other banks in United States	11,715	17,224	11,494	10,227	10,076	10,026	8,088	8,438	8,883r	15,001
110 Nonbanks	44,885	43,487	47,944	44,834	44,338	42,726	40,321	42,476	41,013r	41,466
111 To foreigners	34,400	43,815	45,161	53,042	48,712	43,818	46,906	47,521	47,382	44,162
112 Other branches of parent bank	12,631	19,185	23,686	29,279	25,770	20,678	23,086	23,352	23,414	19,367
113 Banks	8,617	10,769	8,336	8,308	8,613	8,802	8,985	9,137	8,823	8,729
114 Official institutions	2,719	1,504	1,074	1,223	1,081	928	1,003	1,131	1,097	1,520
115 Nonbank foreigners	10,433	12,357	12,065	14,232	13,248	13,410	13,832	13,901	14,048	14,546
116 Other liabilities	1,264	1,671	2,193	2,931	2,819	2,586	2,560	3,549	3,087	2,904
117 **Total payable in U.S. dollars**	**138,774**	**152,927**	**162,950**	**167,213**	**160,800**	**160,133**	**160,028**	**167,835**	**171,250r**	**162,297**

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1987	1988	1989						1990
			July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.[p]
1 **Total**[1]	**259,556**	**299,782**	**307,516**	**317,591**	**314,782**	**315,501**	**314,916**[r]	**307,944**	**304,673**
By type									
2 Liabilities reported by banks in the United States[2]	31,838	31,519	39,216	38,171	36,393	42,561	39,030[r]	36,203	33,519
3 U.S. Treasury bills and certificates[3]	88,829	103,722	87,734	88,325	86,350	81,465	82,474	76,985	76,157
U.S. Treasury bonds and notes									
4 Marketable	122,432	149,056	163,281	173,238	174,037	173,017	174,703	176,008	176,435
5 Nonmarketable[4]	300	523	549	553	557	561	564	568	572
6 U.S. securities other than U.S. Treasury securities[5]	16,157	14,962	16,736	17,304	17,445	17,897	18,145	18,180	17,990
By area									
7 Western Europe[1]	124,620	125,097	126,533	134,232	133,694	134,336	137,743[r]	134,679	134,911
8 Canada	4,961	9,584	9,424	9,560	8,989	8,609	9,051	9,474	9,289
9 Latin America and Caribbean	8,328	10,099	7,166	7,986	9,511	10,014	9,892[r]	8,807	7,926
10 Asia	116,098	145,608	155,786	157,197	154,315	154,110	149,705[r]	146,999	144,005
11 Africa	1,402	1,369	949	810	867	910	1,019	994	834
12 Other countries[6]	4,147	7,501	7,113	7,257	6,849	6,962	6,941	6,422	7,133

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[1]

Millions of dollars, end of period

Item	1986	1987	1988	1989			
				Mar.	June	Sept.	Dec.
1 Banks' own liabilities	29,702	55,438	74,980	76,545	69,067	72,560	66,569
2 Banks' own claims	26,180	51,271	68,983	72,904	62,758	70,715	65,165
3 Deposits	14,129	18,861	25,100	25,938	23,845	23,983	20,375
4 Other claims	12,052	32,410	43,884	46,966	38,913	46,731	44,789
5 Claims of banks' domestic customers[2]	2,507	551	364	376	723	2,558	3,100

1. Data on claims exclude foreign currencies held by U.S. monetary authorities.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of the domestic customers.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. dollars

Millions of dollars, end of period

Holder and type of liability	1987	1988	1989[r]	1989						1990
				July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	Jan.[p]
1 **All foreigners**	**618,874**	**685,339**	**732,047**	**665,330**	**679,994**	**694,304**	**704,598**	**727,864**	**732,047**	**700,485**
2 Banks' own liabilities	470,070	514,532	575,597	503,147	516,883	530,517	543,946	564,771	575,597	542,241
3 Demand deposits	22,383	21,863	21,706	21,363	19,718	21,550	21,069	21,313	21,706	19,854
4 Time deposits[2]	148,374	152,164	170,281	149,753	155,494	157,273	162,372	165,924	170,281	160,550
5 Other[3]	51,677	51,366	65,752	64,303	63,732	56,157	64,979	66,173	65,752	60,978
6 Own foreign offices[4]	247,635	289,138	317,858	267,728	277,939	295,536	295,526	311,361	317,858	300,858
7 Banks' custody liabilities[5]	148,804	170,807	156,450	162,184	163,111	163,787	160,652	163,093	156,450	158,244
8 U.S. Treasury bills and certificates[6]	101,743	115,056	90,501	99,365	99,683	99,209	95,278	96,356	90,501	90,122
9 Other negotiable and readily transferable instruments[7]	16,776	16,426	17,195	16,893	17,260	17,091	16,741	16,819	17,195	16,326
10 Other	30,285	39,325	48,754	45,925	46,168	47,487	48,633	49,918	48,754	51,796
11 **Nonmonetary international and regional organizations**[8]	**4,464**	**3,224**	**4,772**	**4,240**	**4,418**	**4,945**	**5,769**	**5,905**	**4,772**	**4,714**
12 Banks' own liabilities	2,702	2,527	3,156	2,716	3,402	3,347	3,733	4,587	3,156	3,115
13 Demand deposits	124	71	96	41	66	89	53	62	96	36
14 Time deposits[2]	1,538	1,183	927	918	1,079	1,702	1,043	1,075	927	1,032
15 Other[3]	1,040	1,272	2,133	1,756	2,257	1,555	2,638	3,449	2,133	2,044
16 Banks' custody liabilities[5]	1,761	698	1,616	1,524	1,016	1,598	2,036	1,318	1,616	1,599
17 U.S. Treasury bills and certificates[6]	265	57	197	345	107	84	568	321	197	102
18 Other negotiable and readily transferable instruments[7]	1,497	641	1,417	1,179	909	1,479	1,454	996	1,417	1,497
19 Other	0	0	2	0	1	35	14	0	2	0
20 **Official institutions**[9]	**120,667**	**135,241**	**113,189**	**126,951**	**126,496**	**122,743**	**124,026**	**121,503**	**113,189**	**109,676**
21 Banks' own liabilities	28,703	27,109	30,855	34,132	33,238	31,615	37,524	34,099	30,855	30,004
22 Demand deposits	1,757	1,917	2,187	1,959	1,625	2,026	2,057	1,829	2,187	1,598
23 Time deposits[2]	12,843	9,767	10,510	10,072	8,837	8,994	12,078	11,217	10,510	9,058
24 Other[3]	14,103	15,425	18,158	22,101	22,776	20,595	23,389	21,053	18,158	19,348
25 Banks' custody liabilities[5]	91,965	108,132	82,333	92,818	93,258	91,127	86,502	87,404	82,333	79,672
26 U.S. Treasury bills and certificates[6]	88,829	103,722	76,985	87,734	88,325	86,350	81,465	82,474	76,985	76,157
27 Other negotiable and readily transferable instruments[7]	2,990	4,130	4,988	4,821	4,735	4,588	4,734	4,805	4,988	3,427
28 Other	146	280	361	263	198	189	303	125	361	88
29 **Banks**[10]	**414,280**	**459,523**	**513,080**	**443,172**	**457,463**	**476,027**	**482,104**	**505,880**	**513,080**	**490,164**
30 Banks' own liabilities	371,665	409,501	453,063	387,306	400,975	415,761	420,918	443,548	453,063	426,399
31 Unaffiliated foreign banks	124,030	120,362	135,205	119,578	123,036	120,225	125,392	132,187	135,205	125,543
32 Demand deposits	10,898	9,948	10,332	10,145	9,101	10,695	9,884	10,735	10,332	9,600
33 Time deposits[2]	79,717	80,189	92,169	75,166	80,603	80,789	83,913	87,344	92,169	81,555
34 Other[3]	33,415	30,226	32,704	34,267	33,333	28,741	31,594	34,109	32,704	34,388
35 Own foreign offices[4]	247,635	289,138	317,858	267,728	277,939	295,536	295,526	311,360	317,858	300,856
36 Banks' custody liabilities[5]	42,615	50,022	60,017	55,865	56,488	60,265	61,186	62,332	60,017	63,766
37 U.S. Treasury bills and certificates[6]	9,134	7,602	9,278	7,674	7,838	9,032	9,251	9,499	9,278	9,531
38 Other negotiable and readily transferable instruments[7]	5,392	5,725	4,715	5,326	5,284	5,095	4,770	4,446	4,715	4,625
39 Other	28,089	36,694	46,023	42,866	43,365	46,138	47,165	48,388	46,023	49,610
40 **Other foreigners**	**79,463**	**87,351**	**101,007**	**90,968**	**91,617**	**90,590**	**92,699**	**94,576**	**101,007**	**95,930**
41 Banks' own liabilities	67,000	75,396	88,523	78,992	79,268	79,793	81,771	82,537	88,523	82,724
42 Demand deposits	9,604	9,928	9,091	9,218	8,926	8,739	9,075	8,688	9,091	8,620
43 Time deposits[2]	54,277	61,025	66,675	63,596	64,975	65,787	65,338	66,288	66,675	68,905
44 Other[3]	3,119	4,443	12,757	6,179	5,367	5,267	7,357	7,561	12,757	5,198
45 Banks' custody liabilities[5]	12,463	11,956	12,484	11,976	12,349	10,796	10,928	12,038	12,484	13,207
46 U.S. Treasury bills and certificates[6]	3,515	3,675	4,041	3,612	3,413	3,743	3,993	4,062	4,041	4,332
47 Other negotiable and readily transferable instruments[7]	6,898	5,929	6,075	5,566	6,332	5,929	5,783	6,572	6,075	6,777
48 Other	2,050	2,351	2,368	2,797	2,604	1,125	1,152	1,405	2,368	2,098
49 MEMO: Negotiable time certificates of deposit in custody for foreigners	7,314	6,425	5,057	5,261	5,199	5,237	5,160	4,815	5,057	6,425

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Excludes negotiable time certificates of deposit, which are included in "Other negotiable and readily transferable instruments."
3. Includes borrowing under repurchase agreements.
4. 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.
5. Financial claims on residents of the United States, other than long-term securities, held by or through reporting banks.
6. Includes nonmarketable certificates of indebtedness and Treasury bills issued to official institutions of foreign countries.
7. Principally bankers acceptances, commercial paper, and negotiable time certificates of deposit.
8. Principally the International Bank for Reconstruction and Development, and the Inter-American and Asian Development Banks. Data exclude "holdings of dollars" of the International Monetary Fund.
9. Foreign central banks, foreign central governments, and the Bank for International Settlements.
10. Excludes central banks, which are included in "Official institutions."

3.17—Continued

Area and country	1987	1988	1989r	1989 July	Aug.	Sept.	Oct.	Nov.	Dec.r	1990 Jan.p
1 **Total**	**618,874**	**685,339**	**732,047**	**665,330**	**679,994**	**694,304**	**704,598**	**727,864r**	**732,047**	**700,485**
2 **Foreign countries**	**614,411**	**682,115**	**727,275**	**661,091**	**675,576**	**689,359**	**698,829**	**721,959r**	**727,275**	**695,771**
3 Europe	234,641	231,912	236,563	222,146	226,366	222,040	232,513	241,994r	236,563	229,824
4 Austria	920	1,155	1,224	1,417	1,404	1,345	1,193	1,467	1,224	1,404
5 Belgium–Luxembourg	9,347	10,022	10,457	8,949	9,286	10,158	10,841	10,322	10,457	11,213
6 Denmark	760	2,200	1,409	1,348	1,956	1,265	1,442	1,912	1,409	1,239
7 Finland	377	285	684	436	460	519	464	577	684	683
8 France	29,835	24,777	26,689	22,290	24,864	23,031	23,882	25,924r	26,689	22,889
9 Germany	7,022	6,772	7,409	8,875	7,651	8,345	8,700	9,089r	7,409	7,405
10 Greece	689	672	1,012	862	828	797	845	1,024	1,012	1,086
11 Italy	12,073	14,599	16,135	12,892	14,597	14,542	14,220	14,649	16,135	13,036
12 Netherlands	5,014	5,316	6,565	5,029	5,106	4,989	5,426	7,214r	6,565	7,629
13 Norway	1,362	1,559	2,399	1,522	1,453	1,698	1,342	1,952	2,399	1,254
14 Portugal	801	903	2,405	1,419	1,945	2,206	2,292	2,248	2,405	2,378
15 Spain	2,621	5,494	4,341	5,910	5,390	5,277	4,986	4,890r	4,341	5,400
16 Sweden	1,379	1,284	1,489	1,248	2,002	1,680	1,663	1,920	1,489	2,301
17 Switzerland	33,766	34,199	34,299	28,581	28,931	29,001	29,554	31,498r	34,299	33,661
18 Turkey	703	1,012	1,815	1,053	1,022	1,085	1,199	1,370	1,815	1,084
19 United Kingdom	116,852	111,811	101,824	105,310	104,055	102,210	106,285	108,805r	101,824	101,786
20 Yugoslavia	710	529	1,490	604	691	774	858	1,016	1,490	1,348
21 Other Western Europe[1]	9,798	8,598	13,451	13,667	13,824	12,312	16,389	15,163	13,451	12,642
22 U.S.S.R.	32	138	746	175	201	244	338	286	746	229
23 Other Eastern Europe[2]	582	591	720	559	699	562	595	668	720	1,155
24 Canada	30,095	21,062	18,754	17,472	16,958	17,960	16,670	18,193r	18,754	19,186
25 Latin America and Caribbean	220,372	271,146	308,449	266,403	275,557	284,996	286,588	297,177r	308,449	297,712
26 Argentina	5,006	7,804	7,184	7,397	8,047	8,446	8,069	7,694r	7,184	7,261
27 Bahamas	74,767	86,863	99,220	84,526	90,317	90,622	93,171	96,309r	99,220	95,102
28 Bermuda	2,344	2,621	2,784	2,269	2,209	2,124	2,458	2,549	2,784	2,457
29 Brazil	4,005	5,314	6,245	5,396	5,539	5,892	6,080	6,228	6,245	6,622
30 British West Indies	81,494	113,840	137,398	113,243	115,870	122,677	120,932	128,324	137,398	130,745
31 Chile	2,210	2,936	3,172	2,683	2,739	2,765	3,014	3,061	3,172	3,054
32 Colombia	4,204	4,374	4,527	4,235	4,365	4,199	4,887	4,681	4,527	4,286
33 Cuba	12	10	10	9	10	14	10	15	10	30
34 Ecuador	1,082	1,379	1,370	1,411	1,376	1,363	1,342	1,324	1,370	1,210
35 Guatemala	1,082	1,195	1,290	1,297	1,279	1,293	1,276	1,289	1,290	1,313
36 Jamaica	160	269	207	227	231	233	206	189	207	200
37 Mexico	14,480	15,185	14,869	13,705	13,769	14,981	14,642	14,410r	14,869	14,264
38 Netherlands Antilles	4,975	6,420	6,263	6,434	6,071	6,062	5,939	6,249	6,263	6,157
39 Panama	7,414	4,353	4,196	4,357	4,400	4,424	4,393	4,359	4,196	4,416
40 Peru	1,275	1,671	1,945	1,770	1,778	1,828	1,902	1,921	1,945	1,898
41 Uruguay	1,582	1,898	2,261	2,152	2,121	2,340	2,214	2,315	2,261	2,397
42 Venezuela	9,048	9,147	9,405	9,500	9,398	9,520	9,552	9,800r	9,405	9,787
43 Other	5,234	5,868	6,101	5,790	6,039	6,213	6,503	6,460r	6,101	6,513
44 Asia	121,288	147,838	155,140	144,106	145,917	153,564	150,975	150,965r	155,140	140,321
China										
45 Mainland	1,162	1,895	1,867	1,522	1,700	1,804	1,985	1,655r	1,867	1,777
46 Taiwan	21,503	26,058	19,474	27,128	25,427	24,119	22,403	21,211r	19,474	19,048
47 Hong Kong	10,180	12,248	12,169	11,346	12,268	12,292	12,127	12,028	12,169	11,681
48 India	582	699	774	871	940	875	836	984	774	901
49 Indonesia	1,404	1,180	1,276	1,096	1,042	1,042	1,144	1,300	1,276	1,055
50 Israel	1,292	1,461	1,229	1,058	953	1,041	2,221	1,081	1,229	1,022
51 Japan	54,322	74,015	80,837	68,700	71,028	78,824	73,573	75,215	80,837	69,938
52 Korea	1,637	2,541	3,022	3,556	2,907	3,037	3,099	3,339	3,022	2,420
53 Philippines	1,085	1,163	1,734	936	1,083	1,055	1,158	1,242	1,734	1,083
54 Thailand	1,345	1,236	2,071	1,254	1,776	1,430	1,686	1,887	2,071	2,365
55 Middle-East oil-exporting countries[3]	13,988	12,083	13,324	12,368	12,524	13,021	13,450	13,574	13,324	13,187
56 Other	12,788	13,260	17,362	14,271	14,270	15,024	17,293	17,448	17,362	15,845
57 Africa	3,945	3,991	3,797	3,618	3,265	3,536	3,486	3,747	3,797	4,273
58 Egypt	1,151	911	679	738	549	574	577	633	679	636
59 Morocco	194	68	75	66	72	96	71	75	75	85
60 South Africa	202	437	202	231	201	246	220	291	202	253
61 Zaire	67	85	86	92	87	81	71	60	86	82
62 Oil-exporting countries[4]	1,014	1,017	1,123	942	897	1,036	1,047	1,118	1,123	1,693
63 Other	1,316	1,474	1,631	1,548	1,459	1,502	1,501	1,569	1,631	1,524
64 Other countries	4,070	6,165	4,573	7,346	7,513	7,262	8,597	9,884r	4,573	4,455
65 Australia	3,327	5,293	3,833	6,620	6,721	6,518	8,046	9,115	3,833	3,777
66 All other	744	872	740	726	792	744	552	769r	740	678
67 Nonmonetary international and regional organizations	4,464	3,224	4,772	4,240	4,418	4,945	5,769	5,905r	4,772	4,714
68 International[5]	2,830	2,503	3,825	2,881	3,084	3,390	4,450	4,768r	3,825	3,657
69 Latin American regional	1,272	589	684	961	690	1,201	919	586	684	842
70 Other regional[6]	362	133	263	397	644	353	400	551	263	214

1. Includes the Bank for International Settlements and Eastern European countries that are not listed in line 23.
2. 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. Excludes "holdings of dollars" of the International Monetary Fund.
6. Asian, African, Middle Eastern, and European regional organizations, except the Bank for International Settlements, which is included in "Other Western Europe."

3.18 BANKS' OWN CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Area and country	1987	1988	1989r	1989 July	Aug.	Sept.	Oct.	Nov.	Dec.r	1990 Jan.p
1 **Total**	**459,877**	**491,165**	**534,133**	**481,051**	**488,861**	**499,388**	**514,686**	**534,369r**	**534,133**	**512,590**
2 **Foreign countries**	**456,472**	**489,094**	**530,501**	**477,264**	**485,737**	**496,466**	**512,009**	**531,632r**	**530,501**	**508,535**
3 Europe	102,348	116,928	118,954	106,459	107,359	111,180	113,398	111,987r	118,954	105,471
4 Austria	793	483	415	854	549	480	575	559	415	855
5 Belgium-Luxembourg	9,397	8,515	6,478	7,558	7,510	7,404	7,497	6,606	6,478	6,367
6 Denmark	717	483	582	562	768	557	513	609	582	664
7 Finland	1,010	1,065	1,027	1,395	1,401	1,233	1,707	1,129	1,027	1,324
8 France	13,548	13,243	16,146	16,008	16,415	16,249	16,391	16,055	16,146	15,722
9 Germany	2,039	2,329	2,865	3,461	3,316	3,463	3,371	2,657	2,865	1,970
10 Greece	462	433	788	602	624	634	650	700	788	735
11 Italy	7,460	7,936	6,662	5,994	5,494	6,043	5,577	5,718	6,662	4,974
12 Netherlands	2,619	2,541	1,904	1,957	1,454	1,994	1,886	2,259	1,904	1,659
13 Norway	934	455	609	796	665	644	647	635	609	599
14 Portugal	477	261	376	283	264	252	258	275	376	292
15 Spain	1,853	1,823	1,930	2,092	1,738	1,684	1,733	1,840	1,930	2,766
16 Sweden	2,254	1,977	1,778	2,003	2,046	2,286	2,087	2,555	1,778	2,718
17 Switzerland	2,718	3,895	6,137	4,123	4,479	5,018	4,522	4,940	6,137	4,797
18 Turkey	1,680	1,233	1,049	891	960	1,028	1,021	1,044	1,049	1,074
19 United Kingdom	50,823	65,706	65,423	53,464	54,809	57,187	59,838	59,919	65,423	54,395
20 Yugoslavia	1,700	1,390	1,329	1,406	1,346	1,338	1,373	1,281	1,329	1,243
21 Other Western Europe[2]	619	1,152	1,302	974	1,247	1,312	1,504	1,245	1,302	1,133
22 U.S.S.R.	389	1,255	1,234	1,227	1,456	1,574	1,453	1,075r	1,234	1,204
23 Other Eastern Europe[3]	852	754	921	810	819	799	794	883	921	980
24 Canada	25,368	18,889	16,087	14,493	15,073	14,763	13,800	16,177	16,087	18,264
25 Latin America and Caribbean	214,789	214,264	230,035	217,371	216,073	219,948	220,182	232,053r	230,035	223,828
26 Argentina	11,996	11,826	9,444	10,705	10,730	10,460	10,444	10,274	9,444	9,112
27 Bahamas	64,587	66,954	77,905	70,488	68,113	70,906	71,420	78,568	77,905	74,297
28 Bermuda	471	483	1,315	463	522	1,104	804	841r	1,315	564
29 Brazil	25,897	25,735	23,888	25,824	25,597	24,999	25,075	24,418	23,888	23,685
30 British West Indies	50,042	55,888	67,981	59,670	61,493	63,543	63,023	68,625r	67,981	68,992
31 Chile	6,308	5,217	4,353	4,793	4,803	4,707	4,601	4,474	4,353	4,214
32 Colombia	2,740	2,944	2,700	2,525	2,504	2,477	2,800	2,784	2,700	2,532
33 Cuba	1	1	1	9	1	1	1	1	1	0
34 Ecuador	2,286	2,075	1,698	1,933	1,918	1,905	1,864	1,858	1,698	1,594
35 Guatemala[4]	144	198	197	189	203	196	188	190	197	213
36 Jamaica[4]	188	212	297	270	272	282	270	260	297	285
37 Mexico	29,532	24,637	23,563	23,369	23,169	22,813	22,751	23,292	23,563	22,193
38 Netherlands Antilles	980	1,306	1,840	1,159	1,022	1,103	1,120	1,018	1,840	1,728
39 Panama	4,744	2,521	1,739	2,320	2,030	1,834	1,832	1,792	1,739	1,747
40 Peru	1,329	1,013	771	867	870	823	851	836	771	750
41 Uruguay	963	910	928	854	866	899	903	915	928	932
42 Venezuela	10,843	10,733	9,688	10,269	10,024	10,064	10,269	10,119	9,688	9,306
43 Other Latin America and Caribbean	1,738	1,612	1,726	1,665	1,936	1,833	1,965	1,787	1,726	1,682
44 Asia	106,096	130,881	157,181	130,369	137,687	140,704	153,737	158,752	157,181	151,937
China										
Mainland	968	762	634	644	575	615	594	610	634	625
46 Taiwan	4,592	4,184	2,730	3,949	3,356	3,331	2,831	2,677	2,730	2,113
47 Hong Kong	8,218	10,143	11,124	8,153	8,800	10,358	10,047	10,442	11,124	7,677
48 India	510	560	621	477	547	638	617	637	621	625
49 Indonesia	580	674	651	645	614	615	685	655	651	641
50 Israel	1,363	1,136	813	964	911	859	1,185	758	813	955
51 Japan	68,658	90,149	111,070	91,806	96,118	97,699	110,425	114,498	111,070	113,127
52 Korea	5,148	5,213	5,285	5,774	6,007	5,686	5,713	5,838	5,285	5,150
53 Philippines	2,071	1,876	1,344	1,607	1,543	1,617	1,549	1,498r	1,344	1,307
54 Thailand	496	848	1,153	1,060	1,117	1,203	1,058	1,076	1,153	1,184
55 Middle East oil-exporting countries[5]	4,858	6,213	10,149	5,550	8,879	8,581	8,365	8,675	10,149	8,905
56 Other Asia	8,635	9,122	11,607	9,741	9,221	9,502	10,669	11,387r	11,607	9,629
57 Africa	4,742	5,718	5,927	6,066	6,032	6,028	5,763	5,914r	5,927	6,647
58 Egypt	521	507	502	577	494	501	475	471	502	470
59 Morocco	542	511	559	518	535	524	538	547	559	575
60 South Africa	1,507	1,681	1,628	1,702	1,713	1,709	1,679	1,686	1,628	1,619
61 Zaire	15	17	16	17	16	20	15	16	16	16
62 Oil-exporting countries[6]	1,003	1,523	1,689	1,587	1,608	1,629	1,546	1,641	1,689	1,781
63 Other	1,153	1,479	1,533	1,664	1,666	1,645	1,510	1,553r	1,533	2,186
64 Other countries	3,129	2,413	2,318	2,505	3,512	3,843	5,129	6,750	2,318	2,389
65 Australia	2,100	1,520	1,788	1,518	2,499	3,078	4,301	6,174	1,788	1,760
66 All other	1,029	894	530	987	1,013	765	828	576	530	629
67 Nonmonetary international and regional organizations[7]	3,404	2,071	3,631	3,787	3,124	2,922	2,677	2,737	3,631	4,054

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Includes the Bank for International Settlements. Beginning April 1978, also includes Eastern European countries not listed in line 23.
3. Beginning April 1978 comprises Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, and Romania.
4. Included in "Other Latin America and Caribbean" through March 1978.
5. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
6. Comprises Algeria, Gabon, Libya, and Nigeria.
7. Excludes the Bank for International Settlements, which is included in "Other Western Europe."

3.19 BANKS' OWN AND DOMESTIC CUSTOMERS' CLAIMS ON FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Type of claim	1987	1988	1989[r]	1989 July	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.[r]	1989 Dec.[r]	1990 Jan.[p]
1 **Total**	**497,635**	**538,689**	**588,147**	....	....	**551,543**	....	....	**588,147**	....
2 Banks' own claims on foreigners	459,877	491,165	534,133	481,051	488,861	499,388	514,686	534,369	534,133	512,590
3 Foreign public borrowers	64,605	62,658	60,498	62,832	62,765	62,051	63,425	62,255	60,498	58,636
4 Own foreign offices[2]	224,727	257,436	295,672	248,987	252,281	265,786	276,547	296,756	295,672	290,326
5 Unaffiliated foreign banks	127,609	129,425	134,751	128,919	132,478	131,124	131,249	133,883	134,751	123,988
6 Deposits	60,687	65,898	77,916	68,888	72,576	72,654	72,048	75,599	77,916	69,519
7 Other	66,922	63,527	56,835	60,031	59,903	58,470	59,200	58,284	56,835	54,470
8 All other foreigners	42,936	41,646	43,212	40,313	41,336	40,428	43,464	41,475	43,212	39,638
9 Claims of banks' domestic customers[3]	37,758	47,524	54,014	....	....	52,154	....	....	54,014	....
10 Deposits	3,692	8,289	14,916	....	....	11,259	....	....	14,916	....
11 Negotiable and readily transferable instruments[4]	26,696	25,700	24,507	....	....	24,286	....	....	24,507	....
12 Outstanding collections and other claims	7,370	13,535	14,591	....	....	16,609	....	....	14,591	....
13 MEMO: Customer liability on acceptances	23,107	19,596	12,809	....	....	12,828	....	....	12,809	....
Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[5]	40,909	45,568	43,970	48,485	49,575	46,486	44,665	46,232	43,970	n.a.

1. 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. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. *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.
3. 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.
4. Principally negotiable time certificates of deposit and bankers acceptances.
5. 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.

3.20 BANKS' OWN CLAIMS ON UNAFFILIATED FOREIGNERS Reported by Banks in the United States[1] Payable in U.S. Dollars

Millions of dollars, end of period

Maturity; by borrower and area	1986	1987	1988	1989 Mar.	1989 June	1989 Sept.	1989 Dec.[p]
1 **Total**	**232,295**	**235,130**	**233,184**	**231,686**	**231,374**	**236,330**	**238,551**
By borrower							
2 Maturity of 1 year or less[2]	160,555	163,997	172,634	168,608	167,307	169,100	178,167
3 Foreign public borrowers	24,842	25,889	26,562	24,479	23,759	24,200	23,956
4 All other foreigners	135,714	138,108	146,071	144,129	143,548	144,900	154,212
5 Maturity over 1 year[2]	71,740	71,133	60,550	63,078	64,067	67,230	60,383
6 Foreign public borrowers	39,103	38,625	35,291	37,935	38,108	41,839	35,954
7 All other foreigners	32,637	32,507	25,259	25,142	25,959	25,391	24,429
By area							
Maturity of 1 year or less[2]							
8 Europe	61,784	59,027	55,909	57,741	58,340	52,437	53,668
9 Canada	5,895	5,680	6,282	5,119	5,693	6,206	5,901
10 Latin America and Caribbean	56,271	56,535	57,991	53,268	50,605	52,010	53,401
11 Asia	29,457	35,919	46,224	45,727	45,303	51,195	57,636
12 Africa	2,882	2,833	3,337	3,610	3,601	3,516	3,265
13 All other[3]	4,267	4,003	2,891	3,143	3,765	3,735	4,295
Maturity of over 1 year[2]							
14 Europe	6,737	6,696	4,666	4,508	4,664	8,856	4,769
15 Canada	1,925	2,661	1,922	2,309	2,592	2,459	2,328
16 Latin America and Caribbean	56,719	53,817	47,547	49,790	50,107	48,627	45,737
17 Asia	4,043	3,830	3,613	3,699	3,823	4,232	4,188
18 Africa	1,539	1,747	2,301	2,292	2,408	2,472	2,677
19 All other[3]	777	2,381	501	480	472	584	684

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Remaining time to maturity.
3. Includes nonmonetary international and regional organizations.

3.21 CLAIMS ON FOREIGN COUNTRIES Held by U.S. Offices and Foreign Branches of U.S.-Chartered Banks[1,2]

Billions of dollars, end of period

Area or country	1985	1986	1987	1988				1989			
			Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.[p]
1 **Total**	**389.1**	**386.5**	**382.4**	**370.9**	**351.9**	**354.0**	**346.3**	**345.3**	**339.2**	**344.6**	**339.7**
2 G-10 countries and Switzerland	147.0	156.6	159.7	156.3	150.7	148.7	152.7	145.1	144.7	145.7	152.9
3 Belgium-Luxembourg	9.4	8.4	10.0	9.1	9.2	9.5	9.0	8.6	7.8	6.9	6.3
4 France	12.3	13.6	13.7	11.8	10.9	10.3	10.5	11.2	10.8	11.1	11.7
5 Germany	10.5	11.6	12.6	11.8	10.6	9.2	10.3	10.2	10.6	10.4	10.5
6 Italy	9.7	9.0	7.5	7.4	6.3	5.6	6.8	5.2	6.1	6.8	7.4
7 Netherlands	3.8	4.6	4.1	3.3	3.2	2.9	2.7	2.8	2.8	2.4	3.1
8 Sweden	2.8	2.4	2.1	2.1	1.9	1.9	1.8	2.3	1.8	2.0	2.0
9 Switzerland	4.4	5.8	5.6	5.1	5.6	5.2	5.4	5.1	5.4	6.1	7.1
10 United Kingdom	63.3	70.9	68.8	71.7	70.4	67.6	66.2	65.3	64.2	63.3	66.8
11 Canada	6.8	5.2	5.5	4.7	5.3	4.9	5.0	4.0	5.1	5.9	6.1
12 Japan	24.1	25.1	29.8	29.2	27.3	31.6	34.9	30.4	30.1	30.8	31.9
13 Other developed countries	30.3	26.1	26.4	26.4	24.0	23.0	21.0	21.0	21.1	20.9	20.7
14 Austria	1.6	1.7	1.9	1.6	1.6	1.6	1.5	1.4	1.7	1.5	1.7
15 Denmark	2.4	1.7	1.7	1.4	1.1	1.2	1.1	1.1	1.4	1.1	1.1
16 Finland	1.6	1.4	1.2	1.0	1.2	1.3	1.1	1.0	1.0	1.1	1.0
17 Greece	2.6	2.3	2.0	2.3	2.1	2.1	1.8	2.1	2.3	2.3	2.5
18 Norway	2.9	2.4	2.2	1.9	1.9	2.0	1.8	1.6	1.8	1.4	1.4
19 Portugal	1.3	.9	.6	.5	.4	.4	.4	.4	.6	.4	.4
20 Spain	5.8	5.8	8.0	8.9	7.2	6.3	6.2	6.6	6.2	6.9	7.1
21 Turkey	2.0	2.0	2.0	2.0	1.8	1.6	1.5	1.3	1.1	1.1	1.2
22 Other Western Europe	2.0	1.5	1.6	1.9	1.7	1.9	1.3	1.1	1.1	1.0	.7
23 South Africa	3.2	3.0	2.9	2.8	2.8	2.7	2.4	2.2	2.1	2.1	2.0
24 Australia	5.0	3.4	2.4	2.0	2.2	1.8	1.8	2.4	1.9	2.1	1.4
25 OPEC countries[3]	21.5	19.4	17.4	17.6	17.0	17.9	16.6	16.2	16.0	16.2	17.2
26 Ecuador	2.1	2.2	1.9	1.9	1.8	1.8	1.7	1.6	1.5	1.5	1.3
27 Venezuela	9.0	8.7	8.1	8.1	8.0	7.9	7.9	7.9	7.5	7.3	7.1
28 Indonesia	3.0	2.5	1.9	1.8	1.8	1.8	1.7	1.7	1.9	2.0	2.0
29 Middle East countries	5.4	4.3	3.6	3.9	3.5	4.6	3.4	3.3	3.4	3.5	5.0
30 African countries	2.0	1.8	1.9	1.9	1.9	1.9	1.9	1.7	1.6	1.9	1.8
31 Non-OPEC developing countries	105.0	99.6	97.8	94.4	91.8	87.2	85.3	85.4	83.1	80.8	78.0
Latin America											
32 Argentina	8.9	9.5	9.5	9.6	9.5	9.3	9.0	8.4	7.9	7.6	6.4
33 Brazil	25.5	25.3	24.7	23.8	23.7	22.4	22.4	22.7	22.0	20.8	19.1
34 Chile	7.0	7.1	6.9	6.6	6.4	6.3	5.6	5.7	5.1	4.9	4.6
35 Colombia	2.6	2.1	2.0	2.0	2.2	2.1	2.1	1.9	1.7	1.6	1.8
36 Mexico	24.3	24.0	23.5	22.4	21.1	20.4	18.8	18.0	17.5	17.0	17.8
37 Peru	1.8	1.4	1.1	1.1	.9	.8	.8	.7	.6	.6	.6
38 Other Latin America	3.5	3.1	2.8	2.8	2.6	2.5	2.6	2.7	2.6	2.9	2.8
Asia											
China											
39 Mainland	.5	.4	.3	.4	.4	.2	.3	.5	.3	.3	.3
40 Taiwan	4.5	4.9	8.2	6.1	4.9	3.2	3.7	4.9	5.2	5.0	4.5
41 India	1.2	1.2	1.9	2.1	2.3	2.0	2.1	2.6	2.4	2.7	3.1
42 Israel	1.6	1.5	1.0	1.0	1.0	1.0	1.2	.9	.8	.7	.7
43 Korea (South)	9.3	6.7	5.0	5.7	5.9	6.0	6.1	6.1	6.6	6.5	5.9
44 Malaysia	2.4	2.1	1.5	1.5	1.5	1.7	1.6	1.7	1.6	1.7	1.7
45 Philippines	5.7	5.4	5.2	5.1	4.9	4.7	4.5	4.4	4.4	4.0	4.1
46 Thailand	1.4	.9	.7	1.0	1.1	1.2	1.1	1.0	1.0	1.3	1.3
47 Other Asia	1.0	.7	.7	.7	.8	.8	.9	.8	.8	1.0	1.0
Africa											
48 Egypt	1.0	.7	.6	.5	.6	.5	.4	.5	.6	.5	.4
49 Morocco	.9	.9	.9	.9	.9	.8	.9	.9	.9	.8	.9
50 Zaire	.1	.1	.0	.1	.1	.0	.0	.0	.0	.0	.0
51 Other Africa[4]	1.9	1.6	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.0	1.0
52 Eastern Europe	4.4	3.5	3.2	3.1	3.3	3.1	3.6	3.5	3.4	3.5	3.5
53 U.S.S.R.	.1	.1	.3	.3	.4	.4	.7	.7	.6	.8	.7
54 Yugoslavia	2.4	2.0	1.8	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.5
55 Other	1.9	1.4	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
56 Offshore banking centers	64.0	61.5	54.5	51.5	43.0	47.3	44.2	48.5	43.1	48.7	37.2
57 Bahamas	21.5	22.4	17.3	15.9	8.9	12.9	11.0	15.8	11.0	11.2	5.7
58 Bermuda	.7	.6	.6	.8	1.0	.9	.9	1.1	.7	1.3	1.7
59 Cayman Islands and other British West Indies	12.2	12.3	13.5	11.6	10.3	11.9	12.9	12.0	10.8	15.1	9.4
60 Netherlands Antilles	2.2	1.8	1.2	1.3	1.2	1.2	1.0	.9	.9	1.0	2.2
61 Panama[5]	6.0	4.0	3.7	3.2	3.0	2.6	2.5	2.2	1.9	1.5	1.4
62 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
63 Hong Kong	11.5	11.1	11.2	11.3	11.6	10.5	9.6	9.6	10.4	10.7	9.6
64 Singapore	9.8	9.2	7.0	7.4	6.9	7.0	6.1	6.8	7.3	7.8	7.0
65 Others[6]	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
66 Miscellaneous and unallocated[7]	16.9	19.8	23.2	21.5	22.2	26.7	22.6	25.1	27.4	28.4	30.1

1. The banking offices covered by these data are the U.S. offices and foreign branches of U.S.-owned banks and of U.S. subsidiaries of foreign-owned banks. Offices *not* covered include (1) U.S. agencies and branches of foreign banks, and (2) foreign subsidiaries of U.S. banks. To minimize duplication, the data are adjusted to exclude the claims on foreign branches held by a U.S. office or another foreign branch of the same banking institution. The data in this table combine foreign branch claims in table 3.14 (the sum of lines 7 through 10) with the claims of U.S. offices in table 3.18 (excluding those held by agencies and branches of foreign banks and those constituting claims on own foreign branches).

2. Beginning with June 1984 data, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

3. This group comprises the Organization of Petroleum Exporting Countries shown individually, other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates), and Bahrain and Oman (not formally members of OPEC).

4. Excludes Liberia.

5. Includes Canal Zone beginning December 1979.

6. Foreign branch claims only.

7. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type, and area or country	1985	1986	1987	1988			1989		
				June	Sept.	Dec.	Mar.	June	Sept.
1 **Total**	**27,825**	**25,587**	**28,302**	**30,154**	**32,405**	**33,624**	**37,440**	**36,967**	**35,035[r]**
2 Payable in dollars	24,296	21,749	22,785	24,852	27,176	28,037	31,649	31,894	30,197[r]
3 Payable in foreign currencies	3,529	3,838	5,517	5,302	5,229	5,586	5,790	5,073	4,838[r]
By type									
4 Financial liabilities	13,600	12,133	12,424	13,934	15,079	15,118	17,532	16,920	16,028
5 Payable in dollars	11,257	9,609	8,643	10,274	11,485	11,250	13,452	13,060	12,200[r]
6 Payable in foreign currencies	2,343	2,524	3,781	3,660	3,594	3,868	4,080	3,860	3,829[r]
7 Commercial liabilities	14,225	13,454	15,878	16,220	17,325	18,506	19,908	20,047	19,006[r]
8 Trade payables	6,685	6,450	7,305	6,768	6,480	6,454	7,009	6,339	6,416[r]
9 Advance receipts and other liabilities	7,540	7,004	8,573	9,452	10,845	12,052	12,899	13,708	12,590[r]
10 Payable in dollars	13,039	12,140	14,142	14,578	15,691	16,788	18,197	18,834	17,997[r]
11 Payable in foreign currencies	1,186	1,314	1,737	1,642	1,635	1,718	1,711	1,213	1,009
By area or country									
Financial liabilities									
12 Europe	7,700	7,917	8,320	9,071	10,497	9,912	12,511	11,217	10,135
13 Belgium-Luxembourg	349	270	213	282	339	289	320	357	308
14 France	857	661	382	371	372	267	249	274	262
15 Germany	376	368	551	544	690	749	741	838	807
16 Netherlands	861	542	866	862	996	879	933	834	853
17 Switzerland	610	646	558	638	687	1,163	954	936	839
18 United Kingdom	4,305	5,140	5,557	6,201	7,243	6,418	9,121	7,799	6,859
19 Canada	839	399	360	412	431	650	616	544	599
20 Latin America and Caribbean	3,184	1,944	1,189	1,448	1,057	1,239	677	1,216	1,315
21 Bahamas	1,123	614	318	250	238	184	189	165	186
22 Bermuda	4	4	0	0	0	0	0	0	0
23 Brazil	29	32	25	0	0	0	0	0	0
24 British West Indies	1,843	1,146	778	1,154	812	645	471	621	698
25 Mexico	15	22	13	26	2	1	15	17	4
26 Venezuela	3	0	0	0	0	0	0	0	0
27 Asia	1,815	1,805	2,451	2,928	3,088	3,313	3,722	3,842	3,878
28 Japan	1,198	1,398	2,042	2,331	2,435	2,563	2,950	3,082	3,130
29 Middle East oil-exporting countries[2]	82	8	8	11	4	3	1	12	2
30 Africa	12	1	4	2	3	1	5	3	4
31 Oil-exporting countries[3]	0	1	1	1	1	0	3	2	2
32 All other[4]	50	67	100	74	3	2	2	97	97
Commercial liabilities									
33 Europe	4,074	4,446	5,516	5,755	6,688	7,348	7,944	7,865	7,985
34 Belgium-Luxembourg	62	101	132	147	206	170	134	117	138
35 France	453	352	426	408	438	459	579	549	767
36 Germany	607	715	909	791	1,185	1,699	1,372	1,190	1,196
37 Netherlands	364	424	423	508	647	591	670	689	549
38 Switzerland	379	385	559	482	486	417	458	458	416
39 United Kingdom	976	1,341	1,599	1,804	2,110	2,063	2,585	2,709	2,729
40 Canada	1,449	1,405	1,301	1,167	1,109	1,218	1,163	1,132	1,191
41 Latin America and Caribbean	1,088	924	864	1,035	997	1,118	1,267	1,669	1,092
42 Bahamas	12	32	18	61	19	49	35	34	27
43 Bermuda	77	156	168	272	222	286	426	388	305
44 Brazil	58	61	46	54	58	95	103	541	113
45 British West Indies	44	49	19	28	30	34	31	42	30
46 Mexico	430	217	189	233	177	179	198	182	191
47 Venezuela	212	216	162	140	204	177	179	185	140
48 Asia	6,046	5,080	6,565	6,286	6,638	6,916	7,329	6,970	7,018[r]
49 Japan	1,799	2,042	2,578	2,659	2,763	3,091	3,059	2,712	2,649[r]
50 Middle East oil-exporting countries[2,5]	2,829	1,679	1,964	1,320	1,298	1,386	1,526	1,431	1,406
51 Africa	587	619	574	626	477	578	706	768	643
52 Oil-exporting countries[3]	238	197	135	115	106	202	272	253	246
53 All other[4]	982	980	1,057	1,351	1,415	1,328	1,499	1,643	1,078

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	1985	1986	1987	1988			1989		
					June	Sept.	Dec.	Mar.	June	Sept.
1	**Total**	**28,876**	**36,265**	**30,964**	**37,924**	**38,465**	**33,574**	**31,667**	**33,833**	**31,920r**
2	Payable in dollars	26,574	33,867	28,502	35,828	35,967	31,252	29,371	31,727	29,708r
3	Payable in foreign currencies	2,302	2,399	2,462	2,097	2,498	2,323	2,296	2,106	2,212r
	By type									
4	Financial claims	18,891	26,273	20,363	26,537	27,341	21,638	19,743	21,774	19,393r
5	Deposits	15,526	19,916	14,903	19,750	19,383	15,906	14,838	17,043	12,958r
6	Payable in dollars	14,911	19,331	13,775	18,964	18,370	14,820	13,942	16,131	12,093
7	Payable in foreign currencies	615	585	1,128	786	1,013	1,086	896	911	865r
8	Other financial claims	3,364	6,357	5,460	6,787	7,958	5,732	4,905	4,731	6,435r
9	Payable in dollars	2,330	5,005	4,646	5,892	7,016	5,001	4,012	4,016	5,571r
10	Payable in foreign currencies	1,035	1,352	814	895	942	731	893	716	864r
11	Commercial claims	9,986	9,992	10,600	11,387	11,123	11,937	11,924	12,059	12,528r
12	Trade receivables	8,696	8,783	9,535	10,347	10,124	10,858	10,660	10,857	11,344r
13	Advance payments and other claims	1,290	1,209	1,065	1,040	1,000	1,079	1,265	1,202	1,184r
14	Payable in dollars	9,333	9,530	10,081	10,971	10,581	11,432	11,417	11,581	12,045r
15	Payable in foreign currencies	652	462	519	415	543	505	507	479	483
	By area or country									
	Financial claims									
16	Europe	6,929	10,744	9,531	11,580	10,719	10,051	9,208	8,629	7,754r
17	Belgium-Luxembourg	10	41	7	16	49	10	11	155	166
18	France	184	138	332	181	278	224	230	191	209
19	Germany	223	116	102	168	123	138	180	218	147
20	Netherlands	161	151	350	335	356	344	383	290	292
21	Switzerland	74	185	65	105	84	215	203	70	123
22	United Kingdom	6,007	9,855	8,467	10,498	9,503	8,768	7,890	7,390	6,557r
23	Canada	3,260	4,808	2,844	2,917	3,612	2,339	2,210	2,606	2,428
24	Latin America and Caribbean	7,846	9,291	7,012	10,952	11,862	8,142	7,233	9,340	8,309
25	Bahamas	2,698	2,628	1,994	4,176	4,069	1,857	2,172	1,880	1,707
26	Bermuda	6	6	7	87	188	19	25	125	33
27	Brazil	78	86	63	46	44	47	49	78	70
28	British West Indies	4,571	6,078	4,433	6,142	7,098	5,733	4,566	6,848	6,111
29	Mexico	180	174	172	146	133	151	117	114	105
30	Venezuela	48	21	19	27	27	21	25	31	36
31	Asia	731	1,317	879	971	1,027	830	951	1,082	801
32	Japan	475	999	605	647	737	561	627	630	440
33	Middle East oil-exporting countries[2]	4	7	8	5	5	5	8	8	7
34	Africa	103	85	65	60	95	106	89	80	75
35	Oil-exporting countries[3]	29	28	7	9	9	10	8	8	8
36	All other[4]	21	28	33	58	26	170	52	37	27
	Commercial claims									
37	Europe	3,533	3,725	4,180	4,713	4,313	5,016	4,930	4,934	5,168
38	Belgium-Luxembourg	175	133	178	158	172	177	201	201	212r
39	France	426	431	650	687	544	673	760	775	817
40	Germany	346	444	562	774	615	612	646	642	670r
41	Netherlands	284	164	133	172	146	208	158	194	175
42	Switzerland	284	217	185	262	183	322	249	220	217
43	United Kingdom	898	999	1,073	1,107	1,191	1,306	1,283	1,355	1,466
44	Canada	1,023	934	936	939	979	975	1,114	1,181	1,221
45	Latin America and Caribbean	1,753	1,857	1,930	2,067	2,104	2,229	2,103	2,083	2,112
46	Bahamas	13	28	19	13	12	36	34	14	10
47	Bermuda	93	193	170	174	161	229	234	236	270
48	Brazil	206	234	226	232	234	298	277	313	231
49	British West Indies	6	39	26	25	22	21	23	29	32
50	Mexico	510	412	368	411	463	457	477	428	499
51	Venezuela	157	237	283	304	266	226	211	228	187
52	Asia	2,982	2,755	2,915	2,992	3,028	2,954	3,097	3,115	3,264r
53	Japan	1,016	881	1,158	1,169	967	934	1,038	990	1,166r
54	Middle East oil-exporting countries[2]	638	563	450	446	437	441	421	423	398
55	Africa	437	500	401	425	425	435	386	401	387
56	Oil-exporting countries[3]	130	139	144	136	137	122	95	111	79
57	All other[4]	257	222	238	251	274	328	294	345	377

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	1988	1989	1990 Jan.– Jan.	1989 July	1989 Aug.	1989 Sept.	1989 Oct.	1989 Nov.	1989 Dec.[r]	1990 Jan.[p]
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	181,185	212,977[r]	13,741	17,122	22,112	19,595	22,350	13,830[r]	15,410	13,741
2 Foreign sales	183,185	203,387[r]	14,127	15,087	20,942	17,047	20,988	14,947	16,868	14,127
3 **Net purchases, or sales (–)**	**–2,000**	**9,591[r]**	**–385**	**2,035**	**1,171**	**2,548**	**1,363**	**–1,117[r]**	**–1,458**	**–385**
4 **Foreign countries**	**–1,825**	**9,835[r]**	**–354**	**2,052**	**1,154**	**2,599**	**1,340**	**–1,116**	**–1,411**	**–354**
5 Europe	–3,350	248[r]	–183	779	–98	1,461	–107	–1,655	–281	–183
6 France	–281	–700	–155	75	–251	–5	–265	–296	–255	–155
7 Germany	218	–865	41	–79	–238	–65	–117	–119	–41	41
8 Netherlands	–535	168	–18	12	–63	37	226	–34	–9	–18
9 Switzerland	–2,243	–3,470	–240	–23	–333	64	–244	–509	–442	–240
10 United Kingdom	–954	3,727[r]	–275	546	773	894	–34	–718	391	–275
11 Canada	1,087	–864	–141	8	14	–265	–140	–137	–459	–141
12 Latin America and Caribbean	1,238	3,102[r]	–111	109	250	602	149	–24	–478	–111
13 Middle East[1]	–2,474	3,530	–27	456	554	110	112	303	69	–27
14 Other Asia	1,365	3,414	231	729	423	631	1,138	342	–124	231
15 Japan	1,922	3,348	166	626	424	611	975	310	–53	166
16 Africa	188	131	2	2	22	24	–6	19	9	2
17 Other countries	121	274	–125	–30	–11	38	193	37	–147	–125
18 **Nonmonetary international and regional organizations**	**–176**	**–245**	**–31**	**–17**	**17**	**–52**	**23**	**–1**	**–48**	**–31**
BONDS[2]										
19 Foreign purchases	86,381	120,346	9,463	10,045	10,944	8,603	10,930	11,133	13,587	9,463
20 Foreign sales	58,417	86,264[r]	7,404	7,552	9,361	6,857	6,772	6,656	9,310	7,404
21 **Net purchases, or sales (–)**	**27,964**	**34,082[r]**	**2,059**	**2,494**	**1,583**	**1,746**	**4,158**	**4,476**	**4,277**	**2,059**
22 **Foreign countries**	**28,506**	**33,737[r]**	**2,054**	**2,516**	**1,607**	**1,740**	**4,106**	**4,464**	**4,224**	**2,054**
23 Europe	17,239	19,780[r]	1,135	1,976	–138	1,400	1,986	2,712	1,317	1,135
24 France	143	372	118	121	–35	78	–41	–14	6	118
25 Germany	1,344	–239	–114	–53	–121	–33	113	–117	–33	–114
26 Netherlands	1,514	850	–43	–22	96	28	30	143	41	–43
27 Switzerland	505	–165	157	81	–201	–27	74	54	–277	157
28 United Kingdom	13,084	18,395[r]	1,132	1,937	–9	1,311	1,711	2,328	1,842	1,132
29 Canada	711	1,112	178	79	76	155	175	–86	204	178
30 Latin America and Caribbean	1,931	3,682	493	300	63	233	247	539	492	493
31 Middle East[1]	–178	–171	87	19	44	20	140	–57	242	87
32 Other Asia	8,900	9,060	152	35	1,574	–108	1,553	1,343	1,954	152
33 Japan	7,686	6,331	170	–44	1,167	–179	1,263	1,045	1,728	170
34 Africa	–8	56	3	3	5	–3	0	8	27	3
35 Other countries	–89	218	5	103	–17	42	4	4	–11	5
36 **Nonmonetary international and regional organizations**	**–542**	**345**	**5**	**–22**	**–24**	**6**	**53**	**12**	**52**	**5**
	Foreign securities									
37 Stocks, net purchases, or sales (–)[3]	–1,959	–13,690[r]	345	–808	–1,706	–648	–1,341	–927[r]	–2,008	345
38 Foreign purchases	75,356	103,068[r]	12,438	7,640	9,489	8,473	10,309	9,426[r]	9,643	12,438
39 Foreign sales[3]	77,315	116,758[r]	12,093	8,448	11,195	9,121	11,650	10,354[r]	11,651	12,093
40 Bonds, net purchases, or sales (–)	–7,434	–5,750[r]	567	–1,406	1,005	–1,845	–615	478[r]	–270	567
41 Foreign purchases	218,521	234,029[r]	18,452	20,222	24,106	18,325	21,266	20,463[r]	18,543	18,452
42 Foreign sales	225,955	239,779[r]	17,885	21,628	23,101	20,170	21,881	19,986[r]	18,812	17,885
43 **Net purchases, or sales (–), of stocks and bonds**	**–9,393**	**–19,440[r]**	**913**	**–2,214**	**–701**	**–2,493**	**–1,956**	**–449[r]**	**–2,278**	**913**
44 **Foreign countries**	**–9,873**	**–19,415[r]**	**805**	**–2,366**	**–887**	**–1,926**	**–1,618**	**–527[r]**	**–2,286**	**805**
45 Europe	–7,864	–18,621[r]	1,013	–2,534	–860	–2,099	–2,487	–193[r]	–762	1,013
46 Canada	–3,747	–4,066	–58	–697	–250	–201	924	–325	–967	–58
47 Latin America and Caribbean	1,384	435	33	–75	314	–61	187	–102	–269	33
48 Asia	979	2,956[r]	78	921	327	412	–232	–2[r]	–512	78
49 Africa	–54	93	–14	12	–4	–3	12	13	56	–14
50 Other countries	–571	–212[r]	–248	8	–414	26	–21	83[r]	168	–248
51 **Nonmonetary international and regional organizations**	**480**	**–25**	**108**	**152**	**186**	**–568**	**–338**	**77**	**8**	**108**

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. As a result of the merger of a U.S. and U.K. company in July 1989, the former stockholders of the U.S. company received $5,453 million in shares of the new combined U.K. company. This transaction is not reflected in the data above.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions

Millions of dollars

Country or area	1988	1989	1990	1989						1990
			Jan.–Jan.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.p
	Transactions, net purchases or sales (–) during period[1]									
1 **Estimated total**[2]	**48,832**	**54,690r**	**730**	**–1,317**	**21,979**	**4,616**	**–2,050**	**8,195r**	**1,149**	**730**
2 Foreign countries[2]	48,170	52,713r	1,192	–761	22,409	5,698	–3,304	8,311r	–362	1,192
3 Europe[2]	14,319	36,034r	1,238	4,357	15,191	2,494	–2,137	4,259r	2,434	1,238
4 Belgium–Luxembourg	923	1,053	144	82	413	216	90	210	–85	144
5 Germany[2]	–5,268	7,922	–216	2,622	2,503	510	137	1,666	1,735	–216
6 Netherlands	–356	–1,137	–330	100	1,304	302	–1,200	54	–386	–330
7 Sweden	–323	889	–71	110	241	–50	140	–232	29	–71
8 Switzerland[2]	–1,074	1,097	–284	–361	–748	374	–187	–780	–355	–284
9 United Kingdom	9,640	20,250r	150	1,024	9,863	339	–919	3,823r	1,286r	150
10 Other Western Europe	10,786	5,982	1,845	786	1,614	802	–199	–481	209	1,845
11 Eastern Europe	–10	–21r	0	–5	0	0	0	0r	0r	0
12 Canada	3,761	621	–543	–533	1,028	–373	150	375	164	–543
13 Latin America and Caribbean	713	494	–333	839	–280	23	–1,439	1,372	–886	–333
14 Venezuela	–109	311	–107	71	120	29	72	163	–36	–107
15 Other Latin America and Caribbean	1,130	–292	262	104	217	–506	34	576	–610	262
16 Netherlands Antilles	–308	475	–488	665	–617	500	–1,545	634	–240	–488
17 Asia	27,603	14,008	549	–4,941	7,121	2,857	–131	1,646	–2,669	549
18 Japan	21,750	2,393	839	–5,360	3,009	2,402	1,330	1,085	–1,036	839
19 Africa	–13	116	9	–5	–48	0	13	9	39	9
20 All other	1,786	1,439	273	–478	–602	697	240	649r	555	273
21 Nonmonetary international and regional organizations	661	1,978	–462	–557	–431	–1,082	1,254	–116	1,511	–462
22 International	1,106	1,473	–551	–546	–576	–719	1,158	–143	1,335	–551
23 Latin America regional	–31	231	38	3	75	–228	160	0	0	38
Memo										
24 Foreign countries[2]	48,170	52,713r	1,192	–761	22,409	5,698	–3,304	8,311r	–362	1,192
25 Official institutions	26,624	26,952r	427	2,819	9,957	799	–1,020	1,686	1,305r	427
26 Other foreign[2]	21,546	25,761r	765	–3,580	12,452	4,900	–2,284	6,626r	–1,667r	765
Oil-exporting countries										
27 Middle East[3]	1,963	8,146	1,016	435	3,681	695	–2,183	–26	–640	1,016
28 Africa[4]	1	–1	–1	0	0	0	0	–1	0	–1

1. Estimated official and private transactions in marketable U.S. Treasury securities with an original maturity of more than 1 year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.
2. Includes U.S. Treasury notes publicly issued to private foreign residents denominated in foreign currencies.
3. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
4. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS

Percent per year

Country	Rate on Mar. 31, 1990		Country	Rate on Mar. 31, 1990		Country	Rate on Mar. 31, 1990	
	Percent	Month effective		Percent	Month effective		Percent	Month effective
Austria	6.0	June 1989	France[1]	10.0	Dec. 1989	Norway	8.0	June 1983
Belgium	10.25	Oct. 1989	Germany, Fed. Rep. of	6.0	Oct. 1989	Switzerland	6.0	Oct. 1989
Brazil	49.0	Mar. 1981	Italy	13.5	Mar. 1989	United Kingdom[2]	....	....
Canada	13.51	Mar. 1990	Japan	5.25	Mar. 1990	Venezuela	8.0	Oct. 1985
Denmark	10.5	Oct. 1989	Netherlands	7.0	Oct. 1989			

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 year, averages of daily figures

Country, or type	1987	1988	1989	1989				1990		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Eurodollars	7.07	7.85	9.16	8.85	8.67	8.42	8.39	8.22	8.24	8.37
2 United Kingdom	9.65	10.28	13.87	13.99	15.03	15.07	15.07	15.13	15.07	15.23
3 Canada	8.38	9.63	12.20	12.32	12.29	12.35	12.34	12.24	12.96	13.35
4 Germany	3.97	4.28	7.04	7.37	8.08	8.22	8.06	8.22	8.27	8.42
5 Switzerland	3.67	2.94	6.83	7.42	7.63	7.68	8.14	9.35	9.31	8.88
6 Netherlands	5.24	4.72	7.28	7.53	8.08	8.40	8.47	8.82	8.93	8.70
7 France	8.14	7.80	9.27	9.20	9.89	10.41	10.71	11.19	10.93	10.56
8 Italy	11.15	11.04	12.44	12.40	12.63	12.67	12.83	12.88	13.22	13.03
9 Belgium	7.01	6.69	8.65	8.66	9.51	9.81	10.03	10.48	10.54	10.39
10 Japan	3.87	3.96	4.73	4.88	5.25	5.71	5.80	6.02	6.22	6.33

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[1]

Currency units per dollar

Country/currency	1987	1988	1989	1989 Oct.	1989 Nov.	1989 Dec.	1990 Jan.	1990 Feb.	1990 Mar.
1 Australia/dollar[2]	70.137	78.409	79.186	77.421	78.295	78.586	78.111	75.932	75.562
2 Austria/schilling	12.649	12.357	13.236	13.140	12.860	12.241	11.904	11.803	11.514
3 Belgium/franc	37.358	36.785	39.409	39.197	38.403	36.544	35.451	34.998	35.398
4 Canada/dollar	1.3259	1.2306	1.1842	1.1749	1.1697	1.1613	1.1720	1.1965	1.1800
5 China, P.R./yuan	3.7314	3.7314	3.7673	3.7314	3.7314	4.1825	4.7339	4.7339	4.7339
6 Denmark/krone	6.8478	6.7412	7.3210	7.2781	7.1138	6.7610	6.5620	6.4729	6.5349
7 Finland/markka	4.4037	4.1933	4.2963	4.2817	4.2619	4.1231	4.0080	3.9642	4.0276
8 France/franc	6.0122	5.9595	6.3802	6.3339	6.2225	5.9391	5.7568	5.6897	5.7555
9 Germany/deutsche mark	1.7981	1.7570	1.8808	1.8662	1.8300	1.7378	1.6914	1.6758	1.7053
10 Greece/drachma	135.47	142.00	162.60	165.88	164.97	160.32	157.68	158.04	162.44
11 Hong Kong/dollar	7.7986	7.8072	7.8008	7.8081	7.8140	7.8102	7.8116	7.8103	7.8129
12 India/rupee	12.943	13.900	16.213	16.819	16.925	16.932	16.963	16.990	17.116
13 Ireland/punt[2]	148.79	152.49	141.80	142.50	144.73	151.65	156.31	158.28	156.26
14 Italy/lira	1,297.03	1,302.39	1,372.28	1,369.24	1,343.83	1,291.93	1,261.87	1,243.68	1,257.67
15 Japan/yen	144.60	128.17	138.07	142.21	143.53	143.69	144.98	145.69	153.31
16 Malaysia/ringgit	2.5186	2.6190	2.7079	2.6945	2.7028	2.7032	2.7041	2.7137	2.7170
17 Netherlands/guilder	2.0264	1.9778	2.1219	2.1072	2.0652	1.9619	1.9073	1.8892	1.9204
18 New Zealand/dollar[2]	59.328	65.560	59.354	55.937	56.301	59.458	60.220	59.156	58.471
19 Norway/krone	6.7409	6.5243	6.9131	6.9502	6.9010	6.7021	6.5462	6.4760	6.5972
20 Portugal/escudo	141.20	144.27	157.53	159.08	157.65	152.34	149.17	147.71	150.59
21 Singapore/dollar	2.1059	2.0133	1.9511	1.9622	1.9588	1.9183	1.8873	1.8641	1.8777
22 South Africa/rand	2.0385	2.2773	2.6215	2.6403	2.6295	2.5679	2.5532	2.5449	2.6158
23 South Korea/won	825.94	734.52	674.29	673.86	674.94	677.66	686.18	692.47r	700.50
24 Spain/peseta	123.54	116.53	118.44	118.77	116.58	112.24	109.71	108.27	109.37
25 Sri Lanka/rupee	29.472	31.820	35.947	40.018	40.017	40.018	40.018	40.018	40.018
26 Sweden/krona	6.3469	6.1370	6.4559	6.4580	6.4306	6.2920	6.1776	6.1250	6.1683
27 Switzerland/franc	1.4918	1.4643	1.6369	1.6302	1.6189	1.5686	1.5175	1.4879	1.5133
28 Taiwan/dollar	31.753	28.636	26.407	25.739	26.029	26.139	26.081	26.118	26.361
29 Thailand/baht	25.775	25.312	25.725	25.868	25.877	25.778	25.745	25.733	25.926
30 United Kingdom/pound[2]	163.98	178.13	163.82	158.74	157.26	159.65	165.12	169.61	162.45
MEMO									
31 United States/dollar[3]	96.94	92.72	98.60	98.92	97.99	94.88	93.00	92.25	94.11

1. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) release. For address, see inside front cover.
2. Value in U.S. cents.
3. Index of weighted-average exchange value of U.S. dollar against the currencies of 10 industrial countries. The weight for each of the 10 countries is the 1972–76 average world trade of that country divided by the average world trade of all 10 countries combined. Series revised as of August 1978 (see *Federal Reserve Bulletin*, vol. 64, August 1978, p. 700).

Guide to Tabular Presentation, Statistical Releases, and Special Tables

GUIDE TO TABULAR PRESENTATION

Symbols and Abbreviations

c	Corrected
e	Estimated
p	Preliminary
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)
0	Calculated to be zero
n.a.	Not available
n.e.c.	Not elsewhere classified
IPCs	Individuals, partnerships, and corporations
REITs	Real estate investment trusts
RPs	Repurchase agreements
SMSAs	Standard metropolitan statistical areas
. . .	Cell not applicable

General Information

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

In some of the tables, details do not add to totals because of rounding.

STATISTICAL RELEASES—List Published Semiannually, with Latest BULLETIN *Reference*

SPECIAL TABLES—Published Irregularly, with Latest BULLETIN *Reference*

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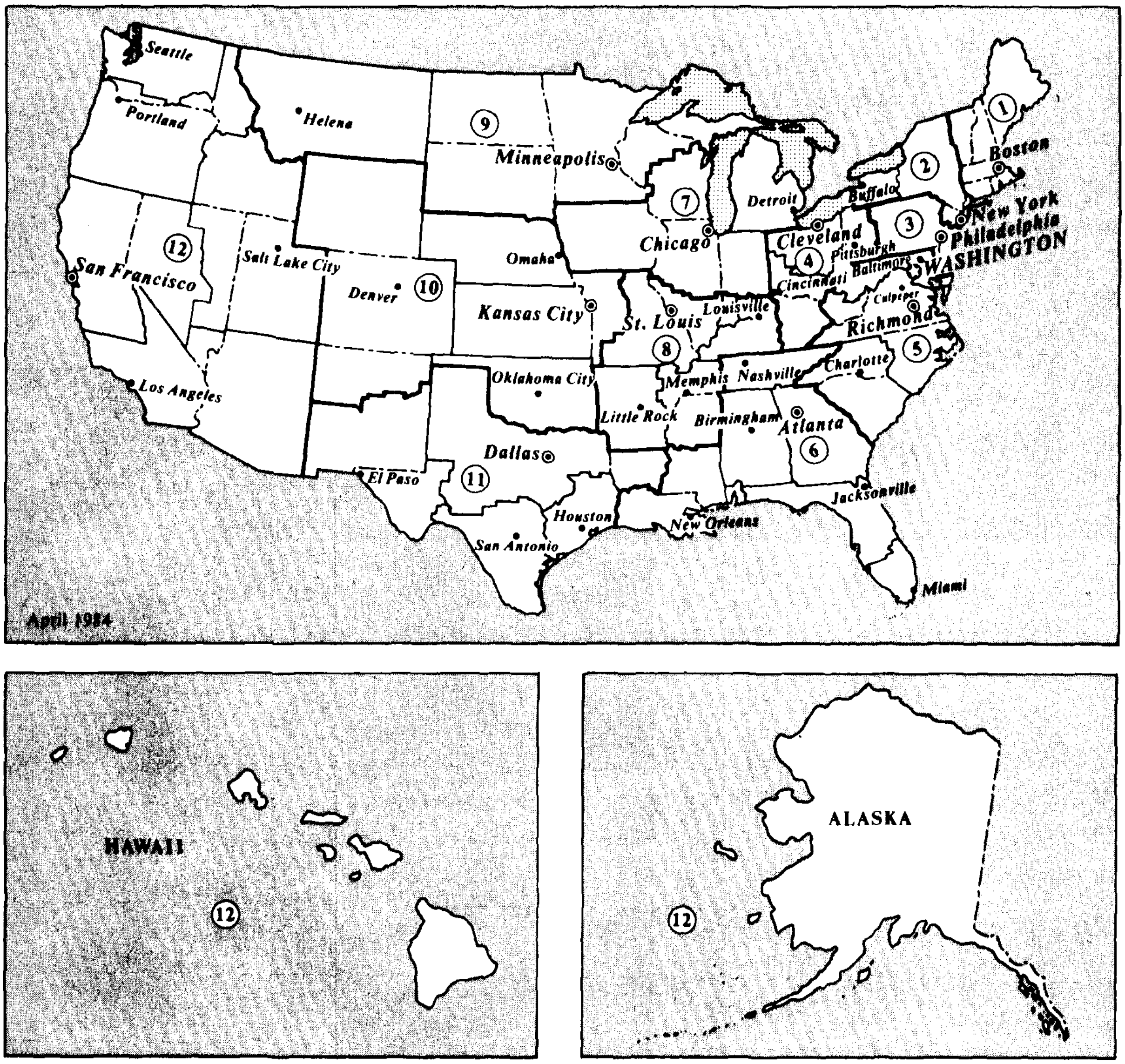

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