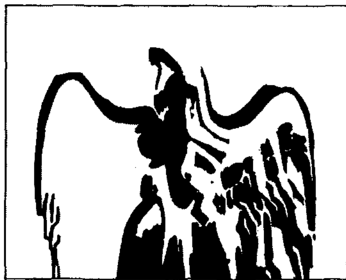
VOLUME 79 □ NUMBER 5 □ MAY 1993



FEDERAL RESERVE BULLETIN

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, WASHINGTON, D.C.

PUBLICATIONS COMMITTEE
Joseph R. Coyne, *Chairman* □ S. David Frost □ Griffith L. Garwood □ Donald L. Kohn □ J. Virgil Mattingly, Jr. □ Michael J. Prell □ Richard Spillenkothen □ Edwin M. Truman

The *Federal Reserve Bulletin* is issued monthly under the direction of the staff publications committee. This committee is responsible for opinions expressed except in official statements and signed articles. It is assisted by the Economic Editing Section headed by S. Ellen Dykes, the Graphics Center under the direction of Peter G. Thomas, and Publications Services supervised by Linda C. Kyles.

Table of Contents

379 *U.S. INTERNATIONAL TRANSACTIONS IN 1992*

After declining in each of the previous four years, the U.S. current account deficit widened substantially in 1992. A larger merchandise trade deficit and the end of cash contributions by foreign governments to help finance the Persian Gulf War accounted for most of the change. The current account deficit was more than matched by recorded net capital inflows, and the statistical discrepancy in the U.S. international transactions accounts was negative.

389 *INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION FOR FEBRUARY 1993*

Industrial production rose 0.4 percent in February, for its fifth consecutive monthly gain. Total industrial capacity utilization increased 0.2 percentage point, to 79.9 percent, the highest rate since September 1991.

392 *STATEMENTS TO THE CONGRESS*

David W. Mullins, Jr., Vice Chairman, Board of Governors, discusses the credit crunch and the availability of credit for small businesses, and says that although loan demand should revive and banks have ample liquidity to support increased lending, the Federal Reserve is working actively to identify and eliminate any unwarranted bank regulatory impediments to business lending, before the Senate Committee on Small Business, March 4, 1993.

395 The presidents of the Federal Reserve District Banks discuss regional economic and monetary conditions before the Senate Committee on Banking, Housing, and Urban Affairs, March 10, 1993: Richard F. Syron, President, Boston Federal Reserve Bank; E. Gerald Corrigan, President, New York Federal Reserve Bank; Edward G. Boehne, President Philadelphia Federal Reserve Bank; Jerry L. Jordan, President, Cleveland Federal Reserve Bank; J. Alfred Broaddus, Jr., President, Richmond Federal Reserve Bank; Robert P. Forrestal, President, Atlanta Federal Reserve Bank; Silas Keehn, President, Chicago Federal Reserve Bank; Thomas C. Melzer, President, St. Louis Federal Reserve Bank; Gary H. Stern, President, Minneapolis Federal Reserve Bank; Thomas M. Hoenig, President, Kansas City Federal Reserve Bank; Robert D. McTeer, Jr., President, Dallas Federal Reserve Bank; Robert T. Parry, President, San Francisco Federal Reserve Bank.

464 Vice Chairman Mullins discusses legislative initiatives concerning the government securities market and says that the apparatus of reporting requirements in this market that could be implemented under H.R.618 might reduce the cost of investigating abuses and facilitate enforcement, but could also boost the cost of every trade and reduce the number of market participants, before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce, March 17, 1993.

466 John P. LaWare, member, Board of Governors, discusses regulatory burden and says that this burden has become substantial, raising the costs of banking services, and that what is needed is new approaches to regulation that are more sensitive to cost-benefit trade-offs, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations, March 17, 1993.

469 William J. McDonough, Executive Vice President, Federal Reserve Bank of New York, reviews the market surveillance activities of

the New York Reserve Bank and says that over the past year efforts have been focused on apparent shortages of specific Treasury securities and that the Bank will continue to pursue each incident of unusual market activity, before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce, March 17, 1993.

471 Alan Greenspan, Chairman, Board of Governors, discusses the burgeoning federal budget deficit, which on a cyclically adjusted or structural basis has hovered around 3 percent of potential GDP for the past ten years, and says that unless it is addressed, it will increasingly threaten the stability of our economic system, before the Senate Committee on Finance, March 24, 1993.

473 Chairman Greenspan discusses the availability of bank credit to small businesses and says that although there has been a substantial tightening of lending terms and standards that has affected small businesses, banks' attitudes toward loans and risktaking are improving, before the House Commitee on Small Business, March 25, 1993.

477 *ANNOUNCEMENTS*

Meeting of the Consumer Advisory Council.

New procedures for processing applications filed by foreign banks.

Amendment to Regulation C.

Amendment to Regulation DD.

Changes in Board staff.

Publication of the *79th Annual Report, 1992* and *Annual Report: Budget Review, 1992–93.*

479 *MINUTES OF FEDERAL OPEN MARKET COMMITTEE MEETING*

At its meeting of February 2–3, 1993, the Committee reduced its ranges for monetary growth in 1993 by ½ percentage point to rates of 2 to 6 percent for M2 and ½ to 4½ percent for M3. The reductions did not signal any change in monetary policy but were technical in nature and intended to take account of ongoing developments that were expected to continue to depress the growth of the broad measures of money in relation to income in 1993. The range for total domestic nonfinancial debt was left unchanged at 4½ to 6½ percent. In keeping with the Committee's usual procedures under the Humphrey–Hawkins Act, the ranges would be reviewed at midyear, or sooner if deemed necessary, in light of the growth and velocity behavior of the aggregates and ongoing economic and financial developments.

For the intermeeting period ahead, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include a presumption about the likely direction of any adjustment to policy over the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, the directive indicated that slightly greater or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with little change in the levels of M2 and M3 over the two-month period from January through March.

495 *LEGAL DEVELOPMENTS*

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

553 *DIRECTORS OF FEDERAL RESERVE BANKS AND BRANCHES*

List of directors by Federal Reserve District.

A1 *FINANCIAL AND BUSINESS STATISTICS*

These tables reflect data available as of March 26, 1993.

A3 *GUIDE TO TABULAR PRESENTATION*

A4 Domestic Financial Statistics
A44 Domestic Nonfinancial Statistics
A53 International Statistics

A69 *GUIDE TO STATISTICAL RELEASES AND SPECIAL TABLES*

A84 *INDEX TO STATISTICAL TABLES*

A86 *BOARD OF GOVERNORS AND STAFF*

A88 *FEDERAL OPEN MARKET COMMITTEE AND STAFF; ADVISORY COUNCILS*

A90 *FEDERAL RESERVE BOARD PUBLICATIONS*

A92 *MAPS OF THE FEDERAL RESERVE SYSTEM*

A94 *FEDERAL RESERVE BANKS, BRANCHES, AND OFFICES*

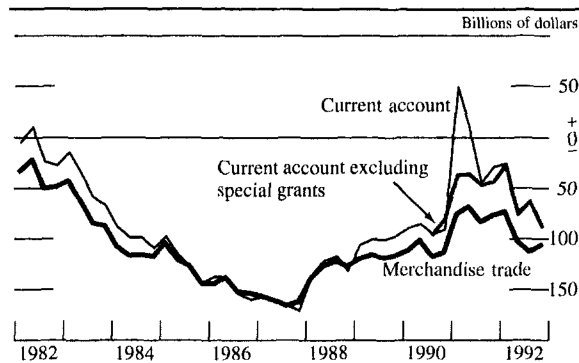
U.S. International Transactions in 1992

William L. Helkie, of the Board's Division of International Finance, prepared this article.

After declining in each of the previous four years, the U.S. current account deficit widened substantially in 1992. A larger merchandise trade deficit and the end of one-time cash contributions by foreign governments associated with the Persian Gulf War accounted for most of the change. Excluding the change in foreign cash transfers, the current account deficit increased somewhat less than the trade deficit, owing to a strengthening of net service receipts. Nevertheless, the widening of the current account deficit was dramatic (chart 1).

A $23 billion increase in merchandise exports was more than offset by a $46 billion increase in merchandise imports, so that the merchandise trade deficit widened for the first time since 1987 (table 1). The end of Gulf War–related cash grants by foreign governments eliminated a $43 billion offset to U.S. unilateral transfers abroad; overall, net transfers swung from an inflow of $8 billion in 1991 to an outflow of $31 billion in 1992. Net service receipts expanded $10 billion in 1992, mainly because of reduced payments by the U.S. military for services purchased abroad and insurance payments recovered from foreign reinsurers for losses caused by hurricanes in the United States and its territories. Net investment income receipts declined $6 billion, mostly as a result of larger direct investment payments to foreigners due to the U.S. economic recovery.

1. U.S. external balances, 1982–92



The data are quarterly at seasonally adjusted annual rates.
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. international transactions accounts.

The substantial current account deficit was more than matched by recorded net capital inflows, both official and private. Thus, the statistical discrepancy in the U.S. international transactions accounts was negative.

MAJOR ECONOMIC INFLUENCES ON U.S. INTERNATIONAL TRANSACTIONS

Cyclical movements in economic activity at home and abroad, movements in U.S. international price competitiveness, and swings in the rates of return on real and financial assets at home and abroad significantly influenced U.S. international transactions in 1992. The main economic factor in the widening of the external deficit (excluding the transitory effects of payments for the Persian Gulf War) was that economic growth in the United States exceeded that of its major industrial country trading partners.

Relative Growth Rates

From 1989 through 1991, economic growth abroad on average exceeded growth in the United States (chart 2). U.S. households and businesses struggled to redress structural imbalances generated over the 1980s. Pressures to restructure balance sheets, reinforced by more cautious lending practices of U.S. financial institutions, slowed U.S. economic growth, and the relative slowdown in U.S. growth contributed to the narrowing of the external deficit. During 1992, balance sheet adjustment became less of a restraint on the economy, and U.S. domestic demand rose 3.7 percent. Much of the pickup was in the consumer sector: Private consumption surged

1. U.S. current account, 1987–92
Billions of dollars

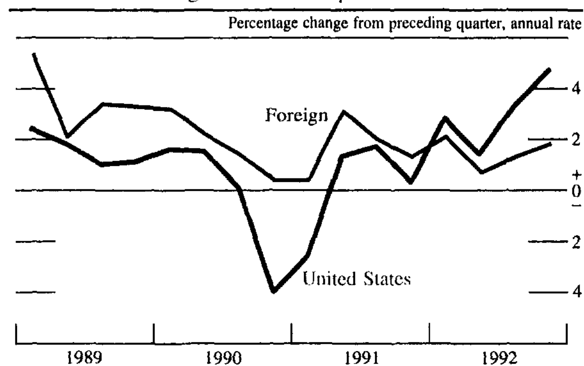
Item	1987	1988	1989	1990	1991	1992	Change, 1991–92
Goods and services, net	−151.3	−114.3	−90.1	−76.8	−28.1	−41.2	−13.0
Merchandise trade balance	−159.5	−127.0	−115.9	−108.9	−73.4	−96.3	−22.8
Service transactions, net	8.2	12.7	25.8	32.1	45.3	55.1	9.8
Investment income, net	11.0	12.4	14.3	19.2	16.4	10.1	−6.4
Direct investment, net	30.7	38.7	47.8	54.3	52.9	49.2	−3.7
Portfolio investment, net	−19.7	−26.3	−33.5	−35.1	−36.5	−39.1	−2.7
Unilateral transfers, net	−23.1	−24.9	−25.6	−32.9	8.0	−31.4	−39.4
Foreign cash grants to the United States	.0	.0	.0	17.2	42.5	1.3	−41.2
Other transfers	−23.1	−24.9	−25.6	−50.1	−34.5	−32.7	1.8
Current account balance	**−163.4**	**−126.7**	**−101.1**	**−90.4**	**−3.7**	**−62.4**	**−58.7**
MEMO:							
Current account balance excluding foreign cash grants	−163.4	−126.7	−101.1	−107.6	−46.2	−63.7	−17.5

Because of rounding, calculations in this and subsequent tables may not yield results shown.

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

at a 5 percent annual rate during the first quarter, flattened during the second quarter, and rose more than 4 percent at an annual rate during the second half of the year. Real expenditures on residential structures also picked up. In addition, real expenditures on business fixed investment rose sharply: Significant price reductions and the push to acquire state-of-the-art technology spurred real outlays for office and computing equipment, and demand for other machinery began to grow as well, as the pace of economic expansion lifted expectations of future sales, increased profits, and improved cash flow. As a consequence of the pickup in domestic expenditures, real merchandise imports during 1992 rose at double-digit rates.

2. Growth of real gross domestic product, 1989–92



The data are quarterly at seasonally adjusted annual rates. The GDP for foreign countries is the weighted average of the Group of Ten (G-10) countries, other industrial countries, and developing countries. The weights are based on U.S. bilateral nonagricultural exports.

At the same time, a slowdown in economic growth in major U.S. export markets restrained exports (table 2). Despite reductions in interest rates and other measures taken by some foreign governments to boost spending and stimulate activity, average year-over-year growth of the economies of the United States' industrial country trading partners was a disappointing 1 percent. Among the major foreign industrial countries, only Canada, where the earlier recession had been quite severe, showed signs of a moderate pickup in growth, boosted partly by the U.S. recovery. Growth in Japan and Germany, previously fairly strong, weakened significantly. Most other European countries also recorded only weak growth. Although departure from the exchange-rate mechanism (ERM) of the European Monetary System in September

2. Growth of real gross domestic product in selected foreign economies, 1991 and 1992
Percentage change, year over year

Country	1991	1992[1]
Canada	−1.7	.9
Japan	4.1	1.3
Germany (western)	3.8	1.1
United Kingdom	−2.4	−.5
Italy	1.4	1.0
France	1.0	1.7
China	7.0	12.8
Hong Kong	4.2	5.5
Korea	8.4	5.0
Brazil	.9	−1.5
Mexico	3.6	2.8

1. Data for 1992 are partly estimated.
SOURCES. Various national sources.

allowed short-term interest rates in Italy and the United Kingdom to fall, interest rates in Europe on balance remained fairly high during the year as German authorities sought to blunt inflationary pressures. Other factors that appear to have contributed to the generally disappointing demand in industrial countries were persistent low levels of business confidence, continued adjustments of spending to reduce high levels of debt on household and firm balance sheets, a reduced pace of lending in some countries, and worries about problems in the financial sector.

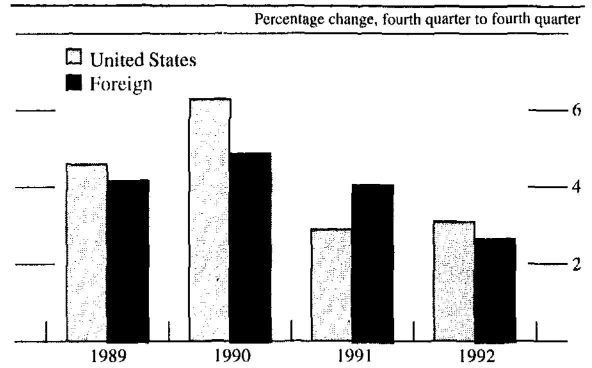
Among U.S. trading partners in developing countries, economic performance in 1992 appears to have been mixed; on average, however, their growth is estimated to have been stronger than in major foreign industrial countries. Economic activity in Asia expanded at a particularly strong 7 percent annual rate, led by growth in China of nearly 13 percent. However, output growth fell to relatively low rates on average in countries in the Western Hemisphere; growth declined sharply in Brazil as a result of political problems and turned down slightly in Mexico as the authorities sought to limit the current account deficit and further reduce inflation.

U.S. Price Competitiveness

The change in price competitiveness of U.S. export- and import-competing industries depends on the relative movements of inflation rates here and abroad and on changes in the foreign exchange value of the dollar. Because of relatively tighter monetary policies abroad, 1992 inflation rates in the foreign Group of Ten (G-10) countries were, on average, lower than U.S. rates (chart 3). The continuing efforts of U.S. businesses to contain production costs and boost efficiency were reflected in the U.S. consumer price index rising by just 3.1 percent for the year.

However, foreign price inflation fell even further in 1992. All major industrial countries operated below their potential rates of output (some considerably so), and inflation rates were generally moderate. Average CPI inflation in the foreign G-10 countries was only 2½ percent, almost 1½ percentage points below the 1991 average rate. Pass-through effects from depreciation of exchange rates in the United Kingdom, Italy, and Canada were moderate. Wage inflation also decelerated in most foreign industrial countries. The main exception to the generally deflationary pattern abroad was western Germany, where inflation remained at about 3¾ percent and concerns about inflationary pressures contributed to the reluctance of monetary authorities to ease more rapidly.

3. Change in the consumer price index, 1989–92



The CPI for foreign countries is the weighted average of the G-10 countries. The weights are shares in U.S. non-oil imports.

In nominal terms, the multilateral trade-weighted foreign exchange value of the U.S. dollar, measured in terms of the other G-10 currencies, rose nearly 6 percent from December 1991 to December 1992. The dollar appreciated over the first three months of 1992 amid expectations of strengthening economic recovery in the United States. Over the summer, however, the dollar declined to a point below the previous year's low, as growth of the U.S. economy was perceived to be more sluggish than expected and the Federal Reserve eased short-term interest rates further. The dollar reversed direction again in the fall, strengthening sharply in the wake of turmoil in the European Monetary System and, more important, on evidence of increased momentum of the U.S. economic expansion and sluggish conditions in foreign industrial economies.

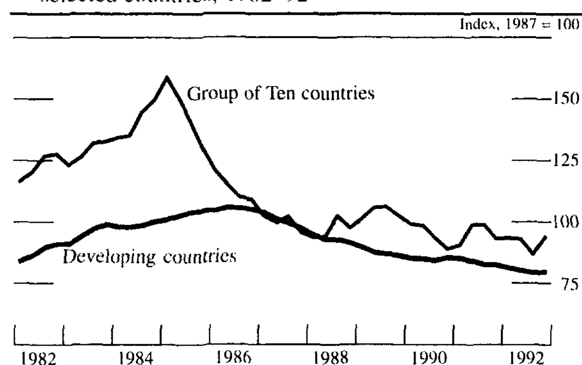
The net rise in the weighted average dollar over 1992 primarily reflected sharp declines in several European currencies and in the Canadian dollar. Denmark's rejection of the Maastricht Treaty in early June called into question the future of European monetary and political union and led to pressures on the ERM. In September, the pressures intensified enough to force Italy and the United Kingdom to withdraw from the ERM, and their currencies depreciated sharply. For the year as a

whole, the Italian lira and the British pound declined 20 percent and 18 percent respectively versus the U.S. dollar. Several other European currencies, including those of Spain, Portugal, and several Scandinavian countries, also depreciated sharply against the dollar in the fall. The parity of the French franc with the German mark was maintained within the ERM, but at the cost of relatively high French short-term interest rates in the face of a sluggish French economy and rising unemployment.

The dollar fell more than 7 percent on balance against the German mark from December 1991 to August 1992, as German monetary policy, responding to relatively high German money growth and inflation, remained tight longer than market participants had expected. That rise of the mark was more than reversed over fall and winter, however, as it became clear that German economic activity had turned significantly downward and as German monetary policy was eased somewhat.

The dollar depreciated about 4½ percent on balance against the yen during 1992, despite a noticeable decline in Japanese gross domestic product during the second and third quarters and a significant reduction in Japanese interest rates over the year. The net strengthening of the yen probably was due, at least in part, to market reactions to a substantial widening of Japan's external surplus.

4. Real exchange value of the dollar against currencies of selected countries, 1982–92



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. The countries in the G-10 index are Belgium-Luxembourg, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom. The countries in the developing-countries index are Brazil, Hong Kong, Korea, Malaysia, Mexico, the Philippines, Singapore, and Taiwan. The data are quarterly.

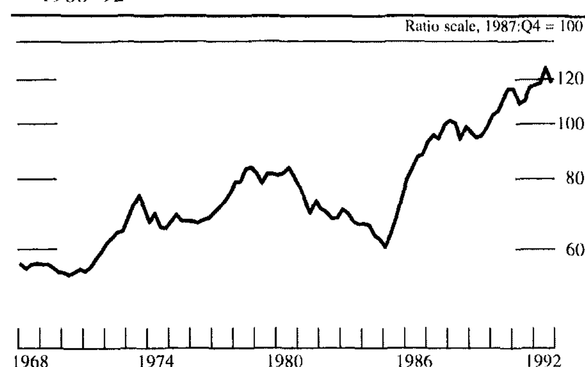
A broad measure of the price competitiveness of U.S. goods and services is the "real," or "price-adjusted," foreign exchange value of the dollar, which is computed as the ratio of U.S. consumer prices to foreign consumer prices translated into dollars at current nominal exchange rates (chart 4). U.S. prices have fallen relative to average prices in dollars in both foreign G-10 and developing countries since the mid-1980s. However, because of developments in foreign exchange markets during 1992, primarily during the fourth quarter, the real value of the dollar against the foreign G-10 currencies ended the year higher than it began.

Another aggregated measure of U.S. export price competitiveness, which gives a somewhat different picture of recent developments, is the ratio of average consumer prices in dollars in G-10 and developing countries to U.S. export prices (chart 5). From a long-term perspective, fluctuations in nominal exchange rates during 1992 did not significantly affect the improvement in the prices of U.S. goods relative to the prices of foreign goods and services as they had in earlier periods (that is, 1981–85). Some of the improvement is due to the decline in prices of traded goods relative to prices of nontraded goods during recent years.

DEVELOPMENTS IN MERCHANDISE TRADE

The merchandise trade deficit widened to $96 billion in 1992, up from $73 billion in 1991 (table 3). Imports grew almost twice as fast as exports as

5. Ratio of foreign consumer prices to U.S export prices, 1968–92



Foreign prices are the weighted average of the G–10 countries expressed in dollars. The data are quarterly.

the economic recovery in the United States gained momentum but economic growth in markets for U.S. exports remained sluggish. Early in the year, the deficit narrowed somewhat when a drop in oil prices lowered the value of imports. The deficit widened sharply in the second quarter, however, when imports surged and exports remained about unchanged. During the remainder of 1992, both imports and exports continued to grow strongly, and the deficit increased further.

Exports

Merchandise exports grew 6½ percent in real terms over the four quarters of 1992. The increase in nominal terms was only slightly less, as prices of exports changed very little. Sixty percent of total U.S. exports went to industrial countries: 26 percent to Western European countries, 21 percent to Canada, 11 percent to Japan, and 2 percent to Australia and New Zealand. These countries accounted for only 15 percent of the growth in U.S. exports, however. Most of the growth in exports was due to increased shipments to developing countries in Latin America and Asia.

About three-fourths of the increase in exports was in capital goods and automotive products, and more than one-third of the rise was in consumer goods and agricultural products. Aircraft accounted for about 15 percent of the increase in exported capital goods, but most of the rise occurred in the first part of the year; deliveries in the second half of the year were 12 percent less than those in the first half. The value of machinery exports grew 7 percent; these exports expanded steadily throughout the year, with more than 80 percent of the increase going to developing countries (half the increase to Asia and half to Latin America). The rise was strongest in high-tech equipment, especially semiconductors, telecommunications equipment, and computers (including accessories and parts). For automotive products, most of the rise in exported vehicles went to Taiwan, Saudi Arabia, Venezuela, and Hong Kong, and most of the increase in exported parts went to Mexico and Canada. Two-thirds of the increase in exported consumer goods went to developing countries (largely to countries in Latin America, particularly to Mexico).

The value of agricultural exports increased approximately 10 percent in 1992, as deliveries of wheat, soybeans, meat, and dairy products increased sharply. U.S. government programs (that is, loan guarantees and donations) pushed up shipments of wheat and dairy products to countries in Eastern Europe and the former Soviet Union. Wheat shipments to these two areas were especially strong during the first half of 1992, whereas dairy shipments to these areas were largest during the second

3. U.S. merchandise trade, 1990–92
Billions of dollars, seasonally adjusted

Item	1990	1991	1992	1991	1992			
				Q4	Q1	Q2	Q3	Q4
Merchandise trade balance	**–109**	**–73**	**–96**	**–19**	**–18**	**–25**	**–28**	**–26**
Exports	389	416	439	108	108	107	110	114
Agricultural	40	40	44	11	11	10	11	11
Nonagricultural	349	376	395	97	97	97	99	103
Capital goods	153	167	177	44	44	43	43	46
Automotive products	37	40	47	10	11	11	12	13
Consumer goods	43	46	50	12	12	12	13	13
Industrial supplies	97	102	102	25	25	25	26	26
All other exports	19	21	20	6	5	5	5	5
Imports	498	489	536	126	125	132	138	140
Petroleum and products	62	51	51	12	10	13	14	14
Nonpetroleum	435	438	484	114	115	119	123	127
Computers	23	26	32	7	7	8	9	9
Other capital goods	93	95	103	24	24	25	26	27
Consumer goods	105	108	123	30	29	30	32	32
Automotive products	88	85	91	22	22	22	23	24
Industrial supplies	83	81	88	21	21	22	22	23
Foods and other imports	44	44	47	11	11	12	12	12

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

half of the year. Exports of soybeans were particularly strong in the third quarter because of a bunching of shipments to Japan, Mexico, and China. Increased exports of meat went mostly to Japan and Mexico.

Imports

During 1992, merchandise imports grew 11 percent in real terms. As with exports, the increase was about the same in nominal terms, as prices of imports on average changed little during the year. Although all major categories of imports rose, nearly two-thirds of the increase was in capital goods and consumer goods. Somewhat smaller increases were recorded for automotive products and industrial supplies. The value of imported oil rose only slightly.

The value of imported capital goods, increasing steadily throughout the year, rose 11 percent. As with exports, the strongest increases were in high-tech equipment. Computers (including accessories and parts) accounted for more than 40 percent of the increase in the value of imported capital goods; the increase came largely from Japan and developing countries in Asia. U.S. domestic sales of computers were very strong beginning in the summer, fueled by price wars and a push by U.S. businesses to upgrade personal computers and workstations to take advantage of improvements in software. Most of the sales were at the lower end of the spectrum of computer products—items that are often imported. Excluding computers, imports of capital goods rose 8 percent, led by semiconductors, telecommunications equipment, business equipment, and aircraft (including engines and parts). Imported aircraft came mainly from France, the Netherlands, and the United Kingdom.

Imported consumer goods rose 14 percent. Most of the increase occurred during the second half of the year as the U.S. economy began to pick up more strongly: Imports surged during the third quarter and eased slightly during the fourth. Thirty-three percent of the increase in consumer goods imports came from China, and another 45 percent came from other developing countries in Asia and Latin America; Western Europe and Canada together contributed another 18 percent of the increase, and Japan contributed 4 percent.

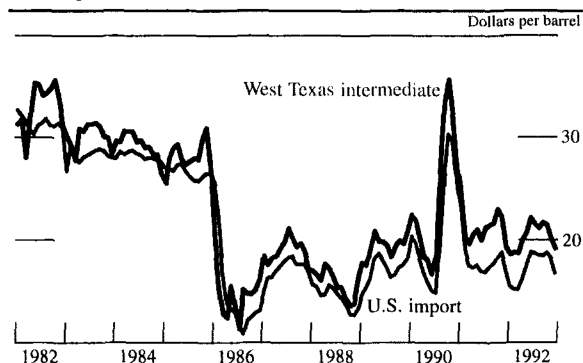
Imports of automotive products rose 7 percent. About 50 percent of the increase came from Canada (two-thirds vehicles, one-third parts), and another 30 percent came from Mexico (almost entirely parts). The remaining increase came mainly from Germany (almost entirely vehicles). The value of automotive imports from Japan was about the same in 1992 as in 1991.

Imported industrial supplies (other than oil) were 9 percent higher in 1992 than in 1991. Categories recording increases outnumbered those showing declines. Some of the larger increases were in lumber, steel, chemicals, natural gas, and miscellaneous supplies; the larger declines were recorded in newsprint and metals.

In 1992, 60 percent of U.S. non-oil imports came from industrial countries (about 20 percent each from Canada, Western Europe, and Japan). Non-oil imports from these countries grew 8 percent and accounted for more than 45 percent of the increase in imports in 1992. Imports from developing countries in Asia and Latin America expanded 15 percent, with the largest increases coming from China and Mexico.

The value of oil imports increased only slightly, as a gain in oil consumption resulting from the rebound in economic activity was roughly offset by a decline in the price of imported oil. As a result of mild winter weather and strong OPEC production, oil prices began the year at relatively depressed levels—approximately $19.00 per barrel for spot West Texas intermediate (WTI) (chart 6). Spot prices of WTI rose from March through June when OPEC restrained output and oil market participants

6. Oil prices, 1982–92



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

perceived a shift in Saudi Arabian pricing policy in light of European Community proposals for a carbon tax. The pickup in U.S. economic activity helped keep prices firm through October as the continued absence of Iraq left the oil market with little excess capacity. Mild weather in the fourth quarter, coupled with production increases by Saudi Arabia, Iran, and Kuwait, pushed prices down almost continuously through December, with spot WTI prices at the turn of the year just above $19.00 per barrel, essentially where they had been at the beginning of 1992. Near the end of January 1993, spot WTI prices rose to more than $20.00 per barrel as OPEC appeared ready to rein in production. Since then, spot WTI prices have fluctuated between $19 and $21 per barrel as market perceptions of the adequacy of OPEC production cuts have changed.

In three of the four quarters of 1992, the quantity of oil imports posted increases relative to 1991 rates. The increases resulted from growing consumption (triggered by increased U.S. economic activity) and declining domestic oil production. For the year as a whole, consumption increased 0.3 million barrels per day while production fell 0.2 million barrels per day. Since 1985, U.S. oil production has generally been falling, with a temporary increase in 1991 brought about by the large gain in oil prices during the Persian Gulf crisis. In 1992, U.S. oil production resumed the downward course typical of mature oil exploration areas (table 4).

DEVELOPMENTS IN TRADE IN SERVICES

Net receipts from service transactions increased $10 billion in 1992. Most of the change occurred as payments by the U.S. military for services provided by foreigners declined $3 billion and as $4 billion of insurance was recovered from foreign reinsurers for damage caused by Hurricanes Andrew and Iniki in late August and mid-September. However, areas that had provided a solid boost to net service receipts in earlier years, such as travel, passenger fares, and business, professional, and technical services, increased very little, on net (table 5).

The slowdown in industrial economies abroad restrained not only transportation service receipts but also receipts from foreigners for other services. After increasing in the first quarter of 1992, receipts from foreign travelers in the United States leveled off before picking up in the fourth quarter. The depreciation of the U.S. dollar during the middle of the year held down payments by U.S. travelers abroad as well.

Transfers under U.S. military sales contracts (exports) were about the same in 1992 as they were a year earlier; after being especially high in the fourth quarter of 1991 and the first quarter of 1992 because of a bunching of aircraft deliveries, military exports declined during the remainder of the year. Military expenditures abroad (imports)

4. U.S. oil consumption, production, and imports, selected years, 1980–92
Millions of barrels per day

Item	1980	1985	1990	1991	1992p
Consumption	17.1	15.7	17.0	16.7	17.0
Production	10.8	11.2	9.7	9.9	9.7
Imports	6.9	5.1	8.0	7.6	7.9

p Preliminary.
SOURCE. U.S. Department of Energy, Energy Information Administration.

5. U.S. service transactions, 1989–92
Billions of dollars

Item	1989	1990	1991	1992	Change, 1991–92
Service transactions, net	**26**	**32**	**45**	**55**	**10**
Military, net	–7	–8	–6	–3	3
Insurance, net	1	–0	–1	2	3
Other service transactions, net	32	40	51	55	4
Service receipts	127	149	164	179	15
Military sales	9	10	11	11	0
Insurance receipts, net[1]	2	2	2	2	0
Other service receipts	117	137	151	165	14
Travel and passenger fares	47	59	64	72	7
Transportation	21	23	24	25	1
Royalties and license fees	13	16	18	17	–1
Business, professional, and technical services	6	7	10	11	1
Other service receipts	30	32	35	41	6
Service payments	101	117	118	123	5
Military payments	15	18	16	13	–3
Insurance payments, net[2]	1	2	3	0	–3
Other service payments	85	97	99	110	10
Travel and passenger fares	42	48	48	55	8
Transportation	21	23	23	23	0
Royalties and license fees	3	3	4	4	0
Business, professional, and technical services	2	2	3	3	0
Other service payments	18	21	22	24	2

1. Premiums received less losses paid.
2. Premiums paid less losses recovered.
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis, U.S. international transactions accounts.

dropped $3 billion in 1992; key components such as expenditures by U.S. military personnel on foreign services and expenditures for petroleum declined rapidly, the decline reflecting the sizable reduction of U.S. forces abroad. The pace of decline for military imports was slowed by a continuing relatively strong level of expenditures on contractual services.

Losses recovered from foreign reinsurers for damage caused by Hurricanes Andrew and Iniki increased net insurance receipts in the third quarter of 1992. (The full amount of recoveries is recorded on an accrual basis when disasters occur, rather than when claims are presented to the insurance companies. Net insurance transactions are part of "other private services" in the current account). The amount of insurance recovered from foreign companies reduced recorded service payments, as total insurance payments are calculated as premiums paid less losses recovered.

NONTRADE CURRENT ACCOUNT TRANSACTIONS

In 1992, the U.S. current account recorded, besides the $41 billion decline in foreign cash grants to the United States to help finance the Persian Gulf War, a $6 billion decline in net investment income and a $2 billion rise in other net transfers.

Investment Income

Net investment income fell. Net income from both direct and portfolio investments contributed to the decline (table 6).

The recovery in direct investment payments by foreign-owned subsidiaries in the United States accounted for the moderate $4 billion decline in net direct investment income in 1992; the unprecedented net losses in 1991 were turned around to small net profits of $0.4 billion. The swing resulted primarily from a cyclical improvement in profits of subsidiaries in manufacturing and the end of losses reported by foreign-owned banks and insurance companies. However, the level of direct investment payments was far from the peak of $12 billion reached in 1988.

6. U.S. net investment income, 1989–92
Billions of dollars

Item	1989	1990	1991	1992
Investment income, net	**14**	**19**	**16**	**10**
Direct investment income, net	48	54	53	49
Receipts	54	55	49	50
Payments	7	1	-4	0
Portfolio investment income, net	-33	-35	-36	-39
Receipts	86	88	76	60
Private	81	78	68	53
Government	6	11	8	6
Payments	120	123	113	99
Private	84	85	74	60
Government	36	38	39	39

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

Direct investment receipts from U.S.-owned affiliates abroad rose slightly in 1992, to $50 billion. Increased profits in other industries offset the downturn in manufacturing and oil industries.

Net income on portfolio investments (private plus government) fell $3 billion, despite a large decrease in interest rates. Portfolio investment receipts from foreigners amounted to $60 billion, $16 billion less than in 1991. Portfolio income payments to foreigners also declined, but by a lesser amount—about $14 billion. A decrease in interest rates usually reduces both receipts and payments on portfolio investments; however, for the United States an interest rate decline reduces income payments more than receipts because the United States has a net recorded liability position in portfolio capital. Had the U.S. net portfolio position been unchanged in 1992 from the level recorded at the end of 1991, the decline in interest rates by itself would have reduced net income payments roughly $4 billion. But in 1992 the net portfolio position deteriorated significantly, and the deterioration more than accounted for the $3 billion decline in net portfolio income during the year.

Unilateral Transfers

The conclusion of transactions relating to the Persian Gulf War greatly affected net unilateral transfers, as foreign cash grants to the United States to help finance the war declined $41 billion. At the same time, U.S. government grants to foreign countries rose. A large part of the increase went to

Israel, the result of both additional grants to finance military purchases and adjustments to the disbursement schedule; part of the grants that normally would have been disbursed in the fourth quarter of 1991 were postponed until the second quarter of 1992, and the full amount of grants for fiscal year 1994 were paid out in the fourth quarter of 1992. Another reason for the increase in net unilateral transfers was larger contributions to meet the U.S. share of expanded peacekeeping operations.

CAPITAL ACCOUNT TRANSACTIONS AND THE STATISTICAL DISCREPANCY

In 1992, the U.S. current account deficit was substantial, net capital inflows were even larger than the current account deficit, and the statistical discrepancy was significantly negative (table 7). In contrast, the U.S. current account deficit, net capital flows, and the statistical discrepancy in 1991 had been close to zero.

Substantial inflows were recorded for both official and private capital. Foreign official holdings in the United States increased $40 billion, more than double the increase in 1991. Inflows from both industrial and other countries were substantial.

The net inflow of private capital in 1992, $32 billion, is in contrast to 1991, when private capital had recorded a net outflow. Banks, particularly foreign-related banks, more than accounted for the net inflow. The inflow coincided in general with an expansion of U.S. assets at foreign-related banks other than those based in Japan. In 1991, in contrast, foreign-based banks, spurred by a change in reserve requirements, had rapidly expanded their large time deposits in the United States and relied less on inflows from abroad to finance asset growth. Moreover, in 1991 demand for funds in the Euromarkets had been strong because of borrowing by certain countries to fund contributions to the cost of Desert Storm.

Securities transactions, reflecting the continued growing internationalization of financial markets, also contributed to the net inflow of capital in 1992. Foreigners added substantially to their holdings of U.S. government and corporate bonds. In contrast, they made net sales of U.S. equities. U.S. net purchases of foreign stocks and bonds were very strong, accompanied by a record pace for foreign bond issues in the United States.

U.S. direct investment abroad was very strong in 1992, up from 1991. Outflows to Latin America and Asia grew, and outflows to Europe were substantial. Foreign direct investment in the United States, however, remained depressed, far below the peak of almost $70 billion in 1989. Merger and acquisition activity in the United States has generally fallen from the highs of the 1980s, and foreign investors in particular may have been discouraged

7. Composition of U.S. capital flows, 1988–92

Billions of dollars

Item	1988	1989	1990	1991	1992
Current account balance	**–127**	**–101**	**–90**	**–4**	**–62**
Official capital, net	39	–16	34	28	43
Foreign official assets in the United States	40	9	34	18	40
U.S. official reserve assets	–4	–25	–2	6	4
Other U.S. government assets	3	1	2	3	–1
Private capital, net	88	114	9	–23	32
Net inflows reported by U.S. banking offices	14	12	24	–18	47
Securities transactions, net	35	42	–35	7	14
Private foreign net purchases of the following:					
U.S. Treasury securities	20	30	–3	16	35
U.S. corporate bonds[1]	23	27	11	27	32
U.S. corporate stocks	–1	7	–15	9	–5
U.S. net purchases of foreign securities	–8	–22	–29	–45	–49
Direct investment, net	45	43	17	–17	–37
Foreign direct investment in the United States	57	68	45	12	–4
U.S. direct investment abroad[1]	–12	–25	–28	–28	–33
Other	–7	17	2	5	8
Statistical discrepancy	0	2	47	–1	–13

1. Transactions with finance affiliates in the Netherlands Antilles have been excluded from direct investment outflows and added to foreign purchases of U.S. securities.

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

by the disappointing returns on much recent foreign investment in the United States.

PROSPECTS FOR 1993

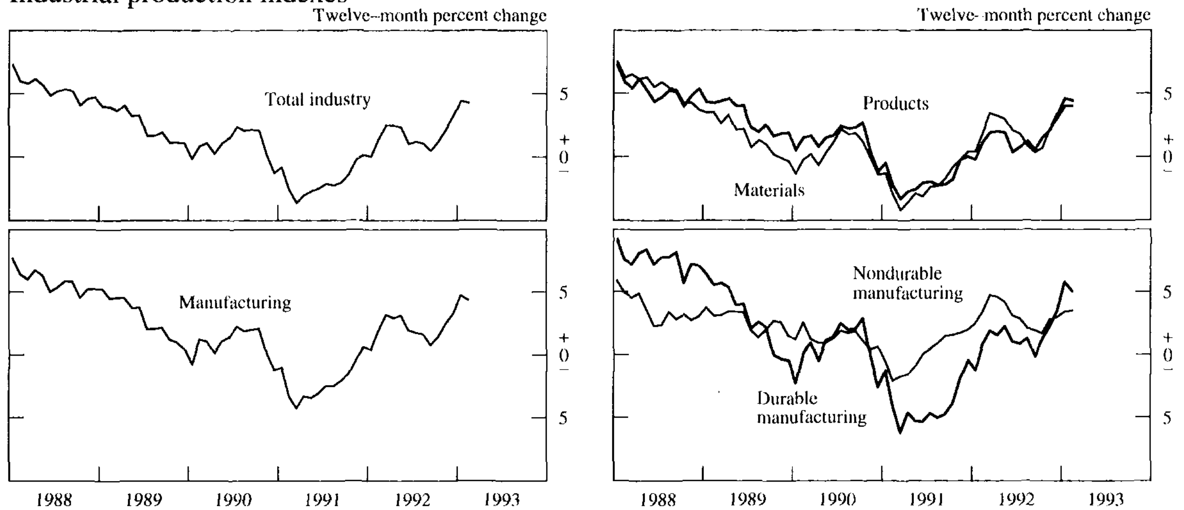
Over the year ahead, U.S. imports of goods and services should grow more rapidly than U.S. exports of goods and services as the U.S. domestic economy continues to grow faster than the economies of its major industrial trading partners. The degree to which the U.S. external deficits widen in 1993 will depend largely on the strength of the economic recovery in foreign industrial countries and on the effects of the recent appreciation of the weighted average value of the dollar on U.S. price competitiveness. □

Industrial Production and Capacity Utilization for February 1993

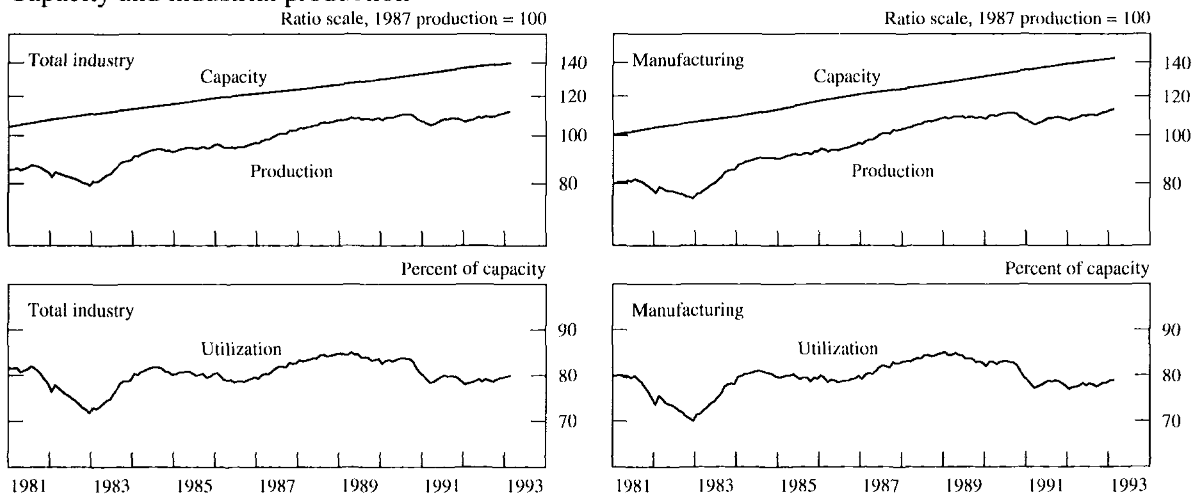
Released for publication March 17

In February, industrial production rose 0.4 percent, for its fifth consecutive monthly gain. The gain was slightly below the upward revised 0.5 percent rise in January and equalled the revised gain in December. Although motor vehicle assemblies decreased more than 2 percent, increases in other components pushed up manufacturing output 0.3 percent. In addition, the output of utilities, which had been held down in January by relatively warm weather, rebounded sharply. Mining output weakened, how-

Industrial production indexes



Capacity and industrial production



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

Industrial production and capacity utilization[1]

Category	Industrial production, index, 1987=100								
	1992		1993		Percentage change				
					1992[2]		1993[2]		Feb. 1992 to Feb. 1993
	Nov.r	Dec.r	Jan.r	Feb.p	Nov.r	Dec.r	Jan.r	Feb.p	
Total	**110.4**	**110.8**	**111.3**	**111.8**	**.6**	**.4**	**.5**	**.4**	**4.3**
Previous estimate	110.3	110.5	111.0	...	.5	.2	.4	...	...
Major market groups									
Products, total[3]	111.3	112.1	112.5	112.9	.6	.7	.4	.4	4.4
Consumer goods	112.6	113.5	113.9	114.6	.7	.8	.4	.6	5.3
Business equipment	127.8	128.9	130.5	130.9	.8	.9	1.2	.3	8.2
Construction supplies	98.8	98.0	98.3	99.0	.4	–.8	.3	.7	3.1
Materials	109.0	108.9	109.5	110.0	.8	–.1	.5	.5	4.0
Major industry groups									
Manufacturing	111.3	111.6	112.5	112.8	.6	.3	.8	.3	4.4
Durable	110.2	110.8	112.0	112.4	.6	.5	1.1	.4	5.1
Nondurable	112.7	112.7	113.2	113.4	.6	.1	.4	.2	3.5
Mining	99.4	98.7	98.4	96.4	.6	–.8	–.3	–2.1	–2.0
Utilities	112.4	114.2	112.2	116.3	1.5	1.7	–1.8	3.7	9.2

Category	Capacity utilization, percent								MEMO Capacity, percentage change, Feb. 1992 to Feb. 1993
	Average, 1967–92	Low, 1982	High, 1988–89	1992			1993		
				Feb.	Nov.r	Dec.r	Jan.r	Feb.p	
Total	**82.0**	**71.8**	**85.0**	**78.3**	**79.4**	**79.5**	**79.7**	**79.9**	**2.1**
Manufacturing	81.3	70.0	85.1	77.4	78.3	78.4	78.8	78.9	2.3
Advanced processing	80.8	71.4	83.6	76.1	76.6	76.8	77.2	77.2	2.9
Primary processing	82.3	66.8	89.0	80.4	82.5	82.2	82.8	83.0	1.0
Mining	87.4	80.6	87.2	85.7	86.6	85.9	85.7	83.9	.1
Utilities	86.6	76.2	92.3	82.2	86.2	87.5	85.9	88.9	.9

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

ever, because of reductions in oil and gas extraction and a coal mining strike.

At 111.8 percent of its 1987 average, total industrial production in February was 4.3 percent above its year-ago level. Total industrial capacity utilization increased 0.2 percentage point, to 79.9 percent, the highest rate since September 1991.

When analyzed by market group, the data show that the output of consumer goods rose about 0.6 percent. Along with the rise in the production of residential utilities, a sharp pickup in the output of appliances and gains in the production of consumer fuels contributed notably to the overall improvement; the decrease in motor vehicle output partly offset those increases. Production of business equipment other than motor vehicles increased 0.5 percent. The increase in the output of information processing equipment, 0.8 percent, led the way again. The production of construction supplies picked up 0.7 percent, although, on balance, it has increased only slowly since fall. The output of materials increased 0.5 percent. The production of energy materials picked up, a move reflecting the gain in utilities. The output of both durable and nondurable materials strengthened, with significant increases in the production of industrial chemicals and equipment parts, particularly those related to computers.

When analyzed by industry group, the data show that within manufacturing, the output of durable goods rose 0.4 percent, and the output of nondurable goods rose 0.2 percent. The gain in the production of durables was concentrated in a few industries. Output of electrical and nonelectrical machinery, furniture, and stone, clay, and glass products all increased 1 percent or more. Along

with the continued weakness in aircraft manufacturing and the dip in motor vehicle production, lower output of lumber, steel, and instruments held down the increase in durables. Among nondurables, production of petroleum products, chemicals, and leather products all rose significantly.

Capacity utilization in manufacturing increased 0.1 percentage point, to 78.9 percent. The gain reflected further increases in utilization at primary processing industries; the operating rate for advanced-processing industries was unchanged. The utilization rate for primary-processing industries now stands at 83.0 percent, 0.7 percent above its 1967–92 average. By contrast, the operating rate for advanced-processing industries remains more than 3 percentage points below its long-run average. Few advanced-processing industries are operating at or above their long-run utilization rate, with the largest shortfalls in aerospace and miscellaneous transportation equipment, instruments, apparel, and printing and publishing. □

Statements to the Congress

Statement by David W. Mullins, Jr., Vice Chairman, Board of Governors of the Federal Reserve System, before the Committee on Small Business, U.S. Senate, March 4, 1993

I am pleased to be here this morning to discuss the credit crunch and the availability of credit for small businesses.

The financing of small business enterprises is a central issue in the future growth and vitality of the U.S. economy. Small businesses account for almost two-thirds of the nation's work force. They created 80 percent of the new jobs in the 1980s, a decade in which the U.S. economy created almost twenty million jobs, despite the fact that Fortune 500 firms reduced their employment.

The sources of small business financing are substantially more limited than those of large firms that have continuous access to the depth and liquidity of public capital markets. For debt financing, small businesses are generally dependent on financial institutions, primarily commercial banking firms. Because of the importance of small businesses to the growth of the U.S. economy, especially job growth, the protracted weakness in business loans at banks is an important public policy concern—one worthy of rigorous analysis and concrete action.

Why have business loans by banks fallen? In our view, there are several contributing factors on both the demand side and the supply side of this market.

First, the demand for bank loans typically declines during recessions as economic activity slows, reducing firms' needs for working capital and new plant and equipment. In the recent downturn this decline has been amplified by a broad-based desire by businesses to reduce their dependence on debt financing. This deleveraging phenomenon, which has been apparent for both businesses and households, followed a decade in which debt financing expanded to historically very high levels. Excess leverage in conjunction with a weak economy reduced the creditworthiness of many firms as well.

Federal Reserve surveys indicate that supply side constraints on the availability of financing may have played a role in reduced business borrowing. The surveys demonstrate that large banks have systematically tightened the terms and standards for granting business loans to customers of all sizes. Of course, some of this tightening was likely justified as an appropriate response to the lax credit standards of the 1980s and the resulting heavy loan losses of the early 1990s. Although no substantial reversal or easing is yet apparent, our surveys indicate that tightening of credit standards has ceased.

An important factor influencing the availability of financing during this period has been the condition of the U.S. banking industry. The debt financing of the 1980s left banks with record nonperforming loans—especially commercial real estate loans—in the early 1990s. These asset-quality problems produced large loan losses that reduced the capital base of the U.S. banking industry. In response, the banking industry over the past 2½ years has focused on identifying and working out bad loans, and rebuilding capital and liquidity. In short, the banking industry has been engaged in an intensive process of financial healing—dealing with embedded asset-quality problems and rebuilding its financial strength.

This retrenchment process has involved reducing loan growth, investing in government securities, cutting expenses to enhance earnings, retaining a larger portion of these earnings, and issuing new equity to bolster depleted capital bases. Although this process may have adversely affected loan growth in the short term, it was a necessary prerequisite to the industry's return to financial strength that is capable of supporting and sustaining new lending and growth.

In our view, the Basle risk-based regulatory capital standards appear not to have played a significant role in motivating banks to curtail lending. During this entire retrenchment period, the overwhelming majority of U.S. banks met these minimum standards, most by a very wide margin. Indeed, those banks with capital far above the minimum standards have been responsible for the overwhelming majority of bank investment in government securities. In investing in government securities it is not likely that these very well capitalized banks were motivated by minimum capital standards. Finally, other financial institutions that are not subject to Basle risk-based standards, such as credit unions and finance companies, exhibited the same pattern of retrenchment characterized by reduced lending growth and increased

investment in government securities. This pattern suggests that neither Basle capital standards nor bank examiners were primarily responsible for these adjustments. Indeed, all financial institutions responded in a similar manner to this economic environment of deleveraging and impaired asset quality regardless of whether they were subject to risk-based capital standards.

The pressure to increase capital beyond the regulatory minimum—in effect to build a notable cushion of capital above the minimums—came from several sources. Faced with uncertain large loan losses, banks themselves raised their assessment of the necessary capital base to sustain future lending; the capital markets demanded higher capital in order for banks to have low-cost access to funds; regulators, and changes in statutes, recognized that a sound capital base is the best protection for the federal safety net and the taxpayer. All concluded that adequate capital is required for banks to be able, in the future, to sustain lending in both good times and bad.

Finally, it is worth noting that this is a worldwide phenomenon. The retrenchment from the financial imbalance built up in the 1980s has produced stress in financial institutions in Japan, the United Kingdom, Sweden, and Australia to name a few nations. This financial retrenchment has contributed to the economic slowdown in many industrial nations. Both in the United States and the rest of the world, it is quite likely that some banks, some bank lending officers, and some bank examiners may have become overly cautious. Indeed, in the United States, the federal banking agencies and the previous and current administrations have attempted to ensure that our examiner staffs and examination guidelines do not impede the flow of sound loans to creditworthy borrowers. These efforts continue.

Where do we stand today? The U.S. banking industry has made impressive progress in improving its financial health. Over the past 4¾ years through the third quarter of 1992, U.S. banks have charged off $123 billion in bad loans; yet banks have increased reserves by $5 billion and added $77 billion in equity capital. Moreover, with loan-loss allocations declining and after several years of stringent cost controls, 1992 was a record year for bank profitability. Bank capital ratios now are at the highest level in more than a quarter of a century. While a segment of the industry remains under stress, the bulk of the U.S. banking industry has made remarkable progress in working through a very difficult economic cycle and emerging with renewed financial strength.

Although this retrenchment process has been painful and may have constrained credit availability during the adjustment period, the banking industry now appears to have a strong capital base and ample liquidity to fuel the economic recovery. In addition, the interest rate spreads on small business lending appear attractive relative to alternative bank investments, and the deleveraging process by firms seems to be well advanced, though perhaps not entirely completed.

The recently revised estimate of 4.8 percent growth in gross domestic product (GDP) in the fourth quarter of 1992 confirms that U.S. economic growth accelerated markedly during the second half of last year. This suggests that loan demand should be picking up as well. Thus, both improved supply and demand cyclical factors bode well for the outlook for increased small business lending.

Signs indicate that business lending at smaller banks—whose customers tend to be smaller firms—may have begun to strengthen. Such increases in small business loans may well be masked in the aggregate data by the extensive restructuring of corporate debt. In recent years, larger businesses with access to the public capital markets have issued record volumes of bonds and stocks and used much of the proceeds to repay short-term debt, including bank loans. More generally, for at least two decades, banks have found it difficult to retain those large business customers who can directly tap U.S. and foreign markets more cheaply. This widely recognized trend has contributed to a decline in business loans as a share of total bank assets. Although this trend may well continue, small businesses will remain reliant on banks for their external finance. Thus, the continued importance of banks to small businesses warrants taking a look at those factors that may be constraining credit to small firms that do not have access to public capital markets.

One possible contributing factor may be changes in the nature of bank supervision and regulation in recent years. The 1980s were characterized by a sharp increase in the failure of federally insured financial institutions, both savings and loan associations and banks. In response, rigorous regulatory statutes were enacted, including the savings and loan reform legislation, the Financial Institutions Reform and Recovery Enforcement Act (FIRREA) in 1989, and the Federal Deposit Insurance Corporation Improvement Act (FDICIA) in 1991.

These statutes produced, directly and indirectly, a substantial increase in regulatory burden on the banking industry. For example, each of the federal banking agencies had to create more than sixty separate working groups to write the regulations to implement FDICIA regulations, a process that is still not entirely completed. This process itself likely contributed to subdued loan growth. Banks may have been understandably hesitant to launch major new lending initiatives before knowing the standards and regulations that would apply to these new loans.

Although many of these new regulatory requirements have been worthwhile and important and have enhanced safety and soundness, many of them provide less clear-cut benefits that may not justify their cost in comparison with the increased burden. Higher burdens raise the cost of financial intermediation and can adversely affect the cost and availability of bank credit. Recent research by Federal Reserve staff members has suggested that the least risky and lowest cost credit extensions to smaller businesses by banks in the 1980s were unsecured relationship lending. If recent statutory and regulatory changes have required additional documentation or collateral on such loans, the quantity of lending to these safer borrowers may have declined, because banks pass through the additional underlying costs or because these borrowers cannot provide the additional documentation or collateral.

Indeed there is every reason to think that recent regulations and statutes have changed the nature of supervision and regulation. The process has become progressively more standardized and mechanical, more dependent on documentation, analytical formulas, and rigid rules as opposed to examiner judgment. This may have disproportionately affected small business lending, which often takes the form of character and cash flow loans, requiring judgment, and where the bank's return comes from a thorough knowledge and working relationship with the borrower. These loans are heterogeneous in nature, and they may be less amenable to the increasing standardized character of supervision and regulation.

At the same time, the focus on homogeneous, standardized lending products may have encouraged lenders to shift toward areas such as mortgages and consumer loans that are more easily documented, scored, and categorized. To understand the potential bias from this process, one need only consider the cost and difficulty in documenting—especially for public or examiner scrutiny—the soundness of a character loan for small firms with unaudited financial statements. Compare this with placing funds in standardized mortgages, in mortgage-backed securities, or in consumer loans amenable to computerized credit scoring.

Now it is true that a more rigorous supervisory process has many beneficial consequences. But one unintended effect may have been to make small business lending more difficult and costly, because such a regulatory process may be in many ways simply inconsistent with the inherent nature of small business lending.

What can be done to ensure the availability of credit for small businesses? First, we need more rigorous insight into the nature of small business finance, and, to this end, the Federal Reserve Board last year initiated a substantial research project to sample the financial behavior of a large number of small business firms. This study will focus on the full range of financing alternatives available to small business, not just bank financing. The objective is to gain a rigorous understanding of the nature, problems, and trends in this area. This is a major research project that will take some time to complete, and it underscores the Board of Governors' commitment to this important component of the economy.

As for the near term, we need to ensure that the regulatory process does not impede the flow of credit to small businesses. The suggestions for accomplishing this goal that have appeared in the public debate include exploring ways to reduce excessive documentation, perhaps by considering small business loans as a portfolio, rather than requiring each individual loan to bear the full regulatory documentation burden—an approach currently employed for consumer loans. Some have also suggested examining whether the requirements for real estate appraisal under the FIRREA have unintentionally imposed an undue burden on business lending, a large portion of which involves real estate collateral. More generally, it is useful to explore ways in which the regulatory process might be tailored to be more congruent with the inherent nature of small business lending, rather than trying to force business lending into a standardized regulatory mold.

To this end, the Treasury Department, the Federal Reserve, and the other banking agencies are engaged in a systematic analysis of the possible regulatory impediments to business lending. The objective is to design a set of regulatory actions that will eliminate unwarranted restraints on lending. The scope of the analysis encompasses the full range of issues associated with the regulatory burden on banks and possible problems in the examination process. In addition, we believe it is important to focus explicitly on impediments to small business lending. In attempting to streamline regulatory procedures for such loans, we are all committed to maintaining essential standards of safety and soundness including adequate capital standards. Although it is premature to discuss specifics, a detailed set of proposals should be completed in the near future.

A further avenue of attack for this problem, and one that has been proposed in various forms, is securitization. Securitization of business loans could measurably increase access to capital for small businesses. Such programs would be most productive for loans other than relationship loans because the latter are not easily standardized. Because of the heterogeneous nature of small business loans, establishing these

programs will not be easy. More work needs to be done to standardize loan terms, and various legal, regulatory, and accounting problems need to be resolved before securitization will be feasible.

We at the Board of Governors generally favor efforts, including appropriate legislation, that would encourage securitization. We generally do not favor the establishment of a new government-sponsored enterprise involving business loan securitization because of our concern about adding to the already enormous overhang of contingent government liabilities.

Although securitization has the potential to increase credit availability for small businesses, an important role for banks in small business financing will still likely remain. Securitization is unlikely to be feasible for a basic staple of small business lending—the character loan. These loans are critically dependent on lenders' judgment, their knowledge of the firm, its principals, business and community, and they require an ongoing working relationship between the lender and the borrower. Even if securitization is successful, large number of borrowers have loans that will not lend themselves to securitization. These borrowers are likely to remain dependent on a healthy flow of bank credit.

In summary, the outlook for small business finance seems encouraging. Loan demand should be reviving as the economic recovery progresses, and the U.S. banking industry now possesses a strong capital base and ample liquidity to support increased lending. Nonetheless, the weakness in bank business lending and the importance of small businesses to job growth suggest that it would be unwise to remain complacent and rely entirely on improving cyclical conditions to fuel growth in small business lending. This is why we are working actively to try to identify and eliminate any unwarranted bank regulatory impediments to business lending. We feel this effort is wholly consistent with the Federal Reserve's fundamental objective of promoting maximum sustainable noninflationary growth in the U.S. economy. □

Statement by Richard F. Syron, President, Federal Reserve Bank of Boston, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

Thank you for this opportunity to discuss economic conditions in the First Federal Reserve District and to share my views on monetary policy. I believe the two issues are integrally related. The regional experience offers lessons that are critical to an understanding of the national economy and to the formulation of sound monetary policy. In turn, the single most important factor affecting any region is the behavior of the national economy.

The First District consists of the six New England states: Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and Connecticut with the exception of Fairfield County, which falls in the Second District.

New England is very much an economic region and sees itself as such. The six states share such advantages as a high level of education and such disadvantages as high energy costs, and over the years their fortunes have moved together. One consequence of the almost complete overlap of the boundaries of the First District and New England is that over the years the Federal Reserve Bank of Boston has been highly involved in economic developments in the region. This interest in New England also derives from the severe bouts of economic distress that the District has undergone periodically. Indeed, the Boston Fed's approach to analyzing national economic developments may well have been influenced by the region's historic difficulties. In addition to national and international financial developments, we tend to focus somewhat heavily on the "real" sector of the economy and what is happening to employment, output, and income growth. In my view, the different analytical frameworks used by Reserve Banks and the Board of Governors enrich the economic policy determination process.

The present time is a period of severe economic distress for New England. The job losses suffered by the region in the late 1980s and early 1990s have dwarfed those in all previous recessions since the end of World War II. From early 1989 to the present, nonfarm payroll employment in New England has fallen 12 percent.[1] The nation, in contrast, experienced a drop in employment of 2 percent between the peak in the summer of 1990 and early 1992. While the national job loss is serious, it has been more severe in New England.

These difficulties are attributable primarily to a combination of factors: a real estate collapse and the resulting stress on lending institutions, increased competition and restructuring in high technology industries, and cutbacks in defense spending. In each case

1. The attachment to this statement is available from the Federal Reserve Bank of Boston, Boston, MA 02106-2076.

New England's problems are especially acute, but they are part of broader developments and carry lessons for the nation as a whole. In particular, New England's experience demonstrates how industrial restructuring can aggravate cyclical downturns, and it highlights the dangers of real estate booms and busts.

High Tech and Defense

New England's current problems have their origins in events of the early and mid-1980s. After suffering more than most parts of the country in the 1975 recession, New England began regaining ground in the late 1970s, as computers and other high technology industries that were more important in the region than nationally enjoyed increasingly vigorous demand for their products. New England also accounts for a disproportionate share of the nation's defense procurement and, thus, benefited from the Carter–Reagan defense buildup.

In large part because of the strength of its high technology industries, the region fared much better than most of the country in the recessions of 1980 and 1981–82. High tech continued to fare well during the early recovery as both civilian and defense demand rose. Then in 1985 the high technology engine began to sputter. Numerous layoffs occurred at computer and electronics firms in 1985 and 1986.

At first, this seemed an aberration. The vigor the industry had displayed over the previous ten years made a quick return to prosperity seem likely. But the layoffs continued. And still continue. Meanwhile, more traditional manufacturing industries, which have been in a competitive struggle in New England for most of this century, were also cutting payrolls. The combination of job losses in high tech and steady erosion of the traditional industrial base has caused manufacturing employment in New England to fall almost 30 percent from its peak in 1984.

Even with the wisdom of hindsight, no completely satisfactory explanation for this abrupt reversal emerges. To some degree, the region was a victim of its earlier success. During most of the 1980s, wages rose more rapidly in New England than the nation, increasing the cost of doing business in the region. Defense cutbacks have been a drag in recent years. In addition, the computer industry has matured, and the large New England firms were concentrated in products and followed strategies that were no longer on the cutting edge. The persistent layoffs in these areas have overwhelmed the new jobs created in biotech and software and other regional growth sectors.

While the problems created by the maturing of the computer industry and the cutbacks in defense are especially severe in New England, they are manifestations of the restructuring and downsizing of major corporations that are occurring nationwide. Structural job losses are aggravating cyclical cutbacks. Nationwide, the fraction of job losers who were on temporary layoff in 1992 was smaller, and the proportion who were on permanent layoff was correspondingly larger, than they have been in twenty-five years.

Eventually, this aggressive cost-cutting may produce more-competitive firms, higher productivity, and a stronger economy. Certainly, the conversion from military to civilian production should ultimately lead to higher standards of living. But the transition is very painful. New England's experience highlights the drag that such long-term structural changes can exert on the economy and shows how they may stretch out and deepen a cyclical downturn.

Real Estate and Banking

Despite the seriousness of the difficulties faced by New England's high tech industries, overall employment growth in the region remained strong until the late 1980s. Labor shortages, not layoffs, were the focus of concern from 1984 to 1988, as unemployment rates in some years dipped toward 3 percent.

The cutbacks in manufacturing were masked by vigorous growth in construction and related financial and other services industries. The region's strong performance in the early 1980s, after a period in which construction activity was low and the supply of housing and office space had tightened, sparked a construction and real estate boom. Real house prices in the Boston area more than doubled between 1982 and 1987; prices in other New England cities rose just as fast. On the commercial side, office vacancy rates plummeted and rents soared.

Construction Responded

Construction employment in New England increased 70 percent between 1982 and 1987. Growth was also very strong in such related industries as real estate and architectural and engineering services. Retail activity received a boost, as rising home prices made New England homeowners wealthier, encouraging them to spend more. And the banking industry flourished—for a time—as it pursued the opportunities created by the real estate boom.

Commercial banks and thrift institutions in New England found the investment opportunities generated

by the real estate boom irresistible. Commercial bank assets in New England almost doubled in the second half of the 1980s, largely on the basis of increased real estate lending. Between 1984 and 1989 the share of New England commercial bank assets in the form of loans backed by real estate almost doubled, from 17 percent to 32 percent. Although the real estate share of commercial bank assets in the country as a whole rose less, it still increased very significantly, from 15 percent to 23 percent. Lenders' willingness to fund real estate projects was further fuel for the real estate boom.

The boom came to an end as housing prices became less and less affordable and as more and more homeowners and investors began to think that values were approaching their peak. The Tax Reform Act of 1986 reduced the attractiveness of rental properties to individual investors, and the difficulties facing high technology industries removed a major source of demand for research and development and light industrial space in suburban areas.

Once the boom ended, it turned to bust almost overnight. Much of the New England economy had come to depend upon the construction and real estate boom. Lawyers, accountants, and insurers, as well as bankers, real estate agents, and construction workers, had prospered as real estate values rose and construction activity expanded. Thus, many tenants of the new office buildings, patrons of the retail outlets, and new homebuyers worked in sectors whose fortunes were tied to real estate and construction. As the cycle turned down, these sectors contracted, aggravating the downward pressure on real estate values. New England's experience in this regard provides insights into what can happen in other parts of the country and even in other countries where real estate markets are weakening.

Impact on Banks and their Borrowers

As boom turned to bust, banks' nonperforming real estate assets increased rapidly. Existing provisions for loan losses proved to be inadequate, and additions to these reserves caused bank capital to plummet. At their peak in the first half of 1991, nonperforming assets exceeded commercial banks' total equity plus loan-loss reserves.

Around the beginning of 1990, we at the Federal Reserve Bank of Boston began to hear reports that New England banks' difficulties with their real estate portfolios were affecting the availability of credit in the region. Not only were banks unwilling to lend to real estate projects, but they were also reported to be imposing considerably more stringent standards for loans that were not linked to real estate or for which real estate provided only supplemental collateral. This tightening in turn exacerbated the region's economic problems.

Monetary Policy

I would like to finish by making a few observations about the Boston Fed's approach to monetary policy and our views of the challenges we face. As I have noted previously, although financial variables such as interest rates and stock prices contain valuable information about the economy, the Boston Fed's approach tends to focus on our ultimate objectives—real growth and price stability—and how these will respond to policy actions. Because monetary policy acts with a lag, our approach is forward-looking: What will be the consequences for output and prices a year from now of an action today?

To help answer this question, the Boston Fed carefully constructs its own forecast and monitors those of other respected forecasters to determine the most likely economic outlook and the risks surrounding that outlook. Over the years, we have devoted considerable attention to analyzing different forecasting techniques, and we favor forecasts that combine formal structural macroeconometric models with the judgment that comes from experience. Such forecasts have the advantage of making explicit the channels through which policy works, as well as the ways in which actions could go awry.

We also confer with private sector and academic economists and meet frequently with leaders from the business, government, and general communities. These communications have provided valuable signals about emerging trends in the economy, sometimes in advance of the statistics.

The past few years have been particularly challenging for the economy and thus for the conduct of monetary policy. Structural shifts have been a significant depressant. In addition, the recent recession has been remarkably uneven in its geographic impact. New England, and to a lesser extent the entire Northeast and now California, have suffered extraordinary job losses, while other parts of the country continued to grow. In contrast, the 1975 recession was felt throughout the nation; and even in the 1982 downturn, which was much more severe in the industrial heartland than along the coasts, the regional experience was more uniform than in the present period. Unfortunately, monetary policy is not a precise tool; one cannot administer a stimulus to one part of the country without affecting the whole.

The clear objective of monetary policy is to maximize the long-term real income of all Americans. Price behavior that does not distort the decisionmaking of individuals or firms is an important means to that end. My own view is that monetary policy has been broadly successful over the past few years, particularly when viewed in the context of a period that has encompassed a variety of economic challenges. After a period of fits and starts, the economy seems to be entering a somewhat more promising growth path. Importantly, we are beginning to benefit from the substantial increases in the productivity growth that the United States lacked for so long. The inflation situation is encouraging. My primary concern about the early economic recovery has been in the area of job growth and unemployment.

Until most recently, the pace of job creation has been quite disappointing. One month's data do not make an economic trend, but we all hope that last month's report signals the beginning of an improvement in this area. Earlier, slow job growth had been greatly exacerbated by the kinds of structural problems that have been particularly pronounced in New England. The overload of commercial real estate has acted as a drag on the economy directly and has also impaired the ability of many banks to lend as aggressively as in earlier recessions, thus hampering the growth of small business. Similarly, although the conversion from military to civilian production and the restructuring of many companies as a result of competitive pressures should ultimately lead to higher standards of living, they impose real pain on the workers affected in the process. All this has been reflected in the number of workers permanently losing their jobs.

My own fear has been that if the emerging improvement in the employment market were to reverse, income growth would slow and consumers would have to retrench, thereby jeopardizing the recovery itself.

A monetary policy that promotes the maximum sustainable growth of the economy is essential to promoting continued employment growth. However, because of the structural nature of much of the problem, monetary policy alone will not be an adequate mechanism for dealing with all our employment problems. Macropolicy will probably need to be augmented by measures that will aid firms and workers affected by defense conversion and by restructuring more broadly. Thus, improving employment prospects may be the major challenge for all economic policy.

In conclusion, and at the risk of repeating myself, I believe that the variety of economic frameworks used by the Reserve Banks and the information brought from the individual Federal Reserve Districts make a valuable contribution to the formulation of monetary policy. However, monetary policy is inherently national policy, and I believe it is very useful for those of us from the Reserve Banks to have the opportunity to appear before the Banking Committee to express our views and to answer questions. □

Statement by E. Gerald Corrigan, President, Federal Reserve Bank of New York, before the U.S. Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I am pleased to have this opportunity to discuss with you recent economic trends in the Second Federal Reserve District. In keeping with your request, my prepared remarks are very brief, but I have included with my statement a great deal of statistical and anecdotal information bearing on recent trends in the District.[1] These materials include (1) a comprehensive set of charts and tables on various indicators of economic conditions; (2) a digest of observations and comments made by the members of the Bank's Small Business and Agriculture Advisory Council at its most recent meeting, which was held on February 5, 1993, and (3) the results of the latest informal survey of ten large and fifteen smaller businesses regarding the economic outlook as seen by those firms.

Although the Second District is relatively small in geographic terms—representing, for example, only a small fraction of the land area of my former Federal Reserve home in the Minneapolis District—it is quite large and important in economic terms. For example, it is home for about 10 percent of the U.S. population, and it accounts for about 11 percent and 12 percent respectively of national GDP and personal income.

Like so much of the rest of the country, the past several years have been difficult for the District in economic and financial terms. Indeed, by many indicators, the period of subpar economic performance in the District probably began a little earlier, cut a little deeper, and lasted a little longer than is the case for the nation as a whole. Although it is difficult to generalize, the reasons for this probably center on disproportionately greater problems—either directly or indirect-

1. The attachment to this statement is available from the Federal Reserve Bank of New York, New York, NY 10045.

ly—in several areas, including (1) commercial real estate overbuilding, (2) defense and aerospace cutbacks, (3) the cutbacks in employment in banking and finance, (4) corporate restructuring more generally, and (5) the slower growth of exports, especially to Europe.

Having said that, I believe it is fair to suggest—drawing on both statistical and anecdotal information—that the near-term outlook has improved, even if it remains true that certain structural elements will continue to exert a drag on the District economy for some time.

Although some of these lingering problems are very real, the fact remains that the District's economy is rich and diverse and has certain sources of underlying strength. For example, the State of New York produces a dramatically disproportionate number of the most scientifically talented high school seniors in the United States, accounting for 43 percent of those cited in the 1991 Westinghouse Talent Search and 35 percent of the outright winners in that competition. Another important source of its strength rests in its strong ties to the international community at large—ties that extend well beyond New York City's critical role as one of the most important, if not *the* most important, international financial center in the world. Here, too, the statistics tell quite an interesting and often overlooked story that includes the following features:

- In 1990, an astonishing 28 percent of all residents in New York City were foreign-born.
- Foreign-owned firms employ about a half million workers in the New York metropolitan area, which is the equivalent of about 25 percent of total employment in the greater Washington, D.C., metropolitan area.
- New York ranks third behind California and Texas in the value of goods exports and would probably be our largest exporting state if data on service exports were available on a state-by-state basis.

While the District as a whole has a broad and diverse economic base—including its strong international orientation—New York City has a very special place in the economy of the region, the District, the nation, and, indeed, the world. While the term "Big Apple" is widely cited, we sometimes forget just how big the apple really is. For example:

- If New York City were a stand-alone country, its economy—using conservative estimates—would rank twelfth among the nations of the world.
- Manhattan alone has more office space than the *combined* total of the next eight largest central business districts in the United States.

I cite these statistics not simply because they are so dramatic, but also because the recent period of weak economic performance has been even more pronounced in the city than in the District as a whole. While there are straws in the wind that suggest the economy of the city may at last be firming, the strains on the city's economic and social infrastructure growing out of this prolonged period of subpar economic performance have been quite serious. Despite this, the city, and the state, too, have done a commendable job in managing their fiscal affairs, but not without great difficulty. Moreover, the city's demographic profile is such that the burden associated with social, educational, and health care costs will remain a formidable problem for both the public and private sectors for as far as the eye can see.

In summary, the city, the state, and the District as a whole have—like much of the nation—gone through a difficult period. At present, most indicators point to improving conditions, but several more fundamental or structural factors will tend to moderate the process of recovery. Taking a somewhat longer view, I am quite confident that the underlying strength and diversity of the District economy will provide the framework for renewed vitality and growth—a process that will feed on itself as the structural overhangs of the past abate.

Statement by Edward G. Boehne, President, Federal Reserve Bank of Philadelphia, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

BACKGROUND ON THE THIRD DISTRICT

Thank you for the opportunity to appear before this committee to discuss District economic conditions and monetary policy. The Third Federal Reserve District, headquartered in Philadelphia, includes the State of Delaware, the southern half of New Jersey, and roughly two-thirds of the State of Pennsylvania. About one-third of New Jersey's population and more than 70 percent of Pennsylvania's population are in the District. The three states that are either wholly or partially in the District represent more than 8 percent of the U.S. population, employment, and income. The District itself, although small in size geographically, represents about 5 percent of the U.S. economy in terms of population, employment, and personal income. More than 25 of the Fortune 500 companies are headquartered within the District boundaries.

The largest concentration of economic activity in the District is in the Philadelphia metropolitan area. The Philadelphia area is the fourth most populous metropolitan area in the country, with almost 5 million residents. It ranks among the ten largest U.S. markets in both industrial and commercial office space. The city of Philadelphia is the fifth largest city in the country and has the nation's sixth largest downtown office market.

In general, the economy in the three states of the District is quite diversified and could be described as a microcosm of the U.S. economy because the nonfarm economy in the three states mirrors the nation quite closely. The proportions of jobs in most nonfarm categories differ little from the proportions at the national level.[1] The two major nonfarm sectors in which the percentage of jobs diverges significantly from the national average are business and personal services and government services. Compared with the nation, about 2 percent more of the jobs in the tristate area are in the private service industries (including accounting, private education, and health care), and about 2 percent fewer jobs are in the government sector. Agriculture and agricultural services contribute about 1 percent to the total output of the three states—somewhat less than the U.S. average. But agriculture remains a major industry in parts of south Jersey, southern Delaware, and south-central Pennsylvania.

The District used to have a high proportion of its jobs in manufacturing, but that has changed. In the early 1970s more than one-third of the jobs in the three states were in manufacturing—about 7 percent more than at the national level. As late as 1980 more than one-quarter of the jobs were in manufacturing, still higher than the national average. Today the percentage of jobs in manufacturing in the Third District states is less than 20 percent and very close to the national average.

Within the broad business categories, the chemical industry and health services are more heavily represented in the Third District than in the nation. The production of industrial chemicals in the District is concentrated in Delaware. Pharmaceutical research and production, also classified among the chemical industries, is concentrated in central New Jersey and in the Philadelphia area. The higher-than-average number of jobs in health services in the District is the result of two factors: The average age of the population in the District is higher than that in the nation, and there are many large medical schools, hospitals, and health research facilities in the District.

1. The attachment to this statement is available from the Federal Reserve Bank of Philadelphia, Philadelphia, PA 19106-1574.

Even though the District as a whole is not highly dependent on defense spending, certain parts of the District, such as the areas around Dover Air Force Base in Delaware and McGuire Air Force Base in New Jersey, are heavily dependent on defense. In Philadelphia, the Navy Yard and the Personnel Support and Industrial Supply Centers employ a large number of workers. In addition, the District has some major defense contractors, such as Boeing Helicopter and GE Aerospace (which is currently in the process of being sold to Martin Marietta).

District Employment and Unemployment

The Third District economy enjoyed solid growth during the expansion of the 1980s even as it continued to shift away from manufacturing and toward services. The history of state unemployment rates illustrates how the region's economy performed during most of the 1980s. In the late 1970s and early 1980s unemployment rates in all three states in the District were regularly at or above the national average. During the long expansion in the 1980s, unemployment rates in all three states fell below the national average. By the end of the decade Pennsylvania's rate was a percentage point below the nation's rate in some months, and the rates in Delaware and New Jersey were even further below the national rate. For a time Delaware's unemployment rate was below 3 percent, and the rate in New Jersey was between 3½ percent and 4 percent.

Job growth in our District was very good in the last decade, but not quite as good as the drop in unemployment rates would suggest. Combined job growth in the three states of the District was slower than job growth at the national level, although some labor markets were notable exceptions. Jobs in Atlantic City and Monmouth–Ocean Counties in New Jersey, in Lancaster and State College in Pennsylvania, and in the State of Delaware all grew appreciably faster than the national average. In Delaware jobs grew more than one-and-a-half times the national rate. Some of these fast-growing areas benefited from special circumstances.

The introduction of casino gambling in Atlantic City in the late 1970s, for example, resulted in very rapid job growth. Atlantic City was the fastest growing labor market in our District in the 1980s; jobs increased more than 35 percent. Delaware experienced a major boom as financial service firms moved in to take advantage of the state's 1981 Financial Center Development Act. Jobs in the financial service sector more than doubled in the state during the 1980s.

Unemployment rates in the District came down

relative to the national unemployment rate during the 1980s, despite overall job growth that was slower than the national average, because the District's labor force generally grew more slowly than that in the nation. With the exception of Delaware, labor force growth in the three states in the District lagged growth in the nation. This slower growth was partly a function of the age distribution in our District. Fewer young people entered the labor force than in earlier decades. The number of jobs in the three states of the District increased about twice as fast as the slowly growing labor force during the expansion of the 1980s, so many labor markets became very tight near the end of the expansion.

By the late 1980s, the economy in several parts of the District was showing signs of becoming overheated. Wages and prices were rising faster in the Northeast than in the nation as a whole. The rate of increase in the regional consumer price index (CPI) for the Wilmington–Philadelphia–Trenton area, for example, was 0.5 to 1.5 percentage points higher than the CPI inflation rate for the nation as a whole during the latter part of the 1980s. The region's inflation rate is now close to the national average. Inflation and wage costs are not a concern I hear much about now in the District.

In contrast to the District's better-than-average performance during much of the 1980s, the District has suffered a more serious recession and slower recovery than has the nation in the 1990s. One of the most frequent complaints I heard in the late 1980s when I met with business people was their inability to find qualified workers. Now I hear from people who cannot find jobs. The job situation turned around dramatically in the District, especially in New Jersey. As measured by the period in which jobs were generally declining, the recession lasted longer in most parts of our District than in the nation. Jobs began to decline in our region before they did in the nation. In New Jersey the general decline began in early 1989—more than a year before the onset of the national recession. In Pennsylvania the general decline began three months before the official beginning of the recession. Mirroring the national pattern, jobs continued to decline in the District beyond the official end of the recession. In New Jersey, there has not yet been any sustained job growth.

The job picture following this most recent recession stands in marked contrast to the average job growth after the other recessions since 1970. I have included a set of charts comparing the job growth in each state in our District after this recession with the average growth after the recessions of 1970, 1974–75, and 1981–82.

Twenty-two months into the national recovery, only Delaware has more jobs than it did at the end of the recession. The net increase is slightly more than 1 percent, far short of the more than 6 percent average for earlier recoveries. In New Jersey jobs are more than 2 percent *below* their levels at the official end of the recession, and in Pennsylvania they are still slightly below their levels at that time. By this time in earlier recoveries, jobs in these two states averaged 2½ percent to 5 percent *above* their levels at the trough of the business cycle.

Given the extended period of job declines in most of our District, it is not surprising that the percentage loss of jobs has been deeper than the loss at the national level. Recently revised numbers show that the job declines in the District were not as severe as earlier numbers suggested, but District losses were still steeper than the national decline. While the U.S. lost less than 2 percent of its jobs, Pennsylvania and Delaware lost 2.4 percent and 2.7 percent respectively. New Jersey had the highest percentage of job losses; the state lost almost one out of every fourteen jobs between 1989 and 1992.

Job losses in the District were spread across every sector of the economy. The goods-producing industries took the biggest hit, as they typically do in any recession. More than three-quarters of the jobs lost in our states were in construction and manufacturing, even though they account for less than one-fourth of the jobs. A larger-than-usual percentage of the job losses in this recession, however, were in the service-producing industries. In every other recession during the past twenty years, the private service-producing industries suffered little or no net job loss. This time almost 25 percent of the job losses in our region (between first quarter 1990 and first quarter 1992) were in the private service-producing industries.

Whether in the goods sector or the service sector, the job losses this time seem to be more permanent as many firms have undergone major restructuring. Our District has suffered, or is about to suffer, cutbacks by several large employers. DuPont has gone through a major restructuring that has reduced its work force by 6,000 in Delaware alone. Last year, Bell Atlantic announced reductions of more than 1,000 positions in New Jersey and almost 1,000 in Pennsylvania. General Motors is slated to close an auto parts plant in Trenton, New Jersey, and an assembly plant in Wilmington, Delaware; Sears closed a distribution facility in Philadelphia; and Bethlehem Steel closed its division in Johnstown, Pennsylvania, eliminating 1,900 jobs.

The continuing job losses beyond the end of the national recession meant that unemployment rates in most of the District did not peak until mid-1992. Except for Delaware, the state unemployment rates in

the District are again higher than the national average, as they were in the 1970s and early 1980s. Pennsylvania did not quite have the boom times in the 1980s that New Jersey did, and Pennsylvania has not fallen as far during the past two years either. Pennsylvania's unemployment rate, which had been quite a bit below the national average during the late 1980s, has more recently been very close to the national average. Within Pennsylvania and New Jersey we have a wide range of unemployment rates. Some are in the 5 percent to 6 percent range; others are more than 10 percent. These differences across the states represent differences in the mix of industries in these geographical areas.

The emerging recovery from the recession is uneven across the District. So far, the low point for jobs in the District's three states combined was September 1992. Employment was up slightly in the fourth quarter for the District as a whole. I must caution, however, that we have had temporary improvements in the job picture earlier in the national recovery only to see the gains evaporate, so we continue to closely monitor the job picture in the region.

Other District Indicators

Other indicators give some evidence of a pickup in economic activity in several sectors in the District. The index of current activity from the Philadelphia Fed's monthly *Business Outlook Survey* of manufacturers rose from close to zero in October 1992 to almost 39 percent in February of this year. That means that 39 percent more manufacturing firms reported increases in current business activity than reported decreases in activity. A similar index from our quarterly survey of all types of firms in southern New Jersey rose from 12 percent in the third quarter to 34 percent in the fourth quarter.

Consumers in our region are also showing more faith in the recovery. The Conference Board's consumer confidence index for the mid-Atlantic region was up in the fourth quarter of last year and again in January but fell back a bit in February. This bears close watching because confidence in the region rose twice before in this recovery before falling back to low levels.

Retail sales in the region have increased since their cyclical low in early 1991. The improvement has not been as strong in New Jersey as it has been in Pennsylvania. Moreover, the advance has been uneven over the past two years. (Monthly retail sales data are not available for Delaware.)

District Real Estate

The real estate sector in the District deserves special mention because a full recovery in that sector is probably still several years away. There is no sign yet of a real recovery in the commercial office market. In the mid-Atlantic region, office construction, measured in square feet, is down more than 75 percent from its peak in 1987. In dollar terms it is down more than 60 percent. Office vacancy rates in the Philadelphia market remained high in 1992 despite the lack of any new construction. Quoted rental rates in 1992 were down in the downtown Philadelphia market and were unchanged in the suburbs.

High vacancy rates, lower rental rates, and sales of some distressed properties have meant that purchase prices per square foot in the Philadelphia area have dropped dramatically. The average price per square foot for properties sold dropped from $94 per square foot in 1990 to $43 per square foot in 1992. Many of these recent sales, however, were distress sales.

On the residential side, in contrast, a recovery has been going on for some time, at least in parts of the District. However, the increase in housing starts has been neither steady nor evenly distributed. The housing recovery in New Jersey has been particularly weak; housing starts there are only about 40 percent of their 1987 level. Although some of the builders in southern New Jersey have recently indicated improvement in activity, they have also expressed concern that rising lumber prices (which have gone up 40 percent to 50 percent in a few months) could choke off the recent rise in housing demand in the area.

Most of the improvement in housing has been in the single-family market. With high vacancies and falling real rents, there has been little incentive to invest in rental housing. But there are some signs that the rental market is stabilizing. In 1992 landlords offered fewer incentives, such as one-month's free rent or free parking, to renters.

Bank Lending in the District

Bank lending was very weak in the District in 1990 and 1991, as it was in the nation as a whole, as the recession reduced loan demand and as deteriorating asset quality led banks (and regulators) to be more conservative in evaluating lending opportunities. Real estate lending was especially limited in the face of declining property values. The cost of financial intermediation rose because of increased capital requirements and higher deposit insurance premiums, and the deterioration in loan quality increased the perceived risk of default. These factors led, despite weak loan

demand, to a widening of spreads between loan rates charged by banks and their cost of funds.

I believe, however, that we have started to see signs of an improved environment for bank lending in the District. We seem to be moving from a credit crunch to credit caution. Banks have increased their capital positions and reduced their net charge-offs during the past two years, and nonperforming loans as a percentage of total loans declined last year. Consequently, the region's banks are now in a better position to increase their lending as loan demand picks up.

Loans by banks in our region have, in fact, increased somewhat during the past year in all categories of lending: real estate, consumer, and commercial and industrial. Banks also reported at the beginning of this year that they are beginning to see stronger loan demand from middle-market firms and small businesses. Also, banks are becoming more active in seeking out lending opportunities. For example, at a recent meeting of builders in southern New Jersey, some bank loan officers attended the meeting—something we had not seen during the previous two years. (In another region of the District, one developer even reported receiving a phone call from a banker asking if the developer was interested in borrowing money!) Banks in the region also are no longer tightening credit standards, and some banks reported an easing of their loan terms. I expect to see further increases in lending over the next year.

Nonetheless, obstacles remain to the resumption of normal borrowing relationships, especially for small and medium-sized businesses. In particular, we must find ways to facilitate the so-called "character" loan by easing up, where prudent, on excessive documentation and other costs that fall disproportionately on small businesses.

Summary of District

Overall, District economic activity has shown improvement since September of last year. The unemployment rate has declined in each of the District's three states, and employment levels are up in the District as a whole. Unfortunately, employment has not risen very much since the end of the national recession. Also, some large firms have announced major layoffs that will affect our District. The District's growth has lagged the rest of the nation during most of the past two years, and I expect this situation to continue during 1993. Even though I expect employment to increase in each of the District's three states, the improvement is likely to lag behind gains in the nation as a whole. Among the states in our District, growth in New Jersey is likely to be weaker than in Delaware and Pennsylvania.

Monetary Policy

Let me now turn from the District to monetary policy. The Federal Reserve, against a background of weak economic growth and lessening inflationary pressures, has brought short-term rates down to their lowest levels in about thirty years. The federal funds rate has declined almost 7 percentage points since early 1989. Monetary policy began to ease more than a year before the onset of the 1990 recession, it eased substantially during the recession, and it continued to ease during the sluggish recovery. By this point in past recession–recovery periods, the federal funds rate had, on average, risen from its low point a few months after the trough of the business cycle. In contrast, in this most recent recession–recovery period the federal funds rate has continued to decline since the trough of the recession in March 1991. This further decline of short-term interest rates reflects a continued easing of monetary policy that has been entirely appropriate given the weak growth of employment and real gross domestic product (GDP) through much of this recovery. Because employment and real GDP growth have been weaker during this recovery than in previous ones, monetary policy has been unusually accommodative in continuing to bring down short-term rates to try to get the economy growing at a more sustainable pace. With core inflation (that is, the CPI excluding food and energy) somewhat above 3 percent during the past two years and short-term rates falling to about 3 percent, short-term real rates (that is, short-term rates adjusted for core inflation) have been close to or a little below 0 percent since the trough of the recession, whereas in previous recessions the real federal funds rate has typically risen by now and become positive.

The pattern of declining short-term interest rates during this recession–recovery period has been in marked contrast to the behavior of M2 money growth. M2 growth has been very sluggish in comparison to past recoveries despite the continued easing of monetary policy. Because M2's relationship to economic growth has been changing in ways that we do not fully understand, M2 has become a less-reliable guide for monetary policy. Indeed, the pace of economic activity in 1992 was much faster than could have been anticipated using the historical relationship between M2, income, and interest rates.

The pace of economic activity improved substantially over the last two quarters of 1992, and, as noted in Chairman Greenspan's testimony to this committee

on February 19, the central tendency of the governors' and Reserve Bank presidents' forecasts is for real GDP to grow 3 percent to 3¼ percent during 1993, with the unemployment rate continuing to decline to around 6¾ percent to 7 percent. In light of the still-substantial degree of slack in the economy, I would not be concerned by somewhat faster growth than this.

Much of the growth in output during 1992 reflected sharp gains in productivity rather than gains in labor input. This high rate of productivity growth is welcome news in one sense, in that it improves our nation's competitive position in world markets. But these productivity gains over the past two years have meant that employment has not risen very much so far during this recovery. Productivity gains as large as those in 1992 are unlikely to persist in 1993, and consequently I expect that employment growth will be more substantial this year than last.

One factor that will be especially important in contributing to continued, and perhaps even stronger, growth during 1993 is the recent decline in long-term interest rates. By the end of last year, long-term interest rates had already declined substantially from their peak in early 1989. The continued easing of monetary policy in 1990, 1991, and 1992, along with reduced private sector credit demands as the economy went into recession, contributed to these reductions in long-term interest rates.

The decline in actual inflation and in expectations of future inflation was another very important contributor to the decline in long-term interest rates over the past several years. Unlike the expansions of the 1970s, when the rate of inflation rose in stepwise fashion from one business cycle to the next, average inflation rates have not exhibited a tendency for inflation to accelerate during the long expansion of the 1980s and the recovery so far in the 1990s.

Not only did actual inflation remain relatively low in 1991 and 1992, but expectations of long-term inflation fell as market analysts came to believe that the economy would not experience a resurgence of inflationary pressures. Based on a survey of economic forecasters in business and academia, the rate of inflation expected to prevail over the next ten years fell nearly a full percentage point from about 4.4 percent in early 1990 to 3.5 percent last month. This reduction in expected inflation undoubtedly has been a major factor in helping to reduce long-term bond and mortgage rates.

But at the current 3.5 percent level, long-term expected inflation is still somewhat above the actual rate of 3 percent CPI inflation experienced over the past two years. I expect inflation will decline below 3 percent in 1993 and 1994, helping to bring expected inflation down further and helping to keep long-term interest rates low.

Proposed changes in fiscal policy also have contributed to low long-term rates. The Administration's long-term deficit reduction proposal has received a generally favorable reaction in financial markets. Evidently, the markets view it as a credible plan to reduce the federal government's future demands for credit. This has resulted in a significant reduction in long-term interest rates in recent weeks. This reduction should be a big help to the housing market and other interest-sensitive sectors of the economy during 1993. Consequently, I am more optimistic about the future path of economic growth and employment than I was at the beginning of the year.

Nonetheless, the economy continues to face some serious obstacles to growth. A major concern is that employment is not rising commensurately with the rise in economic activity. Further increases in employment would help ensure that an expansion in the economy will be self-sustaining. In addition, several structural impediments to the economy remain with us. The overhang of commercial office space, still-high debt burdens of some households and firms, substantial cutbacks in defense spending, and the continued restructuring and layoffs of workers by some firms all will continue to hold back the growth of the economy to some extent in 1993. Keeping long-term interest rates low will continue to be important in helping to ease the debt burdens of firms and households and in offsetting some of these other impediments to economic growth.

The objective of monetary policy is to help maximize sustainable growth in output, jobs, and living standards. Keeping inflation low is a necessary ingredient for maximizing sustainable economic and job growth. Low inflation promotes long-term planning and investment by keeping long-term interest rates low. We now have inflation rates back to levels of the 1960s, and these levels will help to keep long-term interest rates low. Reducing the federal budget deficit is another critical ingredient to achieving low long-term interest rates. For that reason, the current focus of fiscal policy on deficit reduction is a welcome development. In combination, these policies—both fiscal and monetary—will help to support expansion of the economy while also supporting improved living standards and low inflation over the long term. □

Statement by Jerry L. Jordan, President, Federal Reserve Bank of Cleveland, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I appreciate the opportunity to appear before you this morning to discuss economic developments within the Fourth District of the Federal Reserve System and to offer my views on monetary policy. I find that approaching the issue of monetary policy from the perspective of economic conditions within our region is particularly informative. I make this statement for two reasons. First, the extensive restructuring within the four states that make up the Fourth District—Ohio and parts of Kentucky, Pennsylvania, and West Virginia—provides important insights into the experience of the national economy during the last several years. Second, the gains that this region achieved because of these adjustments were aided to a large extent by the stable-price policies of the Federal Reserve System during that period. As I will discuss in my testimony, these issues are important for understanding the current and future course of the national economy.

In many ways, the Fourth District's performance during the past decade foreshadowed that of the national economy during the past several years. Although the national economy saw extraordinary growth since 1980, the Midwest's expansion was much more subdued. Employment within the Fourth District states grew 9 percent from 1980 through 1992. During the same period, employment in the national economy, driven by the bicoastal boom, expanded 21 percent. The nationwide increase was sufficient to absorb both an enormous number of baby boomers reaching working age and the steady rise in women's participation in the work force.

While much of the rest of the nation expanded, the Midwest was forced to focus on restructuring—a process that had been under way for some time. Although restructuring was a painful experience for many people, businesses, and banks in the District, it was necessary to restore the competitiveness of its industries. On the negative side, in 1980–82 we saw the devastating results of the worst recession to hit this region since the 1930s: basic industries scaling back or shutting down, whole communities cut off from their economic mainstay, workers displaced and discouraged. On the positive side and more recently, the beneficial results of this ongoing process have become more evident in the phoenix-like rise by some industries to become much more vibrant and competitive forces in the local, national, and international economy. Newspapers and magazine articles have heralded this recent resurgence as the renaissance of manufacturing. The Rust Belt has indeed begun to regain some of its old luster.

Through improvements in productivity and a more-balanced industrial mix, our region is now poised for future growth. The growth will be uneven, as some parts of the District are much stronger than others. Clearly, restructuring will continue, both within the Fourth District and across the United States. But I have no doubts that a strong foundation is in place for a healthy and sustainable expansion for the foreseeable future. Our relatively buoyant regional economy during the past two years and our increased presence in foreign markets attest to the gains that we have made. The central questions will be about the pace and durability of the expansion, not about contraction. During the 1980s, the Midwest faced a host of market imbalances, not unlike the problems that confront other parts of the country today. The region was able to work through these problems, not because of government action, but because market forces led inefficient industries to invest in new technologies or simply to close down, workers to invest in new skills, employees and management to seek more flexible and innovative relationships, and entrepreneurs to find and develop promising new opportunities.

Government does have an important role, however. It is to establish an environment of competition and long-run stability so that markets can allocate resources to their most valued uses. The restructuring that took place in the Fourth District was aided immensely by the reduction in inflation and by the acceptance that this vigilance would continue in the future. Maintaining this commitment will facilitate the restructuring that this and other regions of the country are currently experiencing.

As I have stated on many occasions, monetary policy can best promote sustainable long-run economic growth and rising standards of living by stabilizing the aggregate price level, by creating a climate of confidence about the outlook for price stability, and by avoiding being a source of economic disturbances through unexpected changes in monetary policy. The extent to which this current recovery is at risk depends importantly on monetary policy. Deviating from a steady and determined pursuit of our longer-run objectives in response to short-term events could jeopardize our progress.

My prepared comments discuss in some detail the restructuring and current conditions of the Fourth District and my views on the most effective monetary policy for maximizing long-run output and raising the standard of living of all of us.

FOURTH DISTRICT RESTRUCTURING

The byword for this region over the past decade has been *restructuring*—replacement of old technologies with new ones, innovation in business practices, scaling back of less-efficient industries and expansion of more-competitive ones, and absorption of excess commercial real estate. The restructuring, although difficult and painful, was necessary to improve efficiency and restore competitiveness. The success of these adjustments can be illustrated by comparing the employment pattern during the past recession with that of previous ones. In the six downturns before this most recent contraction, the Fourth District states experienced employment declines two to four times as large as that of the nation. In the past recession, the drop was less than half as large as the national decline. Furthermore, during the 1990s, the region's unemployment rate generally has been lower than the national rate.

The restructuring led to four basic changes, which have strengthened this economy. First, companies, particularly in the manufacturing sector, have improved productivity. For example, manufacturing output in Ohio has doubled since 1982, while the number of factory jobs has remained roughly the same. With each worker producing considerably more output, we now have a leaner, more-competitive manufacturing sector, but one that does not generate as many jobs as it once did. If this trend continues, as I expect, employment will move up as productivity levels increase, but in all probability, more slowly than past experience would suggest.

Second, the industrial mix of the economy is more balanced, relying less on the cyclically sensitive durable-goods-producing sectors. Third, the region has increased its participation in export markets. Through greater competitiveness, improved product quality, and a deliberate effort by businesses to meet foreign specifications and to cater to foreign tastes, local businesses have gained an increasing share of many export markets. This is one reason the region was more resilient in the early-1990s downturn.

Finally, the region has a strong banking sector. Sound and efficient banks are better able to provide financing to creditworthy borrowers, which bolsters regional growth. Our banks are among the strongest in the country. By implementing prudent management strategies and avoiding the construction boom-and-bust cycle of the past decade, Fourth District banks have outperformed their national counterparts. In the first nine months of 1992, return on assets of District banks was higher than the national average (1.37 percent versus 0.95 percent) and net loan losses as a share of total loans was lower (0.95 percent versus 1.15 percent). In addition, as of September 30, 1992, noncurrent loans as a share of total loans of District banks was lower (1.87 percent versus 3.34 percent), and the ratio of book equity to total assets was somewhat higher (7.77 percent versus 7.39 percent).

As a result of these developments, our region is now in much better shape than previously. I am encouraged by my conversations with business people and bankers around the District, who tell me of significant improvements in some of our key industries. The view and the attitude expressed are overwhelmingly forward looking, and this gives me reason to believe that the trend will continue. Capital goods producers generally anticipate continued and broadening strength in orders and production this quarter from last. Auto manufacturers tell us that they anticipate a healthy improvement in U.S. motor vehicle sales in early 1993. With dealer inventories generally under control, increased vehicle demand has led to rising factory orders. Steel producers in the District report that the surge in new orders since late last year, from auto and appliance producers, continued in February and has led to rising backlogs of unfilled orders and stretching out of deliveries. Some flat-rolled-steel producers report that their order books for the first half of 1993 are virtually at capacity.

Despite production gains, most of the people we have talked to are very cautious about near-term hiring plans. Employment gains simply have not matched output growth in most industries. For example, while manufacturers of industrial controls, truck components, and steel note a high level of operations in recent months, they are resorting primarily to outsourcing, extra shifts, and overtime to accommodate output growth instead of adding workers. In the auto industry, however, most employees on temporary layoff have been recalled, and some facilities are hiring additional workers, as many assembly plants have increased their production schedules. But we must not forget that the U.S. auto industry is still adapting to change and working through large excess capacity.

Service-sector employment growth also has been relatively anemic. For instance, retailers report that they, like manufacturers, are experiencing intense competitive pressures to cut costs and have relied on labor-saving technology and management techniques, such as tighter inventory control, to accomplish that goal. Employment growth has been steady in the health care industry, which has emerged as one of the largest sectors in both Cleveland and Pittsburgh—two of the largest cities in our District.

Sluggish job growth in the Fourth District is part of a national phenomenon. The interesting question is whether employment will pick up enough to offset the

slow growth of the past few years or whether it will remain moderate, growing along a permanently lower trend. Certainly, last month's payroll employment figures are encouraging.

In my mind, there are several reasons why employment has not been increasing faster in this expansion. A large amount of sectoral reallocation of labor is taking place, not just in my District, but across the country. For example, displaced defense workers are having to retrain for employment in other sectors. This process is neither painless nor instantaneous, but as workers become absorbed in new jobs, we expect employment to return to previous trends. Productivity is on the rise, some of which is due to new technologies. As workers are reabsorbed into more-competitive industries and these industries expand in domestic and world markets, we might expect a return to normal growth along a higher trend.

There may be some additional factors that discourage firms from hiring workers. One factor is the steady rise in the cost of medical coverage for employees. Firms often find it cheaper to pay overtime to existing workers than to take on more workers. Another factor is the mounting regulation facing businesses. Even legislation designed to achieve useful purposes can sometimes create unintended side effects. For instance, business people have viewed several pieces of legislation enacted during the past several years as adding significantly to payroll costs. While businesses may not yet fully understand the actual costs of such regulations, they may very well be reluctant to do any significant hiring until these costs become more clear. To the extent that recent slow employment growth is due to permanently higher labor costs, we may not recover all those jobs lost in the past few years.

While signs of a faster-paced and sustainable expansion are improving, I still have some concerns. Unless monetary policy is conducted in a manner consistent with price stability, the overall expansion could remain anemic.

Monetary Policy

Monetary policy has played an important role in the restructuring that is still going on in the nation and, to a lesser—but still important—degree, in the Fourth District. No doubt the need for some of this restructuring has its roots in mistakes that were made in the 1970s. One of the problems with inflation is that it obscures price signals and causes both businesses and households to make mistakes that can take years, even decades, to remedy. Price-level uncertainty distorts the economic information contained in market-generated prices. It can induce people to save too much or too little, to invest in the wrong assets, and to be cynical about their government. And, when inflation surprises are curtailed, as the public inevitably demands, the resource-allocation mistakes become painfully apparent.

Unfortunately, the role of monetary policy in affecting output is often misunderstood. It is important to remember what policy can and cannot do. It cannot create capital stock, train workers, or improve technology. Nor can it produce real goods and services, create employment, permanently lower the unemployment rate, or peg or permanently lower the real interest rate. This is not to say that there is no role for monetary policy. But instead of manipulating aggregate demand in a futile attempt to achieve an unattainable employment objective, monetary policy should focus on providing the conditions that lead to maximum sustainable growth.

In the not-too-distant past, prices were destabilized by policymakers who believed in a tradeoff between price stability and full employment. That dichotomy was false. Monetary policy affects only the efficiency with which real productive resources are used. In the past, monetary policy often kept the economy from reaching its potential because the policy was not made consistently from one year to the next. When short-run attempts to stimulate the economy through monetary policy have led to inflation, the economy operated less efficiently and people ended up working just as hard but producing less.

What monetary policy *can* do to promote long-run economic efficiency is to stabilize the aggregate price level and to create a climate of confidence about the outlook for price stability. Confidence in price-level stability would raise living standards because it would enable business people, investors, workers, and consumers to make wiser plans for consuming, saving, and investing. Plans made on the basis of inaccurate assumptions about future prices are often inefficient.

Price-level stability would eliminate the incentives people have to employ resources to hedge against inflation. A firm commitment to price stability would free these resources for more productive uses. Moreover, it would foster the stability of banks and the financial system. When investments are made on the basis of price projections that prove to be wrong, the lenders that provided the funds for those projects are often hurt along with the investors.

How can price stability best be achieved? There has been some discussion about the need to go beyond monetary targets in the Humphrey–Hawkins process. I could not agree more. We need a commitment to an explicit long-run price objective so that the Federal

Reserve can use annual monetary targets more effectively. The question is whether monetary targeting can achieve price stability in the absence of an explicit commitment to a price objective. Perhaps so, but not as easily in my view, and at a considerably greater cost. An explicit commitment to price stability is an essential operational element that is missing from today's policy process. Given the apparent inability of policymakers to agree on an explicit price objective, the next best thing the Federal Reserve can do is to keep money supply growth within specified target ranges that are consistent, over longer periods of time, with price stability.

But *which* money supply: M2, or a narrow measure like M1? M1, which includes currency and transactions balances, grew very rapidly last year. Households and businesses added considerably to such balances relative to their income and as a share of total assets. In economists' jargon, the velocity—rate of turnover—of such balances declined. At the same time, the small time deposits included in the broad measure of money, M2 (which includes M1 as well as small time deposits and savings balances) fell sharply and are continuing to decline. Households have reduced their holdings of these instruments in absolute terms, as well as relative to their income and as a share of their total assets. As a result, the velocity of this M2 component rose substantially and by a surprisingly large amount relative to past experience.

For a policymaker, the challenge is to analyze these conflicting signals and attempt to anticipate future trends in order to conduct reserve-supplying operations that, over time, are consistent with achieving maximum sustainable growth in a stable price environment. We have spent considerable time and resources trying to understand the monetary data, and still we are uncertain. While this is discouraging, it is not unusual. We should not forget that all economic data represent attempts to match aspects of the real world with theoretical concepts. Just as there is a wide gap between the theoretical concept of output and the real-world measure of output, there is also a gap between a theoretical concept of money and the targeted aggregates.

Nevertheless, in the real world, we must make prudent judgments about how much weight to give to various measures of money. In my opinion, the best we can do today is to choose monetary targets that we think are consistent with long-term price stability and try to maintain them. When these targets need to be adjusted in order to achieve and maintain price stability, we should adjust them. Such a strategy automatically avoids aggravating the fluctuations in economic activity. Should the economy go into recession, the money supply would tend to fall below target, unless the Federal Reserve supplied additional reserves. Conversely, should the economy expand very rapidly, the money supply would tend to go above target unless the growth of reserves is restrained. If the long-run inflation objective is known, and credibility is maintained, then the adjustments necessary to achieve price stability can be made much more effectively.

Of course, other factors affect the monetary aggregates, including interest rate differentials, the resolution of the savings and loan crisis, and the evolution of liquid mutual funds. Although these factors have been exerting an unusually large effect on money supply growth, the announced target ranges for the broad aggregate (M2) are wide enough to accommodate even this extreme behavior.

What is the alternative? Some have argued that policy judgments would be better made if the Federal Reserve ignored monetary aggregates and instead looked at the real economy. I cannot agree. In view of the dramatic economic restructuring taking place today—technological developments, defense cuts, commercial real estate problems, to name just a few—we cannot have any more confidence in our estimates of potential output than we have in our estimates of demand for a specific monetary aggregate.

Furthermore, we have no direct linkage between monetary policy actions and either actual or potential output. Let me say once again that although we may be uncertain about how to interpret the disparate behavior of the monetary aggregates today, this uncertainty is no greater than the uncertainty that always exists about potential output.

What does all this mean for monetary policy? One of the biggest obstacles to sustained economic growth during the year or so has been the lack of credibility of the long-run commitment to price stability. While inflation has moved down, the public has persisted in its belief that future inflation will be higher. Long-term interest rates have declined but are still substantially above the levels that would be consistent with price stability. This belief is reflected in consumer surveys and is manifested in the extraordinary steepness of the yield curve and in such behavior as the record number of homeowners who have refinanced mortgages. The extensive business balance sheet restructuring, which is still going on, also suggests expectations that future borrowing costs will be higher as inflation accelerates.

The credibility of the Federal Reserve's goal to achieve price stability has been undermined to some extent by the belief of analysts and policymakers that the Federal Reserve, through aggressive monetary policy, could move the economy to a sustainable, faster long-run growth trend. As Chairman Greenspan

indicated to you last month in his Humphrey–Hawkins testimony, these mistaken beliefs have left us with an economy in which private markets quickly embed even the expectation of stimulative monetary policy into higher-inflation expectations and nominal bond yields.

To lock in the hard-won gains made against inflation in the 1980s and extend them well into the 1990s, the challenge is to find a way for the Federal Reserve to make a *credible* long-term commitment to an explicit goal for price stability. Only by doing this can we combat the 1970s legacy of heightened market sensitivity to short-run monetary policy actions, reduce long-term nominal interest rates by another 2 or 3 percentage points, and create an environment in which inflation fears no longer retard the efficient functioning of the economy. □

Statement by J. Alfred Broaddus, Jr., President, Federal Reserve Bank of Richmond, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I am pleased to be here today to discuss economic activity in the Fifth Federal Reserve District—the region served by the Federal Reserve Bank of Richmond—and to describe my views on monetary policy. I will begin with some background information on the District economy. Subsequently, I will review some recent regional economic trends, summarize current economic conditions in the District, and conclude with a brief statement of my basic views on monetary policy.

Overview of the District Economy

The Fifth District includes Maryland, the District of Columbia, Virginia, North Carolina, South Carolina, and all but the northwestern spur of West Virginia. The Federal Reserve Bank of Richmond has branch offices in Baltimore and Charlotte, regional check processing centers in Charleston, West Virginia, and Columbia, South Carolina, and a special facility in Culpeper, Virginia.

The Fifth District is home for about 10 percent of the U.S. population. The District's fine transportation networks (including its three major seaports: Baltimore, Charleston, and Hampton Roads–Norfolk), favorable climate, and proximity to major domestic markets combine to make the region especially attractive to business. The District is headquarters for several major nonfinancial corporations and some of the nation's largest and most rapidly growing banking organizations. Collectively, the Fifth District ranks fourth among Federal Reserve Districts in terms of both the total assets and the market capitalization of its banking organizations. The District is also the location of thousands of farms and small businesses, many community banks, and an unusually large number of strong colleges and universities.

Our Bank has identified three distinct regional economies in the District. One includes south central Virginia, North Carolina, and South Carolina and is characterized by substantial manufacturing activity. North Carolina leads the nation in the proportion of payroll employment in manufacturing, and South Carolina is close behind. Textiles heads the list in value of output among the manufacturing industries in this region. The area's strong manufacturing base also includes such other industries as chemicals, machinery, electronic equipment, tobacco products, and furniture.

The second regional economy consists of Maryland, most of Virginia, and the District of Columbia. This region is heavily dependent on federal government activity, especially defense purchases. Employment stemming from federal nondefense purchases is also important in this area, as is federal government employment of civilian and military personnel.

The third region is West Virginia. West Virginia's economy is based largely on coal, which explains the state's comparative advantage in the production of chemicals and primary metals. Lumber and wood products are other West Virginia industries that have enjoyed especially rapid growth in recent years.

The economies of these three regions have some elements in common, such as their strong tourist industries. The Fifth District is known for its many scenic and historic areas and for its mountain and seashore resorts. Tobacco is grown in many parts of the District, as it has been since colonial times. Although domestic tobacco consumption has declined, exports of both tobacco leaves and manufactured tobacco products continue to rise. Other agricultural products in the District range from peaches in South Carolina, where the harvest often exceeds Georgia's, to poultry production in North Carolina, Virginia, and Maryland. The Chesapeake Bay usually produces a plentiful harvest of fish, crabs, and oysters, although the oyster harvest has been quite low in recent years.

Trends in Employment and Income

The table accompanying my testimony summarizes the behavior of employment and real personal income in Fifth District states since the early 1980s.[1] The table shows that the decade of the 1980s, after its early recession, brought strong growth in both employment and income to most of the District. This growth was spurred in the northern part of the District by the defense buildup and the concurrent real estate boom and in the southern part by foreign and domestic investment in manufacturing. West Virginia, however, recorded a more modest increase in jobs and very little increase in income during the 1980s, largely because of job losses in the coal industry.

Employment and real personal income declined throughout the District during the 1990–91 recession, as they did in most of the country. Job market conditions have improved since the end of the recession, although only North Carolina and West Virginia experienced significant employment growth through the end of 1992. Employment actually continued to fall sharply in Maryland in this period. Real personal income grew moderately in the District from the recession trough through the third quarter of 1992 (the last quarter for which data are available), and here also the performance of North Carolina and West Virginia was strongest. In agriculture, data on cash receipts suggest that real farm income in the District was virtually unchanged in 1992 from 1991 but higher than in earlier years.

Current Economic Conditions

The latest data and anecdotal economic information available to us indicate that the pace of the recovery in the Fifth District has quickened in recent months. Consumer spending was strong during the Christmas season, and more recent information suggests that spending has held up well since then. The housing industry has also been improving for many months, and the decline in mortgage rates in recent weeks has given home sales an added boost. Manufacturers responding to our regular mail survey report that District factory activity improved during the first six weeks of 1993 after several months of little change.

Profits are up and nonperforming loans are down at the District's banks. Our recent telephone survey of financial institutions indicated that both business and consumer loan activity increased during the first six weeks of 1993, although half of the commercial loan officers surveyed said that stiffer regulatory requirements were still limiting their lending activity. Small business members of our Bank's Small Business and Agricultural Advisory Council report that credit is still tight despite ample opportunities, in their view, for banks to make good start-up business loans. District farmers are evidently finding adequate credit available in federal programs.

Let me comment now on recent developments in individual state economies. *South Carolina* has been recovering at a moderate but steady pace. Retail sales—including sales of new cars—have risen in recent weeks, as have sales of new and existing homes. Textile manufacturers are now operating at capacity and exporting some of their production. BMW's choice this past October of the Greenville–Spartanburg area as the site for its new U.S. plant has sparked increased business activity in that vicinity. Along the seashore, tourism has revived somewhat, and business is better. In Columbia, bankers report increased commercial loan demand. On the negative side, the air force base at Myrtle Beach has been closed and parts of South Carolina are vulnerable to possible further defense cuts.

Our contacts in *North Carolina* report improving conditions and greater business and consumer optimism regarding the outlook. The improvement is especially evident in retailing, housing, and manufacturing but extends also to commercial construction. In Charlotte, for example, one of our sources recently complained that a scarcity of large blocks of vacant office space was discouraging some businesses from locating in the city, and he bemoaned the absence of speculative builders of commercial real estate. In Raleigh, office vacancy rates are among the lowest in the nation. Furniture manufacturers in North Carolina are enjoying their best year in many years, and increases in new orders point to continued good business in this industry in the months ahead.

Economic conditions in *Virginia* appear to be improving at a faster pace than earlier in the recovery. The gains are reflected in a recent pickup in state government revenues, which has permitted a modest pay increase for state employees. Retail sales and the construction of single-family homes in the state are showing continued gains. The Northern Virginia and Tidewater areas, which have been the hardest hit by defense cuts, seem to be recovering despite continued job losses due to reduced defense purchases. Vacancy rates for office buildings in the state's urban areas have declined somewhat, especially in the suburbs. Vacancy rates are still high, however, in central cities.

Economic activity in the *District of Columbia*, which began to show some signs of turning up early

1. The attachment to this statement is available from the Federal Reserve Bank of Richmond, Richmond, VA 23261.

last year, continues to improve slowly. Much consolidation of Washington's financial institutions has taken place, and their performance has improved considerably, although some problems remain. The local government continues to be mired in fiscal difficulties brought on by population declines and by the movement of business and government activity to the suburbs. Even so, the mood among our business contacts in Washington is positive. One favorable sign is a pickup in tourist activity. Another is the relative scarcity of office space in Washington, which has led to plans for some new government and commercial construction.

In *Maryland*, indications that the economy has bottomed out are tempered by concern about shortfalls in state government revenues and by additional layoffs at defense contracting plants such as those of Westinghouse and Martin Marietta. On the positive side, activity at the Port of Baltimore, which earned its first profit in four years in 1992, is rising modestly. Also, the residential real estate market finished 1992 with a good fourth-quarter performance, and building permits in the state were up 26 percent in 1992 over 1991. One homebuilder who has not built speculatively in two years now indicates that he is planning to resume building without advance buyer contracts.

Business activity in *West Virginia* has been improving steadily in recent weeks, and our business contacts in the state are upbeat about prospects for the months ahead. The state's lumber industry, which has benefited from strong export demand, is experiencing record production. Production is also at capacity levels in some wood products industries. One hardwood flooring plant operating with double shifts and with all its production pledged was recently asked if it had anything at all to sell. "Only rejects," the customer was told. He bought them.

Until last month, West Virginia's coal production was proceeding at a near-record pace, although employment in the industry was still declining because of the continued shift to capital-intensive extraction. From February 2 through March 2 a strike idled a small but significant portion of the industry, and output was about 10 percent below the same period a year earlier. Coal prices were not affected until the end of February, however, when spot prices rose somewhat as fear that the strike might spread prompted electric power companies to add to their coal stockpiles. On March 2, striking miners agreed to return to work while talks continued.

To sum up, the Fifth District economy is on the mend, apparently even in the northern part of the District, which was hit hardest by overbuilding and defense cuts. Conditions are better in retailing, housing, and manufacturing. The improvement in the District economy has also benefited District banks, which in the aggregate are in their best condition since before the recession began.

MONETARY POLICY

Turning to my views on monetary policy, I believe that the primary goal of policy is to promote economic growth and employment and that the Federal Reserve can best pursue this goal by fostering a stable aggregate price level over time. Inflation constrains growth by interfering with the market's ability to allocate resources to their most productive uses. In addition, inflation results in arbitrary and unfair redistributions of income and wealth that cause social tensions and weaken the fabric of our society. Moreover, rising inflation is invariably followed by corrective policy actions that depress economic activity, sometimes—as in the early 1980s—severely. This stop–go pattern retards technological progress and thereby slows the longer-run rise in our standard of living.

Substantial progress has been made in reducing inflation and interest rates since the early 1980s. The inflation rate has declined from more than 10 percent in 1980 to around 3 percent today, and the thirty-year Treasury bond rate has fallen from above 14 percent to below 7 percent. I believe that the large decline in long-term rates over this period reflects at least in part a significant increase in the credibility of the Federal Reserve's disinflationary strategy. The current thirty-year Treasury bond rate, however, remains well above the 3 percent rate prevailing in the 1950s, when the price level was reasonably stable, which suggests that the public still fears that inflation will persist at 3 percent or 4 percent in the years ahead. In my estimation a fully credible policy to achieve price-level stability would bring long-term rates down further and provide an important additional stimulus to economic activity. In this regard, I should note my belief that passage of the Neal Amendment would strengthen greatly the Federal Reserve's effort to achieve full credibility for its longer-term objectives.

Against this background, I believe firmly that specific monetary policy actions taken in the short run should be evaluated within the framework of our long-run goal for price-level stability. In particular, the annual targets for the monetary aggregates should be seen as a means of helping the Federal Reserve attain its longer-term objectives rather than as ends in themselves. The targets play a useful role in signaling our long-run commitment to a stable price level, and we should continue to lower the targets gradually until they are fully consistent with this objective. In making

our short-run policy decisions, however, we should not adhere slavishly to the targets, in my judgment, when technical developments or institutional changes appear clearly to be altering the relationship between GDP growth and money growth—such as occurred in 1992, when nominal GDP grew at a rate of more than 5½ percent while M2 grew at a rate of only 2 percent.

In making our short-run policy decisions we also need to be mindful that actions that weaken the credibility of our commitment to price-level stability can have perverse effects on interest rates and economic activity. The Federal Reserve directly influences only a small number of short-term interest rates. As I mentioned earlier, long-term interest rates, which have a greater influence on economic behavior, are determined in large part by the public's inflation expectations. If we want to foster low long-term rates, with all their benefits to the economy, we must make policy decisions that the public views as consistent with longer-term price level stability.

I should note here that while I believe that the System's short-run policy actions need to be conditioned at all times by our longer-term objectives, I also recognize that these actions must be taken in the context of current developments in the economy. If market forces are putting downward pressure on short-term interest rates, then we must allow short-term rates to fall in reflection of those forces, as indeed we have over the past several years. I think it is futile, however, to base our policy actions on the notion that monetary policy can eliminate or nearly eliminate short-run fluctuations in economic activity, which occur for a wide variety of reasons. Actual experience over the past thirty years provides little, if any, support for this idea. In particular, history suggests that attempts to stimulate economic activity in the short run without regard to the possible inflationary consequences result eventually in higher inflation and the depressing corrective actions that I mentioned earlier.

To sum up, my view is that monetary policy should seek to promote real economic growth and employment by achieving and maintaining price-level stability. The Federal Reserve's day-to-day policy actions should be consistent with this goal, and the System should do whatever it can to increase and enhance the credibility of this strategy. □

Statement by Robert P. Forrestal, President and Chief Executive Officer, Federal Reserve Bank of Atlanta before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I am pleased to appear before this committee today to discuss economic conditions in the Sixth Federal Reserve District and to provide my views on appropriate monetary policy. I will first review current economic conditions in the District and the prospects for 1993. Then I will turn to the longer-term outlook for the region and some challenges related to lingering disparities in income growth in the southeastern states. This perspective will bring me to my final subject, monetary policy.

The issue of sustainable growth is of special concern to me because of the uneven performance of the Southeast. Over the past few decades we have experienced some relatively rapid growth, most notably, perhaps, in the Atlanta environs. Middle Tennessee has also performed relatively well, as have most of Florida and sections of Alabama.

However, the Sixth Federal Reserve District is an extremely diverse economy, encompassing Georgia, Florida, Alabama, two-thirds of Tennessee, and the southern halves of Mississippi and Louisiana. For many decades the states that make up this District were some of the most impoverished in the nation. Even today, by many measures of social well-being, Sixth District states continue to underperform the nation. For example, the proportion of children living below the poverty line exceeds the national average in every District state and reaches about 30 percent in Mississippi. All the District states, with the exception of Florida, have lower-than-national-average per capita disposable personal income. And Florida, Georgia, and Louisiana represent three of the four states across the nation with the lowest high school graduation rates. These few figures hint at my views about macroeconomic policy. As I will share with you, I favor a policy mix that fosters long-term investment. Only through the creation of physical and human capital can the poorer areas of the Sixth District share in the successes of the more prosperous areas.

Current Economic Conditions and Outlook for 1993

Overview

As background to this view, let me begin with current economic conditions in the Sixth District. After shar-

ing weak conditions with the rest of the nation, the southeastern economy began improving in the middle of last year. Regional nonfarm payroll employment increased moderately through the end of 1992. From January 1992 to January 1993, states in the Sixth District reported more than 300,000 new jobs, a 2.2 percent growth rate. This compares with a 0.6 percent increase in payroll employment for the nation over the same period. Most of the increases were posted in services, construction, wholesale trade, and durable goods manufacturing. The District's seasonally adjusted unemployment rate stood at 7.3 percent in January of this year, fed by high jobless rates in Alabama, Louisiana, and Florida that pulled the regional average above the nation's. However, Florida, the only state with more recent employment statistics, experienced a sharp decline in unemployment in February—to 6.7 percent.

After enjoying significant increases in holiday sales, with many areas showing double-digit percentage gains over year-ago levels, retailers saw sales holding up fairly well in the first quarter. Realtors and homebuilders have been seeing ongoing improvements in most single-family markets. Manufacturers are reporting modest increases in production. Bankers indicate that consumer and business loan demand is picking up. Except for some construction materials, wholesale and retail prices have remained stable and wage gains modest. Contacts across the District suggest that consumer and business confidence has revived.

In 1993, growth in the Southeast should outpace the nation. The region's concentration in household textiles, furniture, appliances, and lumber production will be boosted by national strength in single-family construction, while new construction to replace losses from Hurricane Andrew will add further to demand. In addition to the housing rebound, the Southeast, which has been treating timber as a cultivated crop for decades, stands to benefit from environmental restrictions in the Northwest through the 1990s.

Drags from defense cutbacks and state government fiscal problems are also likely to have relatively less impact in the Southeast. Although defense contractors in the region are suffering, the Sixth District is expected to be hurt relatively less by spending cutbacks because defense production is a less important factor than in other regions. In addition, the Southeast will probably not be hit as hard as the rest of the nation by the U.S. Defense Department's current base reduction plans.

The Southeast is also comparatively less hampered by state and local government budget problems. Although several states are currently considering some form of revenue enhancement and budgets have certainly been tight, the problems generally have not been as significant as those found elsewhere, nor are they expected to be.

Of course, lingering problems will keep growth only moderate. Several forces that limited employment gains in 1992 are still in effect. Excess real estate investment from the 1980s will continue to dampen office, apartment, and condominium construction. Employment in service industries should grow more rapidly in 1993 as demand for business and personal services picks up, but the possibility of further consolidation in several industries, including banking, airlines, and communications, will continue to restrain total employment growth through 1993. On balance, however, the Southeast's economy is likely to expand more rapidly than the nation's in 1993.

Retail Activity

According to the vast majority of our retail contacts, after a strong holiday season with increased spending noted across a wide range of goods from apparel and household textiles to big-ticket items such as electronics, appliances, and furniture, year-over-year consumer spending growth continued in January and early February. Most retailers are upbeat about near-term prospects, and they are also generally happy with current inventory levels. Auto sales growth, however, has been less uniformly positive across the region.

Tourism continues to be a positive force in the regional economy. Air passenger traffic, particularly international arrivals, was significantly above year-ago levels in December. Reports of convention attendance in early 1993 show that it is exceeding year-ago levels; industry contacts indicate that advance bookings through at least midyear are strong.

Looking ahead, Hurricane Andrew will continue to generate a spending surge on building materials and related household goods in southern Florida and Louisiana through most of the year. Although localized, the stimulus is likely to be large enough to boost regional sales an additional 1.5 percentage points, to well above 1992 levels and comfortably above the expected national pace. In addition, previously postponed purchases of autos, household goods, and other big-ticket items as well as increased home sales—new and resales—will support purchases of appliances, furnishings, and household textiles next year.

The stimulus from Hurricane Andrew will peak in the second half of the year as insurance proceeds are exhausted. When hurricane-related construction slows after midyear, spending generated by rebuilding in Florida and Louisiana will begin to fade, in turn causing overall consumer spending gains in the region to decelerate. Stimulus from moderate increases in total employment and incomes will be left, but that

cannot sustain the current pace of consumption growth in the Southeast. Nonetheless, the retail work force is expected to expand somewhat faster than total employment through 1993.

Manufacturing

Manufacturing in both the Southeast and the nation currently employs between 16 percent and 17 percent of the nonagricultural work force. However, the regional average does not accurately reflect the importance of manufacturing activity in the different District states. Low manufacturing concentrations in Florida and Louisiana veil the importance of factories as employers in Georgia, Tennessee, Alabama, and Mississippi. The Southeast's considerably greater dependence on nondurables production—52 percent of total factory employment versus 43 percent nationally—has given the region an advantage since mid-1991.

District manufacturers reported moderate increases in activity through February. Industry spokespersons note that production and shipments continue to increase for textile and apparel plants. An improving national housing market is supporting carpet production, although the glut of office space nationally is depressing the outlook for commercial textile products. Contacts also note improving conditions for electronic equipment and rubber and plastic producers. According to preliminary figures from the Atlanta Fed's monthly survey of southeastern manufacturers, almost two-fifths of responding plants indicated increased production during February, compared with 15 percent reporting declines. More than half of the respondents expect production and shipments to increase over the next six months. About half of the survey respondents think that new orders will be greater six months from now. A third of responding firms expect to increase investment over the next six months.

Among specific industries within the manufacturing sector, textile and apparel producers account for a large proportion of regional employment. Textile and apparel factories began adding jobs in mid-1991 as the national housing recovery spurred orders for carpets and household textiles generally and rising apparel sales inspired retailers to begin rebuilding inventories that had been sliced to the bone during three tough years. The upward tick in apparel demand through early 1992 provided only temporary relief to an embattled industry, however. By the second half of the year, apparel employment was already beginning to look unsteady. The long-term trend toward lower employment should resume over the next year as apparel production continues to become more capital-intensive or is moved offshore. Fortunately, gains in housing activity and stability in the nonresidential sector should continue to strengthen the demand for textiles.

The region also has a concentration of producers of pulp and paper products and food processors. Production of pulp and paper products advanced convincingly in 1992 as improved shipments and distribution activity stirred demand for boxes and paperboard. Food processing also continued to expand at a steady pace last year. The expansion nationally should continue to boost demand for pulp and paper products through 1993, and steady growth in food processing should be sustained.

Regional and national producers of machinery, fabricated metals, and electronics all suffered during the past year. In general, however, their troubles struck the Southeast less severely because these industries are not as crucial to the region's total factory output as they are in the nation in general. The expansion of auto production capacity in Tennessee provided a welcome respite to an otherwise gloomy transportation equipment sector in the region. The national upturn in demand for durable goods bodes well for these industries.

The main weakness—past, present, and future—in durables production nationally revolves around defense, but regional declines in defense-related activity should be comparatively less significant than in the United States as a whole. The six-state region represents 13.5 percent of total U.S. employment but, according to the U.S. Department of Defense, is home to only 10.5 percent of the nation's defense-related jobs. In a recently released Congressional Budget Office ranking of states by projected effects of defense employment declines through 1996, no southeastern states appear in the top ten. Declines in the region's defense-related production should also be mitigated somewhat by a national recovery in demand for durable goods. All in all, manufacturing should lend strength to the southeastern economy in 1993.

Construction

Construction in the Southeast reached a trough in late 1992 after four years of steady decline. Since its peak in 1988, when the industry employed nearly 790,000 workers in the region (7 percent of the total job base), 125,000 jobs have been lost, paring construction employment to 4.5 percent of the work force—equal to the current national average. Most of the job losses occurred in Florida and Georgia, the Southeast's boom states in the 1980s. Alabama and Tennessee posted modest construction layoffs while Louisiana and Mississippi registered offsetting gains.

After adjusting for seasonal variation, realtors reported that home sales continued to rise in most areas of the Sixth District into the first quarter. They noted

increased traffic and interest in low- to mid-priced new and existing homes. While most reported little change in inventories, a growing minority have seen some absorption of excess space in the resale market. Home prices have remained mostly steady except for new construction, where higher materials prices are reported to be pushing housing prices up. Realtors attributed sales gains to low mortgage rates and increased consumer confidence. The majority are optimistic about sales prospects during 1993.

Looking at construction activity, single-family building continues to improve. Permits continued to edge higher through the end of 1992, and most builders contacted anticipate further sales gains in 1993. Multifamily development in the Southeast continues to be plagued by relatively high vacancies, only moderate economic growth, a demographic shift that has reduced the traditional pool of young adult renters, and the declining relative price of starter homes. Still, with a virtual absence of new development in most markets since 1991, occupancy rates are edging higher, effective rental rates are firming, and bottom-fishing investors are more active in buying up nonperforming properties. While offering little sign of recovery, the supply imbalances are clearly abating, and the long slide in multifamily development appears to be over. Modest gains in multifamily development could occur in 1993, but the recent rebound in residential investment will probably slow except for hurricane-initiated activity.

Commercial construction remains stagnant in most markets in the District. Potential developers of speculative projects are still having a hard time finding credit. Stagnant office development reflects developers' sober assessment of how slowly the growth in white-collar employment is likely to absorb excess office supply. Some positive signs are beginning to appear, however. Large contiguous blocks of space are becoming scarcer in major metropolitan areas, and effective rental rates are inching upward. In some areas, the lack of new product has resulted in lower vacancy rates amid a slow recovery in net absorption. The value of contracts for nonresidential private construction in the region appears to have hit bottom in mid-1992. As net absorption slowly gains momentum in 1993, it should set the stage for modest increases in office development beginning late in 1993 or in early 1994.

In addition to these regionwide developments, Hurricane Andrew has ensured a temporary construction boom in southern Florida and, to a lesser extent, southern Louisiana. Repairing $15 billion to $20 billion in damages to residential, commercial, and public structures may require 20,000 to 30,000 additional construction laborers at the work's peak in the second half of 1993. However, by late 1994 the withdrawal of these jobs and incomes will begin to exert a significant drag on those local economies.

Service Sector

Performance of the region's business and professional service producers typically parallels the nation's. Although regional demand for transportation, telecommunications, and financial services is likely to rise in 1993, employment growth in these industries will be constrained by continued restructuring. Major corporations continue to announce long-term commitments to reducing staff levels. Telecommunications and software companies are facing intense competition. Airline bankruptcies have served a particularly hard blow to the region in the past two years. While remaining carriers have taken up most of the slack in service, most of the laid-off employees have not been rehired and remaining carriers are cutting jobs.

Business services employment, which rebounded in 1992 after declining in 1991, reflects broad efforts at consolidation and cost reduction. Part of 1992's rebound can be attributed to temporary agencies, which are defined as a business service. Increasingly, firms—ranging from insurance agencies to hospitals—use temporary agencies to meet fluctuations in demand for services and to hold down costs, to limit long-term commitments, and to screen prospective employees.

Employment gains in health services, which maintained rapid employment growth rates during the recession, have begun to slow, perhaps the victim of excess capacity as competition among hospitals and physicians is intensifying. While employment growth in this sector will continue to advance more rapidly than total employment in 1993, the rate should slow significantly.

State legislatures in the District have reconvened. Coincident with the pickup in regional economic activity, state and local tax revenues are generally improving. Nevertheless, Alabama, Florida, and Louisiana are all considering ways to increase revenues. Tennessee legislators may make permanent a state sales tax hike temporarily imposed last year. Georgia is enjoying relatively vigorous growth in its tax receipts, and Mississippi is actually running a moderate budget surplus.

Wages and Prices

Upward wage pressures are virtually nonexistent in the District at this time. Corporate restructuring and downsizing continue to hold back wage increases and new hiring. Most respondents to the previously mentioned manufacturers' survey reported no changes in prices received for finished products or prices paid for

materials in February. Only one-fourth of surveyed firms hope to raise finished-product prices in the next six months. Discussions with other contacts reveal some uncertainty about whether modest price increases will stick because of the competitive environment.

A Comparison of District States

Turning to the outlook for specific states, Georgia, Tennessee, and Florida have more growth potential in 1993 than the other states of the region. By year's end 1992, both Georgia and Tennessee were exhibiting well-entrenched and relatively balanced, moderate economic recoveries. Georgia seems to be back on a favorable track after having absorbed several significant negative economic shocks over the past four years, but it faces some drag from the shrinkage in airline and defense payrolls. Tennessee is experiencing employment gains in manufacturing, especially in auto-related industries. Both states should grow moderately faster than the nation. Florida, the most populous state in the District, has lagged behind the region in recovery. It began to show signs of doing better in the latter part of 1992. Despite the effects of defense cuts on Florida's manufacturers, improved tourism and exports to Latin America will probably be enough to put Florida's growth on par with the region's in 1993. Added to those forces, rebuilding after Hurricane Andrew will provide an additional boost for jobs and incomes. Thus, Florida is also likely to grow at a rate above the regional average, but this momentum may begin to fade by year-end.

Mississippi and Alabama mostly steered clear of the national recession during 1990 and 1991. However, Mississippi's prospects in 1993 are dimmed by expected defense-related layoffs, and Alabama's modest growth should not measure up to the regional average because of deceleration in apparel, textiles, and public-sector employment. Louisiana's energy-based economy may be running against the region's general trend and faces the prospect of a continuation of the state's current economic slump in 1993 even as the moderate national expansion builds momentum.

Long-Term Growth Challenges

The Southeast's generally positive short-term prospects are based mainly on temporary advantages. In the longer term, sustaining and broadening the growth that many parts of the Southeast are likely to experience in 1993 will depend upon the region's ability to attract capital and labor and its response to underlying structural changes in the domestic economy as well as to international competition. Comparatively low wages and taxes in the six southeastern states will continue to draw relatively labor-intensive investment. Unfortunately, however, many areas of the Southeast are not set to deliver the skilled, flexible work force increasingly needed to use sophisticated factory and office technology and to compete internationally.

Growth in the Sixth District over the past two decades has been fed and sustained by attracting capital, both physical and human, from other parts of the country and overseas. The substantial rise in incomes in middle Tennessee has sprung in large measure from decentralization of manufacturing. Atlanta's growth has come from this trend, decentralization of corporate headquarters, and outsourcing of business services, along with a spectacular rate of successful small business start-ups. What all these sources of jobs have in common is a long-term commitment of capital and skills to the region.

These commitments would not have been made without the expectation of a long-run payoff to the investments. The Ph.D.s, engineers, and highly skilled workers who have relocated to the Southeast would not have come were it not for their expectation of a better standard of living as a result of their move. The physical capital would not have been attracted to the region if the investors did not think that the long-term payoff would be higher here than elsewhere. In short, our growth has been based on a variety of decisions that are, in one form or another, motivated by relatively favorable long-term views of the Sixth District.

However, the region has not succeeded in economic improvements to all localities or segments of the population. The disparity in the 1993 outlook for the six states as well as the statistics on educational attainment and per capita personal income I provided at the outset attest to this shortcoming. To overcome it will require more long-run investment in both physical and human capital. However, such a lasting commitment requires a hospitable economic environment that people expect to be maintained over time. Moreover, this stability cannot be maintained on a local or regional level without the sustained presence of appropriate macroeconomic conditions, attendant with a sound fiscal and monetary policy mix. This observation brings me to the third and final aspect of my remarks, namely, monetary policy.

The Role of Monetary Policy

The most important role of monetary policy is to provide an environment in which the most productive outcomes will occur. Such an environment is one that

allows for a focus on the longer run; it is one in which resources are not distracted or diverted to deal with short-term distortions and temporary imbalances. In such circumstances, resources, both physical and financial, can be used to their greatest efficiency and yield their highest output and reward.

I am well aware of the loss, inefficiency, and waste that is behind the human tragedy of unemployment, and I am equally aware of the terrible cost of inflation. The role of monetary policy is to put some credible bounds on expectations about inflation and unemployment. Thus, the Federal Reserve not only must provide assurances that inflation, now or in the future, will not be allowed to rise enough to become an important consideration in private decisions but also must support expectations that disruptions to the economy in the presence of unforeseen and unwelcome shocks will be mitigated. In this sense, I see the role of the Federal Reserve as promoting stability, not just in prices but also in income and employment growth as well. This setting is a critical ingredient in the creation of sustainable growth because a stable environment will support the long-term planning horizon necessary for the investment that will create jobs and nurture high value-added firms.

Of course, the Federal Reserve must seek to create and maintain these conditions in a world of uncertainty. We all know that history does not, in fact, usually repeat itself. In addition, the Federal Reserve must bring to bear on its decisions an understanding of the social preferences of the American public. Given the uncertainty inherent in policymaking and the difficulty of assessing risks, monetary policy may sometimes have to steer the economy gradually to the desired conditions of price stability and output growth.

In most advanced economies, policy institutions were created over the past century to mitigate the transition costs of economic corrections. In the nineteenth century, business cycle fluctuations were much sharper than they are today. Imbalances were corrected by sharp implosions in financial markets, severe contractions in output and money wages, and costly dislocations of resources. Prices also tended to fall across the board, sometimes quite dramatically. Then economic growth began afresh.

Although such swift and clean adjustments have a certain theoretical attractiveness, these abrupt changes were unnecessarily costly for those adversely affected. Sometimes, in the rush of a collapse, sound businesses, banks, and households were financially ruined because their assets were not liquid and they lacked the time to find the means to liquidate them. Over time, a variety of economic policy institutions and measures were established to mitigate and attenuate this process.

This broadly ameliorative aspect of macroeconomic policy is still the Federal Reserve's mandate. I believe that the Federal Reserve, like other policy institutions that act on behalf of society, must keep public preferences in mind when pursuing social goals. As a practical matter, this social obligation means that none of the transitions should be excessively traumatic.

To make monetary policy in a context of uncertainty, complexity, and trade-offs, the Federal Open Market Committee (FOMC) seeks to reach decisions by consensus, and this consensus is based not only on economic statistics and forecasts but also on information gathered from Americans at work in the economy. As a Reserve Bank president, I am able to share with my Washington-based colleagues my interpretations of the latest economic data and models as well as the opinions and experiences of people in the Southeast. I meet regularly with business executives, bankers, farmers, labor leaders, educators, and others. These people share with me, in confidence, current and sensitive information about their firms, changes in the size of the work force, early warning signals of inflation, credit availability, and what they believe should be done about the way things are turning out. By bringing together a broad range of information and opinion, I believe the process of reaching a responsible consensus is enhanced. I know that being a part of my District has influenced my views on monetary policy.

Right now, I believe monetary policy is on target. The economic situation is by no means ideal, given the large number of unemployed. However, we must not discount the important foundation for growth that has been laid by the Federal Reserve in reducing inflation. The current degree of price stability we have achieved positions the United States to reap enormous and real, not inflationary, gains in output and incomes.

In this vein I am very heartened that the burning issue of the federal budget deficit has moved to the forefront of the social agenda. I feel it would be inappropriate to comment on specific elements of the proposal because doing so would be inconsistent with the independence of the central bank. Nonetheless, I can emphatically say that a successful resolution of this issue can ensure that we achieve conditions favorable to long-term investment and lasting growth, both in the Southeast and the United States.

CONCLUSION

In conclusion, let me reiterate the motivations for my stance on monetary policy. I bring to the FOMC the views and experiences of people from a diverse Federal Reserve District. It is one that has not only enjoyed rapid growth but also lingered in oppressive

poverty. To redress the latter condition, I believe we need more investment, in both human and physical capital—better schools, factories with high-skilled jobs, and so forth.

To garner such investment regionally, we must have as a national foundation an economic environment that promises some measure of stability over time. Otherwise the Southeast will end up with more short-term and short-sighted projects that create low-wage jobs for a while until lower-cost alternatives can be found. Monetary policy thus is critical to the Southeast's major challenge because it can help create such an environment of stable prices and steady gains in employment and output. By doing so, we will achieve the ultimate goal—higher living standards for all. □

Statement by Silas Keehn, President, Federal Reserve Bank of Chicago, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I am pleased to be here today to discuss economic conditions in the Seventh Federal Reserve District and to comment on my views on monetary policy. The Seventh District, which includes all of the State of Iowa and most of the States of Illinois, Indiana, Michigan, and Wisconsin, is an economically large, important, and diverse region, which both reflects and drives a substantial portion of the U.S. economy.

By any measure, the District ranks as a major economic force, and, therefore, conditions in the District directly influence my views regarding monetary policy. And, in turn, monetary policy actions have an important impact on economic activity in our District.

The five District states account for about 14 percent of the nation's GDP and 18 percent of U.S. manufacturing employment. The District produces 45 percent of the nation's automobiles, 30 percent of the trucks, 38 percent of the nation's steel, and more than 40 percent of the country's farm machinery. Farmers in the Seventh District account for nearly one-fifth of the nation's annual sales of farm commodities and half of the corn, soybeans, and pork produced nationwide. The District is the headquarters of some of the largest firms in the United States in manufacturing, retailing, and financial services.

Given its size and diversity, it is not surprising that the District mirrors the economic challenges and opportunities in the U.S. economy as a whole. Consequently the District, as the nation, has been experiencing significant difficulties in maintaining an adequate rate of real growth. District performance has improved, but the pace of improvement continues to be impeded by further financial and industrial restructuring.

Monetary policy requires two things above all, a solid assessment of where we are and a sure sense of where we should be going. Both of these questions require contact with businesses and individuals and cannot be derived solely from statistics and theory. While our Bank follows the publicly released data very carefully, we rely very heavily on information sources and contacts within the District to determine current and prospective conditions so important to the development of the appropriate monetary policy to deal with changing economic circumstances. It was only by maintaining close contact with our District that it has been possible to go beyond the economic statistics to an understanding of what has really been going on in the District's economy and in the nation as a whole.

The Federal Reserve Bank of Chicago is deeply involved in monitoring and analyzing economic developments in the District on an ongoing basis with a variety of fact-finding initiatives. In addition to the very valuable input from our boards of Directors in Chicago and Detroit, we have set up a network of advisory and contact groups. The Reserve Bank assembles regional data to provide a quantitative base for regional analysis, drawing from government sources and business in the District, and we have developed our own measures, such as the Midwest Manufacturing Index, to track District economic activity. Some years ago we formed Small Business and Agricultural Advisory Councils to obtain continuing and very important input from these large sectors of our economy. In addition, the Bank has established a network of Industrial Roundtables to provide information about emerging business conditions. Industrial Roundtables now meet in Chicago, Detroit, Milwaukee, Grand Rapids, and Kalamazoo. The Detroit and Chicago groups include corporate economists from some of the largest companies in the District. The Milwaukee and western Michigan groups include chief financial officers and corporate planners from the diverse and important companies located in these areas. In addition, the roundtables include contacts whose businesses are leading indicators of economic activity throughout the District. These roundtables are a direct link to about 100 companies and trade associations in the District and provide timely insight into current conditions and emerging market trends. By

integrating economic data with direct corporate and small business contacts, we are able to make a comprehensive analysis of the economic trends and current conditions in the District and from that develop a factual basis for my recommendations on monetary policy.

In addition to our formal roundtables, the Bank works together with those public sector and quasipublic groups that are struggling to revitalize the region's economy. Collaborations with the Wisconsin Strategic Development Commission, the Iowa Business Council, the Commercial Club of Chicago, and the Council of Great Lakes Industries are examples of organizations working to rebuild the District economy. Such efforts yield a lasting return to us. Through our personal participation, we establish a relationship of trust and open important avenues of communication with other analysts of areas within the region that enhances our knowledge of issues important to our District.

The diversification of our sources of information in the District helps to ensure that we do not overlook any emerging sectors of economic activity and problems that broad national statistics can overlook.

District Overview

The Seventh Federal Reserve District is situated in the heart of the Midwest, straddling the agricultural plains toward the West and encompassing a large part of the nation's heavy manufacturing belt, which begins further to the East. With a population that accounts for 13.6 percent of the nation, our District includes the entire state of Iowa along with the most populous and urbanized portions of Michigan, Illinois, Wisconsin, and Indiana. Accordingly, while we are headquartered in Chicago, we maintain a branch office in Detroit, and regional offices in Des Moines, Indianapolis, and Milwaukee.

Many of the District's large urbanized areas now specialize in the business of providing services—business, personal, financial, and wholesale and retail services. Over all, however, our part of the Midwest currently and historically can be characterized as a producer and mover of goods—both natural resource oriented such as farm goods, as well as manufactured goods. Nearly one-fifth of the nation's $170 billion in annual sales of farm commodities is generated by farmers in District states, mostly because of its dominant positions in corn, soybeans, dairy, and hogs. In manufacturing, the District states account for more than one-sixth of the nation's output. Land-based transportation equipment, electrical equipment, primary metals, machinery, and food processing are the mainstays of the economy.

However useful as an initial characterization, such generalizations belie the very broad diversity of locales and industries in the Seventh District. Today, I would like to share with you the diverse richness of economic activity among subregions and industries within the Seventh District by drawing not only on our own analysis and public data sets but also from a wide network of personal contacts with organizations in the region.

The Seventh District economy emerged from the decade of the 1980s in far better shape than most analysts expected. Its image as part of the nation's collapsing rust belt has been replaced by an emerging image as the center of lean and agile manufacturing. That is not to say that the District's economy has not shared the frustration of a subpar recovery nationally or that it has been immune from the economic hardships of the recession or the corporate restructurings that have swept the nation. General Motor's (GM's) announced plans to close twenty-eight plants over the next three years—roughly half of them in the Seventh District—is a key example; Sears, Ameritech, Dow Chemical, and United Air Lines are among other notable examples of Seventh District corporations undergoing dramatic adjustments in the face of changing markets and competitive pressures.

In addition to upheaval among such corporate entities, there is a striking diversity of conditions among towns and metropolitan areas within our Seventh District. Locations such as Flint, Peoria, Rockford, Detroit, and Chicago continue to search for answers and solutions to disappearing jobs and income, even while national attention focuses on the entire region's turnaround.

In the early 1980s, firms such as Caterpillar, Cummins Engine, and Whirlpool faced formidable challenges. Many companies made the necessary adjustments in the 1980s, while others are still making these adjustments.

But the success stories are far from universal. Well-meaning and well-directed efforts to restructure have been to no avail for many small businesses and family farms and for many large corporations that have gone out of existence. Similarly, there is parallel diversity in locational well-being and revival for those towns that have grown up around large specialized industries. Some can succeed, such as Indianapolis and Des Moines, by redefining and reinventing themselves (for example, Indianapolis as a center of sports-oriented tourism, business services, and retail trade). Others however, despite their best efforts at "diversifying" (for example, Flint) have thus far made less progress confronted by external forces and events. It is an accurate statement that the Seventh District has been through an enormous and very fundamental

change. And in this tremendous diversity of experience, not every region or industry has come through intact.

The Seventh District is no stranger to adversity. In particular, the region has long needed to adapt to the cyclical nature of its economy. Moreover, even when its industries are successful in becoming competitive, the process itself leaves significant challenges and opportunities in its wake. Goods-producing industries, including farm and factory, have continually boosted productivity by economizing on the number of jobs. In the United States alone, manufacturing jobs as a share of the total payroll labor force have declined from 30 percent to 17 percent from 1963 to 1992 even while the sector's share of real national output has remained roughly constant. Such labor dislocation is an amplified problem for regions that are concentrated in manufacturing such as the Seventh District. The District's manufacturing share of total payroll jobs declined from 37 percent to 21 percent over the same period. Recent management strategies by firms to improve their competitiveness by labor-saving cost attrition and mass layoffs have added to this problem.

The imbalances in the Seventh District's economic base are also reflected in the response of local institutions—banks and governments. Governments have the task of making the investments in the future of the region—infrastructure and education. However, weakness in the underlying economic base can place a region in a vicious cycle. The vicious cycle of economic shock, followed by inability to fund social services and public reinvestment, is further aggravated. In recent years, weak growth in revenues, coupled with fiscal strains from Medicaid and prison expenditures, have squeezed out budget items such as economic development and higher education in District states. In the Seventh District, responsibilities for service provision fall to a much higher degree at the local level of government. As a result, wide disparities in economic conditions among local communities means that local plant closings, for example, will carry over strongly to the fiscal health of local governments.

Lending institutions share a similar fate. In the early 1980s, the balance sheets of Seventh District banks were weakened by the region's weakening economy. Banks have been restructuring, although problems remain. As in other areas of the country, bank lending slowed sharply in the early 1990s. The safety and soundness of Seventh District banks are being strengthened by the ongoing process of consolidation as earnings, capital ratios, and asset quality issues have all shown important signs of improvement. The impetus is not being undertaken by money center and other larger banks in Chicago, however, but by large regional banks headquartered outside Chicago and, in some cases, outside the District.

THE 1980S—A TIME OF DIFFICULT TRANSITION

Much of the Seventh District was characterized as the "rustbelt" of the nation in the early 1980s. Weak firms either failed or relocated to lower cost regions, and inefficient plants were closed or downsized. Indeed, the District lost nearly 1.5 million jobs during the recessionary period of 1980–82, mostly in its manufacturing sector, while the nation lost about 2 million altogether. To be sure, many of these job losses were from cyclically sensitive industries that were able to recall workers during the vigorous recovery that followed. But, many jobs were also linked to structural changes that had been adversely affecting the District since at least the mid-1960s. Such jobs would never return, creating a large pool of structurally unemployed workers and above-average unemployment rates in many metropolitan areas of the District. The region's standard of living, as reflected by per capita income, declined in relation to the overall U.S. standard during this period.

Why was the District affected so heavily during the 1980s? Why did it need to restructure so profoundly? The problems of the 1980s were to be found in both the District's mix of industries and also its competitive advantage. Unfavorable industry mix presented a formidable challenge to the District during this period. Fortunately, because of changes in the external environment, the District's current industry mix has since become more favorable than many other U.S. regions, as the nation is winding down from its cold war emphasis. The early 1980s favored regions that produced high tech defense and aerospace equipment. At the same time, heavy U.S. investment in newly emerging high tech office equipment such as micro and personal computers contributed to a shifting of demand away from the District's manufacturing sector.

Part of the problem of the 1980s was also the external environment for exports, which was partly due to the dollar's climb of 85 percent between 1980 and 1985. As illustrated by unit labor costs over this period, the value of the dollar had the effect of raising world prices of U.S. exports.

The unfavorable exchange rate environment for exports aggravated an underlying competitive trade problem for District industry. Many District firms were disadvantaged in foreign markets by their use of outmoded technologies. The competitive shocks of the early 1980s jolted many District firms into recognizing the need to reorganize, reinvest in new technologies, and to restructure their operations.

The Auto Industry

The auto industry is perhaps the most vivid example of the combination of cyclical and structural forces that were affecting the District in the early 1980s. Ford and Chrysler were the first to begin the arduous process of downsizing to adjust to changing market forces. In the early 1980s, Chrysler was already in the midst of a government-backed rescue effort. Four Chrysler facilities were closed, all within the Seventh District. Ford closed another five plants, but these facilities were outside the District. In the late 1980s, GM began closing plants in Detroit, Pontiac, and Flint. In all, Big Three auto producers cut assembly plant capacity by about 2.5 million units (roughly 20 percent) between 1985 and 1992. To be sure, offsets occurred with the building of transplants in the District, including Diamond-Star in Bloomington, Illinois, and Mazda's plant in Flat Rock, Michigan. But in Michigan alone, an estimated 70,000 jobs were lost as a result of auto plant closings even before the 1990–91 recession (between 1987 and 1990), with another 40,000 to 50,000 job eliminations to be realized as recently announced plant closings take place.

The Agricultural Industry

The downturn of the 1980s began early in the decade for agriculture and ended around 1986. Several developments during the first half of the 1980s caused farm earnings and the income return on farm assets to plummet. The combination of lower earnings, higher long-term interest rates, and shrinking exports of that time period contributed to a sharp decline in farmland values and huge equity losses for owners of farm real estate. Estimates by the U.S. Department of Agriculture show that the peak-to-trough decline in the average per acre value of farmland nationwide was more than one-fourth in nominal dollar terms and nearly 45 percent in real dollar terms. The declines were especially steep in the Seventh Federal Reserve District. Reflecting this, our land value surveys showed the declines in farmland values in Illinois, Indiana, and Iowa ranged from 50 percent to 60 percent in nominal dollar terms and 60 percent to 70 percent in real terms. With farmland accounting for three-fourths of all assets in the farm sector, the weakness in the land market translated into equity losses of 30 percent in the balance sheet of the farm sector nationwide and 50 percent to 60 percent (nominal dollar terms) in Illinois, Indiana, and Iowa.

The combination of low earnings and sinking asset values quickly extended the farm problems of the early-to-mid-1980s to lenders and most of the agribusiness industries that support this nation's vast agricultural production plant. It has been estimated that lenders wrote off some $20 billion in bad farm loans as a result of the experiences of the 1980s. From 1984 to 1987 banks nationwide wrote off $4 billion in non-real-estate farm loans. About $1.1 billion of that write-off was by banks in states comprising the Seventh Federal Reserve District. Further evidence of the spreading problems of the 1980s is reflected in the cutback in capital expenditures by farmers. At the trough in 1986, capital expenditures in the farm sector fell to less than $8.5 billion, down from the speculative excesses that peaked at $20 billion in 1979.

Profiles in Diversity

Although the Seventh District can be broadly characterized by its farming and manufacturing, the region hosts a great diversity of industries and local economies. These places and industries are closely tied together. Changing conditions in individual sectors and geographic areas have rippled throughout the Seventh District.

Industrial Diversity

Despite all the stress and strain on the Seventh District's economy in the 1980s, the process of adjustment has been slow. To be sure, the early 1980s were only part of a long-term readjustment of the District's role in the national economy. From 1964 to 1991, the District's share of total U.S. employment declined from 16 percent to 14 percent, while manufacturing employment declined from 20 percent to 16 percent in 1982 before rising to 18 percent by the end of the decade. Still, the District's share—one-sixth of the national economy—represents a sizable influence. And, despite a decline in the role of the District's manufacturing sector in the national economy, its manufacturing sector remains the defining characteristic of the District's economy, accounting for about 25 percent of District employment (down from 30 percent in 1980). The nation on average devotes about 17 percent of its employment to manufacturing (also down from 24 percent in 1980). And within manufacturing, it is the auto–steel–machine-tool nexus that dominates economic activity. In general terms, the District is responsible for producing about 45 percent of the nation's cars, 30 percent of its trucks, and 38 percent of its steel (including the bulk of the higher-quality specialty steels). The Seventh District also supports a thriving service sector primarily focused on the financial and business needs of its manufacturing sector, while Chicago's Board of Trade and Mercantile Exchange

serve global commodity and financial markets. However, while the District's economy has been diversifying away from manufacturing, it is likely to remain the core sector of the region's economy for some time into the future.

Still, there is considerable diversity among the different subregions that comprise the Seventh District. For example, Illinois is a major capital goods producer, particularly of farm and off-highway equipment. Deere & Company and Caterpillar are major producers in these markets. Indiana is a center for steel production and auto parts suppliers. Inland Steel and Cummins Engine are world leaders in these markets. Wisconsin is another major supplier of auto parts and particularly a supplier of machine tools for the auto industry. Modine and Giddings & Lewis are examples of these types of firms. Michigan is closely linked to the auto industry and is the headquarters for the Big Three.

Machine tool industry

The machine tool industry in the Seventh District is heavily geared toward the auto industry, either directly for model design retooling of the auto industry or indirectly for the supplier industries. The District contains almost half (43 percent) of all metal cutting machine tool producers and 35 percent of all metal forming machine tool producers in the United States. Michigan alone employs about 15 percent of all workers in the machine tool industry, second only to Ohio (about 20 percent). Illinois employs slightly more than 25 percent of the workers in the metal forming machine tool industry. However, it should be noted that employment in the industry has declined from a peak of 108,000 in 1980 to 73,000 in 1989 and the number of companies has declined, often through consolidation, from more than 1,400 to 624. In terms of market, the District constitutes about 22 percent of all machine tools in use today, with the greater Chicago area accounting for half of that market. In 1989, the United States exported about $1 billion worth of machine tools but imported nearly $2.5 billion (about half of which came from Japan). Imports have risen from about 20 percent of total U.S. machine tool consumption in 1979 to 50 percent of the market today. Finally, between 1968 and 1989, productivity of machine tools has more than doubled (using U.S. average annual output per metal cutting machine tool in constant dollars as the measure), greatly restricting the growth in the market for these machines. After three years of declining shipments, industry forecasts call for an 8 percent increase in 1993, with exports up 5 percent and imports down 7 percent.

Construction machinery

Another key area of capital goods production in the Seventh District is construction machinery. For example, Caterpillar, Deere, and Case (all headquartered in the District) are the dominant producers in the United States, with mainly Hitachi and Komatsu as major competitors. Caterpillar alone accounts for 45 to 50 percent of the sales of crawler loaders and tractors in the U.S. and Deere and Case add another 25 to 30 percent. In terms of markets, the Seventh District represents about 10 to 15 percent of all purchases of construction machinery. U.S. producers were particularly hurt during the early and mid-1980s, when a weak domestic economy was augmented by a strong dollar that severely hampered export sales of domestically produced construction equipment.

Steel industry

The steel industry in the Seventh District is concentrated in northern Indiana (about 25 percent of U.S. production), serving appliance and auto plants in the Midwest. Detroit, with about 8 percent of the nation's production, also produces specialty steels for the auto industry. The District is dominated by integrated mills, with more than one-third of the nation's steel-making capacity but only 15 percent to 20 percent of the nation's minimill capacity. In 1991, total domestic steel shipments were about 79 million tons, rising to 81 million tons in 1992. Some improvement is forecasted for 1993 (with projections ranging between 83 million and 86 million tons), and U.S. firms expect to pick up a bigger share of its total shipments due to restrictions on imports, which currently constitute about 20 percent of the domestic market.

Agriculture

Blessed with an abundance of rainfall and highly productive land, the five states comprising the Seventh Federal Reserve District account for a sizable portion of the nation's agricultural output. Using only one-tenth of the land in farms, District states generate nearly one-fifth of the $170 billion in annual sales of farm commodities. The District's share is concentrated in five major commodities. Anchored by Illinois, Indiana, and Iowa, farmers in District states account for about one-half of the corn, soybeans, and pork produced nationwide. Paced by Wisconsin's top ranking, they also contribute about one-fourth of the milk production. Those commodities, plus cattle account for more than 85 percent of the sales of all farm commodities from District states.

Outside the five major commodities, the District's agricultural plant produces a wide diversity of products. For example, the five-state region has a sizable stake in fruit and vegetable production. Apples and cherries dominate the fruit component, while potatoes and dry beans account for a large share of the District's vegetable production. Within the broad-based fruit and vegetable complex, Michigan has achieved the top ranking in several components, such as tart cherries, navy beans, and blueberries. Similarly, Wisconsin ranks first or second in the production of cranberries and in the acreage devoted to sweet corn, green peas, and snap beans used for processing. The diversity of the District's agricultural production is also apparent in Indiana's top ranking for eggs and in Wisconsin's dominating share for mink pelts. In addition, the agricultural base of the five-state region contains an extensive greenhouse and nursery component and several other commodities, including honey, maple syrup, mint, mushrooms, sugar beets and tobacco.

Services

Service industries have naturally developed in our District in support of its goods producing industries. Increasingly, however, business services are being sold to firms outside the District and the United States.

A strong tendency for producer service firms to favor large metropolitan areas in our District areas is evident. The largest metropolitan areas in the Seventh District—Chicago, Detroit, Indianapolis, Des Moines, and Milwaukee—display a tendency to export services, largely from urban centers to smaller towns and rural locations within the region. However, less populous metropolitan areas specialize in important services as well. For example, although Milwaukee is located only ninety miles from Chicago, a city with more than three times as many people, Milwaukee serves as an independent purveyor and specialist in certain urban services such as advertising, consumer credit reporting, and accounting. Moreover, many small metropolitan areas rank close to or above the larger areas in particular services: Peoria and Cedar Rapids in advertising, Lansing and South Bend in consumer credit reporting, Sheboygan in engineering and architecture, Grand Rapids in accounting, and Battle Creek in management and public relations. Those smaller metropolitan areas hosting major state universities such as Ann Arbor, Madison, and Champaign–Urbana figure prominently as service exporters. Computer programming, engineering, research, and testing labs draw heavily on university skilled labor and institutional capital.

Regional Diversity

From the service sector alone, it is easy to see that a diversity of economic activity also exists within states that can affect individual perceptions of District economic performance. For example, Chicago is a world center for derivative markets and serves as the midcontinental center of business services. While services grew, manufacturing declined. Manufacturing employment in Chicago dropped sharply in the early 1980s. The manufacturing sector lost 179,000 jobs between 1979 and 1983, and Chicago has shown little recovery in its manufacturing sector since that time.

Chicago's service sector employment began to exceed its manufacturing employment in 1979, two years earlier than the rest of the nation. Indianapolis and Des Moines are prime examples of service-sector economies that have thrived on the economic transition from manufacturing to services. For some types of firms and activities, both have provided lower cost locations for financial and business services than either New York or Chicago.

While Michigan is most often identified as the birthplace of the modern auto industry, the northern and western parts of the state are more diversified than the auto-dominated southeastern portion of the state. Office furniture (Steelcase and Herman-Miller), chemicals (Upjohn and Dow), and auto suppliers (Guardsman and Donnelly) have provided the diversity to make cities like Kalamazoo and Grand Rapids among the fastest growing metropolitan areas in the state, while the city of Detroit struggles with a shrinking job base, declining population, and a host of urban problems.

While the recession was not easy for the District economy, employment data seem to suggest that the District has fared far better in the most recent recession than in previous ones—both in comparison to the national experience and to its own past.

Payroll employment data indicate that District employment fell at about the same rate as that for the nation during the recession and has recovered at a slightly faster pace since the beginning of the employment recovery in April 1991. Household employment data show a stronger recovery in Illinois and Michigan, with current levels in both states exceeding previous peaks (while payroll employment data for these states are still well below their previous peak levels). Since unemployment data are derived from the household survey, unemployment rates for the District states have been showing substantial improvement relative to the national experience in recent months. For example, Illinois's unemployment rate of 6.5 percent in January of 1993 marked the longest period of time (six months) that the state had been below the

nation's unemployment rate in fourteen years, before jumping up to 7.9 percent in February. Michigan's unemployment rate was 6.8 percent in February of this year.

RESTRUCTURING PROGRESS

Productivity and Competitiveness

Despite the hardships of the recessions in the early 1980s, Seventh District manufacturers maintained a strong commitment to modernization. Indeed, despite a shrinking manufacturing sector, District manufacturers invested on average 5 percent to 10 percent more per production worker annually than the nation since 1984. Investment lagged only during recession years and during the rest of the years of recovery when the high value of the dollar severely depressed export demand for manufactured goods in the Midwest. In the District in the second half of the 1980s the combination of closing inefficient plants and investing in new or existing plants began to show dramatic gains in productivity. For example, estimates based on the relative improvement in District manufacturing output using pre-1985 technology with post-1985 technology suggest efficiency in the District improved about 20 percent more than for the rest of the nation.

Once the exchange value of the dollar began to fall in the mid- to late-1980s, the revitalized manufacturers in the District began to regain market share lost in the 1970s and early 1980s. The 1990–91 recession, in some sense, became a testing ground for the ability of District manufacturers to sustain their competitive edge in an environment that required many to produce well below their most profitable operating rates. Typically, the District economy had been hard hit by national recessions, with employment tending to decline by as much as twice the national rate. If manufacturers in the District were truly becoming more competitive, one would expect that they would weather the recessionary storm more easily than in the past.

While the nation lost more than 2 million jobs in the 1990–91 recession (about the same as in the 1980–82 period), the District lost only about 300,000 jobs. Since the onset of recovery, the nation has recorded an increase of slightly more than 500,000 payroll jobs, an increase of about 0.5 percent from the recession's trough. The District has increased employment about 130,000, or about 0.8 percent from its trough. In other words, the District has fared somewhat better than the nation throughout the recession and recovery period, in marked contrast to its more typical pattern of deep recession and partial recovery.

Real estate activity in the District has been less adversely affected than in much of the rest of the nation. This difference can be explained by the District's relatively stronger economy in recent years than that in other parts of the nation and by the relative lack of speculative excesses in the 1980s. Still, vacancy rates of commercial buildings in the major metropolitan areas of the District have been rising in recent years and in some cases are higher than in the nation as a whole. For example, downtown office vacancy rates in both Detroit and Chicago have generally been below national rates for many years. Chicago's office vacancy rate rose to 17.7 percent in the third quarter of 1992, virtually equal to the nation, but much of that increase was due to recent completion of major office construction projects at a time when the commercial real estate market was weak. Indianapolis has consistently had vacancy rates above the national average, but this may reflect in part the fact that Indianapolis has had a rapidly growing commercial sector. Rapid expansion of office space may have fueled building activity in anticipation of future needs, which may not have been unrealistic given Indianapolis' growth in the 1980s. In contrast, Detroit's low office vacancy rate reflects very little office construction for many years.

Residential real estate activity in the Seventh District has been another strong point in the comparisons with the nation. By almost any measure—housing starts, new home sales, or existing home sales—the District has been outperforming the national housing market in the early 1990s. For example, housing starts for single-family homes in the Midwest portion of the nation rose 25 percent in 1992, compared with 20 percent in the nation as a whole, and the region has returned to previous peak levels of activity in 1986 while the nation is still about 33 percent below 1986 levels. The reasons for this are similar to the relative strength in commercial activity. The District has experienced slow but steady income growth, and housing values have been in line with this growth. As a result, the District has avoided the speculative overbuilding that has been haunting the eastern and western coasts. Indeed, the District generally can be characterized as having some of the most affordable housing in the nation. When the housing market nationally was depressed in 1990 and 1991, District homeowners did not experience the decline in home values that occurred in other regions and in many cases were able to enjoy some of the highest appreciation of housing stock in the nation during the recent economic recovery.

Industrial Restructuring

A close look behind the progress reveals the fact that the challenges facing the District economy remain

formidable. The region's firms have begun to restructure in such a way as to be globally competitive. But this process goes hand in hand with massive and geographically concentrated layoffs of the region's residents. For example, in recent years, restructuring announcements in the auto industry are perhaps the most traumatic. GM's restructuring plans call for closing up to twenty-eight assembly and parts plants, many of which are expected to be in the Midwest, and to reduce its work force by roughly 85,000 white- and blue-collar workers, with most of the white-collar job losses concentrated in Michigan. According to recent estimates, the need for the restructuring can be seen from production cost comparisons between one or more domestic producers with low-cost Japanese producers. The estimates show that cost differentials with low-cost Japanese producers on small cars (assuming full capacity) may have fallen from more than $2,000 in 1982 to less than $500 in 1991.

How have the District's key manufacturing industries fared during this recovery? The auto industry has been improving since mid-1992, leading industrial production both in the nation and the District. If recently announced production plans hold, autos will continue to boost the District economy. Steel is another industry that has been improving recently, even though profitability has been elusive. Recent adjustments in trade restriction are likely to provide a significant boost to District steel production in 1993. Finally, demand for machine tools is being sustained by the need for the auto industry to keep pace with model changes of imports and transplants and by the need for manufacturers to reduce cost and improve quality. Plans for equipment spending appear to be strong and should be a key source of strength in the District's economy in 1993.

Exports have always been an important component of the District's economy, one that has been increasing over time but which was undermined in the mid-1980s, when the dollar's exchange rate was high. Currently, manufactured exports from the District amount to about 12 percent (or $49 billion) of the nation's total. A primary strength in exports has come from capital equipment (particularly industrial and electrical equipment) and scientific instruments. Growth in foreign demand for products of these industries during 1991–92 has helped hold up the District economy in an otherwise sagging export market. In Wisconsin, for example, nonelectrical machinery (mostly machine tools) grew at an average annual rate of nearly 20 percent between 1987 and 1991, before slowing to only 1 percent in 1991 as global markets weakened. Chemical and transportation equipment industries have also been important in the export mix but have been harder hit by the recent slowdown in export growth (in part because of slower economic growth overseas).

Because of the relative importance of this latter group to total District exports, and because of the special role of trade between Canada and Michigan, the District's overall export growth has been held back in recent years. For example, after outpacing the nation in 1990 by a substantial margin, District exports of manufactured goods expanded 8 percent in 1991 and 6 percent in 1992, while nationally exports increased 12 percent and 8 percent. However, if Michigan is excluded (high volume trade occurs between Michigan and Canada and, unless the auto industry is directly involved, Michigan's volume does not respond to changes in overseas demand), the comparisons look a little better, with District exports outpacing the nation in 1992 by roughly 2 percentage points.

External and global swings in the marketplace, such as those influencing current demand for capital machinery and equipment will continue to lie beyond the influence of either local policymakers, or national policymakers for that matter. And because the industries involved are often those who are large employers at individual locations, the local effects will be severe for those regions affected.

Agricultural Restructuring

The late 1980s brought substantial recovery to the farm sector. Farm earnings improved considerably as rebounding exports and altered farm support programs trimmed the burdensome crop supplies of the mid-1980s. The improved returns caused farm asset values to turn upward. The downturn in farm debt that started in 1984 continued through 1990, further strengthening the farm sector balance sheet. Various measures of the quality of farm debt have improved substantially from the distressed levels of the mid-1980s and are more in line with the levels that prevailed before the excesses of the 1970s. Accordingly, the performance of commercial farm lenders has rebounded sharply.

While the financial condition of the farm sector today is vastly improved from that of the mid-1980s, it exhibits a cautious demeanor in spending and continues to go through considerable restructuring to achieve greater production efficiencies. Reflecting the cautious attitudes of farmers, capital expenditures in the farm sector declined for the second consecutive year in 1992 and, at $11.2 billion, were well below the levels of most years over the past two decades. And despite the relatively strong returns to assets in recent years, the bidding in farmland transactions has been lackluster. As a result, the trend in farmland values is only modestly upward in nominal dollar terms and flat to slightly downward in real terms.

The restructuring that still characterizes the farm sector here and elsewhere is reflected in the continuing decline in the number of farms. During the 1950s and the 1960s, farm numbers declined at an annual rate of 3 percent. The rate of decline slowed considerably during the "boom" times of the 1970s and from 1978 to 1981 farm numbers actually stabilized. But the downtrend has resumed since then, with the annual rate of decline over the last eleven years approximating 1.5 percent.

The decline in farm numbers has been especially apparent among pork producers, a commodity of particular importance in states comprising the Seventh Federal Reserve District. The 1987 Census of Agriculture found that the number of farms with hogs was down 45 percent from nine years earlier nationwide and down 37 percent in District states. (During the same time period, the decline in all farm numbers was closer to one-tenth). Updated information shows that the number of operations with hogs has declined an additional 25 percent nationwide since 1987 and about 14 percent in District states.

Several factors are behind the restructuring that continues to result in shrinking farm numbers and a greater degree of commodity specialization among those that remain. But a major factor reflects the need to achieve scale economies to reduce production costs per unit of output. With the increasing globalization of agricultural markets and the likelihood of a further downscaling of federal government farm income and price support programs, the focus on achieving scale economies will no doubt continue in the future. These restructurings that enhance the production efficiency of U.S. agriculture may need to be complemented with redefined rural development and infrastructure investment policies that, among other things, help to retrain displaced farmers and provide better job opportunities for all rural residents. Research on relocation of manufacturing activity shows that a number of nonmetropolitan counties in our District are achieving growth in manufacturing employment. But many of these fortunate counties either border metropolitan areas or enjoy the transportation advantages of an interstate highway. Many other rural counties could benefit from efforts to retrain workers and expand off-farm job opportunities.

The farm sector restructuring has parallel trends among agribusiness firms that process and distribute agricultural commodities or manufacture the inputs used by farmers. Consolidation has been vividly evident in recent years in the number of meat packers and processors. Moreover, the emphasis on specialization has led to a geographical shift of beef processors out of the Midwest into more western states. Reflecting this, the share of cattle processed by packing firms in the five states of the Seventh Federal Reserve District has declined from 23 percent to 14 percent over the past two decades. This loss has been only partially offset by the growing share—from 44 percent to 50 percent—of the nation's hogs that are processed by commercial packers in District states.

Mergers and acquisitions have also been widespread in the fertilizer, pesticide, seed, and farm machinery and equipment industries in recent years. The consolidation of the farm machinery and equipment industry has had a sizable repercussion on the states of the Seventh Federal Reserve District. As purchases of farm machinery and equipment retreated during the "credit crises" of the 1980s, U.S. payroll employment among farm machinery and equipment manufacturers retreated from a peak of 159,000 in 1979 to a low of 65,000 in 1986. The trend since then has been mixed; recovering to about 79,000 in 1990 and then retreating to just over 70,000 last year as the cautious spending patterns of farmers triggered another slump in sales. The consolidation suggested by these employment numbers for farm equipment manufacturers was no doubt just as extensive in the number of dealerships and the network of suppliers, distributors, and haulers that support the farm equipment industry.

Confronting the Challenges

After periods of economic shocks, a region's indigenous institutions, including its financial lenders and state and local governments, must take up the challenges of redevelopment and rebuilding. However, during such times, their resources are often stretched thin.

State and Local Government

In the 1990s the District's state and local governments are being forced to make structural changes to their revenue systems and cuts in their service programs rather than relying on the usual temporary budget maneuvers that are typical of cyclical downturns. Despite profound shocks to its economy during the 1980s, Seventh District governments largely avoided structural changes to revenue systems and services. Following the weak 1980–82 period, District governments were able to restore fiscal solvency and repeal the temporary surcharges that they had imposed to shore up deficit positions. Today, however, the tepid pace of economic growth, coupled with overlying pressures from Medicaid and federal mandates, have pushed state and local governments to enact tax hikes and service cuts during the aftermath of the 1990–91

recession. This pressure has left fewer resources to assist the region in reinvestment and redevelopment.

The 1980s

The back-to-back recessions of 1980 and 1981–82 were particularly hard on the Seventh District as illustrated by a nearly 25 percent drop in Seventh District manufacturing employment from the peak in the first quarter of 1980 to the trough of the second recession in the third quarter of 1982. At the same time and for several years thereafter, the agriculture sector was plagued by several droughts, debt carryover from the 1970s, and a rising value of the dollar.

The decline in these two key industry sectors had a strong effect on the District's state and local fiscal health. Still District governments managed to weather the short-lived 1980 recession without having to turn to major tax increases; they did so by drawing down relatively healthy fund balances. The recession of 1981–82 proved harder to absorb. Still, District states managed to forestall major spending cuts and tax hikes, at least up until the second half of fiscal year 1983. At that time, deficits were so severe, and further public service cuts so intolerable, that all of the five states took the unpopular measure of increasing either income or sales tax rates or both. Nonetheless, the income tax changes came primarily in the form of surtaxes that were repealed or expired when recovery set in. For example, the long-awaited snapback in consumer spending lifted the Michigan economy in 1983 and 1984, enabling Michigan to cut a temporary income tax rate hike from 6.35 percent to 5.35 percent by fall 1984. State and local balance sheets were replenished so that fiscal conditions in all five states were fairly strong by the first quarter of 1985.

Relative to East and West Coast states, Seventh District states tended to increase expenditures at a slower rate during this period. Also, District states used this period of improved conditions to bolster their fiscal structure against future downturns. Michigan pioneered the creation of a budget stabilization fund, and other District states began using a series of techniques all designed to put structures in place to cushion government from future economic downturns.

The 1990s

Fiscal prudence has generally allowed the Seventh District states to avoid the high degree of fiscal adjustment that has characterized the New England states and California; however, it has not left the states insulated from the fiscal stresses that now have an estimated twenty-two states running structural deficits.

As both self-initiated programs and federally mandated programs have grown, state revenue growth has been unable to keep up. Mandated prison sentences are swelling corrections expenditures as prisons must be constructed to house the swelling inmate population. Medicaid, which requires states to match federal contributions, has also been exploding in terms of costs as the scope of services covered by Medicaid have been regularly expanded and the eligible population has grown. These costs have shown little prospect of abating.

Meanwhile the potential for huge additional costs to be added through more stringent environmental compliance standards looms in the future. Additionally, unlike the early 1980s, *the cyclical strategy of using surtaxes to cover budget problems in downturns may need to be abandoned this time*. Illinois, for example, has extended its income tax surcharge through June of 1993 and is now considering making it permanent and dedicating the proceeds to state government or to local education rather than sharing the receipts with municipalities. Michigan voters have recently rejected a proposal for local property tax relief in the belief that the state would not have the resources to make up for the accompanying revenue shortfalls.

State and local governments have also made painful expenditure cuts. The structural nature of the adjustments now under way in District states is also illustrated by the fundamental service programs that have been the target of cuts. Deep cuts have been made in popular programs such as general assistance, higher education, and economic development. For example, among the first programs to fall under the budget axe in Michigan was the state's General Assistance program, where 90,000 "able-bodied" recipients were cut from the rolls. Similarly, state universities throughout the Seventh District have seen only small increases in their budgets. From fiscal year 1991 to fiscal year 1993, the average annual increase in higher education appropriations ranged from a high of 3.5 percent in Wisconsin, to a decline of -0.5 percent in Illinois.

So far this year higher education expenditures in Illinois are down 3 percent through the first half of fiscal year 1993. At the same time, public universities have had to raise tuition so as to limit the magnitude of budget cuts. Similarly, economic development departments in Illinois and Michigan have been drastically cut. The state-funded portion of the Illinois Department of Commerce and Community Affairs had its budget cut nearly 80 percent between fiscal year 1991 and fiscal year 1993. Michigan's Department of Commerce saw a 70 percent budget reduction over the same period.

Because of the uncontrolled growth in Medicaid and corrections spending, these programs have had to

absorb greater reductions than would have been the case in previous downturns.

At the present time, state governments have little room to maneuver. Both Illinois and Michigan have exhausted their budget reserves and have exhausted the usual list of fiscal measures tried by the states to avoid making more sweeping structural adjustments to their budgets. Faced with a backlog of bills, both states will still be in difficult shape even with a sustained recovery. For example, in fiscal year 1992 Michigan used $150 million from its budget stabilization fund, leaving a balance of only $22 million. Even so, to balance its books, the state had to accrue certain taxes and delay school aid and revenue sharing payments to municipalities. In the coming year, without a budget reserve and having exhausted other fiscal maneuvers, the state will have to make structural changes in expenditures or revenues to cope with additional fiscal stresses. In Indiana, Iowa, and Wisconsin potential fiscal maneuvers are also becoming limited. To keep fiscally healthy, Indiana has been forced to use more of its budget reserve than it would prefer. Wisconsin, whose relatively strong economy has made it better situated than most states, has still relied on the active use of Governor Thompson's veto and has shifted some responsibilities to the local level. Wisconsin's revenue department has been looking at the expanded use of local sales taxes in the state and the possibility of enabling a local option income tax. In Iowa, two very austere budgets in 1990–91 and 1991–92, accompanied by employee reductions and some limited tax increases, have enabled the state to cobble together a precariously balanced budget, but the state has no real reserves left to meet any unforeseen downturns.

Pressures on state government have spilled over and have been passed along to local governments. Despite the fact that property taxes are among the most unpopular of all state and local revenue sources, the Seventh District tax structure is already more reliant on property taxes than is the case nationally.

All of the District states, except for Indiana, rely on property taxes for a larger share of the state and local revenue mix than is the case nationally. As a result, efforts to mitigate future increases in property taxes have been proposed or enacted including property tax caps in Illinois and Wisconsin. This past autumn, Michigan failed to pass the "cut and cap" proposal on the ballot when voters appeared to believe that it was unrealistic to expect state reimbursement for lost property tax revenues. In fact, voters were probably correct in their assessment; state governments have already passed along their own fiscal pressures to local governments by delaying or trimming school and municipal aid payments. Such efforts to push programs down to municipalities or to reduce state aid to towns will further strain the property tax base and impede efforts to reduce reliance on the property tax base.

Compounding the strain on the property tax base is the slow growth in assessed values. More conservative property revaluations and a lack of new construction are limiting the automatic growth in local revenues, which towns became accustomed to during the latter 1980s. With a distinct possibility that some state responsibilities may be shifted to local governments, proposals will probably emerge to permit towns to impose new types of taxes to diversify their revenue base and to avoid even greater reliance on property taxes.

Rising Medicaid and health care costs will continue to pressure the state and local sector even if the current economic expansion accelerates. *These costs have provided the most powerful and persistent fiscal strain on state governments.* What in 1980 consumed 6 percent of state budgets is being projected to consume 28 percent by 1995. The growth rate for Medicaid expenditures is running at nearly four times that of revenues. Each year the states have underforecast the rate of growth in this budget area. As states have had to provide supplemental funds to cover unanticipated Medicaid expenses, other budget areas have been squeezed. For example, two District states, Wisconsin and Indiana, had to supplement their fiscal year 1992 Medicaid budgets by $67 million and $42 million respectively. These increases represented supplements of more than 40 percent over the original Medicaid budgets in these states. Some pressure has been eased by the enactment of Medicaid provider taxes in Illinois, Michigan, and Wisconsin. These taxes force providers to pay tax on the proceeds they receive from providing Medicaid services and in most cases have the side effect of increasing the federal contribution to state Medicaid programs. In Illinois, Medicaid expenditures twenty years ago were half of state spending on primary and secondary education. Today it slightly exceeds that spending.

Concerns for the Future

Longer term, there will be continuing pressures for increased expenditures on education, infrastructure, and the environment. These three areas will demand more government resources in the future. In the case of education, the District states' reliance on property taxes to fund elementary and secondary education presents two problems. First, property tax revenues over the near term are unlikely to grow very fast because of a lack of expansion in the property tax base. Unless new efficiencies in providing education are miraculously found and implemented, property tax

rates will be pressured upward. Given the taxpayer sentiment against the property tax increases and the popularity of tax caps in states such as Illinois, the ability of this tax source to fund the larger educational expenditures, which will be needed with a growing school population, will be strained. Second, the reliance on the property tax also creates funding inequalities between school districts. District states have so far been able to avoid judicial challenges that would compel an equalization scheme. However, in last fall's election, an Illinois referendum that would have required that the state pay "the majority" of school funding was narrowly defeated despite receiving better than 57 percent of the vote; 60 percent was required. Moreover, court challenges will continue. The success of any of these initiatives would be severe. To make equalization schemes at all acceptable to the public, spending will need to be "leveled up," thereby sharply raising overall revenue requirements.

Infrastructure investments are also being called for, mostly in the form of repair and replacement of existing structures. For example, one-third of Chicago's sewer system is more than eighty years old. Given that the sewer system was designed to have a total life expectancy averaging ninety years, it is clear that significant outlays will need to be made in the coming years. Other basic infrastructure, such as roads and bridges, are also in need of attention. Because the District states do not carry heavy levels of indebtedness (measures of both bonded debt per capita and per $1,000 of personal income are low in all District states), states would ordinarily be in relatively good shape to issue debt in the form of bonds. However, the weak rates of revenue growth will make it costly to issue additional debt because it is uncertain as to whether future revenues will be sufficient to service the debt.

Environmental concerns have been added to the list of long-run concerns. Both states and municipalities face staggering costs in implementing the environmental standards included in programs such as the Clean Air Act Amendments of 1990. A detailed study by the city of Columbus, Ohio, estimated that the city will need slightly more than $1 billion to comply with twenty-two state and federal environmental mandates over the next ten years. The magnitude of that expenditure is best illustrated by the fact that the total city budget in 1991 was $591 million. Similar compliance costs can be expected at both the state and local level in Seventh District states where the industrial and agricultural heritage of the region will make environmental compliance costs steep. At the state level the combination of Medicaid and health care costs and environmental compliance costs has the potential of consuming the bulk of state budgets. At the local level, education expenditures (when coupled with these environmental compliance costs) will have the same effect—limiting the other program options of government.

There are also concerns that the pension systems of many public employees may be underfunded. Three of the District's five state employee pension funds are severely underfunded, and this has the potential of making worrisome claims on future revenues. Michigan's state pension fund has contributions equal to 66 percent of future liabilities, while Illinois and Indiana have funding levels of 64 percent and 58 percent respectively. These states can use a "pay as you go" strategy to avoid having to make any drastic short-term adjustments in their levels of contributions. However, such a policy has two negative repercussions. In the near term, states have been increasing their immediate pension liabilities and outlays through early retirement programs aimed at saving overall personnel costs. But this policy puts immediate strains on current operating solvency. Second, state bond ratings can be unfavorably affected by pay-as-you-go pension funding, thereby raising borrowing costs because underfunded pensions are usually viewed by agencies as an indicator of fiscal stress.

Recap

Because of both its own fiscal prudence during the troubled 1980s and to the more favorable regional conditions currently prevailing in many parts of the District, state and local governments have passed through these troubled times in better shape than many other regions. Nonetheless, District governments are as widely diverse as the District's economy. For example, state government in Michigan and many of its local governments, in particular, are susceptible to the upheavals in the economic base that accompany plant closings and mass layoffs in the auto industry. Moreover, District governments in general are far from insulated from the pressures common to the entire state and local sector nationally: rising Medicaid and prison expenditures, federal mandates such as compliance with environmental regulation, and slowly growing revenues. As a result, structural changes and fiscal crisis are evident throughout our District for many governments that have made painful cuts in public services and that have raised tax rates or extended tax surcharges.

Financial Developments in the Seventh Federal Reserve District

Although the Seventh District did not escape unscathed the financial trauma that has afflicted the rest

of the nation since the early 1980s, it has suffered less than most other regions. Neither the number of failing banks nor their assets have been as large, relative to District totals, as in most other areas of the country. For the entire Seventh District, only 72, or 2.6 percent, of District banks failed between 1982 and 1992, as opposed to 9.7 percent of the banks for the country as a whole. The annual number of failures in the District peaked at 14 in 1985, well before the 1989 peak of 206 failures for the entire United States. In large part, the difference in timing of the District's banking problems relative to the rest of the country reflected some previously noted characteristics of the behavior of the broader economy. One was the fact, discussed in some detail above, that the District economy was hit extremely hard by the 1981–82 downturn relative to other regions of the country. District banking, in turn, was strongly affected by the collapse in land prices and agricultural loan quality problems that accompanied the disinflationary period that followed. In more recent years, in contrast, the District was largely spared the problems experienced by the Southwest associated with the sharp fall in oil prices beginning in 1986, and the 1990–91 recession was not as severe in the District as elsewhere. However, we also like to think that the lower failure rate in the District over the entire decade had something to do with the diligence, conservative loan evaluations, and prompt supervisory intervention that have characterized our field examiners and supervisors.

District banks continue to show improving earnings and capital. In 1992, the average return on equity for commercial banks in the Seventh District was 11.6 percent, up slightly from 11.3 percent in 1991 but slightly below the national average of 12.1 percent, while the average return on assets was 0.90 percent, up from 0.83 percent in 1991 but also slightly below the national average of 0.91. While the return on assets of District banks with assets of less than $1 billion rose sharply to 1.17 percent in 1992 from 0.98 in 1991, that of District banks with assets of more than $1 billion slipped slightly to 0.66 percent from 0.67 percent in the previous year and remains well below what traditionally have been considered "normal" levels; the same pattern holds for return on equity. The improving health of District banks was further attested by the fact that there has been a 70 percent decline in the number of lower-rated banks in the District since the end of 1986.

Beset by the erosion of capital by loan losses of the past decade and new regulatory pressures to increase capital, District banks strived to increase their capital ratios in several ways. They have added to retained earnings by restricting dividends and have gone to market with new issues of equity and subordinated debt. To some degree they have adjusted to the tighter capital constraints by cutting lending and asset growth. The net effect of these adjustments was that capital ratios rose for nearly all District banks, with the average equity capital-to-assets ratio averaging 7.8 percent as of the end of 1992.

A key factor in the improving condition of banks in the District has been the gradual winding down of their asset quality problems. Nonperforming loans were down from 2.1 percent of total loans in the fourth quarter of 1991 to 1.7 percent of total loans as of the fourth quarter of 1992, reflecting the improving economic conditions and further chargeoffs of the worst loans. An equally encouraging sign was the sharp increase in loan-loss reserve coverage at year-end 1992 to 105 percent of nonperforming loans, up from 96 percent in the preceding quarter and from 88 percent at year-end 1991. In view of the fact that this coverage ratio has averaged just over 100 percent for District banks in the past, its current level suggests that most of the negative effects on bank capital of facing up to probable loan losses are behind us and will no longer constitute a drag on new lending.

The ongoing process of consolidation that has characterized our region over the past two decades has allowed Seventh District banks to become more diversified, in turn, increasing their safety and soundness. This process was given added impetus by the decision of District states to open themselves to regional and nationwide banking. This process is dramatically altering the banking structures of states in the District, which for many decades had some of the most restrictive branching and holding company laws in the nation. Because of the asset quality and earnings problems encountered by some of the money center and other larger banks in the Seventh District's major financial centers in the mid-1980s, those banks have not been in a position to take the initiative in geographical expansion and acquisition activity. Consequently, the vacuum has been filled by large regional banks headquartered outside Chicago and, in some cases, outside the District.

Thrift institutions in the Midwest are also showing improvement but from a much lower base. Because of their institutional design, thrift institutions were, of course, much more vulnerable to the unprecedented increases in interest rates at the beginning of the 1980s than commercial banks. Of the District states, only Illinois had a serious thrift problem, ranking fourth in the number (forty-seven) of thrift institutions resolved by the Resolution Trust Corporation between its establishment in 1989 and year-end 1992 and eighth in terms of the total assets of resolved institutions ($7.7 billion). Although most of the terminally ill thrift institutions in the Midwest have now been placed in

receivership, a formidable cleanup operation is still in progress. Only four savings and loan associations in the District remain in the conservatorship program, and there are eight undercapitalized savings and loans rated MACRO 5 that are candidates for conservatorship.

It should not be assumed that the health of depository institutions in the Seventh District has been fully restored or that there is no possibility of further setbacks. There is still general weakness in commercial real estate lending, reflecting the high vacancy rates and reduced building activity that constitute the hangover from the binge of the late 1980s. However, because overbuilding in the 1980s never reached the fever pitch in the District that it did in the Southwest and New England, the correction has so far been much more moderate. But while the vacancy rate in Chicago remained lower throughout the mid-to-late 1980s than in the nation, it has risen sharply over the past three years as more space has come on the market—just as Sears was relocating to the suburbs.

Credit Availability

During the past three years, credit availability remained better in the Midwest than in many other parts of the country. This was largely the result of the relatively healthy condition of the District's banking organizations. This health not only meant that fewer banks were forced to reduce their lending, but it also eased the adjustment for borrowers at banks that were facing capital and asset quality problems. Indeed, several of the better capitalized banks in the Seventh District actively sought to bid away creditworthy customers from the District's weaker banks.

In addition, the few midwestern banks that experienced significant asset quality problems had loans outstanding to borrowers throughout the country. This diversification had two consequences. First, the fate of our troubled banks was generally tied to the prospects for the national economy, not the fortunes of a single region, as was the case in New England. Second, in contrast to New England, the disruptions created by the retrenchment of the troubled banks in our District were spread across the entire country rather than being concentrated on borrowers in the District.

But while the District's banking system remained relatively healthy, midwestern borrowers could not completely escape the changes sweeping through U.S. credit markets. The net effect of these changes has been to make bank lending more profitable, ending a long-standing but unsustainable deterioration in the compensation banks receive for bearing risk. Because the new pricing structure reflects these risks more accurately, the ultimate result will be a safer and more effective financial system. The banking industry's transition toward this new, more realistic pricing structure began to be apparent in spring 1990, accelerated dramatically during late 1990 and early 1991, and was completed by 1992. Several forces, including changes in bank regulation, drove the restructuring. However, the three most important forces pushing the industry down the road to restructuring were the perceived increase in the risk of the industry's loan portfolio, the concomitant increase in industry losses, and the growing realization that lending could not be profitable without substantially wider spreads.

As was the case across the nation, District banks responded to these forces by reducing their exposure to their largest borrowers and tightening the pricing of loans and loan commitments to nearly every type of borrower. Whether poorly capitalized or well-capitalized, large or small, urban or rural, virtually every bank in the Seventh District participated in the shift to a new, more realistic pricing structure for bank loans. The upshot has been a slowdown in the growth of assets held by District banks from 3 percent in 1990 to 1 percent in 1992.

The restructuring of credit markets during 1990 and 1991 was inevitable and, on balance, desirable. Nevertheless, because policymakers did have several tools at their disposal to ease the transition process, the Federal Reserve was continually checking for signs that tight credit was creating significant barriers to the growth of businesses, either in the District or nationally. However, our contacts with District businesses and banks suggested that, outside the real estate sector, District borrowers were still able to obtain credit, albeit at a higher price. Indeed, the primary concern of most of the businesses we contacted was neither the availability nor the price of credit; it was the economy's sluggish performance.

At recent meetings of our Small Business and Agricultural Advisory Councils, we have again carefully reviewed the question of credit availability with the council members. The view continues to be that banks have become much more careful in the loan extension process; credit standards have been raised, documentation requirements have been made more demanding, and as noted above, spreads and fees have risen. However, our council members almost universally felt that adequate credit was generally available.

On the other hand, many council members were concerned that environmental regulations are making certain types of transactions unbankable. Leery of the potential liability, some banks are shying away from a credit whenever an environmental issue is even a remote possibility. Those banks that are willing to proceed are very demanding in their requirements for complete but costly environmental studies. Both our

Agricultural and Small Business Advisory Councils feel strongly that this environmental matter is significantly impeding the extension of credit to these key sectors of our District's economy.

From the perspective of the District's banks, the restructuring of credit markets is now largely complete. Credit terms have ceased to tighten, asset quality is on the rebound, and most District banking organizations have now built up a sufficient cushion of excess capital that they can focus more of their attention exclusively on the business of lending. However, this does not mean that District banks will soon again begin growing at 7 percent or 8 percent a year. In all likelihood, District borrowers are still adjusting to this new more realistic pricing structure. As these borrowers find additional ways to economize on bank credit, their borrowing needs will decrease. This process will be accelerated by the fact that many businesses are carrying debt burdens that are inappropriately high for such a competitive and volatile economic environment. Until District businesses have fully adjusted to the new credit market realities, we will continue to see relatively modest rates of growth at District banks.

Current Conditions

Entering 1993—A Current Assessment

The same challenges and opportunities that have transformed the District's economy over the past fifteen to twenty years can be seen shaping its economic performance today. To be sure, the District's economy is still doing better relative to the nation in many sectors, but competitive pressures are continuing to force change. Moreover, the pace of our recovery is lackluster by past standards and concerns of sustainability remain as much an issue for the District as for the nation.

Agriculture

The 1992 crop season was characterized by a record harvest nationwide despite some of the most unusual weather patterns in memory. In our District, record-breaking outcomes in Illinois, Indiana, and Iowa pushed the five-state corn and soybean harvest about 28 percent above the low year-earlier level and 8 percent above the previous high set in 1985. But the overall abundance was countered in many areas of the District—especially in Michigan and Wisconsin—by several problems that resulted in a very difficult harvest. Cool temperatures during the growing season, an early frost, and a rainy fall season led to a late harvest, costly drying charges, and extensive quality discounts on much of the corn harvested in the northern portions of our District.

The price implications of the larger harvest will be only partially cushioned by increased consumption. Domestic consumption of both corn and soybeans will likely register further growth during the current marketing year. But compared with the 20 percent decline in the combined tonnage of corn, soybeans, and soybean meal shipments abroad the past two years, export prospects for the District's crop farmers have improved only marginally this year. This partially reflects the delinquencies that have led to a suspension since late November in new government credit guarantees to finance shipments to Russia. It also reflects the evidence that the crops now growing in the Southern Hemisphere could produce a banner harvest and add further to available world supplies.

It now seems clear that the record 1992 crop harvest will contribute to a large buildup in carryover stocks. As such, prices of major Seventh District crops have hovered at fairly low levels. In particular, corn prices since last September have averaged just over $2 a bushel, down nearly one-fifth from a year ago and the lowest in nearly five years. The lower prices will likely outweigh an increase in government payments and lead to a decline in earnings of District crop farmers this year. This will be particularly true for those hit hardest by the harvesting problems of last fall.

The District's livestock and dairy farmers are also experiencing lower prices from expanding production. The current cyclical upswing among hog farmers has been under way since the fall of 1990. Per capita pork production rose 7 percent last year and reached the highest level since 1981. The latest U.S. Department of Agriculture estimates show hog numbers nationwide are up 4 percent, assuring continued growth in pork production well into this year. The inventory estimates for Iowa—by far the largest pork producing state—show a rise of 8 percent. Among the other District states, hog numbers are little changed from a year ago.

The implications of the expanded production on livestock prices have been partially cushioned by the improving trends in U.S. meat trade. U.S. pork exports have grown rapidly in recent years while pork imports have declined. Nevertheless, hog prices for all of 1992 averaged about 14 percent less than the year before, and further slight declines are expected for this year. Prices for many hog farmers may fall below the cost of production. However, the more efficient producers will likely experience smaller but positive operating returns.

The District's dairy farmers have witnessed quite volatile markets in recent years. Last year, milk production expanded a little more than 2 percent. Al-

though averaging 7 percent higher for all of last year, milk prices weakened considerably during the latter half of 1992. Prices are expected to lag year-earlier levels for much of 1993 until production is pulled into better balance with market needs. Earnings of dairy farmers could turn down this year, reversing some of the gains of last year.

The agricultural sector continues to operate with a vivid awareness of the devastating setbacks suffered by farmers and agribusiness firms as the "agricultural credit crises" of the 1980s washed out the excesses during the "boom" of the 1970s. The subsequent improvement in farm earnings and in the level and quality of farm debt has been substantial, placing the industry on much more solid footings for the 1990s. Yet the actions of farmers and agribusiness firms reveal a mood of uncertainty and caution. This mood is tied, in part, to the painful memories of the 1980s. It also reflects the continuing focus on trimming the federal budget deficit and the implications for the safety net provided in farm income and price support programs. The cautious mood of farmers is also related to concerns about the longer-run prospects for export markets that are vital to U.S. agriculture. These concerns mostly center on the General Agreement on Tariffs and Trade and North American Free Trade Agreement negotiations and the changing economies of Eastern Europe and the former Union of Soviet Socialist Republics.

The near-term prospects for Midwest farmers are somewhat mixed. A record crop harvest last fall and the ongoing expansion among livestock producers will continue to weigh heavily on prices of major Midwest farm commodities. Conversely, an expanded volume of crop and livestock marketings and a sizable increase in government payments to crop producers will hold gross farm earnings close to last year's relatively high level. Farm production costs will likely be flat again this year due to moderating pressures on input prices and a slight decline in crop acreage.

Industry

The District's economy in January and February of this year has been leading the nation in many key sectors, particularly manufacturing, retail trade, and housing activity. For example, the recent gains in District manufacturing have been broad based, with producers of steel, appliances, autos, and heavy-duty trucks all reporting improvements as they enter 1993. Appliance producers, in fact, reported a surge in production at the end of 1992, in part linked to improving housing demand but also to an effort by dealers to stock up on 1992 models before new energy efficiency standards take effect on newer models. Steel producers are booking orders as far as two quarters ahead because of the desire of some customers to ensure deliveries. However, profit margins are depressed, and one producer has scheduled two price increases on cold rolled steel for the first half of 1993 in hopes of raising the price of a ton of steel above costs. Class 8 heavy-duty truck producers report that public freight carriers have been ordering trucks in large quantities since July 1992, with the current order intake rate running at an impressive 180,000 units annually, triggered in part by pent-up demand but also by higher fuel-efficiency standards on new models. Sales of Class 8 trucks in 1992 were up sharply (20 percent) from a year earlier but only reached 119,000 units, a good improvement from last year but still well under peak levels of former years. One producer is expecting sales to reach as high as 160,000 units in 1993, which would be near the previous peak level in 1988.

Still, a key reason for the strength in manufacturing activity has been the increase in car and light truck assembly in the fourth quarter of 1992 and first quarter of 1993. If assembly plans hold for the remainder of the first quarter, the auto industry will have its highest (seasonally adjusted) quarter of assemblies in four years, benefiting not only District assembly plants but also the steel, fabricating, and auto-supplier industries located in the District.

The competitive strength and diversity of District producers among sectors that are doing relatively well is reflected not only in our direct talks with producers but also in surveys that provide a broader scope to our District coverage. For example, purchasing managers' surveys from around the District are providing a direct confirmation of what corporate executives are reporting. The production components of purchasing managers' surveys from around the District, including Detroit, indicate moderately expanding production activity in early 1993. In fact, the production component of the Chicago survey reached its highest level since 1988. This continuing strength in the auto and other manufacturing industries should help sustain the District's relatively favorable showing for retail sales and employment in recent months.

Reports on District retail sales in January and February are indicating continued strength in spending after the strong Christmas selling season last year. For example, a large department store in the District has told us that year-over-year sales growth has continued, despite the fact that sales were quite strong at this time last year and weather in February was unseasonably harsh. District gains were concentrated in seasonal merchandise, household goods, and big-ticket items in general. Several retailers in Michigan, including the Detroit area, had better-than-expected sales

gains in January and February. Such gains are in line with government data on growth in personal income, which showed District states on average doing slightly better than the national average through the third quarter of 1992 (most recent data available). Nevertheless, several established retail chains in the District are facing stiff competition from new discount chains that are aggressively moving into the District—in some cases occupying buildings left behind by those retail chains that are retrenching.

The strength in demand for home furnishings and appliances indicated by District retailers is derived in part from the continuing gains in the District's housing sector. A major realtor in the Chicago area has told us that single family home sales in January were the second best January ever for the company, exceeded only by last year, when warm weather combined with a pickup in market share to produce a surge in sales. February is running ahead of last year, however, so that the year-to-date gap with last year is quickly closing (again despite the occurrence of the coldest weather of the winter in February). For the state of Illinois as a whole, realtors were seeing accelerating existing home sales through the fourth quarter of last year. A building materials supplier in Michigan has been experiencing double-digit sales growth in January and reported that builders in the area expect housing sales in the area to be at double digit rates for 1993.

Employment growth remains the primary concern for the sustainability of the District's, as well as the nation's, recovery. While employment gains in January and February of 1993 continue to be hard won, various sources of information indicate employment in the District has continued to increase. For example, the employment component of the Chicago purchasing managers' survey, after bottoming out in early 1991, reached a five-year high in January and then backed off in February. A January survey of metalworking firms in the greater Chicago area showed that hiring activity was strong and that some businesses were beginning to find shortages of skilled workers. And, it should be noted that the recent benchmark revisions for payroll employment in Michigan showed an upward revision of more than 70,000 jobs (which would mean that the state's employment today is about half of the way back to its prerecession peak rather than virtually flat over the recovery as indicated by the original data). Finally, Manpower Inc., which surveys businesses quarterly, reported a net increase in the number of midwestern firms expecting to hire workers in the second quarter of 1993 of 18 percent, compared with 16 percent in the nation as a whole. Most firms in the District were more optimistic in the latest Manpower report, with even Michigan firms expecting more hiring activity (with the exception of those located in Detroit).

Despite these indicators of an employment pickup, most large businesses in the District either have hiring freezes in place or are actively downsizing their workforce. Overtime is running at high levels, and demand for temporary help is strong. But the decisions to hire permanent workers are being made sparingly and with the greatest reluctance and will continue to be until the recovery shows greater staying power than it has to date. The recent announcement by Dow Chemical in Midland, Michigan, of pending layoffs, however, still illustrates the problem of job creation.

While the auto industry has been a boost to the District's economy recently, it may also be a source of instability because of the concern that car sales will not match industry expectations of 13.5 to 14 million units in 1993 (an increase of as much as a one million in unit sales of cars and light trucks over 1992). Auto production for the second quarter of 1993 is expected to be above year-ago rates but could show a decline from the seasonally adjusted annual rate in the first quarter. One reason is that Ford and Chrysler will be closing plants earlier than usual to make model changeovers.

How much of a cutback in auto production occurs in the second quarter will ultimately be determined by auto sales strength. In the first two months of 1993, light truck sales have been quite strong, with mid-February ten-day sales rates at more than 5.0 million units (annual rates), compared with last quarter's near-record sales rate of 4.8 million units. However, car sales have been a different story. Car sales have been running at about 6.4 million units through mid-February (except for the first ten days of January), which is about equal to the fourth-quarter rate and in the last ten-day period, sales slumped to 5.5 million units for cars and to 3.8 million units for light trucks, which industry analysts attribute to consumer concerns about higher taxes. Still, Big Three producers are better positioned to increase their market share than in the past, in part because imports have been increasing prices at a faster pace than the Big Three and in part because Big Three quality has generally improved. Still, sales will have to increase in the second quarter if the industry is to maintain second-quarter production schedules. While it is encouraging that retail sales in general have not experienced a retrenchment on the part of the consumer, one has to believe that new sources of disposable income through employment growth will be needed to sustain growth in consumer spending.

In assessing the role of the Seventh District economy in the current environment, it must be remembered that the Seventh District's economy has been playing an unaccustomed role in the national economy in the early 1990s—that of a stabilizing force in eco-

nomic growth. In the past, the District has been highly cyclical, accounting for much of the nation's job losses in recession and much of the job gains in the early stages of recovery. To be sure, the District's cyclicality was augmented by the long-term decline of its manufacturing sector. The District's manufacturing sector is no longer shrinking and may indeed be regaining some of the market share lost in past years. And, its improved competitiveness may also be making its cyclical industries less sensitive to cyclical swings in the national economy. This is because the District's cyclical industries are better able to hold on to market share (because of their improved competitiveness) than in the past. Moreover, the District should be less directly affected by the defense industry cutbacks. However, because the District is vulnerable to a sudden downturn, if the national economy weakens, I would be cautious about relying too much on the District's economy to be an engine of economic expansion indefinitely.

Monetary Policy: Meeting the Challenges

Recognizing the problems confronting the District, I have consistently favored monetary policy actions that would foster financial conditions necessary for sustainable economic growth. It has been obvious from our continuing and extensive contacts in the District that the economy would need assistance to deal with the significant structural drags on job creation and growth. It has also been clear that the needed adjustments would be painful, but a vital, growing national economy cannot be assured as long as there are significant financial and industrial imbalances. Restructuring has resulted in major gains in productivity for District firms. But as much as productivity gains are needed to maintain competitiveness and promote long-term economic growth in our District, there is a continuing concern about what this means for job creation and the income gains necessary to generate improved standards of living.

In my view, the role of monetary policy in this environment is to provide a financial environment that will assist in correcting the financial imbalances and restructuring issues discussed above. The basic goal of monetary policy must be to maximize the economic well-being of the nation as a whole. This means promoting financial conditions consistent with maximum sustainable growth. Specifically, it is my view that it is incumbent upon monetary policy to maintain a level of sustainable growth in the economy accompanied by sufficient job creation to absorb new workers and sufficient investment to ensure our ability to produce and compete in today's global economy. This is not to say that we can or should ignore other aspects of our environment such as inflation or other signals of long term problems but that these conditions need to be considered in light of the real performance of the economy.

As you well know, our economy over the past few years has been experiencing significant difficulties in maintaining an adequate rate of real growth. Economic progress has been uneven across both regions and industries. Economic statistics during this period have not always provided sufficient information to form an adequate picture of the economy. In this environment I have, consequently, tended to rely heavily on information from our Boards of Directors in Chicago and Detroit, our Small Business and Agriculture Advisory Councils, groups of industry observers meeting with us, frequent individual contacts with District firms, and continued participation in regional economic development groups in all of our District states, as well as major contacts through the Council of Great Lakes Governors and the Council of Great Lake Industries. These types of contacts in the Seventh District and elsewhere in the Federal Reserve System are extremely helpful in the formulation of monetary policy. As I see it, examination of District conditions is an important tool in keeping the monetary policy process in touch with challenges faced by the economy.

The most recent economic downturn provides a graphic illustration of exactly why it is so important to keep policy firmly grounded to local business conditions. Given the low level of inventories, the quick response by firms to the shortfall in demand, and falling interest rates, both economic theory and most forecasting models suggested that the recession should have ended quickly and that without any additional policy actions the economy should have experienced a solid bounceback in jobs and growth.

It was our contact with local businesses, banks, and other groups that suggested that the recovery was much slower than usual getting started and was likely to be fragile. The debt buildup of the 1980s and the substantial requirements to restructure corporations that had grown larger than their markets could sustain were going to generate a significant drag on economic activity. Interest rates were reduced well in advance of the slowdown and continued to ease over this period despite periodic indications that the economy was on the verge of taking off.

Since mid-1989, the Federal Open Market Committe has taken actions that resulted in the federal funds rate falling from a high of 9⅞ percent to 3 percent today, a reduction of more than 675 basis points. The discount rate and the three-month Treasury bill rates are at their lowest levels since 1963 and the thirty-year bond, which has a somewhat shorter history, is at its lowest rate in history. I believe that without the types of

District concerns and contacts that keep the policy process in tune with the underlying economy, far less would have been done and the economy would have faced a far harsher retrenchment. Remember that economists basing their analysis entirely on economic statistics would have us believe that the recovery began in early 1991. While this time is correct in a statistical sense, contact with the District suggested that the recovery was much slower getting started than usual and that continued policy actions were necessary.

Monetary policy needs to remain sensitive to current economic conditions and challenges. Policy must take into account the whole range of economic experiences and special characteristics of each period. Inflation posed major problems for long-term growth in the early 1980s. Today, in my assessment, we are operating in an economic environment that could be described as approaching price stability. In the current environment, job creation and balance sheet restructuring are the major challenges facing monetary policy. This is not a change in philosophy or goals but a simple recognition of what today's problems are versus yesterday's. At today's 3 percent inflation rate, inflation does not represent the same type of threat to the economy that it did at 10 percent. But we should not forget that this very significant improvement in inflation was achieved at a very high cost in both human and economic terms and that if growth were allowed to exceed its long-run potential for an extended period of time that inflation would return. Generating the maximum sustainable growth rate for the economy must remain the primary and essential mission of monetary policy.

In conclusion, I would like to reiterate that while I am guardedly optimistic about the economy both in my District and in the nation, it is the issues of structural impediments to growth and job creation, in terms of debt levels, international competition, and other issues of restructuring that dominate the economic landscape. If we continue to make progress on these fundamental issues and begin to see an increase in employment levels, the economic outlook for the next few years is quite positive. □

Statement by Thomas C. Melzer, President, Federal Reserve Bank of St. Louis, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I welcome the opportunity to discuss the economy of the Eighth Federal Reserve District and my views on monetary policy. As many of you know, one of my responsibilities as a Reserve Bank president is to gather information about the economy of my District and report on it at Federal Open Market Committee meetings. This information—along with similar information from the other Federal Reserve Districts—serves as a backdrop to our discussion on monetary policy.

At the Federal Reserve Bank of St. Louis, we monitor economic conditions in both the nation and the Eighth Federal Reserve District, which includes the State of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee.[1] Reserve Banks monitor the national and regional economies in a variety of ways. For example, we routinely collect economic information from various official sources, both private and public.

Because of the lags in published data, we also attempt to acquire more timely information through informal means. By interacting regularly with District individuals—in 1992, Research Department economists and I participated in approximately 150 programs in our District—we learn firsthand about economic conditions. Through these programs as well as our daily interaction with the District community, we gather information on economic conditions from consumers, labor leaders, homebuilders, bankers, educators, and business people from both small and large firms. Besides collecting information, we solicit opinions and questions on banking and monetary policies, as well as learn how they may be affecting individuals in the District. Although frequently anecdotal, this information can sometimes signal an important trend before it is apparent in the published data.

Economic Structure of the District

Let me note some facts about the Eighth District economy. Based on the most recent county data, the District share of personal income in the nation is 4.3 percent. If we include each of the seven District states in its entirety, that share is 13.3 percent. Per capita disposable personal income levels in District states are below the national average.

1. The attachment to this statement is available from the Federal Reserve Bank of St. Louis, St. Louis, MO 63166.

The economies of the Eighth District and the nation are very diverse and roughly similar in structure. Some differences, however, are worth noting. Table 1 compares the composition of output for the Eighth District and the entire United States.[2] The table shows the following:

• The Eighth District tends to be more manufacturing-intensive in both durable and nondurable goods than the United States. Nondurables sectors in the District with comparatively high production include rubber and plastic products, food, apparel, paper products, and chemicals. Durables sectors with comparatively high output include transportation equipment—particularly motor vehicles—fabricated metals and wood products.

• The District economy is a major agricultural producer, supplying significant portions of the national output of corn, cotton, rice, and soybeans.

• Transportation services are a relatively important contributor to the District economy, reflecting an extensive network of navigable rivers, the strong presence of railroads, and such airline transportation companies as Federal Express and United Parcel Service.

RECENT ECONOMIC PERFORMANCE IN THE EIGHTH DISTRICT

Although the 1990–91 recession and restructuring have affected both the national and Eighth District economies, the District has fared somewhat better than the nation.

Pockets of Strength

One of the characteristics of a diverse economy is that, even when an economy slows, some regions or sectors may moderate the slowdown. This situation has been observed in our area in recent years, as certain pockets within the District have grown rapidly, bolstering the economic fortunes of our District. Examples follow:

• Northern Arkansas has experienced substantial economic growth in the past few years. The northwestern part is home to some of the nation's fastest-growing companies: Wal-Mart, Tyson Foods, and J.B. Hunt Transport Services. Nucor, as well as several small steel manufacturers, have located in northeastern Arkansas.

• Bowling Green, Kentucky, has attracted major industrial plants, including International Paper and the James River Corporation.

• Memphis, already a significant transportation and distribution center, has exhibited substantial real growth. In December, total payroll employment was 1.8 percent higher than year earlier, real retail sales were up 31 percent, and the area unemployment rate stood at 5.5 percent, well below the 7 percent national average.

Employment, Unemployment, and Restructuring

Payroll employment data provide a useful measure with which to compare the Eighth District and the nation during the recession and the recovery to date. U.S. payroll employment fell at a 2.2 percent annual rate during the recession from July 1990 to March 1991. District employment declined as well but at one-half the national rate. In contrast to previous recovery periods, U.S. payroll employment has essentially remained unchanged since the March 1991 recession trough, whereas Eighth District payroll employment has grown, although only at a 0.5 percent annual rate.

The employment growth comparison for the District and the United States is repeated in unemployment data. The increase in the District unemployment rate in the 1990–91 recession was only two-thirds that in the nation. In the recovery, the unemployment rate for the District fell to 5.8 percent by the end of 1992—its prerecssion level—while the unemployment rate for the United States remained well above its prerecession level.

Increases in District service-sector employment in the aftermath of the recent recession more than offset the continued job losses in the goods-producing sector. District foods-producing employment, after decreasing at a 6.4 percent rate during the recession, has continued to fall in the recovery, although at a significantly reduced annual rate of 0.1 percent. In contrast to the District experience, national job growth in services has not been enough to make up for job losses in manufacturing.

The Eighth District has not escaped employment restructuring. Substantial employment changes occurred in transportation equipment, including both automobile and aerospace manufacturers. Many of the changes in the District aerospace industry are directly related to reductions in spending on national defense. During the 1990–91 recession, employment in transportation equipment declined at an annual rate of 15.3

2. For these purposes, the District's economic output is assumed to be composed of the total output of the states of Arkansas, Kentucky, Missouri, and Tennessee. This convention is used because the majority of economic activity in Indiana, Illinois, and Mississippi is not in the Eighth District. Moreover, the absence of timely data at the county level prevents the presentation of up-to-date data for only the Eighth District.

percent in the District and 8.9 percent nationally. Since the March 1991 recession trough, employment in this industrial classification has declined 3.4 percent in the nation but increased 0.4 percent in the District, an increase that is, nonetheless, below the norm for previous recoveries. Since mid-1990, McDonnell Douglas, the nation's largest defense contractor, has cut back employment in St. Louis by roughly 13,000. While many of those laid off have found jobs in St. Louis and elsewhere, manufacturing employment in St. Louis in 1992 was 5,000 below its level for 1991 and 21,200 below its level for 1990.

Banking

The economic health of the Eighth District is also reflected in the performance of its banks. Over the past decade, Eighth District banks have generally outperformed banks of similar size in other parts of the country. The somewhat better historical performance of District banks reflects their comparatively low ratios of overhead expenses to assets and ratios of loan losses to assets.

This historical pattern is repeated in recent national and District bank performance. In the third quarter of 1992, District banks recorded return on average assets—a measure of bank profitability—of 1.17 percent, well above the industry benchmark of 1 percent and the national average of 1.06 percent. District banks also outperformed the banks in the nation in terms of return on average equity, despite net interest margins that closely matched the national pattern.

Recent improvements in the spread between rates earned on loans and rates paid on deposits have undoubtedly contributed to the current strength in commercial bank earnings nationwide. Several other factors, however, account for the comparatively strong performance of District banks:

• Because the region's economy fared relatively well during the 1990–91 recession, District banks recorded lower levels of nonperforming loans as a percentage of each loan category—consumer, commercial and real estate—than did most of their national peers. Lower ratios of nonperforming loans generally translate into lower loan losses.

• The relatively small building boom, especially in commercial real estate, in the Eighth District during the mid- and late-1980s left District banks less subject to loan losses from real estate suffered by banks in other regions.

• The comparatively conservative composition of District bank real estate loan portfolios is reflected in relatively high proportions of first and second single-family mortgages in their real estate loan portfolios. Such loans tend to have lower nonperforming and loss rates than other types of real estate loans. Currently, nonperforming ratios for all types of real estate loans are lower at District banks than at national peer banks.

• Over the past five years, District banks have consistently had capital ratios that exceed regulatory minimums. At the end of the third quarter of 1992, only one of the District's 1,200 failed to meet the "adequately capitalized" requirement under the prompt corrective action provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Even more impressive is the fact that only twelve District banks failed to meet the tougher "well capitalized" standards under FDICIA. Because District banks generally have capital ratios that exceeds regulatory minimums, they are well-positioned to meet demands for loans and other banking services.

All in all, it is fair to say that the economy of the Eighth District has been relatively stable in light of national developments. The diverse nature of the District economy has contributed to this stability, with pockets of strength more than offsetting areas of weakness. Such overall stability is backed by the strength of the banking sector. This optimistic evaluation does not ignore the significant structural adjustments that are occurring in certain sectors and regions. Nevertheless, in my judgment, were it not for these unusually large structural adjustments, economic growth in the District would be comparable with that of earlier recoveries.

Views on Monetary Policy

I would now like to turn to my views on monetary policy. As I stated initially, the monitoring of regional economic conditions provides useful insights that contribute to the monetary policymaking process. The input of Reserve Bank presidents, who are briefed on a broad range of economic viewpoints, enriches Federal Open Market Committee discussions of national economic conditions. Such deliberations provide the backdrop for formulating monetary policy. Nonetheless, monetary policy decisions necessarily must be made for the nation as a whole, regardless of the conditions in any one District.

In reaching judgments on policy, I try to keep several factors in mind. They include the following: the goals of economic policy, the role of monetary policy in achieving such goals, the usefulness and limitations of contercyclical monetary policy actions, and the importance of an indicator to gauge the thrust to monetary policy actions over time. I will discuss each of these issues briefly.

GOALS

The goals of economic policy include maximum sustainable growth of the economy, a high level of employment, and stability in the purchasing power of the dollar. At one time there was thought to be a tradeoff between policies pursuing growth and those aimed at price stability. We now know that maximum sustainable economic growth is achieved when changes in the price level cease to be a factor in economic decision-making. It is no accident that the most advanced industrial countries and the newly industrialized and fast-growing Asian economies have been comparatively successful in keeping price levels stable.

It cannot be emphasized too strongly that reasonably stable prices create an environment conducive to long-range planning, as resources are used productively and not expended on inflation hedges. Removing the distorting effects of inflation from real price signals enhances market efficiency. Low and stable inflation also helps to keep interest rates low by removing the premium that investors require to compensate themselves both for expected losses due to rising prices and for the risks of making long-term commitments in a world with price-level uncertainty.

ROLE OF MONETARY POLICY

In the long run, monetary policy only affects prices. Stimulative monetary policy actions cannot increase the economy's long-run growth. The potential for economic growth is determined by real factors such as the growth in the labor force, capital investment, and increases in productivity. Accordingly, the role of monetary policy in achieving our long-run economic goals is limited.

Countercyclical Policy

Countercyclical monetary policy, however, may be appropriate in the short turn. Monetary policy actions can lay the foundation for recovery by bolstering sagging monetary growth rates during a recession and can avoid an upward spiral in inflation and interest rates by moderating excessive monetary growth during an economic expansion. But monetary policy is a blunt tool. Both the magnitude and timing of the effects of countercyclical monetary policy actions on the real economy are uncertain. Excessive countercyclical monetary policy actions are destabilizing because they necessitate policy reversals down the road. Consequently, one must avoid sowing the seeds for the next inflation when fighting recession or sowing the seeds for the next recession when fighting inflation.

Monetary Policy Indicators

Finally, it is essential to have indicators of the thrust of monetary policy actions to gauge whether monetary policy has been excessively tight or easy. Such indicators should be tied closely to Federal Reserve actions, which primarily involve adding or draining reserves available to the banking system. This approach leads me to monitor the behavior of total reserves, the monetary base, and the M1 monetary aggregate. These variables, observed over relatively long periods, provide a reasonable gauge of the stance of monetary policy.

The behavior of broader monetary and credit aggregates, such as M2, can also be useful in formulating and evaluating monetary policy. Averaged over three- to five-year intervals, M2 growth has been an indicator of the growth of nominal spending, although this relationship is now being reevaluated. But monetary policy is too complex to be described solely by the behavior of a single variable, especially one over which the Federal Reserve has only limited control.

The portion of M2 that is most directly affected by Federal Reserve actions, M1, has risen at double-digit rates during the past two years, as have total reserves and the adjusted monetary base. The slow overall growth of M2 has been due entirely to its non-M1 components, which Federal Reserve actions affect only indirectly. The growth of these components has been affected by the very steep yield curve, the rise in deposit insurance premiums, the need for higher capital ratios, increased regulatory oversight, weak credit demand, and continuation of the longer-run trend channeling credit away from depository intermediaries. Consequently, M2 growth has slowed despite the Federal Reserve's considerable efforts to raise it.

CONCLUSION

There is no simple rule for assessing the appropriateness of monetary policy at each point in time. Considerable judgment is required in setting policy. Thus, the Federal Open Market Committee benefits greatly from the diversity of views that are advanced under its current structure. Ultimately, the effectiveness of monetary policy must be evaluated based on results—and the record of the past decade is reasonably good. Despite unusually large federal budget deficits, complicated international developments, and significant financial market restructuring and disruptions, monetary policy has been successful in reducing inflation during a long period of moderate economic growth. Although set back by the recession and a slow recovery, monetary policy has made substantial progress in

regaining credibility with respect to controlling inflation and has laid the foundation for a sustainable, low-inflationary expansion in the 1990s. No one can know what the future holds, but if accelerating inflation is behind us, the real economy will be on a firm footing for genuine progress in the years ahead. □

Statement by Gary H. Stern, President, Federal Reserve Bank of Minneapolis, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I appreciate this opportunity to discuss with you economic conditions in the Ninth Federal Reserve District and my views on monetary policy. Largely by avoiding the swings of the national economy, the Ninth Federal Reserve District's economy has grown steadily but unspectacularly since 1985. In 1985 the nation was expanding, but the District was still affected by problems in its natural resource–based industries. Now, the District's economy is somewhat stronger than the nation's. In recent years, while the nation's economy was sluggish, the Ninth District's economy—less affected by reductions in defense spending and falling commercial real estate prices—grew at a faster rate.

Unspectacular but Steady

Close to three-fourths of Ninth District business leaders responding to a poll conducted by the Federal Reserve Bank of Minneapolis last fall said their communities' economies were doing better than the nation's. Personal income growth since the trough of the 1990–91 recession supports their observations: Income in the District's four complete states grew faster than in the nation.[1] And in 1992 the District's banks, buoyed by favorable interest rate spreads and strong demand for residential loans, had their best year in a decade. This performance is in marked contrast to March 1985, when the nation was in its ninth quarter of recovery, but the District's states, except Minnesota, were expanding more slowly than the nation. In fact, between the fourth quarter of 1982 and the first quarter of 1985, South Dakota, North Dakota, and Montana ranked forty-fourth, forty-eighth, and forty-ninth respectively in annual growth. During this time the District's banks mirrored the real economy, especially in rural areas, and in 1986 banks had their worst performance in years.

The defense expenditure buildup of the mid-1980s and the commercial real estate expansion largely bypassed the Ninth District; therefore, when these industries suffered in the early 1990s, the region's performance did not deteriorate as much as the nation's.

The Ninth District's relative improvement, however, is more than the avoidance of the economic swings that have occurred nationally (indeed, the District has experienced its own cycles, particularly within its natural resource–based industries). My travels across the Ninth District and visits with its leaders, along with articles in the *fedgazette,* the Federal Reserve Bank of Minneapolis' regional business and economics newspaper, reveal considerable vitality and adaptability. Increased exports, growing output from industries created by new technologies, expanding tourism, and Canadian cross-border shopping have enabled the region to advance, despite persistent problems in its important natural resource–based industries.

Many Acres, Many Resources, Few People

The Ninth District covers a big area but has a small population. Montana, North Dakota, South Dakota, Minnesota, the Upper Peninsula of Michigan, and northwestern Wisconsin make up nearly 12 percent of the total land area of the United States but contain only 3 percent of its population.

Natural resource–based industries are important in the District but are no longer the driving force they once were. Still, these District industries produce about 16 percent of the nation's agricultural output, 11 percent of mining, and 9 percent of forest products. Such industries are especially important in the District's three western states, accounting for 26 percent of North Dakota's total output, 22 percent of Montana's, and 20 percent of South Dakota's.

These sectors—agriculture, mining and energy, and forestry—have long been important in the Ninth District, but, in general, they are no longer dynamic engines of growth. Instead, these sectors struggle to earn modest profits, maintain employment levels, and replace obsolescent machinery. Agriculture, along with mining and energy, went through a roughly parallel cycle of a 1970s surge followed by a 1980s slowdown and a weak recovery into the 1990s. The

1. The attachment to this statement is available from the Federal Reserve Bank of Minneapolis, Minneapolis, MN 55401.

forest products sector has followed a different pattern but faces structural problems of its own.

AGRICULTURE'S IMPACT

The rural financial crisis was at its height in 1985. Concerns for the agricultural and rural economies dominated board of directors and advisory council sessions as well as many of my meetings across the District throughout the late 1980s.

Agriculture experienced wrenching adjustments in the 1980s. Good crop prices and low real interest rates led to the quadrupling of land prices between 1970 and 1980. But these factors turned negative in the 1980s and pushed agricultural profitability and land values into a slump. From 1980 to 1987, Ninth District land prices declined 35 percent to 60 percent, and foreclosures increased markedly.

Now the spate of bankruptcies is over. Farm incomes have climbed slowly from mid-1980s lows. Total agricultural debt dropped 30 percent from 1984 to 1990 as lenders wrote off and farmers paid down debt. Land prices stabilized and then rose; by 1992, unadjusted for inflation, they roughly had regained their 1984 levels.

But farm profitability remains tenuous and highly influenced by exchange rates and government support programs. At a recent meeting of our advisory council, one member noted that farmers are broken into two groups: well-capitalized and highly leveraged. Well-capitalized farmers who have not become highly leveraged make reasonable profits, continue to invest in new machinery and facilities, and service debt without problems. But those farmers who were highly leveraged in the early 1980s, even if they escaped liquidation, still face high debt loads, earn only minimal profits at current prices, and are unable to make substantial new investments.

Moreover, small rural towns continue to lose businesses as retailing moves toward larger regional centers. Similarly, the number of farm implement dealers and agricultural input suppliers shrank notably during the 1980s, putting further pressure on the economies of smaller towns.

PRESSURE ON PRICES AND EMPLOYMENT IN MINING AND ENERGY

As in agriculture, the metal mining and energy industries in the Ninth District have experienced financial pressures since the mid-1980s. Ninth District metal mines extract iron ore on the fringes of Lake Superior, copper in the same area and in Montana, and gold in South Dakota and Montana. Coal and oil production are important in both North Dakota and Montana.

Iron ore is by far the District's most important mining sector in terms of employment and value of output. Output grew through the 1970s, declined in the early 1980s, recovered somewhat by 1990, and is again in a slump. Iron mining employment in Minnesota has dropped about 20 percent since 1985. Our remaining ores are low grade and require expensive processing, making it hard for existing iron mines to compete with more recently developed high-grade sources in Latin America. The industry has cut costs, reduced staffing, improved technical efficiencies, and undergone financial restructuring.

Copper and gold are also important mining products in the Ninth District. These mines have important local employment and spending impacts in northern Wisconsin, the Upper Peninsula, western South Dakota, and Montana. Output and employment have been essentially stable over the past eight years in spite of fluctuating prices and limited profitability.

At present, both copper and gold prices are low; copper and gold mine layoffs have occurred recently in Michigan and South Dakota. Few new mines, which are capital-intensive and involve long lead times, are being developed because of current depressed prices. Some officials are concerned that employment and output may thus shrink as ore deposits in existing mines are exhausted.

In the 1970s, coal and oil development apparently faced a bright future in North Dakota and Montana. But these hopes slumped with falling oil prices in the 1980s. While coal production has remained relatively stable, oil output has declined, and both oil exploration and new coal mine development are at a virtual standstill.

EXCESS CAPACITY PLAGUES PAPER INDUSTRY

Since the mid-1980s, the forest products industries have faced problems somewhat different from those of agriculture and mining and energy. The paper industry in Minnesota, Wisconsin, and Michigan is an important source of employment and is value-added. In the late 1980s, we heard reports of substantial new construction or renovation of paper mills. But now the industry is in the middle of a long slump marked by excess capacity nationwide, stagnant prices, and limited profitability. Industry officials do not expect prices to recover for another three years, it was reported at our most recent advisory council meeting. Several mills have laid off workers and are running at less than capacity.

FORESTRY FACES SHRINKING RESOURCES AND TECHNOLOGICAL CHANGE

In Montana and western South Dakota, the forest products industry consists of traditional lumber production, with most timber cut from national forests. As in the Pacific Northwest, available timber supplies are shrinking because of depletion of stocks of mature trees and somewhat tighter environmental regulations. Prices bid for cutting rights are rising dramatically, and profits are squeezed tightly, even at current high lumber prices, according to directors' reports. This situation is apparently a long-term one; output and employment can be expected to continue to shrink. Although this particular sector is not large relative to the entire Ninth District economy, effects on employment and spending may be painful to some communities.

But at the eastern end of the District a whole new sector is emerging. The late 1980s saw substantial construction of plants that use new technology to produce plywood substitutes from what were considered low-value trees. Several such plants, built in Minnesota, Wisconsin, and Michigan over the past decade, are currently running at capacity.

DISTRICT AVOIDS DECLINE IN MANUFACTURING

While many natural resource–based industries were struggling, other District industries escaped the vagaries of national economic swings. This is especially true of defense spending and its effect on the District's manufacturing employment. Although several Ninth District communities were, and still are, vulnerable to base closings, defense spending cutbacks were expected to hit the Pacific, New England, and South Atlantic census regions the hardest. Likewise, Ninth District manufacturing employment was essentially unchanged over the past two years, while nationally it dropped by about 3.5 percent.

While defense orders have been shrinking, manufacturing exports have been increasing for the nation, and District manufacturers have been as successful as their national counterparts when it comes to exporting. Between 1987 and 1991 growth in manufactured exports totaled at least 55 percent in the District and nation.

Avoiding defense cutbacks' full brunt and participating in the export surge have not kept the Ninth District from plant closings and layoffs, but the region has been able to offset many of them. Over the years, Minneapolis–St. Paul has blossomed into a major computer manufacturing center. However, the bloom is now off; these firms have been laying off workers. Nevertheless, the Twin Cities still generates high-tech manufacturing jobs; during the last two years, the increase in instrument manufacturing jobs, primarily medical devices, offset the decrease in computer manufacturing jobs.

Outside Minneapolis–St. Paul, manufacturing is resilient as well. I periodically travel to Ninth District communities as part of my District Dialogue program, and in Aberdeen, South Dakota, and Eau Claire, Wisconsin, business leaders report that they have been able to attract firms to help compensate for major plant closings.

DISTRICT CONSTRUCTION EMPLOYMENT RISES AS NATION'S DECLINES

Ninth District construction, like manufacturing, is also resilient. Although Minneapolis–St. Paul's office vacancy rate rivals the nation's, commercial construction is expanding in Grand Forks, North Dakota, Rochester, Minnesota, and Sioux Falls, South Dakota. Moreover, some communities are experiencing a surge in residential construction. Western Montana, for example, is benefiting from an in-migration of West Coast residents. Thus, over the past two years Ninth District overall construction employment has risen about 1.5 percent, in contrast to its decline at the national level.

In services, as in manufacturing and construction, the Ninth District's performance recently surpassed the nation's. During the past two years, employment in services has increased about 4 percent in the region, well above the increase in the nation as a whole.

TELECOMMUNICATIONS BRINGS JOBS TO THE REGION

Service industries from outside the District are using advances in telecommunications to access the region's labor force. In the past twelve years, bank credit card processors, notably Citibank, have become a major South Dakota industry. They now account for about 5,000 jobs in Sioux Falls, 6 percent of the city's employment. These jobs are not limited only to the region's cities and towns; a Salt Lake City firm has hired farmers and rural residents in northeastern Montana to work out of their homes.

MORE PEOPLE TRAVEL TO DISTRICT

The Ninth District also has benefited from rising tourism. Part of this increase comes from the region's exposure in movies—*Dances With Wolves* and *A River*

Runs Through It, for example. New attractions, such as the Twin Cities' Mall of America and casino gambling, are also pulling people into the region. Moreover, the dollar's decline has made U.S. travel attractive to foreigners.

Closer Ties to Canada Helping Border Communities

The Ninth District's proximity to Canada has also benefited the region. Although the impact of the U.S.–Canada Free Trade Agreement cannot be easily sorted out from exchange rates and other factors, a 1991 *fedgazette* poll revealed that Canadian business, particularly in border communities, had increased since the agreement's implementation. Furthermore, in my Dialogue trips to Grand Forks and Minot, North Dakota, and Great Falls, Montana, residents reported how Canadian shoppers are buoying these communities.

Last year, however, the Canadian dollar fell relative to the U.S. dollar, and at recent advisory council meetings, a slowing of cross-border traffic into North Dakota and Montana was reported. Moreover, the Canadian government has recently taken measures, such as tougher duty-free limits, to discourage cross-border shopping.

Unemployment Declines

The region avoided the full effect of the economic slowdown of the early 1990s, but the region's businesses have also taken advantage of the opportunities offered by changes in the economy. Consequently, the Ninth District has scored well on one important test for a regional economy—keeping its unemployment low. The United States essentially has the same unemployment rate today as it did in 1985, but unemployment rates have declined in Ninth District states.

While District unemployment rates have been declining, prices and wages have not been increasing as fast as they did nationally. Between 1985 and 1992, the Minneapolis–St. Paul consumer price index rose at a 3.3 percent annual rate, compared with about a 4 percent rate nationally. During the same period, hourly manufacturing wages increased more slowly in the District than they did nationally.

Banking Industry Improves with Economy

As the District's economy improved, so did the banking industry. For example, the return on average assets (ROAA) of Ninth District banks more than doubled between 1986 and 1992. By 1986, the lagging effects of the 1981–82 recession, the mid-1980s agricultural slump, and problems with loans to developing countries had combined to weaken all types of banks, but agricultural banks were particularly stressed. However, by 1992, District banks reported their highest average ROAA in a decade.

In addition to the increased average ROAA for all District banks between 1986 and 1992, another measure of the solid improvement is a reduction in the number of banks reporting losses. Only seventeen banks reported losses for the first three quarters of 1992, about 2 percent of the District total, compared with 279 for 1986, or 20 percent of all banks.

Residential Mortgages Drive Current Lending Growth

As discussed earlier, 1986 was a year of retrenching for many banks, so it is not surprising that loan volumes were low. Loan growth then improved through 1988, but in 1990 and 1991 credit quality problems surfaced with commercial loans, in particular commercial real estate and highly leveraged transactions.

By 1992, loan growth had improved again, but the composition of loans changed and was more heavily weighted toward residential mortgages. Favorable long-term interest rates spurred a substantial volume of mortgage refinancings as well as new loans for purchases of new and existing residential real estate. Moderate growth occurred in multifamily residential lending and agricultural lending. Loans to businesses and financial institutions and nonresidential loans to individuals all declined in 1992. It is also interesting to note that banks participating in our seasonal borrowing program were more aggressive in making agricultural and small business loans than were those that did not participate. Also, despite recent concerns about banks investing in securities instead of making loans, District banks' proportion of securities, as a percent of total assets, was unchanged in 1992 from 1986.

Asset Quality, Interest Income, and Capital Improve

Concurrently with loan growth, asset quality has improved. The ratio of noncurrent loans to total equity peaked in 1986 and has been declining since then; loan-loss reserve coverage ratios have also improved since 1986; and net charge-offs to average loans have declined significantly since 1986, mirror-

ing the trends of noncurrent loans to total loans and provision expense to average assets.

But also noteworthy was the improvement in 1992 net interest income, which is the difference between interest earnings and interest expense. Short-term interest rates have declined from mid-1991 levels, and banks substantially lowered rates paid on retail deposits, thus reducing banks' funding costs.

Bank capital levels have been rising, in part, because of stronger earnings performance and, in part, because of tougher risk-based capital rules. Also, total equity to assets has shown significant improvement since 1990.

Banking Industry Faces Restructuring

The number of Ninth District banks declined 17 percent between the end of 1986 and the third quarter of 1992 (from 1,363 to 1,143). This reduction was caused by consolidation through acquisitions, by bank failures, and by changes in some states' laws that allowed affiliate mergers.

There have been thirty-four bank failures in the District since 1986, when problem bank numbers peaked, accounting for 14 percent of the reduction in banks.

Views on Monetary Policy

In the broadest sense, and taking a long-run perspective, the object of monetary policy is, it seems to me, to attain the highest possible living standards for our citizens over time. In order to give this goal operational meaning, the Federal Reserve, in my view, should seek to achieve, over time, maximum sustainable growth of real output.

My reading of the accumulated evidence on economic performance both here and abroad is that in the long run the most significant contribution monetary policy can make to achieving maximum sustainable growth in real output is to foster price stability. That is, I am convinced that in the long run, price stability goes hand in hand with sustained economic prosperity. The two goals are not antithetical, and, indeed, price stability is best thought of as a means to the end of sustained prosperity.

In the short run, we in the Federal Reserve may indeed find it appropriate to respond to incoming financial and economic information to keep the economy on, or to return it to, its potential growth path. But, it seems to me, our short-run response should in general be cautious because of uncertainty both about the state of the economy and about the effects of policy on the economy. Moreover, we need to avoid the problem of turning long-run policy into a sequence of short-run decisions. If followed, such an approach runs the risk of adopting a strategy that is persistently inflationary or contractionary, depending on conditions prevailing when it is adopted. □

Statement by Thomas M. Hoenig, President, Federal Reserve Bank of Kansas City, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

As President of the Federal Reserve Bank of Kansas City, I am pleased to address this Senate committee. The Kansas City Bank serves the Tenth Federal Reserve District, which includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri. We operate branches in Denver, Oklahoma City, and Omaha.

Spanning the heartland, the Tenth District has traditionally relied on its natural resource industries. As a share of total output, for example, agriculture and energy are roughly twice as important to our economy as to the national economy. However, after severe farm and energy recessions in the 1980s, our economy has become more diverse. The region's manufacturing base is growing, a wide range of service firms is flourishing, and tourism is anchoring growth in some parts of the District.

Thanks, in part, to this more diverse economic base, the District economy felt less sting from the national recession of 1990–91 and has outpaced the nation throughout the recovery. The recent experience of the District is a sharp reversal from the 1980s, when our region consistently trailed the national economy because of farm and energy recessions and a regional downturn in real estate.

My testimony will discuss current economic conditions and prospects for growth in the Tenth Federal Reserve District. I will also share my views of the national economy and the role for monetary policy. In brief, the District economy grew at a moderate pace in 1992 and will probably grow moderately again in 1993, roughly matching the growth pace of the national economy. I expect the nation's recovery to stay on track, picking up momentum over the course of the year, and my view regarding monetary policy is that it should promote maximum sustainable growth within an environment of price stability.

RECENT PEFORMANCE OF THE TENTH DISTRICT ECONOMY

The economy of the Tenth Federal Reserve District grew moderately in 1992. Contributing to growth were the construction and retail sectors, which were generally strong across the seven-state region. Agriculture also posted a good year, with bumper crops and solid livestock profits. Energy activity remained sluggish, but there was a spurt of new drilling in the fourth quarter as exploration firms took advantage of expiring tax credits for coal-seam gas. Manufacturing activity slumped across the District, matching similar weakness nationwide.

The District economy grew faster than the national economy in 1992, based on two broad economic gauges. Real personal income in the District grew 2.3 percent from the third quarter of 1991 to the third quarter of 1992 (the last period for which data are available), compared with a 1.7 percent gain in the nation. Employment in the District grew 1.2 percent from the fourth quarter of 1991 to the fourth quarter of 1992, compared with 0.4 percent growth in the nation.

District Economy Outpaces the Nation

The Tenth District economy has been outperforming the nation throughout the recovery. Since the recession ended in March 1991, the District has added jobs at an annual rate of 1.1 percent, while employment in the nation has edged up at an annual rate of 0.2 percent. What accounts for the more buoyant economy in our region?

- Farm recovery. The farm economy, in contrast with some other parts of the national economy, has enjoyed a strong recovery. In the mid-1980s, agriculture suffered a severe downturn, as export markets and farmland values both declined. Since then, farmers have posted record or near-record net cash incomes, allowing them to put their financial house in order. Farmland values are still well below the peaks of the early 1980s, but farmers and their lenders are in solid financial condition. Strong farm income has also helped buoy business conditions in many rural communities across the region.

- Stable energy industry. The District's energy industry has stabilized after going through its own recession in the 1980s. Energy-dependent areas of the District, from Wyoming to Oklahoma, experienced downturns after oil prices plummeted in 1986. In the wake of lower oil prices, the energy industry downsized. Although painful, the correction was relatively quick. More recently, the industry has steadied, being neither a significant source of strength, as in the early 1980s, nor a drag, as in the late 1980s.

- Strong construction activity. Chiefly responsible for maintaining the region's lead over the nation during the recovery has been a booming construction sector. Construction jobs in the District have grown at an annual rate of 2.8 percent throughout the recovery, compared with a decline at an annual rate of 1.8 percent in the nation. Construction activity has been robust in virtually all categories. Residential building in the region has surged, largely in response to lower mortgage rates. Nonresidential and nonbuilding construction have benefited from a fairly large number of public building projects under way in District states. The best example of such activity is the new Denver International Airport, which will be completed this year. Commercial real estate has been stable, with declining office vacancy rates and few new projects under way.

- Strong financial institutions. The District's financial institutions are generally strong, having recovered from the farm, energy, and real estate problems they faced in the 1980s. Earnings, asset quality, reserve coverage, and capital coverage are at their highest levels since the early 1980s. Tenth District banks have also outperformed banks in the rest of the nation in 1992 in all of these dimensions. Moreover, District employment in financial services has continued to grow during the recovery, in contrast to a decline in the nation.

- Buoyant trade and services. Wholesale and retail trade activity have grown steadily in the District throughout the recovery. The region has continued to attract wholesale firms due to its central location, and retail activity has been solid because of the District's overall growth in jobs and income. District employment in wholesale and retail trade has grown during the recovery, while national employment in these sectors has shrunk. Similarly, the District's service sector has grown faster than the nation's because of continued expansion in business services, health care, and tourism. Tourism activity, despite a sluggish national economy, has been especially strong in the Rocky Mountains and in the newly developed tourist areas of southern Missouri.

While several sectors have helped buoy the Tenth District economy, manufacturing activity in the District has been as weak as in the nation. Durable goods production has been especially weak in the District, and jobs in durables industries have fallen at an annual rate of 2.5 percent during the recovery. Automobile production, which is important to the District economy, posted a rise at District auto plants during the 1992 model year; however, jobs in the industry have continued to drop. The general aviation industry, which is concentrated in the Tenth District, is continuing to suffer from weak sales. The slump in commer-

cial aircraft is also hurting Wichita's economy, where Boeing recently announced a layoff affecting 6,000 workers in 1993 and 1,000 in 1994. Defense cuts have hurt in some areas and particularly in the State of Missouri. Nondurable goods production has also been weak in the District, where jobs in nondurables industries have grown at an annual rate of only 0.1 percent.

Mixed Performance in District States

In a District that spans seven states from the Ozarks to the Rockies, it is not surprising that economic performance has varied by state. Overall, job growth in six of the seven states has outpaced the nation. Employment growth in the recovery has been strong in Colorado and Kansas and weaker in Missouri and Oklahoma.

- Colorado. Colorado's economy has grown at a robust pace throughout the recovery, with job growth averaging 2.6 percent a year. Construction in the state has boomed. Strong population growth and low mortgage rates have led to a spurt in housing starts and rising home prices. The new Denver airport and highway improvements across the state have also bolstered construction activity. Services and tourism have also been quite strong, helping to offset weakness in mining and manufacturing.
- Kansas. The diverse Kansas economy has grown solidly throughout the recovery, adding jobs at an average rate of 1.6 percent a year. The state's service sector has been strong, with steady gains in business and personal services, particularly in the Kansas City metropolitan area. Construction has been boosted by a strong residential market and a pickup in public infrastructure projects. The state's important farm economy is prosperous due to high cattle prices and a large wheat harvest. The general aviation, automobile, and energy sectors remain weak, but they have only slightly dampened what has been a healthy state economy overall.
- New Mexico. The New Mexico economy has grown steadily in the recovery. Employment in the state has increased at an annual rate of 1.7 percent, with services and government activity providing the greatest strength. New Mexico's defense labs and installations have benefited somewhat from defense cuts elsewhere in the nation, and state and local government employment has increased. Tourism has also been a plus for the northern half of the state. Partly offsetting the strength in these sectors, manufacturing and mining have been somewhat weaker than in the two top states.
- Nebraska. Nebraska's economy has grown modestly during the recovery. The state's job rolls have grown at an annual rate of 0.9 percent. Despite sluggish job growth, the state's unemployment rate is less than 3 percent, one of the lowest in the nation. The state's nondurable manufacturing, dominated by food processing, has remained buoyant. Healthy wholesale trade and service sectors have also helped bolster Nebraska's economy. Most of the state's economic gains, however, have been in metropolitan areas and smaller cities that serve as trade centers for their surrounding areas. Rural parts of the state continue to languish.
- Wyoming. Wyoming's economy has posted modest growth during the recovery, adding jobs at an annual rate of 0.8 percent. The state's energy-based mining industry remains weak, although production of soda ash—used in glassmaking—has benefited from stronger construction activity across the nation. Service growth has been solid, mainly due to tourism-related development. Tourist destinations have continued to grow faster than other parts of the state.
- Missouri. Throughout the recovery, Missouri's economy has grown more slowly than most other District states due to its heavy reliance on manufacturing. Kansas City, which depends less on manufacturing, has fared better than the eastern part of the state. Overall, Missouri's job rolls have grown at an annual rate of 0.4 percent throughout the recovery. Employment in manufacturing has fallen at an annual rate of 1.5 percent during the recovery. Durables industries, the backbone of the state's industrial base, have been especially weak. The manufacturing slump has been partly offset by healthy gains in service employment. A strong farm economy, meanwhile, has buoyed local economies in rural parts of the state, and southwestern Missouri has been strong because of tourism.
- Oklahoma. Oklahoma has been the District's weakest economy during the recovery. Employment has declined at an annual rate of 0.1 percent since the recovery began. The state's key energy sector remains depressed, even after a mild upturn in drilling late last year. Manufacturing has generally been weak, despite improved auto production in the state during the 1992 model year. Trade and construction activity in the state has sagged during the past two years.

Outlook for The Tenth District Economy

I expect the Tenth District economy to grow at a moderate pace in 1993. Preliminary indicators suggest the District economy is off to a good start this year. Retailers report that consumer spending, which picked up toward year-end, has continued to be relatively strong in January and February. Moreover, banks in the District report strengthening loan demand, and farm income is rising slightly.

Survey of Economic Advisory Council

To provide current information on the District's economic prospects, it is useful to highlight a recent survey we conducted of our Tenth District Economic Advisory Council members and to report their expectations for 1993. With representatives from small business, agriculture, labor, and consumer interests, the council serves as a valuable source of economic information throughout our region and provides useful views on the overall stance of Federal Reserve monetary policy (council members are listed in the Appendix).[1]

Our District advisory council is optimistic about the region's economy in 1993. They report improved sales early in the year, both for their firms and in their communities. The sales gains are reported from a diverse mix of firms—from food processors to building materials suppliers.

Most council members expect their profits to improve in 1993 because of both increased sales and further cost cutting. A substantial majority of council members also report a general air of economic optimism in their communities. In line with their expectations, a majority of council members plan to increase capital spending in 1993. Nearly all of the council members that plan to expand spending this year expect credit to be readily available.

Council members also report that employment growth is currently lagging behind other business indicators. The number of firms adding workers so far this year just about equals the number of firms not adding workers. Similarly, council members are evenly divided between those planning to increase employment this year and those planning no new jobs. Only one council member plans to cut jobs in 1993.

Outlook for District Industries

Additional information that points to moderate growth in the District economy in 1993 is the outlook for key District industries. We expect agriculture to remain strong, energy to remain stable, construction to slow, and manufacturing to improve.

- Agriculture. The District farm economy should stay on its recovery course in 1993. Livestock producers' profits are expected to remain strong, but last year's bumper harvest will hold down crop prices. The effect of lower crop prices on farmers' incomes in 1993 will be cushioned by larger sales volumes and bigger government payments to farmers. Farm income may therefore edge up, although there may be little improvement in the industry's already strong balance sheet.

The expected conclusion of two important trade pacts this year, the Uruguay Round of General Agreement on Tariffs and Trade negotiations and the North American Free Trade Agreement, will have a critical effect on the farm economy's long-term outlook. The District farm economy stands to reap substantial benefits from freer agricultural trade.

- Energy. The energy industry will probably be stable in 1993, with little change in overall activity. Currently, drilling activity is edging down from the spurt in the fourth quarter of 1992. With oil prices likely to remain relatively flat, there is little prospect for significant change in an industry that is operating at a fraction of the activity reached a decade ago.
- Construction. Building activity may slow somewhat in our region in 1993. Large housing inventories that accumulated across the region in 1992 will require some time to be absorbed. Moreover, some big public projects, such as the Denver airport, will wind down this year.
- Manufacturing. Manufacturing will probably pick up in 1993 as the national economy improves. Factory production in the region will benefit from a likely increase in consumer spending on durables. Defense cutbacks will continue to hurt some parts of the District.

Overall, I expect the Tenth District economy to grow at a moderate pace in 1993, roughly equal to the nation's pace. The nation's ongoing recovery will also have an important bearing on the growth we achieve in our District. Improvement in the national economy will be a prerequisite to a rebound in District factory production, much of which is sold in national and international markets.

The National Outlook and Monetary Policy

Turning to the national outlook, I expect the national economy to continue to grow moderately in 1993. Real GDP growth should pick up over the year, averaging about 3 percent from the fourth quarter of 1992 to the fourth quarter of 1993. With continued moderate growth, inflation will likely edge down to just below 3 percent.

The economy in 1993 will benefit from the effects of past easings of monetary policy. The current low level of interest rates will spur spending on consumer durable goods, business fixed investment, and housing. In addition, the economy will gain momentum as busi-

---

1. The attachment to this statement is available from the Federal Reserve Bank of Kansas City, Kansas City, MO 64198-0001.

nesses build inventories in anticipation of stronger domestic demand.

Other sectors of the economy will contribute little to economic growth in 1993. Net exports are likely to slip as sluggish growth abroad limits U.S. export growth and the expansion at home boosts U.S. imports. And total government spending is not expected to change substantially relative to a year ago.

Structural factors will also influence the pace of the national expansion. Balance sheet improvements among households, businesses, and financial institutions will lend support to the recovery. Although the restructuring of balance sheets is still under way, considerable progress has been made in reducing debt burdens. Acting to dampen overall growth in 1993 will be the continuing shift of resources from defense to nondefense industries.

Inflation is likely to continue to decline in 1993. With the unemployment rate expected to fall gradually through the year—to 6.9 percent in the fourth quarter—wage pressures will remain modest. Wage moderation, therefore, should help dampen inflation further. I expect consumer price index inflation to decline to about 2.8 percent in 1993 on a fourth-quarter over fourth-quarter basis.

Given this economic outlook, I believe the current stance of monetary policy is appropriate. Past monetary policy easings—which I supported last year as a voting member of the Federal Open Market Committee—have contributed to the improvement we are seeing in interest-sensitive sectors, such as housing and investment.

I think we all agree that the goal of monetary policy is to promote maximum sustainable growth over time. In the near term, Federal Reserve policy should be geared toward fostering a solid expansion, thereby encouraging job growth and the investment spending needed to spur the economy's potential growth rate. But just as important, and consistent with this goal, the Federal Reserve must work toward ensuring an environment of price stability. Low inflation is a prerequisite to an efficiently operating economy and to the achievement of maximum growth over time.

For the foreseeable future, the Federal Reserve will need to monitor a wide range of information in conducting monetary policy. As you have heard from Chairman Greenspan, the monetary aggregates, in particular, will probably not be as informative as in the past. Relationships among the aggregates and the economy are changing as more lending and borrowing are taking place outside the depository sector. Indeed, fundamental changes in credit markets are under way worldwide. Thus, in assessing the state of the economy and the stance of monetary policy, we will monitor a wide range of financial and economic indicators—in the Tenth District, nationally, and internationally. And monetary policy will be responsive and flexible in the face of a rapidly changing and challenging economic environment. □

Statement by Robert D. McTeer, Jr., President, Federal Reserve Bank of Dallas, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I am pleased to respond to your request to share my views on monetary policy and the state of the economy in the Eleventh Federal Reserve District. The economy of the Eleventh District, which includes Texas, southern New Mexico, and northern Louisiana, has fared somewhat better than the national average during the past three years.[1] In part, we have done better because the economy was rebounding from the sharp contraction that took place after 1986. Measured by employment, our region managed to avoid recession but not sluggish recovery. After the U.S. recovery began in April 1991, District employment growth weakened, and unemployment began to rise. Our employment growth slowed below trend, and our unemployment rates increased to national levels, especially in areas vulnerable to defense cuts. Even with these weaknesses, however, employment in the three states has grown by 194,000 since the trough in the national economy.

Overview of the Eleventh District Economy

The relative strength of our economy derives, in part, from trade with Mexico. Exports from Texas to Mexico rose 16.5 percent in 1991 and jumped another 22 percent in 1992. Exports in 1992 amounted to $19 billion, which represented 4.7 percent of gross state product. District industries benefiting most from increased Mexican trade include chemicals, food and kindred products, transportation equipment, electric

1. The attachment to this statement is available from the Federal Reserve Bank of Dallas, Dallas, TX 75222.

and electronic equipment, furniture and fixtures, and apparel.

Our border cities have shown the strongest growth, both in terms of manufacturing employment and in retail sales. Geographically, San Antonio and Austin are doing better than Houston and Dallas–Fort Worth. Fort Worth has been hardest hit by defense cuts, while Houston has felt the brunt of energy cutbacks.

Restructuring away from energy continues to make our economic profile more like the nation's, but that restructuring, like similar adjustments across the nation, continues to exact a human toll. Within our District, the performance of New Mexico is similar to that of Texas, while that of Louisiana has been somewhat weaker.

Except for commercial real estate, construction has been a recent source of strength and jobs in our region. Residential permits last year were the highest since 1986, the year of the oil bust. Office vacancy rates, however, have not recovered much. One lesson from our District is that the overhang of commercial real estate lasts a long time.

The financial condition of our banks has improved over the past two years, and bank lending has stabilized for the first time since 1985. Nonetheless, the credit crunch has been very real in the Southwest. While it has eased somewhat during the past year, the credit crunch continues to impede job growth in small- and medium-sized businesses that rely on banks for credit.

A Stronger Growth Trend

With most sectors of the District's economy outperforming their national counterparts, a stronger long-term growth trend may be the principal factor contributing to employment growing faster in the District than in the nation during the recovery. Since 1970, the trend rate of growth in District employment has been 2.9 percent annually, while the trend rate of growth in U.S. employment has been 2.1 percent annually. Since the trough in March 1991, employment gains in both the District and the United States have been about equally below their long-term trends. In the District, employment has grown at a 0.9 percent annual rate since March 1991, while U.S. employment has grown at a 0.3 percent annual rate.

Several factors contribute to the District's stronger growth trend. First, the state and local fiscal policies in the District have struck a favorable balance between the provision of government services and the taxes required to finance them. Second, political and social factors in the District states are generally favorable to economic growth. Third, the populations of New Mexico and Texas are younger than the U.S. average.

A Growing Similarity to the National Economy

The changing composition of the District economy has made it more like the rest of the United States. In 1982, the District had a more prominent energy sector and less prominent service and manufacturing sectors. Since that year, the District's energy sector has contracted, its service sector has grown in importance, and its manufacturing sector has declined less than the nation's manufacturing sector.

Late in the U.S. recession, the District economy showed the effects of its growing similarity to the U.S. economy. The influence of the national recession on the District economy was most evident during the first two quarters of 1991. The national economy experienced its sharpest contractions from November 1990 through March 1991.

During the recovery, the performance of the District economy has remained similar to that of the nation's. Since March 1991, District employment has grown at an annual rate 2 percentage points below its long-term trend rate of growth, while U.S. employment has grown at an annual rate 1.8 percentage points below its long-term trend rate of growth.

Business Restructuring

As in much of the nation, one source of weakness in the growth of District employment has been continued structural change in the service sector. Although the service sector has continued to add jobs, the rate of growth has declined sharply over the past several years. The employment weakness stems from both technological change and increases in the costs of nonwage benefits. For example, the demand for accounting services has declined as many small businesses have acquired software that allows them to keep their own books. Many firms have also commented to us that the mandated nonwage costs of hiring an employee have risen so sharply over the last two or three years that it is now often cheaper to pay overtime than to hire new workers.

Reduced Defense Spending

As is the case for many areas of the country, another source of weakness in the District economy has been cuts in defense spending. Overall, the District is about as sensitive to cuts in defense spending as is the national average. Two metropolitan areas in the region, Fort Worth in particular and Dallas to a lesser extent, are more sensitive than the national average. Nonetheless, the District remains vulnerable to defense cuts aimed at specific, locally produced weapons systems.

Reduced U.S. spending on the A-12 attack plane, B-2 bomber, F-16 fighter, V-22 Osprey, and other defense contracts has rocked manufacturers in the District, particularly those in the Dallas–Fort Worth area. Since late 1990, employment at General Dynamics' Fort Worth facility has been reduced by more than 11,000 workers. Just last year, Bell Helicopter, Vought Aircraft, and Texas Instruments laid off a total of 9,400 workers in the Dallas–Fort Worth area who previously were working on defense contracts. Other defense contractors in the area also have made cuts. Multiplier effects will contribute to further job losses in the Dallas–Fort Worth area.

The District overall has been a net beneficiary of the base realignment process thus far. While bases in Austin (Bergstrom AFB), Fort Worth (Carswell AFB), and Beeville (Chase Field Naval Air Station) are in the process of closing and the Second Armored Division at Fort Hood (near Killeen, Texas) has been deactivated, the District has gained military jobs because 33,000 military personnel are being transferred to Fort Hood. Additionally, civilian uses have been found for some of the closed bases. A new round of base-closing decisions begins this month, however, and the story could change dramatically.

Oil and Gas

Declines in the oil and gas industry have been still another source of regional weakness. In the District, the concentration of employment in oil and gas extraction is seven times the national average. Although the boom days of J.R. Ewing have long since left the oil patch, oil and gas extraction is still a $40 billion industry in the District (7.8 percent of the value of output), and the industry's volatility still has considerable effects on the region's economy.

Before February 1991, higher oil prices brought about by the Persian Gulf War encouraged a modest expansion of the nation's oil and gas industry. As an energy-exporting region, the District benefited from higher energy prices, while much of the nation suffered.

After February 1991, lower oil prices and extremely low wellhead prices for natural gas brought a sharp contraction to the oil and gas extraction industry, which was exacerbated by a long-term shift of exploration and development activity overseas. The Baker Hughes rig count fell to a fifty-two-year low in April 1992. The fall resulted in major employment reductions by oil companies doing business in the District, such as ARCO, Chevron, Mobil, Marathon, Phillips, and Shell. Over the past two years, layoffs in the energy industry directly accounted for the loss of 32,000 jobs in the District. Longer term, the District has lost in excess of 200,000 jobs in oil and gas—more than 50 percent of its peak employment. Both in absolute numbers and in percentage terms, the District's job losses in energy exceed those of the auto industry *nationally*.

Real Estate and Construction

In the past few years, the growth of construction has been a source of strength for the District economy. Although construction jobs have declined by 196,000 nationally since March 1991, they have increased slightly in the District. Although most major office markets in the District remain overbuilt, residential construction has shown marked improvement. Permits issued for residential construction in 1992 were the highest since 1986, the year in which the construction sector began its massive decline.

Differences between District construction and real estate and the corresponding national averages result primarily from timing. The District's real estate market collapsed in 1986, the year in which oil prices plummeted and the region's economy fell into recession. By the time national real estate property values tumbled in 1990 and 1991, property values were stabilizing in the District.

During the District's recession, construction employment—which had been stimulated during the early 1980s by tax advantages, a booming regional economy, and speculative excesses—fell almost 30 percent from its peak in 1984 to its trough in early 1989. District construction then began to rise, spurred by rising occupancy rates and stabilizing property values.

More recently, rising home values, lean home inventories, and low mortgage rates made 1992 the biggest year for residential construction in the District since 1986. Weakness in office markets kept the growth of commercial construction at a near standstill. Because the District has already adjusted to the low levels of commercial construction associated with weak office markets, however, the commercial sector is not the drag it is nationally.

Banking

The District banking industry is, on average, now healthier than its national counterpart. In the District, healthy banks hold 82 percent of total assets versus 65 percent nationwide. District banks are more profitable and generally hold lower percentages of nonperforming loans than their national counterparts. District banks show a lower propensity to lend than the average U.S. bank, however, holding only 45 percent of assets as loans versus 56 percent for all banks nationwide. Lending by Eleventh District banks has

not been as strong as the banks' capacity to lend would indicate, although recently, loans held at District banks have increased marginally.

Banking institutions in our region have been through very tough times. From 1982 through 1992, a total of 565 banks failed. A credit crunch and concerns about capital constraints on lending began in the Dallas District. The impact of the credit crunch on small businesses was long-lasting and severe. The dependence of small businesses on bank credit and the contraction of bank loans in recent years—partly as the unintended consequence of stricter regulatory oversight, increased deposit insurance premiums, and higher capital standards—may well explain some of the weak employment growth we have seen so far in this recovery.

Banking conditions improved slowly as insolvent institutions were closed, failing banks were resolved, and recapitalization occurred. While many factors have contributed to the credit crunch, it is clear that restoring capital to healthy levels is a necessary condition for bank lending to resume.

Regional Summary

Many of the same factors that are holding back employment growth in the nation during this recovery have had a similar effect in the Eleventh District. These factors include business restructuring and reduced defense spending. A stronger growth trend in the District than in the nation accounts for much of the region's stronger performance in creating jobs. For now, the disadvantages of having a higher concentration in the oil and gas industry than the national average are being partially offset by increasing trade with Mexico and an expanding construction sector.

The District's banks are healthier than the national average, but they have yet to become a factor contributing to stronger growth. Having sketched recent events in my region, I turn to the national economy and the appropriateness of monetary policy.

RECENT MONETARY POLICY

With regard to monetary policy, I believe that it has been accommodative over the past four years. Certainly, by conventional measures, monetary policy was not tight heading into the third quarter of 1990, when the Iraqi invasion triggered a recession. The federal funds rate had been declining for fifteen months and was down more than 150 basis points from its March 1989 peak. In mid-1990, the M2 money supply was growing at an annual rate of more than 5 percent, near the center of its 3 percent to 7 percent target range. Nominal aggregate demand was growing even more strongly, at an annual rate of more than 6 percent. The interest rate yield curve had been positively sloped for six months, and both the Commerce Department and National Bureau of Economic Research indexes of leading indicators were signaling continued economic expansion. Indeed, contemporaneous real-time data did not clearly signal that a recession had begun until the fourth quarter of 1990, at which point the Federal Reserve promptly initiated a new sequence of easing moves. In consequence, short-term interest rates declined an additional 100 basis points by the end of 1990, and monetary base growth surged to double-digit rates.

The oft-heard charge that the Federal Reserve's actions were "too little, too late" is not supported by the evidence. We cut the federal funds rate much more (17 percent) before the July 1990 business cycle peak than before any of the five previous business cycle peaks. Despite a pause in interest rate cuts during early 1990, the decline in the federal funds rate from April 1989 (when it began its descent) until March 1991 (at the business cycle trough) comes very close to the average percentage decline in the federal funds rate over comparable periods during other recent business cycles. The decline in long-term interest rates that accompanied the March 1989–March 1991 easing moves was also well within the range of past experience.

The total decline in the federal funds rate and the ten-year Treasury bond rate over this business cycle has now reached 70 percent and 29 percent respectively, compared with average total declines of 55 percent and 9 percent over the other five most recent cycles. Monetary policy was expansionary throughout the recession.

Late in 1990, as soon as it became apparent that the Gulf War, a spike in oil and gasoline prices, and a sharp drop in consumer confidence were dragging the economy down, the Federal Reserve took prompt action to maintain spending growth. Unfortunately, the lags between cuts in the federal funds rate and the economy's response are such that our actions were insufficient to prevent the economy from slipping into a recession.

THE SHIFTING COMPOSITION OF MONEY

In response to cuts in short-term interest rates, growth in narrow measures of money has accelerated markedly over the past four years. Growth in the M2 monetary aggregate, in contrast, has slowed.

It is not surprising that growth in the narrow monetary aggregates sped up relative to growth in broader

measures of money. As short-term interest rates decline, the opportunity cost of holding funds in checking accounts or even in cash declines. The growth rate of narrow monetary aggregates then accelerates. Because banks are required to hold reserves against M1 deposits but not against M2 deposits that are not part of M1, the impact of lower interest rates on the growth rates of reserves and the monetary base can be particularly striking.

The mystery is the magnitude of the absolute slowing of M2 growth. Historically, the velocity of M2 has moved very closely with short-term interest rates. However, this relationship began to deteriorate in 1990. The velocity of M2 has been substantially higher than expected, given recent declines in short-term interest rates. Indeed, the shortfalls in M2 and M3 growth from the midpoints of their ranges were more than offset by the increase in their velocities. In other words, hitting the midpoint of the target ranges with no change in velocity would have resulted in slower growth in spending and income than actually occurred.

The close historical relationship between interest rates, M2 growth, and nominal gross domestic product (GDP) growth, to some extent, is a product of hindsight. Before 1980, M2 as we now know it did not exist. In 1980, the Federal Reserve redefined M2 to include money products that were not previously included in published money numbers. Most notable among these were money market mutual funds, which if they had remained excluded from M2, would have lowered M2 growth by 2 to 4 percentage points during the quarters just before M2's redefinition. If M2 had not been redefined, the historical M2–GDP relationship would have appeared much looser.

Just as households in the late 1970s shifted their money out of traditional bank deposits into money market mutual funds, households today are shifting out of M2 deposits at banks and thrift institutions and into higher-yielding bond and equity mutual funds. Mutual fund asset management accounts, such as those offered by Merrill Lynch or Charles Schwab, enable households readily to transfer assets from bond and stock funds to checkable money market funds when needed. While stock funds carry much investment risk, bond funds—particularly bond funds investing in government and high-rated corporate bonds—are quite substitutable for M2 deposits and have grown very rapidly the past two years.

Research at the Dallas Fed indicates that redefining M2 to include bond funds held outside Individual Retirement Accounts and Keogh accounts by households would result in a monetary aggregate more closely related to its opportunity cost (that is, competitive interest rates) and nominal GDP than is M2 as currently defined. Indeed, such an expanded aggregate has grown about 2 percentage points faster than M2 in recent years—very much in line with recent growth in nominal GDP. Furthermore, the expanded aggregate has stayed near the middle of the growth cones implied by the Federal Reserve's M2 target growth ranges. This research suggests, then, that current monetary policy is appropriately expansionary.

For some time now, I have been warning that, in today's financial environment, disintermediation from the banking system is as likely to be caused by low short-term interest rates as by high short-term interest rates. In the past, a steepening of the yield curve brought about by a decline in short-term interest rates *stimulated* the growth of bank deposits—as bank deposit rates, tied to interest rates on relatively long-term loans, tended not to fall as much as the rates on short-term marketable securities. Over the past two and one-half years, however, households have responded to lower deposit rates and a steepening yield curve *not* by shifting away from short-term securities into bank deposits but by shifting away from short-term securities and deposits into bond market mutual funds and other investment vehicles, as well as by reducing consumer debt. These effects have been so strong that it is possible that further cuts in short-term interest rates would actually *shrink* the M2 money supply as that supply is currently measured.

Factors Contributing to the Sluggishness of the Recovery

Output growth during 1992 now appears to have been stronger than had been anticipated, GDP having increased at better than 3 percent. Growth during the second half of the year, at more than 4 percent, was particulary strong. Continued healthy output growth would be welcomed, particularly if accompanied by a more rapid expansion of employment. Unfortunately, as some members of this committee have noted, we have been in an output recovery but a jobs recession. My colleagues and I within the Federal Reserve System share your concern with this problem. Recent declines in initial claims for unemployment insurance and the lengthening average workweek provide reason to hope that employment growth will accelerate soon, and the unemployment rate will continue to fall.

The recovery was so slow to gain momentum, in part, because of the unusual composition of the declines in output and employment during this past recession. The overall percentage decreases in output and employment during the 1990 recession roughly match the average declines observed during other post–World War II recessions. For the industrial sector, however, the 1990 recession was the mildest

downturn in more than 100 years. (Rapid growth in U.S. exports, particularly to Latin America, played an important role in moderating the downturn in manufacturing.) Research at the Federal Reserve Bank of Dallas suggests that mild downturns in *industrial* output are followed by weak recoveries. The weak growth in output and employment that we observed in the industrial sector during 1991 and the first half of 1992 is consistent with these findings.

We in the Eleventh District know, firsthand, what it can mean to a region to have one of its principal industries experience hard times. For us, the industry was oil. Today, for many states, especially on the East and West coasts, the industry is defense. Over the long term, lower defense spending, like lower oil prices, will be good for the nation. Over the near term, however, defense spending cuts can be expected to cause the economies of some states to shrink while acting as a drag on growth in the nation as a whole. States that are most dependent on federal defense purchases have tended also to be the states that experienced the largest employment declines from July 1990, when the economy peaked, through January 1992, when aggregate employment reached bottom.

Finally, I would like to offer an observation on the federal budget deficit. Regardless of what one thinks of the specifics of the President's budget proposals, the President is to be commended for acknowledging that the deficit problem is real and initiating a serious debate over the best way to deal with it. The debate will necessarily be highly political as the country decides how to structure the deficit reduction package between spending cuts and tax increases. As Chairman Greenspan stated in his recent Humphrey–Hawkins testimony before this committee, how the deficit is reduced is important, but that it be done is crucial.

It would not be appropriate for monetary policymakers to get drawn into this political debate. I am sure I speak for my colleagues as well as myself when I say that whatever the ultimate fiscal outcome, we will do our best to support it with a monetary policy that is in the broad national interest. As far as I am concerned, the goals of the Humphrey–Hawkins law are our goals: "To maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate, long-term interest rates." □

Statement by Robert T. Parry, President, Federal Reserve Bank of San Francisco, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, March 10, 1993

I am pleased to appear before the Committee on Banking, Housing, and Urban Affairs to testify on economic conditions in the Twelfth Federal Reserve District and in the nation, as well as on the conduct of monetary policy.

This testimony first treats the recent economic performance of the District as a whole and then details activity in each of the nine states within the District: Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington. Charts of trends in population, personal income, employment and unemployment rates, and bank lending activity for the District and for each state, as well as tables detailing sectoral employment and construction statistics, are in the appendix.[1] The testimony concludes with a discussion of national developments and the conduct of monetary policy.

Twelfth Federal Reserve District

Employment in the District fell slightly between January 1992 and January 1993, as the weakness in California and Hawaii offset the moderate job growth reported in the other seven states in the District, including the more robust performances in Utah, Nevada, and Idaho.

The District's unemployment rate, which had been running in line with that of the nation over the last several years, was 8.7 percent in January 1993, or 1.6 percentage points above the national average. This high rate largely reflects California's 9.5 percent unemployment rate in January 1993.

The recession in the region was felt most strongly in manufacturing and construction, particularly in California. Manufacturing employment in the District has fallen 8.4 percent—a loss of 259,000 jobs since January 1991.[2] Construction employment has fallen even faster, dropping 12.8 percent since January 1991—a

1. The attachment to this statement is available from the Federal Reserve Bank of San Francisco, San Francisco, CA 94120.

2. Comparisons using data before 1991 should be viewed with caution. Employment data for California and the District are likely to be revised significantly to show fewer jobs before 1991. Changes in Bureau of Labor Statistics procedures revealed a serious overestimation of jobs in California before January 1991.

loss of 124,000 jobs. Between January 1992 and January 1993, the decline in manufacturing employment showed no sign of abating, as employment fell 3.2 percent; the decline in construction employment, however, slowed somewhat, to 3.0 percent.

Services and state and local government are the only sectors to have reported steady job gains since January 1991. Between January 1991 and January 1993, employment in those two sectors rose 3.0 percent (159,000 jobs) and 6.0 percent (164,000 jobs) respectively. Growth in these sectors has slowed recently; employment in January 1993 was up 2.2 percent in services and 0.4 percent in state and local government from the levels of a year earlier.

Most other sectors have shown weakness in the District as a whole. The utilities and communications sectors have been downsizing, resulting in considerable employment declines. The finance, insurance, and real estate sector also has reported net job losses over the past few years because of weakness in real estate and the consolidation of the banking industry, although this sector did show a modest gain over the twelve months ending in January 1993. Trade employment also has been a major source of job losses as a consequence of weak consumer spending and consolidation of the retail sector. Employment in trade declined 0.2 percent in January from the level of a year earlier, bringing the level of employment down 1.3 percent from the level in January 1991. Federal government employment also contributed to weakness in the District, falling 1.9 percent between January 1992 and January 1993.

Weakness in the District was mitigated somewhat by growth in activities related to foreign trade. For example, total import and export traffic in California rose to $192.5 billion in 1992, an increase of 10.1 percent over 1991 and an increase of 16.2 percent over 1990. Oregon and Washington also have seen growth in import and export traffic, although not at the pace of California.[3]

The performance of the banking industry in the District has been mixed. Earnings ratios at California and Arizona banks were below the national average last year, while the other states in the District posted very strong earnings. Banks in California, Nevada, and to some extent Arizona, continued to have relatively high volumes of problem loans. Lending at commercial banks in the District, which held up very well in the recent recession, has deteriorated in the past couple of years, though banks in a number of states have continued to expand loans.

3. These data refer to customs districts.

Alaska

Alaska's dependence on oil, fisheries, and other natural resources makes its economy the most volatile of the Twelfth District states; it is subject to large swings in economic activity related to commodity prices but is relatively unlinked to national business cycles. During the 1989–92 period, employment growth was 4.5 percent in 1989, 6.1 percent in 1990, 2.1 percent in 1991, and 0.5 percent in 1992. The unemployment rate in January 1993 stood at 8.4 percent—below its year-earlier level of 9.5 percent. Some of Alaska's recent volatility is attributable to the activity stimulated by the 1989 oil spill and the associated clean-up and payments. Thereafter, however, several basic industries were hampered, making economic activity more sluggish.

In contrast to the weakness in 1992, employment rose sharply in January 1993, to a level 2.1 percent above a year earlier. Manufacturing employment rose 4.0 percent, reflecting strength in durable goods employment. Pulp and paper employment, however, showed little change over the year, and seafood processing employment declined 8.5 percent after rapid expansion in previous years. The fall-off in seafood processing was due, in part, to lower-than-normal catches of pink salmon.

A 5.9 percent decline in mining employment over the year reflects the sluggish world demand for minerals, and energy exploration remains constrained by environmental considerations. However, there are some plans for energy development in 1993, including construction of a gas reinjection facility on the North Slope. A discovery in the Beaufort Sea is potentially large enough to justify a sixty-mile connection to the Alaska Pipeline.

Finally, sluggish construction employment reflects the overall slow economy. A pickup in residential building permits (26.5 percent) and nonresidential construction awards (414 percent) in January 1993 from a year earlier, however, suggests that 1993 may see some improvement in this sector.

Sectors showing job growth over the twelve months ending January 1993 included transportation (1.6 percent), trade (1.5 percent), services (3.4 percent), and federal employment (3.2 percent). With respect to government employment, however, uncertainty exists as to the impact of further defense cutbacks on military bases that have so far survived. Furthermore, sluggish conditions in energy markets are restraining the main source of state government financing—oil revenues—and are constraining state government employment to zero growth.

Despite the sluggish economy, banking conditions in Alaska are relatively good. The return on assets (1.61

percent) and return on equity (12.67 percent) were above the national averages (0.93 percent and 12.24 percent respectively).[4] At the end of last year, problem loans at large commercial banks stood at 2.3 percent of total loans, compared with a national average of 5.1 percent, and are below the national average in all major categories.[5] Bank lending in the state also has held up in the past couple of years compared with bank lending nationwide.

Arizona

Arizona's economy posted solid employment gains in the past year, with employment in January up 2.6 percent from the level of a year earlier. The economy has shown job growth in the services sector and in construction, while manufacturing has continued to slide. The unemployment rate for the state has risen in recent months. In January, the unemployment rate stood at 8.0 percent, having risen steadily from 6.5 percent in September 1992.

Construction activity has become a relative bright spot in Arizona, with employment up 7.3 percent between January 1992 and January 1993. Construction employment is up to 83,000 workers, the highest level since 1990. This increase represents a gain of 6,000 workers since the bottom of August 1991. Compared with the peak reached in January 1986, however, employment is down 29.5 percent (34,400 jobs).

The recent gains in construction employment in the state are attributed to growing strength in the residential market, particularly in Tucson. It appears, therefore, that the long construction recession in Arizona that followed the overbuilding in the mid-1980s may be ending. During that period, residential and nonresidential construction fell sharply. Raw land prices fell as much as 70 percent in some areas. The overbuilding was largely the result of over-optimistic population projections. Population in Arizona grew about 4 percent in the mid-1980s, but the pace was slower in 1990 (1.6 percent), 1991 (1.8 percent), and 1992 (2.6 percent, estimated). Downtown office vacancy rates remained high in Phoenix and Tucson at the end of 1992, however, at 24.7 and 24.8 percent respectively, compared with an average national rate of 17.6 percent.

Manufacturing in Arizona has been suffering through defense-related cuts, with employment falling 10.2 percent (19,000 jobs) since the peak in June 1988. Aerospace employment has been hit the hardest, with employment down 17.1 percent since peaking in July 1990, but closure of other high-tech facilities (including IBM) also has contributed to the sector's weakness.

The Tucson area is expected to benefit (in a relative sense) from further consolidation of the defense and aerospace industries now located in California. Hughes has announced plans to consolidate its missiles division in the Tucson area (largely transferring weapons programs currently located in San Diego that were acquired from General Dynamics), and it is considering moving other units there as well.

In contrast to manufacturing, trade employment rose 2.1 percent between January 1992 and January 1993, services employment rose 4.4 percent, and state and local government employment rose 3.3 percent.

The foreign trade picture also looks like a source of new strength in the near term. Trade with Mexico has been rising sharply in recent years, boosted during the 1980s by the growth of the maquiladora (or "twin plant") program along the border. In 1992, trade with Mexico reached $983 million, or 20 percent of Arizona's total exports. Most contacts from the region report high expectations of further trade gains with Mexico, particularly if the North American Free Trade Agreement is ratified.

Part of the explanation for the weakness of some sectors of Arizona's economy involves links to the Southern California market. Southern California is the largest market for goods and services from Arizona; many key firms operating in Arizona are headquartered in California, and California is the source of many of Arizona's tourists. Thus, weakness in California is having a direct impact on growth in Arizona.

The banking sector is reflecting some of the changes under way in the Arizona economy. Improving conditions in real estate can be seen in a decline in problem loans in that sector. In the fourth quarter of 1992, problem loans at large commercial banks equaled 4.7 percent of all loans, and 6.7 percent of real estate loans were problem loans. This contrasts with the 5.0 percent and 9.1 percent ratios reported at the end of 1991. Equity capital at Arizona banks rose in 1992, while return on assets jumped to 0.33 percent, compared with only 0.18 percent a year earlier. Total bank loans were unusually strong in the early 1990s, boosted, in part, by credit card operations as well as by bank acquisitions of savings and loan associations. In 1992, the disposition of assets in connection with bank mergers appears to have contributed to a decline in the reported volume of total loans in the first part of the year. In the second half of the year, total bank loans rose somewhat. The volume of business loans held by commercial banks declined in the first three quarters

4. The data on commercial banks for the fourth quarter of 1992 are preliminary.

5. The data on problem loans are for banks with assets of more than $300 million. "Problems loans" are defined here and throughout the testimony as thirty days or more past due and as nonaccrual loans.

of 1992 but showed some signs of life in the last quarter of the year.

According to the Arizona Blue Chip forecast, Arizona's economy is expected to pick up in 1993. The consensus forecast predicts job growth of 2.4 percent and real personal income growth of 3.3 percent, boosted by continued strength in retailing and in the housing sector.

California

California is in its longest and deepest recession since World War II, and the first since 1970 in which its performance has been worse than the nation's. The state has lost more than 568,000 jobs since January 1991, a decline of 4.7 percent.[6] Although employment nationally grew 0.9 percent between February 1992 and February 1993, California's employment declined 1.3 percent, a loss of 182,000 jobs. Even in the robust job report of February, in which national employment rose by 365,000, California's employment fell by 4,600. Moreover, the unemployment rate remains stubbornly high, at 9.8 percent in February 1993. Construction and aerospace have gotten much of the blame for the state's economic troubles and with good reason.

The defense sector has been hit hard by cutbacks. Real defense spending in California has fallen 13 percent since its 1988 peak. Aerospace employment has fallen 28.2 percent since the beginning of 1991—a loss of 65,000 jobs. The role of defense cuts in this recession brings to mind the cycle of 1970, when a national recession was accompanied by the defense cutbacks associated with winding down the Vietnam War. In that episode, cutbacks in California's defense spending continued until 1975; yet California began its recovery in February 1971, just two months after the U.S. economy began to expand in December 1970. At that time, defense accounted for 11½ percent of the state's production, much more than the 7 percent defense provides today. So, even without a pickup—or even a leveling off—in defense spending, California managed to stage a robust recovery. This suggests that if defense cuts were the state's only problem, then California's economy would be expected to recover along with the national economy.

But there are other problems as well. Construction and real estate also have been hit hard this time around. More than a quarter of the construction jobs (31 percent) that existed in California in January 1991 are gone today. This amounts to 140,000 jobs lost. Residential construction activity has fallen sharply. In 1992, the number of housing permits issued in California was just a little more than one-third of the 1986 peak, and the number of existing homes sold was well below the 1989 peak. In addition, home prices have fallen significantly in many parts of the state.

Commercial real estate is in even worse shape, with high vacancy rates and low absorption in many markets. Property values in some cases are reported to have fallen below replacement cost. Moreover, rents for some office buildings are barely covering *operating* costs. Consequently, very little commercial space is being built at present.

California real estate and construction activity is likely to remain weak during the next few years, mainly because the commercial real estate sector suffers from serious overbuilding. Nevertheless, an increase in the number of large commercial sales in recent months provides some encouragement that conditions in some markets may be stabilizing.

There are some promising signs on the residential side as well. Lower interest rates are strengthening residential sales. The number of home sales in the state is well above what it was a year ago. And some improvement in residential construction is noted. Although the number of housing permits issued has been declining more or less continuously since the beginning of 1990, the consensus forecast is that the number will be almost 20 percent higher in 1993 than it was in 1992.

One consequence of the stress in California real estate is the burgeoning number of problem loans for banks in the state. For example, in the fourth quarter of 1992, large California banks' problem loan ratio for commercial real estate loans was 9.5 percent, much higher than the national ratio of 6.7 percent. As a result of the large volume of troubled loans, California banks have had to set aside significant loan-loss reserves, which has affected earnings. The return on assets (ROA) for all California banks was a modest 0.58 percent in 1992. That compares with a good ROA of 0.93 percent for large banks nationally. Earnings problems have been especially evident among community banks (assets less than $300 million) in Southern California, which as a group posted a net loss for 1992. Last year also marked the second year in a row that loans at commercial banks in California contracted more sharply than they did nationally. The decline during the past two years offset the relatively high lending activity at banks in the state during 1990.

A host of public sector issues has moved to center stage as much of the state's economy has become more and more troubled. Foremost among them are budget problems for state and local governments.

6. This testimony compares California employment data between January 1991 and February 1993. According to current official data, California's employment peaked in May 1990. However, comparisons with pre-1991 data should be viewed with caution (see note 2, p. 453).

Projections suggest that putting together a budget will be as difficult this summer as it has been for the past two years. In addition, concerns about the state's business climate have increased in recent years. Critics cite a costly and inefficient workers' compensation system as well as stringent environmental regulations and bureaucratic "red tape."

While a few sectors have been cited as the major sources of California's weak performance, the weakness in employment is actually quite broad-based, extending to a wide range of service, manufacturing, and financial industries. Wholesale and retail trade lost 132,000 jobs, a 4.5 percent decline since January 1991, and non-aerospace manufacturing lost 172,000 jobs, a 9.3 percent decline.

One somewhat mitigating factor in the state has been the expansion of international trade, thanks to the importance of the state's ports in facilitating that trade. In 1991, Los Angeles reported import–export traffic of $121.8 billion, 12.4 percent of the nation's total. San Diego reported another $10.2 billion (1 percent of the nation's total), while San Francisco handled $60.5 billion (6.2 percent of the total).[7] In 1992, the state as a whole saw an increase in import–export traffic of 10.1 percent.

Most of the state's weakness has been relatively concentrated in Southern California (Los Angeles, Orange, Riverside, Ventura, San Diego, and San Bernardino counties). In Los Angeles County, where the job losses have been greatest, the number of jobs is now 7.2 percent lower than it was in January 1991. Job losses are worse in Southern California, partly because construction and real estate problems have been more severe in this region and partly because defense is a much more important part of the economy in Southern California than it is in most other parts of the state. But as has been the case statewide, Southern California has seen employment decline across a broad range of industries, including services, retail trade, financial services, and non-aerospace manufacturing.

Other parts of California have fared better than the southern part of the state, but they are hardly immune from stress. For example, the greater San Francisco Bay Area continued to grow for a few months after Southern California turned down. Since January 1991, the Bay Area has lost about 4½ percent of its jobs; this is still worse than the national economy, where employment growth has been flat since January 1991. And in recent months, a larger share of the state's job losses are outside Southern California. Southern California accounted for 84 percent of total job losses from January 1991 to April 1992, but in the more recent period between April and December 1992, it accounted for only 60 percent of the losses.

Downward adjustments in defense are likely to last for a few more years, and problems in commercial real estate are expected to last even longer. The state government is going to face difficult choices, which seem certain to complicate California's short-term problems. The main positive factors for significant improvement during the next couple of years are the improved demand from the national economy and expanding international trade that will continue to boost trade-related business, particularly in Southern California. Moreover, population growth in 1992 was estimated to have been 2.2 percent, double the national rate.

Hawaii

The Hawaiian economy has been hit hard since the last recession began. After registering year-over-year employment growth in the late 1980s in the range of 4 percent to 6 percent, employment has declined. In January 1993, employment fell 1.4 percent below the level of a year earlier.

Weakness in employment has raised the state's January unemployment rate to 4.0 percent. While unemployment is low relative to the levels of most states, it is high relative to the 2.0 to 2.5 percent rates registered before the recession began.

Weakness in the economy can be traced directly to the factors that contributed to the recession in the rest of the country. The onset of the Gulf War had an immediate impact on tourism, leading to monthly employment declines in February, March, and April 1991 at annualized rates of 5.6, 1.6, and 3.1 percent respectively. Part of this effect can be traced to a sharp reduction in visitors from Japan, where public policy discouraged travel to Hawaii during the hostilities.

Growth in tourism resumed after April 1991 but at a more subdued pace. Analysts in Hawaii attribute this weakness to the national recession, which caused travel plans to be curtailed. Especially important to tourism trends was weakness in California, which contributes as much as 30 percent of the mainland visitors to the islands. Weakness in California and slow growth in the rest of the country continued to keep tourism down in Hawaii in 1992. As a result, the state's overall employment declined in all but four months during 1992.

Two additional factors adversely affected the state's employment growth during the year. First, the "airfare wars" in the summer of 1992 did not include the Hawaiian routes. Consequently, Hawaii suffered from a relative price disadvantage that favored mainland destinations. Second, Hurricane Iniki caused major

7. These data refer to customs districts.

damage to Kauai, forcing a large number of cancellations. Partially as a result of these factors, nominal personal income dropped at an annualized rate of 6.6 percent between the second and third quarters of 1992.

Problems in Japan also have had widespread impacts on the Hawaiian economy. Japan's financial market difficulties have had direct repercussions on nonresidential construction activity in Hawaii. Construction employment fell 4.7 percent in January 1993 from the level of a year earlier, despite rebuilding efforts associated with Kauai. Housing prices have remained high (the fourth quarter 1992 median price of $352,000 in Honolulu remains by far the highest in the country), but appreciation has slowed. Moreover, although visitor counts from Japan have generally held up (except during the Gulf War), there is growing concern that, with rising job insecurity in Japan, Japanese tourists may begin to grow more cautious.

Some recent signs of improvement are noted in the construction sector, however. During the twelve-month period ending in January, the number of residential permits rose 49.8 percent. The value of nonresidential construction awards jumped sharply after the hurricane, although the value of new awards has returned to more normal levels since October. These trends offer hope for renewed construction employment during 1993.

Employment declined in most major sectors between January 1992 and January 1993. Employment fell 3.8 percent in the federal government sector (which accounts for a relatively large 6.2 percent of the total work force in Hawaii), 3.1 percent in trade, 2.0 percent in manufacturing, and 1.3 percent in services. State and local government employment rose 1.6 percent during this period.

The ratio of problem loans has risen slightly at Hawaiian banks, but conditions remain strong relative to other states in the District. Data for large commercial banks in the state show the problem loan ratio for all loans rising to 3.1 percent in 1992 from 1.7 percent a year earlier. However, the return on assets in 1992, 1.13 percent, was about the same as in 1991. Lending at commercial banks in Hawaii expanded much more rapidly than it did nationwide during the past two years, although loan growth in the state was below the very rapid pace set in the late 1980s and in 1990.

Idaho

The Idaho economy has been one of the strongest performers in the District—and in the nation—in recent years. The state has successfully attracted manufacturing activity, and a growing influx of population has created a construction boom.

Employment in Idaho grew 3.9 percent between January 1992 and January 1993, continuing the strong pace of growth reported in 1991 (3.4 percent), 1990 (4.6 percent), and 1989 (5.4 percent). Of particular note were the 5.1 percent expansion in manufacturing jobs and the 16.0 percent expansion in construction employment, which contrast strongly with negative trends seen in these sectors in the District as a whole. Reflecting the strong jobs performance, the Idaho unemployment rate stood at 6.4 percent in January 1993.

Growth in Idaho manufacturing in 1992 occurred principally in durable goods industries, which saw employment expand 8.4 percent. Particularly strong job growth was seen in industrial machinery (22.3 percent) and electronic equipment (6.4 percent). Nondurable goods industries registered 2.6 percent growth, reflecting relatively weak conditions in food processing and pulp and paper. Printing and publishing employment rose only 0.2 percent over the year, while food processing employment fell 0.6 percent. Contacts report that the strength of Idaho manufacturing is due, in part, to firms moving in from other states.

Relatively low housing and labor costs continue to attract manufacturing firms to the state. Median house prices are appreciating at a rapid rate but remain below the national average. For example, the median home price in Boise rose nearly 11 percent in 1992 but stands at a moderate $87,300, compared with the national median price of $103,900. Larger price increases, however, are reported for other communities, especially in northern Idaho.

Other sectors showing growth in January 1993 from the level of a year earlier include trade (4.0 percent) and services (4.6 percent). The growth in services, in part, reflects growing tourism. Sectors that are faring less well include mining, timber, and food processing. Employment in mining—chiefly silver, gold, and phosphates—has declined steadily since 1990, reflecting weak mineral prices; in January 1993, employment was down 4.0 percent from a year earlier. Employment in lumber and wood products rose 5.9 percent in 1992, but that level is down 9.7 percent from its peak in March 1990.

Idaho's agricultural sector has performed reasonably well, especially considering the drought conditions that have affected several western states in recent years. In the 1992 water year, Idaho received only 29 percent of its normal precipitation, the lowest on record. Reflecting reduced production, total farm income in 1992 is expected to decline somewhat from 1991's level. Heavy precipitation in winter 1992–93, however, has significantly alleviated the water short-

age and promises a favorable outlook for 1993. In addition, rising potato prices are supporting the farm sector.

The overall health of the Idaho economy is reflected in favorable conditions in banking. At the end of 1992, problem loans at large commercial banks stood at 2.1 percent of loans, compared with a national average of 5.1 percent. Bank profitability in the state also was high last year, with a return on assets of 1.24 percent compared with a national average 0.93 percent. Growth in loans, including business loans, at Idaho's commercial banks has been well above the average for the nation in recent years.

Nevada

Economic activity in Nevada has grown throughout the national recession and weak recovery period. In January 1993, the Nevada economy posted a 4.4 percent employment gain from the level of a year earlier, with strong gains registered in September, November, and January.

Nevada's unemployment rate has tended to remain below the national average in recent years. It rose to a high of 7.5 percent in August 1992 but has subsequently fallen. In January, the unemployment rate dropped to 6.8 percent.

Nevada's performance was strong, although highly variable, in the late 1980s, as year-over-year employment gains ranged from 4 percent to 9 percent until the end of 1989. Employment growth slowed during the Gulf War and the national recession, dropping year-over-year growth for the state to a low of 0.6 percent in January 1992. Since that time, employment growth has picked up sharply.

The construction industry has had the most dramatic variations, reflecting the start-up and completion of several major new casinos. Construction employment rose from about 25,000 in 1985 to more than 48,000 in early 1990. Employment dropped off to below 40,000 at the end of 1991 but climbed to more than 44,000 in January 1993, an increase of 11.4 percent.

Trade and services are especially important sectors in Nevada, accounting for 64 percent of total employment, compared with 50 percent of employment nationally. January 1993 data show trade employment up 2.7 percent over the levels of a year earlier. Services employment was weak in the middle of 1992 but increased sharply in January 1993, resulting in an increase of 3.6 percent over the level of a year ago.

Strength was reported in the state and local government sector, where employment rose 4.3 percent between January 1992 and January 1993. Employment has risen nearly 50 percent in that sector since 1985, with strong periods of gains mirroring the pattern of total employment.

Manufacturing employment in Nevada was positive, unlike most other parts of the District, rising 4.8 percent in January 1993 from the level of a year earlier. Manufacturing accounts for only a small share of the total economy in Nevada—4 percent of total employment—so the increase in employment translated into a gain of 1,200 jobs.

Employment in Nevada's finance, insurance, and real estate sector rose 5.2 percent between January 1992 and January 1993. The banking and finance sector reported an employment increase of 5.8 percent, and insurance and real estate posted a 4.8 percent gain. Moreover, Nevada's commercial banks reported improving conditions, with the return on assets rising from a strong 1.5 percent in 1991 to a very strong 2.9 percent in 1992, although the share of problem loans rose from 5.5 percent in 1991 to 7.2 percent in 1992. Loans at Nevada commercial banks have contracted sharply during the past few years. The data on outstanding loans, however, significantly overstate the weakness in lending activity. The level of total loans was affected by sales of credit card loans in 1990 and 1991. In 1992, such loan sales also apparently depressed the level of total loans at commercial banks in Nevada. In the case of business loans, loan reclassifications appear to account for much of the net decline over the past few years. Taking these special factors into account suggests that bank lending in Nevada in recent years has been much closer to the pattern observed nationally. More recent reports also suggest that bank lending activity has begun to pick up in the state.

Although Nevada's overall economy currently is reporting healthy growth, there are concerns about its near-term future. Construction activity has been very brisk, particularly in the construction of very large hotel–casinos. Construction employment accounts for 6.7 percent of the total work force. That compares with an average of about 4 percent nationally. The concern, therefore, is that some overbuilding may be occurring in the hotel and casino sectors. Investors appear to be looking for continued above-normal increases in population and tourism, which may or may not materialize. (Population growth in 1992 was estimated to be 4.0 percent.)

Nevada has attempted to diversify its economy away from gaming in recent years. The gaming industry accounts for 26 percent of all jobs in Nevada and contributes 41 percent of the state's general fund revenues. In fact, many of the new casinos are designed as theme parks targeted more at families. Nevada also has encouraged the migration of service-intensive firms, such as credit card processing and

telemarketing businesses. Nevada also hopes to expand its connections to Los Angeles, developing plans for a high speed train between Los Angeles and Las Vegas.

Oregon

Employment growth in Oregon was somewhat better than the nation's, although conditions in the state varied across regions and sectors. In general, service and technology-oriented urban areas had gradual expansion. Smaller towns dependent on the traditional lumber and wood-products industry, however, remained economically depressed.

Employment in Oregon rose 1.9 percent in January 1993 from the level of a year earlier, an improvement over the 0.2 percent decline seen in 1991. The expansion, however, is modest, compared with the 2.7 percent rise in 1990 and the 4.0 percent growth rates seen in the late 1980s. An influx of migrants from other states—including job-seekers from neighboring California—continues to swell Oregon's population and labor force. Reflecting both this immigration and the generally slow economy, Oregon's unemployment rate stood at 8.8 percent in January 1993.

The manufacturing sector was stagnant over the last year, as manufacturing jobs fell 0.4 percent between January 1992 and January 1993. Within manufacturing, however, conditions were mixed. In 1992, employment fell in industrial machinery (−1.1 percent), instruments (−9.6 percent), primary metals (−9.2 percent) and food products (−4.4 percent), while it rose in electronics (up 6.1 percent).[8]

Of particular note is the continuing decline of lumber and wood products and other industries reliant on timber supply. The sale of timber grown on public lands has been dramatically curtailed because of court-ordered environmental restrictions. Employment in the lumber and wood-products industry fell 2.3 percent between January 1992 and January 1993 and has declined 22 percent from its recent peak in mid-1989. Pulp and paper employment declined 2.1 percent between January 1992 and January 1993. Contacts report that small towns reliant on these industries are under severe economic stress with no relief in sight because of the continuing restricted supply of lumber.

Other sectors in Oregon are similarly mixed. Employment in January 1993 was down 3.6 percent in construction and up 0.5 percent in transportation from the level of a year earlier. Trade employment rose 2.5 percent, boosted by a 14 percent increase in the dollar volume of exports from the state. Robust conditions were recorded in finance, insurance, and real estate (FIRE) (3.4 percent) and services (3.8 percent). Tourism is reported strong. The robust FIRE and service job growth is centered in the larger urban areas. These sectors—together with stronger manufacturing sectors—have led to stronger economies in the larger cities relative to the small lumber-based towns. This strength is reflected in house price appreciation of 14.9 percent in Eugene and 11.9 percent in Portland in 1992. Overall residential building permits, however, were down 13.4 percent in 1992.

Despite the recent drought, agriculture in Oregon performed well, with tree fruit crops benefiting from extra sunshine. Reduced river flows, however, resulted in cutbacks in hydroelectric production; combined with a recent shutdown of a nuclear power plant, this forced utilities to purchase power from other states and raise electric rates. Heavy precipitation during the 1992–93 winter should help alleviate these conditions.

Also of concern for Oregon's immediate future are the issues of state and local government financing. Measure 5, a recently passed property tax limit, has resulted in financial stresses at all levels of government, particularly in education. Although there are efforts to find alternative funding sources, the process remains gridlocked.

Banking conditions in Oregon are good, despite the mixed economic picture. In 1992, the return on assets was 1.27 percent (compared with the national average of 0.93) and the return on equity was 13.44 percent (compared with a national average of 12.24 percent). Within loan categories, problem loans at Oregon commercial banks are below the national average in all sectors but agriculture. Total loan growth at commercial banks in Oregon was above the national average in 1992, although business loans at banks in the state contracted more sharply than they did nationwide.

In general, the outlook for Oregon's economy is favorable. It is less reliant on aerospace and defense-related industries than its neighbor states of Washington and California. Quality of life remains high, and living costs remain relatively low, attracting both workers and firms. Areas dependent on timber-related industries, however, face continued hardship for the foreseeable future.

Utah

Utah has enjoyed a period of prosperity during the past two and a half years, despite the weakness seen nationally. Utah's unemployment rate in January 1992 was relatively low, at 5.1 percent. Between July 1990 and January 1993, the number of jobs in Utah grew 7.9 percent, and during the past year, Utah employment

8. January 1993 data for these sectors are not yet available.

grew 3.4 percent. Perhaps even more impressive, 1992 was the fifth consecutive year during which employment in Utah grew 3 percent or more. That is the first time in more than fifty years that Utah has seen such an extended period of rapid growth.

The strength in Utah extends across most major sectors of the state's economy. Since July 1990 the number of jobs has grown 7.4 percent in wholesale and retail trade; 11.1 percent in finance, insurance, and real estate; and 13.6 percent in services. Growth has been rapid in the information processing industry, which includes catalog operations, credit card processing, and airline reservations. Software also has contributed significantly to the strong growth. Both WordPerfect and Novell are located in northern Utah, as are many smaller software producers. Moreover, software jobs pay about twice as much as the statewide average wage.

Tourism has provided an additional source of growth in recent years. One study estimated that tourism brought $2.9 billion into the state in 1991, providing 8 percent of the state's total jobs. A huge snowfall this winter should result in substantial increases in tourism this year, with skiers coming to the state to enjoy the first deep snows in several years.

In recent years, migration patterns have changed in Utah's favor. From 1984 to 1990, more people moved out of Utah than moved in. In contrast, both 1991 and 1992 saw nearly 20,000 more people move into Utah than move out. The net immigration accounted for more than two-fifths of Utah's population growth, boosting the total growth rate to more than 2½ percent in 1992.

Manufacturing activity has not fared as well as most other industries in Utah; manufacturing employment fell 1.7 percent in January 1993 from the level of a year earlier. Cutbacks in defense spending explain a good portion of the decline. Nevertheless, within the manufacturing sector—some industries showed gains—especially growth industries, such as airbags.

Construction employment in Utah has been quite strong, growing 36.2 percent since the middle of 1990. One reason for this performance is that Utah suffered through major real estate problems during the mid-1980s, which led to little building in the state and falling values. The limited building activity in the recent past and the population growth in Utah have led to very strong residential construction activity. Home values have risen about 10 percent in the Salt Lake City area during each of the past two years. Most of the construction has been single-family homes. In contrast, multifamily markets are just now reaching the point where the space built during the early 1980s has been absorbed. Residential markets still look solid. Vacancy rates are low, and credit quality in mortgage portfolios continues to be excellent.

In the nonresidential area, the past few years have seen significant building activity as well. Fewer large office buildings are likely to be built during the next few years, but a major renovation at the Kennecott Smelter near Salt Lake City is expected to pump around $800 million in construction spending into the economy during the next few years. In a state in which the annual value of nonresidential construction awards has totaled between $300 million and $400 million since 1987, the Kennecott project represents a major contribution to the state's economy.

One result of relatively strong construction activity and solid real estate markets is that financial institutions report good credit quality and strong earnings. At the end of 1992, large commercial banks in Utah had a problem loan ratio of only 2.1 percent, compared with 5.1 percent nationally. Credit quality was strong across a broad range of loan types. Moreover, profits of Utah banks were significantly better than the national average in 1992. While the return on assets (ROA) averaged a solid 0.93 percent nationally, ROA for Utah banks was much higher, at 1.51 percent. Lending activity at commercial banks in Utah over the past few years generally has been stronger than nationally, though this was not the case in 1992.

Over all, the Utah economy is in excellent shape, and the prospects for continued economic health during the next few years are good.

Washington

Washington's recent economic performance has slowed from the robust growth seen in the late 1980s. The state's economy—particularly in the Puget Sound area—has been hit recently by weakness in aerospace. Not all the reports are negative, however, as communities in eastern Washington are experiencing robust growth.

The number of jobs in Washington grew 1.8 percent between January 1992 and January 1993, reflecting a strong increase in January employment. This performance follows the weak 0.8 percent growth reported in 1991. These rates are significantly below the pace of 1990 (2.7 percent) and 1989 (5.8 percent). Reflecting this slower job growth, Washington's unemployment rate rose to 7.8 percent in January 1993, up from 7.0 percent a year earlier and 5.9 percent at the end of 1990. Despite the slow job growth, population growth—tied to continuing high levels of immigration—remains strong, with the labor force growing 2.5 percent in 1992. Population growth in 1992 is estimated to have been 2.3 percent. Weakness in employment is centered in western Washington, with employment in

Seattle falling 0.7 percent in 1992. In contrast, cities in eastern Washington are enjoying robust growth. The number of jobs in Spokane, for example, grew 2.8 percent in 1992.

The drop-off in Washington's jobs performance last year is largely attributable to a contraction in its aerospace-based manufacturing sector. The number of manufacturing jobs fell 1.9 percent in January 1993 from the level of a year earlier, after a 5.0 percent decline in 1991. Since peaking in April 1990, Washington's manufacturing sector has lost 31,000 jobs. (Between April 1990 and December 1992, aerospace employment declined by 9,000 jobs.) The majority of these jobs were linked to cutbacks at Boeing, where employment has dropped roughly 8,000 since Boeing's employment peaked in 1989. Furthermore, in mid-February, Boeing confirmed that it would eliminate 23,000 jobs in 1993 and another 5,000 during the first half of 1994. Of the total this year, 15,000 jobs will be cut in Washington State. These job reductions were widely expected after Boeing's announcement in late January that it would reduce production. The Boeing cutbacks are expected to have a negative impact on its suppliers, with layoffs already announced by smaller firms in Washington, Oregon, and Southern California.

Given the importance of Boeing for the Puget Sound economy, where it employs almost 100,000 aerospace workers, prospects for the company are watched carefully by regional analysts. In the short run, continued losses in the U.S. airlines industry and competition from overseas producers are undermining the $83 billion backlog of Boeing's "firm" orders. Several carriers have canceled or postponed delivery of jets in recent years. Responding to this slackening demand, Boeing has slowed production or is slowing production of all its airplane models, including the very profitable 747. Increased production in the near term is unlikely. Longer-run prospects for the company, however, are more favorable. Despite falling orders and competition from overseas, Boeing has maintained its traditional market share. In addition, the company is developing new fuel-efficient product lines tailored to the Asian-Pacific market, which is expected to be a major source of growth in air travel. The company also has begun discussions with European companies for joint development of a super jumbo carrier. While these developments bode well for the long-run survival of the company, current troubles in the airline industry suggest that cutbacks at Boeing will retard economic activity in Washington for the foreseeable future.

Outside aerospace, Washington's manufacturing activity is mixed. Compared with levels of a year earlier, employment rose 1.6 percent in industrial machinery and fell 3.4 percent in primary metals, 3.5 percent in instruments, and 2.7 percent in pulp and paper. Employment in lumber and wood products rose in January to a level of 3.2 percent above a year earlier, although employment was off 10.8 percent from the level reported in December 1989. The declines in the timber-related industries are linked to environmental limitations on harvesting from public lands and sluggish national demand. Other manufacturing sectors recording growth in the last year include electronics (0.9 percent), food and kindred products (3.0 percent), and fruits and vegetables (0.7 percent). Contacts report that prospects are good for high-tech sectors such as biotechnology and computer software production.

Other sectors outside manufacturing also are registering mixed performance. As in other District states, employment was down in mining (−3.1 percent) in January, compared with that of a year earlier. Employment also contracted in finance, insurance, and real estate (−0.7 percent). Job gains, however, were recorded in trade (2.5 percent), services (3.9 percent), and state and local government (3.1 percent). The agriculture sector in Washington has performed well in recent years, despite the drought that affects several western states. Recent precipitation has improved prospects for next year.

Washington's construction and real estate markets are mixed. Construction employment rose 2.4 percent in January from the level of a year earlier, as strength in residential construction offset continued weakness in nonresidential real estate. The strength in residential construction—driven in part, by needs to house Washington's growing population—is expected to continue into 1993. Residential permits at the end of 1992 were up 26 percent from their year-earlier level. In contrast, nonresidential construction awards were down 17.6 percent from a year earlier.

Much of the strength in Washington's construction remains centered in the eastern part of the state, where contacts report a construction boom in cities such as Spokane. House prices in Spokane appreciated 18 percent in 1992—driven by demand from immigration—but the median home price remains at a relatively affordable $80,000. Residential median sales prices in Seattle moved up slightly in the second half of 1992, after remaining flat for much of the previous two years, and stand at $147,000. Contacts attribute the relatively robust growth of central and eastern Washington to factors including affordable housing, immigration of firms from higher-cost states, and in the tri-cities area (Richland, Pasco, and Kennewick), a large multiyear clean-up project for the Hanford nuclear facility.

Washington's banking sector is performing well. Commercial bank profits in the state were above the national average in 1992, with a return on assets of 1.17 percent (versus 0.93 percent nationally) and a

return on equity of 13.16 percent (versus 12.24 percent nationally). At the end of 1992, problem loans at large commercial banks stood at 4.7 percent of assets, below the national average of 5.1 percent and below the national average in all sectors but construction and farm loans. Problem construction loans—reflecting weak conditions in nonresidential real estate—stood at 19.1 percent versus a national average of 16.5 percent at the end of 1992. This ratio for banks in Washington was higher than for all other District states except California. Commercial bank loan growth has been sluggish during the past two years but still has outpaced the growth in bank lending nationwide.

National Economic Developments and Monetary Policy

Analyses of the various regions of the country that are provided by all twelve of the District Bank presidents play an important role in formulating monetary policy. Taken together, these analyses help form an understanding of developments in the U.S. economy by providing an up-to-date, detailed base of information that supplements published national statistics. Because the tools of monetary policy—open market operations, changes in the discount rate, and occasionally, changes in reserve requirements—affect the economy broadly, the focus of policy must be on the national economy as a whole. Policy actions are transmitted to the economy through highly efficient and integrated national financial markets. Credit is allocated according to the private decisions of the many lenders and borrowers in these markets. The efficient allocation of credit in financial markets is an important element determining the efficiency with which our market economy operates.

Thus the Federal Reserve's actions in the markets affect the *overall* level of interest rates and availability of credit but are not aimed at how that credit is allocated. While each region of the country is affected by interest rates and the overall amount of credit available in the national economy, the effects of policy cannot be directed to particular geographical regions or industries.

Current economic conditions in California provide a good illustration of this point. As discussed above, the recession in California is strongly related to a number of "structural" problems, including the cutbacks in defense spending and the need in recent years to reduce the large state budget deficit. These problems will be helped by the national recovery that is under way. Stronger national economic growth will create more jobs to absorb displaced defense workers, and will reduce the budget deficit by raising state tax receipts. However, monetary policy is not an effective vehicle for directing credit to these particular sectors. My views on monetary policy must be based on an understanding of national economic conditions—an understanding that is enhanced by my regional perspective as well as by those of the other Reserve Bank presidents.

With respect to current monetary policy, our goal as always is to promote the maximum standard of living attainable for our citizens over the long run. In recent years, this has meant mitigating the size of the cyclical downswing through reductions in interest rates. However, in the long run the most significant contribution we can make to economic growth is by providing a low-inflation environment, and we have made progress in that area.

In formulating policy, we have faced several challenges recently, not the least of which has been the deterioration in the relationship between the monetary aggregates and spending on goods and services. Last year, both M2 and M3 grew sluggishly; at the same time, the pace of economic activity picked up, which meant that the velocity (spending per dollar) of both aggregates rose sharply, well above what historical relationships would suggest. The misleading signals provided by these aggregates mainly seem to reflect a desire by the public to hold liquid funds in high-yielding stock and bond mutual funds as well as to pay down consumer and mortgage debt. More strict supervision and regulation of depository institutions, which are essential to the long-run health of the industry, also may have contributed to the slow growth in M2 and M3. However, to a large extent, financial markets have been able to direct credit through channels other than the banking system so as to mitigate the effects of restructuring on overall economic activity.

Last year, we had to look beyond the aggregates in the formulation of monetary policy to a broad range of economic and financial indicators. Had policy in 1992 been aimed at pushing M2 and M3 up into their ranges, policy would have been so expansionary as to have risked eliciting fears of higher inflation. The response of financial markets to the possible inflationary consequences of overly expansionary monetary policies puts a limitation on how much the Federal Reserve can do to stimulate the economy. When it appears that the Federal Reserve is going too far in easing short-term interest rates, long-term rates rise, which is counterproductive to efforts to stimulate the pace of economic activity.

Thus, the Federal Reserve has had to find a delicate balance in recent years, allowing short-term interest rates to fall enough to promote economic expansion but not so much as to risk higher inflation. Developments in 1992 and thus far this year suggest that our efforts are paying off. The U.S. economy moved into a

phase of sustained expansion last year, after the period of recession and slow growth in the preceding two years. The 3 percent growth in real GDP for last year as a whole was modest compared with what typically occurs in the early stages of expansions; however, it compares favorably with the 2 percent pace that appears to be sustainable for the U.S. economy in the long run and was well ahead of growth in most industrialized economies abroad.

The expanding economy last year generated growth in jobs, although at only a moderate pace, as the productivity of the work force registered large gains. However, the strong surge in jobs in February is encouraging. Moreover, the civilian unemployment rate *did* peak in the middle of 1992 and has been on a downward path since then. These declines are in line with what would be expected based upon historical relationships between real GDP growth and changes in the unemployment rate, suggesting that substantial further declines in that rate can be expected as the expansion continues. Price developments last year were favorable. Excluding food and energy, consumer prices rose at a 3 percent rate, the lowest in twenty years.

I expect the patterns established in 1992 to continue this year and beyond, with moderate growth in real GDP accompanied by gradual declines in both unemployment and inflation. I believe that a major factor behind these favorable developments is the prudent easing of monetary policy that has been implemented to date. □

Statement by David W. Mullins, Jr., Vice Chairman, Board of Governors of the Federal Reserve System, before the Subcommittee on Telecommunications and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, March 17, 1993

I welcome this opportunity to discuss legislative initiatives concerning the government securities market. By my count, this marks the ninth time since Salomon Brothers' admission of wrongdoing that I have delivered testimony on this subject before a congressional panel. In my view, enough is at stake, particularly in terms of financing the federal deficit, to warrant this close scrutiny. The interest cost of the federal debt depends on the rates when securities are first auctioned, while this committee's mandate concerns secondary market trading in government securities. But that is not a realistic distinction in practice because the Treasury's ability to tap funding sources in the primary market depends critically on the assurance of smooth trading in the secondary market.

DEVELOPMENTS SINCE AUGUST 1991

Over the past one and one-half years, the Board of Governors, the Federal Reserve Bank of New York (FRBNY), the Treasury, and the Securities and Exchange Commission (SEC), among others, have devoted considerable attention to the government securities market. An important initial product of that work was the *Joint Report on the Government Securities Market*, which contained a comprehensive survey of the market and a detailed plan for correcting the problems that had been identified. Much of the plan delineated in the report has been put in place. After having consulted with the other agencies, the Treasury implemented redesigned auction procedures and rules to eliminate the possibility of a recurrence of the abuses committed in the Salomon Brothers episode. With the help of staff members at the New York Fed and the Commodity Futures Trading Commission (CFTC), the Board, the Treasury, and the SEC formed an Interagency Working Group on Market Surveillance. As a result, enforcement responsibilities and procedures have been clarified and intensified. After careful study, the Treasury commenced a yearlong experiment with auction technique, and the FRBNY has made considerable progress in automating the auction process. In addition, the New York Fed has adopted changes in the administration of its relationship with primary dealers and is in the process of revising the information that it collects from them.

Meanwhile, staff members at the various agencies, as well as academic researchers, have studied the relationship between prices in the cash and financing markets. This research has produced techniques to identify rate anomalies that could be associated with squeezes. And the Treasury has shown a willingness to act through supply management when market prices suggest a serious shortage. Last year, one issue, a ten-year note, was reopened under the policy articulated in the *Joint Report* for addressing an "acute, protracted" shortage. Under the threat of Treasury reopenings, no market participant can be confident of profiting by cornering the market in a Treasury issue. Thus, the government securities market has already been subject to substantial change and to intensified scrutiny on an ongoing basis.

This extensive, in-depth analysis has increased my respect and appreciation for this financial marketplace. In this regard, the U.S. government securities

market has no rival. This market is the deepest and broadest of all securities markets, offering widespread economic benefits by permitting transactions of enormous size to be conducted at razor-thin bid–ask spreads. In general, the governmental initiatives undertaken to date with respect to this market have not been intrusive or especially costly and thus have been consistent with its continued efficiency.

What is Needed

In weighing the need for additional legislation, the Board of Governors believes that the best, most efficient, and equitable laws and regulations are drawn up to address specific problems. This is why, in the Board's view, the timely enactment of the legislative agenda outlined in the *Joint Report* would serve the nation's interest. This agenda—reestablishing the Treasury's rulemaking authority for the government securities market and perhaps eliminating the prohibition on the National Association of Securities Dealers (NASD) to specify sales practice rules for members participating in this market—would complement the administrative actions that have already been put into motion. Unfortunately, H.R.618 goes far beyond this recommendation by introducing potentially confusing and possibly overlapping lines of authority among the agencies, by erecting a regulatory apparatus that is more appropriate for equity markets, and by creating the potential for bureaucratic judgment to substitute for the market determination of the flow of pricing information. These actions would raise the cost of participating in the government securities market precisely when our federal finances are critically reliant on worldwide market acceptance for the Treasury's massive debt issuance.

The Board of Governors does not believe that the evidence supports the case for the sweeping changes in regulatory practices envisioned in this proposed legislation. In our view, the record over the past 1½ years and a careful weighing of the costs versus benefits would not warrant such steps. The incidents that have come to light are apparently related to individual ethical lapses that are unfortunately all too common when money changes hands. From what is known thus far, it appears that the existing body of laws and regulations has proved sufficient to mete out punishment to the guilty. While there are reports that criminal investigations may have been made more difficult by shoddy bookkeeping practices at some government securities brokers and dealers, recordkeeping at most of those entities is already covered under the existing regulatory umbrella. The measures already implemented, including stricter enforcement and more uniformity in interpretation of the existing rules by self-regulatory organizations and regulatory authorities that administer the rules, should smooth the way in investigating potential abuses. Of course, such improvements within the current regulatory framework would be made easier if the Congress acted to restore the Treasury's rulemaking authority for government securities brokers and dealers, which lapsed in 1991.

The Board of Governors believes that a decisive case has not yet been presented for adding statutory requirements on sales practice rules. If the Congress deems that a provision for sales practice rules is necessary, this could be obtained by simply removing the prohibition on the NASD from applying its sale practice rules to government securities transactions. This would bring NASD firms into line with procedures at New York Stock Exchange member firms, extending sales practice rules to all nonbank brokers and dealers.

What Is Not Needed

Compared with H.R.618, the legislative agenda outlined above is narrower and, in our view, better targeted. It appropriately recognizes the substantial administrative changes already set in motion as well as the unique nature of the government securities market. In the view of the Board of Governors, more sweeping and intrusive action does not stand the scrutiny of rigorous cost–benefit analysis. This was our judgment at the time of the writing of the *Joint Report*, and events since then have only strengthened this conclusion.

There is no evidence of market failure that would warrant the significant overhaul envisioned in H.R.618. In a market in which so much money changes hands so quickly, even the whiff of illicit activity would inspire a chorus of complaints and withdrawals from trading. In fact, bid–ask spreads remain narrow, volume remains heavy, and there have been no notable changes in the ranks of participation. Even without evidence of spotty trading, thin markets, or trading failures, if there were a convincing logical chain to suggest that the government securities market was now susceptible to wrongdoing, then prophylactic action could well be justified. On this score, however, the structure of the government securities market would appear to offer little scope for large-scale mischief.

First, prices in the government securities market appear mostly driven by macroeconomic fundamentals. Government securities are homogeneous, with few of the idiosyncratic factors that push and pull the

prices of private debt or equity instruments relative to market averages.

Second, in a homogeneous, highly visible market such as this one, the force of competition remains the best protection from manipulation. With narrow bid–ask spreads and the quick dissemination of information, there is little room to hide collusive activity. Such a market is inherently transparent.

Third, a trader who attempted to gain from market manipulation now faces the prospect of aggressive Treasury debt management that would reopen an issue to shave any illicit gain. Against this backdrop, many of the potentially costly provisions of H.R.618 guard against an enemy that will never take the field.

In the Board's view, there is no compelling need to grant new recordkeeping authority to the SEC, especially when existing authority can be used more effectively. Nor is there a need for large-position reporting, given the substantial improvement in the agencies' market surveillance efforts. The FRBNY's discussions with market participants provide a wealth of detail to inform the Treasury reopening decision and to alert enforcement agencies of potential problems. These sources are augmented by dealer report forms that soon will routinely extract information on specific securities. But at a more fundamental level, currently available data on market prices provide a continuing stream of data to mine for evidence of manipulative intent.

In our view, there is no demonstrated need to put the SEC into the business of mandating what trading screens look like and who gets the information feeds, and such initiatives could impose significant costs on the market. Transparency, or the ability to get timely and reliable price quotes in the government securities market, has improved markedly of late. GOVPX, for example, has enhanced the information that it provides to the market. If private sector initiatives are allowed to run their course, this access should be further widened. The threat of governmental interference may only prove counterproductive, as private firms delay additional improvements for fear that another format might be thrust upon them.

The Board accepts that the broad-based apparatus of reporting requirements in this market that could be implemented under H.R.618 might reduce the cost of investigating abuses and facilitate enforcement. On the other side of the ledger, such changes would boost the cost of every trade and potentially reduce the ranks of market participants. The Treasury's appetite for financing is too large to make purchasing its securities more expensive or to discourage willing buyers with administrative burdens motivated by the vague fear that someone, somewhere out there, may be inclined to cheat.

It is true that H.R.618 does not mandate these increased reporting requirements but rather gives various agencies the authority to enact these changes should they deem them fit. However, even backup authority may send a chilling message about the U.S. market to all participants choosing where to trade in the global marketplace. Rather than risk slipping into a fundamental change through backup authority, the Board of Governors feels it would be a wiser course of action to return to the Congress for enabling legislation in the future should such authority appear necessary. □

Statement by John P. LaWare, Member, Board of Governors of the Federal Reserve System, and Chairman, Federal Financial Institutions Examination Council, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, U.S. House of Representatives, March 17, 1993

I am happy to be here to discuss the topic of regulatory burden and particularly the efforts of the Federal Reserve and the other regulatory agencies to reduce burden administratively.

The issue of the appropriate level of regulation of banking organizations, although not new, recently has been a focus of concern. Banking institutions serve a vital role in determining the growth of the economy. Consequently, in an increasingly global and competitive financial market, the United States can ill afford to handicap its banking institutions—and therefore the individuals and businesses they serve—with stifling and constantly changing rules and regulations. The ever-increasing number and detail of regulatory requirements and restrictions have increased the costs and reduced the availability of service from banking institutions. Further, aggregate burden frustrates the purpose of stability and safety regulations by driving traditional banking functions toward alternative, less-regulated providers.

In an effort to counter the trend toward costly overregulation, the banking agencies have worked both individually and as a group to identify administratively imposed burden and, insofar as possible, to reduce it. These efforts are represented in initiatives such as the agencies' Regulatory Uniformity Project, the Federal Financial Institutions Examination Council's (FFIEC) *Study on Regulatory Burden*, and, most

recently, in last week's announcement by the President of an interagency program designed to reduce the cost and burden of lending, particularly to small and medium-sized businesses.

Interagency Policy Statement on Credit Availability

On March 10, the President announced that all of the banking regulatory agencies will, over the next few months, take actions in five areas to promote greater availability of credit to creditworthy borrowers. The actions to be taken in each of the areas are as follows:

1. Eliminate impediments to lending to small and medium-sized businesses by permitting banks to make and carry a basket of loans to such borrowers with minimal documentation requirements. In addition, guidance will be issued to make it clear that banks and thrift institutions, in making loans to such borrowers, particularly those loans to be placed in the basket, are encouraged to give important consideration to character and general reputation in assessing a borrower's creditworthiness.

2. Reduce appraisal burden and improve the climate for real estate by altering existing rules so that institutions taking real estate as "additional" collateral for a business loan that is not to acquire or refinance real estate will not be required to have such property appraised by a certified or licensed appraiser. In addition, the agencies will be reexamining their existing rules to make sure that thresholds below which formal appraisals are not needed are at reasonable levels.

3. Enhance and streamline arrangements by which bankers can obtain a fair and speedy review of complaints about examiner decisions, while providing assurance that neither banker nor examiner will be subject to retribution as a result of an appeal.

4. Improve all examination processes and procedures by eliminating unneeded duplication of examinations and increasing coordination of examination activities, particularly centralizing and streamlining examinations of multibank organizations. The agencies have also agreed to heighten emphasis in examinations on risks to the institution and on issues involving fair lending, as well as to reduce regulatory uncertainty by eliminating ambiguous language in regulations and interpretations—and delays in publishing regulations and interpretations.

5. Review all regulations and interpretations to find ways to minimize paperwork and other regulatory burden.

We certainly expect that these changes will affect the willingness of the banking industry to lend to creditworthy borrowers, and we are working together to implement them fully.

Federal Financial Institutions Examination Council Study on Regulatory Burden

I have been asked by the subcommittee to describe the agencies' recently completed *Study on Regulatory Burden.* The study was mandated by the Congress in section 221 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which required the FFIEC to review the regulatory policies and procedures of the banking agencies and the Treasury Department to determine whether they impose "unnecessary" burden on banking institutions and to identify any revisions that might reduce burden without endangering safety and soundness or diminishing compliance with or enforcement of consumer laws. The FFIEC was directed to report its findings by December 19, 1992.

During early 1992, the four federal banking agencies and the Department of the Treasury undertook extensive internal reviews of their policies, procedures, recordkeeping, and documentation requirements. In addition, an interagency task force assembled and reviewed the public comments that the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) had received in response to their spring 1992 requests for comments on regulatory burden. The FFIEC also requested and received public comments specifically on ways that burden might be reduced and held public hearings on this topic in Kansas City, San Francisco, and Washington, D.C.

At the outset, the FFIEC stated its belief that the goal of this process was not to examine and develop proposed revisions to the overall statutory scheme governing financial institutions. Rather, it appeared to the council that the congressional intent was to accept the statutory scheme as a given and instead to examine the manner in which the federal banking agencies and the Treasury Department have implemented that scheme by means of regulations, policy statements, procedures, and recordkeeping requirements.

Many commenters, as well as the agencies themselves, recommended changes that were within the jurisdiction of the agencies. During the year, the agencies acted on many of these suggestions for regulatory improvement, particularly those related to required reports, examination procedures, and application processes. The study included a summary of those actions.

Interagency working groups reviewed other specific recommendations for regulatory change and divided them into three categories. The first category included specific recommendations from the public and areas of concern that the FFIEC agreed were worthy of further consideration. In many cases, the agencies agreed on the general approach and developed a consensus position that is described in the study. In some cases, an agency supported a recommendation in part or preferred an alternative approach to meet the goal of the recommendation, and in a few cases, the agencies felt that further consideration and possibly some compromise may be required to address the issues.

Suggestions from the public that, after careful consideration, were found not to meet fully the standards set forth in section 221 are discussed in the study, while those that concerned agencies that are not members of the FFIEC are simply listed. In addition, an analysis of the public recommendations concerning the rules implementing the Bank Secrecy Act (BSA) was contributed by the Department of the Treasury.

During the course of the study, the FFIEC also reviewed the small number of existing studies of the costs of regulation. Despite methodological and coverage differences, their findings are reasonably consistent that regulatory costs might be in the range of 6 percent to 14 percent of noninterest expenses. This estimate includes the cost of deposit insurance premiums but does not include any measurement of the opportunity cost of reserve requirements or prohibited activities. This range applied to the actual 1991 noninterest expenses for commercial banks of $214.6 billion suggests that regulatory costs could have been between $7.5 billion and $17 billion in that year.

In the weeks since the study was submitted to the Congress, the agencies have continued to consider the suggestions, and I anticipate that further action will be taken in the near term. However, many of the public recommendations as well as the actions taken by the regulatory agencies address problems that are technical in nature and not highly significant in terms of their impact on total regulatory burden. Indeed, significant relief from regulatory burden will require more substantial changes. Because legislation is often very detailed in its requirements and the regulations must track the statutory provisions, the agencies are limited in their ability to address many provisions that impose substantial burdens.

Accordingly, the council's member agencies have agreed to continue meeting to identify and recommend possible statutory changes to reduce regulatory burden further. The council hopes to provide a separate report to the Congress on those issues by late spring.

Recommendations for the Future

Banking institutions are regulated because of important public policy considerations, and much of the regulation arises ultimately from four fundamental public policy concerns: bank safety and soundness, banking market structure and competition, systemic stability, and consumer protection. The safety and stability of the banking system are vital to the economy. Further, it is difficult to quarrel with the purposes of individual consumer protections. Nevertheless, the aggregate effect of the implementation of a substantial number of desirable policies may result in burdening individual banking transactions to an unacceptable degree.

In the aggregate, this burden has become substantial, raising the costs of banking services and thus encouraging bank customers to seek less costly loans and services or higher-yielding investments from other financial intermediaries that are not subject to the same regulatory requirements and restrictions. The movement of business from banking institutions to other intermediaries and directly to money and capital markets may frustrate the purposes for which banking regulations were adopted. I believe this burden has already begun to threaten the competitiveness of the banking industry itself.

What is needed is fundamental review of approaches to regulation in search of mechanisms that will achieve the same goals but with less burden and without the problems that accompany the current approach. New approaches to regulation that are more sensitive to cost–benefit tradeoffs must be sought and considered. In particular, existing market forces and incentives should be harnessed as much as possible to achieve regulatory goals rather than relying on microlevel regulations that eliminate the flexibility that is important in a dynamic industry. We should consider, as well, changes that can reduce burden by reducing regulatory prohibitions on banking activities. As you know, the Federal Reserve Board has long supported nationwide interstate banking, insurance sales, and full investment banking powers to provide the public the benefits of wider competition, and it supports the payment of interest on required reserves to reduce the costs imposed on banking institutions as regulated entities.

To the greatest extent possible, banking regulation should provide flexibility by tailoring requirements to specific facts and circumstances and by distinguishing among institutions according to meaningful criteria such as condition, size, and management competence. Regulations that provide insufficient flexibility can cause unnecessary regulatory burden and create inefficiencies by preventing depository institutions from finding the most cost-effective means of complying with the law or regulation and by impairing the ability of banking institutions to react to changing market conditions.

These approaches must be applied not only to future regulatory actions but to existing regulations as well. Efforts to substantially reduce regulatory burden will undoubtedly raise difficult questions about the trade-offs to be made between competing public policies, much like the ongoing discussion of the federal budget. Because achieving political consensus for change may be difficult, in my judgment, an independent nonpolitical commission charged with exploring possibilities for legislative change would be useful. Such a commission could address a broad range of banking issues such as regulatory burden and the competitive position of U.S. banking organizations, offer suggestions and guidance for legislative and regulatory changes, and assist the Congress in developing a specific legislative agenda.

CONCLUSION

The regulatory burden on banking institutions is large and growing. The *cumulative* regulatory burden on the banking industry may well be more than the sum of its parts. This burden has grown slowly but relentlessly over the years, layer by layer by layer, and the pace of additional regulation has increased sharply in recent years. While there may be genuine public policy benefits from any single regulatory proposal, it is important to recognize that the banking regulations and prohibitions, taken together, create a burden that is substantial, if not approaching unmanageable, for many institutions. When these burdens are aggregated, they affect the economy by reducing the efficiency and competitiveness of the banking industry.

Recent actions by the regulatory agencies and the plan announced by the President represent important steps in an ongoing process to address the problem of regulatory burden on the banking industry, and I look forward to working with this subcommittee and others in considering additional proposals. Perhaps regulatory relief, like regulatory burden, can be cumulative. □

Statement by William J. McDonough, Executive Vice President, Federal Reserve Bank of New York, before the Subcommittee on Telecommunications and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, March 17, 1993

I am pleased to have the opportunity to appear before you in my capacity as Executive Vice President of the Federal Reserve Bank of New York responsible for the Financial Markets Group. As such, I have responsibility for domestic and foreign operations of the System Open Market Account and for the recently formed Market Surveillance Function. My statement this morning will discuss the market surveillance activities of the Federal Reserve Bank of New York and the overall subject of the official oversight and regulation of the government securities market.

We all share a common goal regarding the government securities market. That is, we all want to ensure that the integrity, health, and efficiency of the world's largest and most liquid securities market is preserved. Quite clearly, the American public and the world at large share an enormous interest in the continued vitality of the market for U.S. Treasury securities and its ability to meet both public and private needs.

Against this background, the immediate question before the subcommittee centers on how the legislative process can best support efforts to ensure that this vital market retains its status as the most efficient market in the world. As the subcommittee deliberates this important topic, I think it necessary to consider the strides taken over the past year to improve the monitoring of this market.

Salomon Brothers' admissions of deliberate and repeated violations of Treasury auction rules could well have damaged the public's confidence in the overall soundness of the government securities market. Fortunately, this did not happen, as evidenced by the efficiency with which the market has continued to perform. Nonetheless, some important questions were raised about the workings of that market and the official oversight of the market.

After the events of August 1991, the Treasury, the Securities and Exchange Commission (SEC), and the Federal Reserve moved quickly to address the various concerns that arose from the Salomon revelations. The agencies have set up a working group on market surveillance, with the Federal Reserve Bank of New York accepting primary responsibility for collecting and disseminating information. The Treasury facilitated broader auction participation, clarified and restated auction rules, and, with the Federal Reserve, strengthened the procedures for enforcement of those rules. Changes were made to the administration of the primary dealer system to provide greater access to participants who wished to service the central bank.

Ongoing automation initiatives will lend further support to ensuring that the primary and secondary markets are open and accessible. Our new system for automated Treasury auctions is in the final stages of testing, and its implementation is scheduled for next month. This effort will speed and further systematize

the auction review process and further allow for broader bidder access. In addition, we have finalized many of the business requirements for the automation of our open market operations and have taken some initial steps in development, with a view toward implementing several capabilities next year. This effort will provide an efficient way of accommodating an expansion in the number of our trading counterparties—should such occur.

Market participants themselves have reviewed and improved internal compliance procedures and audits after the revelations of wrongdoing in 1991. Finally, it is important to restate that, in the face of apparent irregularities in the marketplace, securities and bank regulators *already have access* to individual dealer firms' books, records, and trading systems. Having said that, it should also be stressed that it is neither possible nor desirable to have absolutely fail-safe management and control systems or regulatory schemes that can prevent or detect every problem or potential problem. Nor is it desirable to discourage innovation with overly restrictive and duplicative rules. What is needed is an approach that strikes an appropriate balance between the efficiency of the market and adequate regulatory oversight.

Of the efforts taken to date, I should comment on the significant progress made in improving communications among the agencies involved in the surveillance effort—the Bank, the Treasury, the SEC, the Federal Reserve Board, and the Commodity Futures Trading Commission. The entire working group holds a biweekly conference call, and senior officials of the working group meet quarterly. I can assure you that the progress made in cooperation and information sharing will certainly continue. And I can also assure you that there has been no facet of the work of the interagency group to date that has witnessed material differences of opinion or judgment among the various agencies.

In its effort to satisfy the needs of the working group, the New York Fed's surveillance work has focused on activity surrounding several specific Treasury securities as well as a variety of overall market conditions. Additional attention was devoted to those incidents that, based on comparisons with either historical experience or then-existing market conditions, were a potential source of concern. Needless to say, our methods are being refined as we gain more experience and receive input from the other agencies.

In the interest of time, I will not cover the full scope of our efforts. However, allow me to mention briefly a few of the specifics of market surveillance. We look at price movements, yield spreads, and trading volume in the cash market. In the financing market, we review market quotes and trades for overnight contracts and term maturities. From individual primary dealers, we collect aggregate data on positions, transactions, financing, trade settlement, and when-issued activity in specific securities. We also receive information on individual securities when we undertake a formal survey of primary dealers' activity.

More broadly, we have access to market opinion, analytics, general economic data, and specific information on other, related markets. Finally, our daily conversations with the market participants themselves provide invaluable information on market developments and their own trading activity. This wealth of information allows us to evaluate the current behavior of specific securities of interest from the vantage point of a comprehensive view of the market. We share with the members of the interagency working group all significant market information that we collect.

Our surveillance efforts over this past year focused on apparent shortages of specific Treasury securities. Time and again, we found that individual episodes of "specials" trading represented the natural consequence of legitimate uses of the Treasury market, especially in connection with risk-management strategies to facilitate the orderly underwriting, issuance, and distribution of the full range of fixed-income securities sold by corporations, state and local governments, and others. At times, these activities can generate large amounts of short positions in Treasury securities as underwriters hedge their exposures. As a consequence, temporary shortages of certain issues can, and will, develop even though a large amount of securities is outstanding.

Despite the general thrust of our findings to date, we recognize that we must continue to rigorously pursue each incident of unusual market activity. To meet this responsibility, we intend to build upon the strong start we have made in tightening surveillance. We will continue to improve our knowledge of market developments, our methods of review and analysis, and the technical resources we need to operate efficiently and effectively with a view to servicing the needs of the other members of the interagency working group.

At the same time, I believe the Congress can provide some further support for our efforts by reauthorizing the Treasury's rulemaking authority under the Government Securities Act of 1986 and explicitly incorporating the making of misleading statements to an issuer of government securities as a violation of the Securities Exchange Act of 1934. In addition, the Federal Reserve Bank of New York is sympathetic to legislation that would give the Treasury backup authority to require holders of large positions in Treasury securities to report this information. This measure will further our efforts to develop a comprehensive view of the market.

With these steps—and our continued surveillance efforts—I think we come much closer to striking that appropriate balance I spoke of earlier between providing effective oversight by the agencies and avoiding the burdens of excessive regulation that can easily stifle the efficiency and liquidity of the market, a potentially significant cost that ultimately will be borne by the American taxpayer. The progress we have made so far and the outlook for our near-term initiatives make any additional measures seem clearly premature. The agencies have the ability to review, analyze, and act appropriately—and in a timely fashion—when market developments raise issues of public concern. □

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Finance, U.S. Senate, March 24, 1993

As I have indicated to other committees of the Congress in recent days, our burgeoning structural budget deficit, unless addressed, will increasingly threaten the stability of our economic system. Time is no longer on our side. At 5 percent of gross domestic product (GDP), the current deficit is very large by historical standards. After declining through 1996, the current services deficit starts on an inexorable upward path again. On a cyclically adjusted or structural basis, the deficit has hovered around 3 percent of potential GDP for the past ten years, a phenomenon without precedent in our peacetime history.

I am encouraged that the President and the Congress are making serious efforts to restore a measure of balance to our fiscal affairs.

It is beguiling to contemplate the downtrend in inflation in recent years in the context of very large budget deficits and to conclude that the concerns about their adverse effects on the economy have been misplaced. Regrettably, this notion is dubious. The deficit is a corrosive force that already has begun to eat away at the foundations of our economic strength. Financing of private capital investment has been crowded out, and, not surprisingly, the United States has experienced a lower level of net investment relative to GDP than any other of the Group of Seven countries in the past decade.

To some degree, the impact of the federal budget deficits over the past decade has been muted as we imported resources to help finance them. This can be seen in our large trade and current account deficits. However, we should not—indeed, we probably cannot—rely on foreign sources of funds indefinitely. If we do nothing, the markets will ultimately force an adjustment; by acting now to redress our internal imbalance, we can lower the risk of unpleasant stresses down the road.

I shall eschew, as I have in previous testimonies, comments on the specific elements of the deficit-reduction proposals currently under review by the Congress. I should like, nonetheless, to take the time you have made available to outline my views on the principles that should underlie current deliberations.

First, according to both the Office of Management and Budget and the Congressional Budget Office, deficits are likely to be held in check by relatively good economic performance over the next few years. But from 1997 on, budget outlays under existing law are projected to rise appreciably faster than the tax base. If such trends are not altered, stabilizing the deficit-to-GDP ratio solely from the receipts side, not to mention reducing it, will necessarily require ever-increasing tax *rates*. This would surely undercut incentives for risktaking and inevitably damp the long-term growth and tax revenue potential of our economy. The gap between spending and revenues will not close under such conditions. Thus, there is no alternative to achieving much slower growth of outlays if deficit control is our objective. This implies the need not only to make cuts now, but also to control the growth of future spending so that it does not exceed, and preferably is less than, the projected growth in the tax base.

The thought expressed by some that we can inflate our way out of the budget deficit is fanciful. Aside from its serious debilitating effects on our economic system, higher inflation, given the explicit and implicit indexing of receipts and expenditures, would not reduce the deficit. As I indicated in testimony to the Joint Economic Committee in January, there is a possibility that productivity has moved into a significantly faster long-term growth channel, which would boost real growth and tax revenues over time. But even if that turns out to be the case, short of an increase beyond anything that we can reasonably anticipate at this time, productivity, in itself, would not be enough to resolve the basic long-term imbalance in our budgetary accounts. Thus, while economic growth is necessary to contain budget deficits, it regrettably is not sufficient.

In deciding how to pare a structural budget deficit, it is important to be clear on the different roles of boosting taxes, on the one hand, and cutting spending programs, on the other. All feasible taxes, by their

very nature, restrain business activity. Hence, excluding so-called sin taxes and possibly environmental taxes, increases in taxes can be justified only to finance expenditures that are deemed essential. The level and composition of outlays to be financed by revenues is, in our society, a political matter, as is also the degree of progressivity and incidence of taxation. But over the long run, it is important to recognize that trying to wholly, or substantially, address a structural budget deficit by increasing revenues is fraught with exceptional difficulties and is more likely to fail than succeed.

All else equal, reducing the deficit would enlarge the pool of savings available for private capital investment. But investment will not automatically occur unless there are adequate incentives for risktaking.

A greater willingness of a society to consume less of its current income should lower real interest rates and spur such investment. But if risktaking is discouraged through excessive taxation of capital or repressive regulation, high levels of investment will not emerge and the level of saving will fall as real incomes stagnate.

The process by which government deficits divert resources from private investment is part of the broader process of redirecting the allocation of real resources that inevitably accompanies the activities of the federal government. The federal government can preempt resources from the private sector or direct their usage by several different means, the most important of which are (1) spending, financed by taxation; (2) spending, financed by borrowing, that is, deficit spending; (3) regulation mandating private activities such as investment in pollution control or safety equipment, which are likely to be financed through the issuance of debt; and (4) government guarantees of private borrowing.

What deficit spending and regulatory measures have in common is that the preemption of resources, directly or indirectly, is not sensitive to the rate of interest. The federal government, for example, will finance its budget deficit in full, irrespective of the interest rate it must pay to raise the funds. Borrowing with government-guaranteed debt may be interest sensitive, but the guarantees have the effect of preempting resources from those without access to riskless credit. Government spending fully financed by taxation does, of course, preempt real resources from the private sector, but the process works through channels other than through real interest rates.

Purely private activities, on the other hand, are, to a greater or lesser extent, responsive to real interest rates. The demand for housing, for example, falls off dramatically as mortgage interest rates rise. Inventory demand is clearly a function of short-term interest rates, and the level of interest rates, as it is reflected in the cost of capital, is a key element in the decision about whether to expand or modernize productive capacity. Hence, to the extent that the demand for saving exceeds its supply, interest rates will rise until sufficient excess demand is finally crowded out.

The crowded-out demand cannot, of course, be that of the federal government, directly or indirectly, because federal government demand does not respond to rising interest rates. Rather, real interest rates will rise to the point that private borrowing is reduced sufficiently to allow the entire requirements of the federal government, including its on- and off-budget deficits and all its collateral guarantees and mandated activities, to be met.

In these circumstances, there is no alternative to higher real interest rates diverting real resources from the private to the public sector. In the short run, nominal short-term interest rates may temporarily be held down if the Federal Reserve accommodates the excess demand for funds through a more expansionary monetary policy. But this will only produce greater inflation and, ultimately, have little, if any, effect on the allocation of real resources between the private and public sectors.

In such an environment, inflationary forces too often lead to increased risk premiums, higher real interest rates, and a higher cost of capital. This, in turn, engenders a foreshortening of the time horizon of investment decisions and a decreasing willingness to commit to the long term, a commitment that is so crucial to a modern technologically advanced economy. Structural budget deficits and excessive collateral credit preemptions are symptoms of a society overconsuming, undersaving, and underinvesting.

While there is no substitute for political will in reining in outsized structural budget deficits, there are changes, I believe, that could make the budget process more effective. In particular, it is worth reconsidering sunset legislation, which would impose explicit termination dates on spending programs. Expiring programs that still have merit should have no difficulty being reauthorized, but programs whose justification has become less compelling would not receive the necessary votes. Indeed, it is hard to imagine that sunset legislation would not lead to at least some improvement over the current situation, quite possibly fostering nontrivial budget savings.

It also would be useful to take a look at the current-services methodology for evaluating budget changes. A baseline estimate obviously is a necessary ingredient in the budget process that helps inform policymakers about the impact of policy proposals. However, the current-services concept assumes that no further congressional, judicial, or bureaucratic actions will be

taken to alter existing programs. This is quite unrealistic, but it would be of no particular significance were it not for the fact that the bias of such actions is patently toward more spending rather than less. Hence, merely owing to ongoing congressional deliberations, administrative rulings, and decisions, an add-on to the current services outlay estimates is required to get a better view of what might be termed the "expected" deficit of the future. It is not possible to know in advance which spending programs will be expanded, except that some will. In recent years, congressional current services outlay estimates have consistently been adjusted upward in response to such technical reestimations of program costs. Indeed, technical reestimates explain a significant part of the failure of the deficit to fall as contemplated at the time of enactment of the Omnibus Budget Reconciliation Act of 1990.

Finally, although I do not favor a balanced budget amendment on the grounds that it might be impossible to enforce, I would support a constitutional amendment, or even a legislative provision, that stipulates that all revenue and expenditure initiatives require supermajorities (for example, 60 percent) to pass both houses of the Congress. Combined with sunset legislation, such a procedure could probably go far to neutralize the obvious propensity of our political system toward structural deficits.

Let me conclude by reiterating my central message. The deficit is a malignant force in our economy. How the deficit is reduced is very important; that it be done is crucial. Allowing it to fester would court a dangerous erosion of our economic strength and a potentially significant deterioration in our real standard of living. Fortunately, we have it in our power to reverse this process. This committee has an important role in this process. Speaking as a citizen, I wish you well. □

Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Small Business, U.S. House of Representatives, March 25, 1993

I am pleased to appear before this committee to discuss the availability of bank credit to small businesses. It is clear that any assessment of the outlook for the economy as a whole—especially employment—has to focus on the health of our small business sector— including its ability to obtain finance. Indeed, the importance of bank credit flows to small business was highlighted by the President's recent announcement of joint actions by all the banking agencies to facilitate such lending.

Given the importance of small businesses to the economy and the clear dependence of such firms on banks, the decline in overall business loans in the 1990s underlines the importance of understanding the difficulties of bank credit availability. Even more important, it emphasizes the need to continue to do whatever is possible to remove those sources of restriction that do not imperil the safety and soundness of the banking system.

Assessing the true nature of small business bank credit availability is especially complicated, in part because it seems clear that a substantial share of the decline in the 1990s of *total* business loans at banks reflects significant balance sheet restructuring by large firms. Many larger businesses have taken advantage of the decline in interest rates and the increase in stock prices to refinance their bank loans.

The declines in business loans associated with balance sheet restructuring by the larger firms were superimposed on a secular downtrend in business credit flows by banks to large firms that have been increasingly relying on nonbank finance. And overlaying the interest rate- and stock market-induced repayment of bank loans by large firms, and their secular shift to nonbank credit, has been a normal cyclical decline in the demand for credit during the recession and modest recovery.

However, I do not believe that cycles, trends, and refinancing are the sole explanations for the decline in business loans. There *has* been a substantial tightening of lending terms and standards, and it *has* affected small businesses. This tightening of terms and standards has been clear in our periodic surveys of senior loan officers at large banks since the start of the decade, although this aspect of loan pricing seems to have stabilized in 1992. Evidence from the National Federation of Independent Business is also suggestive. For example, owners of the larger small businesses report greater difficulty obtaining credit than three years ago. The period of credit stringency appears to have lasted longer than in other recent downturns. And, small business credit problems have been very intense in some regions of the United States. Clearly, New England has borne a disproportionately large burden.

The sources of tighter credit availability are not hard to find. A significant part of our current problems reflects a too-expansive credit policy throughout most of the 1980s. Large numbers of lenders mistakenly perceived that financing real estate was very profit-

able, and virtually risk-free because of the near certainty of continued real estate inflation. But inflation in real estate not only ended; it was in many cases reversed, exposing the lax underwriting standards that had evolved.

The resulting acceleration of nonperforming loans, and associated reserving and write-offs, not only cut sharply into capital—causing many banks to fail and others to be greatly weakened—but also shook the confidence of lending officers and management. Indeed, despite the low rate of failures of depository institutions so far in 1993, we should not forget that the past several years have seen many more failures of depository institutions than all the other years since World War II combined. The almost inevitable result of these traumatic experiences has been that bank lending policies have gone through a period of exaggeratedly high underwriting standards—the same error as in the 1980s but in the opposite direction. Although there appears to have been no further tightening in recent months, the effect on banks of excess optimism in real estate in the 1980s is not, I am afraid, as yet behind us.

Commercial real estate prices have not stabilized enough to allow most banks to feel confident that they know what collateral is really worth. Thus, a kind of traditional bank liquidity—a sense that real estate collateral could be liquidated expeditiously within a known price range—has not yet returned to bank balance sheets. Although improving significantly from the dark period of 1989–91, we do not yet have the turnover and transactions required to instill adequate confidence in most bankers about either their existing or new loans secured by commercial property.

The real estate market plays an important role in small business credit because a significant portion of loans to small businesses involves some real estate collateral. And, even though banks often do not look to that real estate as the intended source of repayment, I am still concerned that a real estate market that has not found its feet is retarding the availability of small business credit. This impact is both direct—in evaluating both the bank's own capital, as well as particular loans—and indirect—by coloring bankers' sense of general confidence.

As significant as the real estate contraction has been on bankers' attitudes, it is clearly not the sole source of trauma. The lax underwriting standards adopted by many banks in the 1980s contributed to large losses and write-offs—write-offs of almost $125 billion since 1988. Surviving banks not only have covered such losses by earnings and capital issues but have increased their own minimum capital standards. This increase in internal standards has resulted, in part, from their own review of "policy," but in many cases it is the direct result of market demands. Both capital-issuing banks and those without ready access to capital markets also improved capital ratios by growing less rapidly or even shrinking. All of this, I suggest, is not an unexpected reaction to difficult problems. Indeed, I would argue that it is not surprising that underwriting standards have been reviewed and tightened.

Banks' own desire to rebuild a strong capital base has played an important role in constraining the supply of bank loans. Research at the Federal Reserve appears to have begun to pick up the importance of internal capital targets. In saying this, I do not mean to imply that either Basle or the prompt corrective action capital rules are unimportant. They reinforced the importance of capital both at banks and in the market. But Basle and other capital standards imposed on a less-traumatized banking system would have been viewed by few observers as a major constraint on banks' ability to make loans.

Indeed, the Federal Reserve Board supports both the Basle standards and the prompt corrective action zones of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The behavior of the 1980s—and the associated losses—would surely not have occurred to the same extent without a deposit insurance system that permitted banks and thrift institutions to take major risks on a slender capital base with only minimal market response. Political concerns apparently made it impossible to directly lower the per account level of deposit insurance. Hence, making the moral hazard of deposit insurance moot through higher capital standards was the most attractive option available. With larger amounts of stockholders' capital at risk, banks will be encouraged to adopt more careful and efficient loan policies. Moreover, simulating market responses, as is intended in the progressively restrictive prompt corrective action zones, is helpful. In the absence of deposit insurance, markets would impose reduced dividends, a lower pace of expansion, and other increasingly severe actions on firms becoming financially distressed.

Parenthetically, so far as we can tell, the risk weights in the Basle standards have not played a significant role in disrupting credit flows in general, or to small businesses in particular. To be sure, the intention of the risk weights was to make the capital charge reflect differences in credit risk and to induce banks at the margin to hold more liquidity in their portfolios. Thus, if the weighting system had not caused banks to lean somewhat more toward securities, it would have had to be counted as a failure. Nonetheless, the weights were not designed to cause a large shift from loans to securities. And there is simply no real evidence that the weights have been a signifi-

cant factor causing the observed substantial shift in bank credit from loans to government or mortgage-backed securities. In addition, the banks that have accounted for most of the increased holdings of Treasury securities are those with the *highest* capital ratios, where the zero weight could not have been particularly relevant to their decision. Indeed, financial institutions not subject to risk-based capital or FDICIA, such as credit unions, have also shifted strongly away from loans and toward securities in the 1990s. In short, other factors—lower credit demands, balance sheet restructuring, and tightened loan standards—are better explanations of portfolio shifts than the Basle risk weights.

But Basle and prompt corrective action were not the only external forces supplementing banks' and the markets' responses to the residue of the 1980s. Examiners have been widely and severely criticized for permitting banks to have made such bad credit decisions. That many examiners would respond by becoming unusually sensitive to credit-granting procedures and—as professionals—reluctant to respond to pleas for more flexibility cannot come as a surprise. At last reading, the laws of human nature have not been repealed. This tendency to respond in an overly cautious way is doubly unfortunate because if there were ever a time that bankers would be careful *without* examiner oversight it has been the early 1990s.

The other critical external force contributing to reduced credit availability at small businesses is recent banking legislation—Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and FDICIA. In understandable reaction to the huge taxpayer costs of the failure of savings and loan associations and the need to establish a taxpayer's backup to the Federal Deposit Insurance Corporation—a backup, I note, that has not been used—the Congress felt it necessary to place severe restrictions on insured depository institutions. As I indicated a moment ago, the Board supports the capital and prompt corrective action provisions of FDICIA. But the scale and sheer detail of other portions of recent legislation have, I believe, played an important role in constraining small business credit flows.

The scale has resulted in a drumbeat of mandated regulatory announcements and—perhaps worse—anticipated actions. All have diverted management resources, increased burdens and costs, and created uncertainties that could only make bankers more reluctant to take risks. As I have indicated over the past year, I have been particularly concerned about provisions that require regulations to specify operational, managerial, asset, and earnings standards and minimums, as well as detailed auditing requirements—especially management reports and certification by auditors. In addition to cost and burden, such micromanagement has a chilling effect on bank lending attitudes, imparting a high degree of management uncertainty while the implementing rules are developed, debated, and adopted. It is not unreasonable that banks expect the worst in rule changes before they are promulgated.

Aside from the general impacts on bankers' attitudes and risktaking, two regulatory factors have particularly constrained small business credit availability at banks. The first, I am sure, was unintended: The real estate appraisal requirements of FIRREA were designed mainly to eliminate excesses in development and commercial real estate loans. However, most small business loans involve some real estate collateral, even if the purpose of the loan is not to purchase or refinance real estate, and the bank does not look to the real estate as the source of the repayment. Nonetheless, FIRREA requires that banks either increase their risk by foregoing real estate collateral on such loans or impose significant costs and delays on the credit-granting process by requiring certified appraisals on the real estate collateral. Either way, the willingness and ability of banks to make such loans are reduced and in some cases may have been eliminated.

The second regulatory development that has affected the availability of small business credit at banks is the huge increase in the amount of paperwork resulting from heightened risk aversion by examiners and the attitudes induced by the banking legislation. Our research, and the conventional wisdom in banking, support the view that the least-risky small business loans of the 1980s often had no collateral at all. Despite this evidence to the contrary, many bankers now perceive that full documentation and collateral on such loans are necessary to minimize the possibility that examiners will classify them. As a result, the cost of lower-risk loans to small business has risen by the imposition of documentation and collateral requirements or—if the necessary documentation and collateral are not available—such loans are not being made. In either event, the economy suffers.

Nonetheless, as I review the current banking situation, I find reasons for optimism, but not complacency. While not yet totally stabilized, some degree of firmness is occurring in some commercial real estate markets. Our surveys and other information indicate that banks' attitudes toward loans and risktaking are improving. Notwithstanding the almost $125 billion of loans that have been charged off over the past five years, loan-loss reserves are $5 billion higher. Earnings were at record levels in 1992, and banks have been extremely successful in raising new equity. Indeed, equity capital in the industry has risen almost $80 billion over the past five years; the resulting bank capital ratios are at their highest levels in a quarter of

a century. On balance, while a segment of the industry is still under stress, the banking industry as a whole has made remarkable progress in working through severe portfolio problems during a difficult economic cycle. With an improving economy, I am hopeful that the signs of some business loan growth this winter will become more evident this spring. Banks are patently in a strong position to meet such demand.

But the issues are too important to leave to chance. There are steps we can and should take. As the President announced on March 10, the banking agencies are working on ways—within the parameters of FDICIA and FIRREA—to modify their policies and regulations to encourage more small business credit availability. I anticipate that the agencies will shortly promulgate policies that will significantly ease documentation requirements for a portion of loans to small and medium-sized businesses and farmers by stronger banks and thrift institutions. Although research suggests that loans that likely will be made under this policy will be low risk, the banks that will be permitted to extend such credits are those most able to absorb some additional risk without threat to their safety and soundness and, by the record, are adept at credit underwriting. Loans with limited documentation—often called "character" loans—require the special expertise that is the hallmark of the bank lending process and, I believe, is one of the special ingredients that fuels small business—and hence economic—expansion.

Consideration is also being given to easing formal real estate appraisals for transactions that do not present unusual risk to banks and to increasing the current $100,000 exemption level for all loans. In addition, the agencies have a long list of technical modifications in process, including revisions to other real estate owned, in substance foreclosures, and partially charged-off accounting and reporting rules, as well as efforts to attempt to reduce examination duplication by function and agency. Finally, each agency will attempt—when necessary—to streamline its examiner appeal and complaint process.

These regulatory actions will be, I hope, quite helpful, but legislative action is still required. The Federal Financial Institutions Examination Council will be making legislative proposals this spring, and I urge the Congress to consider them seriously. But perhaps most important is to learn from the experience of the 1990s. One key lesson surely is that each new, proposed piece of detailed banking legislation has to be evaluated in *advance* to determine what the impacts are likely to be on the health, vigor, and competitiveness of the banking system. It is even more important to consider the potential implications for the vitality and growth of the economy, especially those sectors that create so much of our employment and innovation. These sectors often have few credit alternatives beyond their local banks. □

Announcements

MEETING OF THE CONSUMER ADVISORY COUNCIL

The Federal Reserve Board announced that the Consumer Advisory Council met on Thursday, March 25. The Council's function is to advise the Board on the exercise of the Board's responsibilities under the Consumer Credit Protection Act and on other matters on which the Board seeks its advice.

NEW PROCEDURES FOR PROCESSING APPLICATIONS FILED BY FOREIGN BANKS

The Federal Reserve Board announced on March 8, 1993, new procedures to be used in processing applications filed by foreign banks under the Foreign Bank Supervision Enhancement Act of 1991 (FBSEA).

Under the FBSEA, a foreign bank may not establish a branch, agency, representative office, or commercial lending company without the previous approval of the Board.

The Board has taken several steps that are intended to expedite processing and reduce the burden on applicants. These steps include procedures that accomplish the following:

- Require simultaneous review of applications by the staffs of the Board and Reserve Banks
- Urge all foreign bank applicants to meet with staff members of the Board and Reserve Bank before filing applications
- Require adherence to time frames in requesting information during the acceptance process
- Establish new internal guidelines for processing applications after acceptance
- Inform the public about the information files on home country supervision and bank secrecy laws that are maintained and available in the Board's Freedom of Information Office.

The FBSEA established uniform standards for all foreign banks entering the United States and requires foreign banks to meet financial, managerial, and operational standards equivalent to those required of U.S. banking organizations.

AMENDMENT TO REGULATION C

The Federal Reserve Board published on March 2, 1993, a final rule to amend Regulation C (Home Mortgage Disclosure) to carry out provisions of the Housing and Community Development Act of 1992. The revised rules will apply beginning with loan and application data collected for calendar year 1992. The new rule became effective March 1, 1993.

The Housing and Community Development Act contains amendments to the Home Mortgage Disclosure Act that require financial institutions to make their loan application register data available to the public beginning March 31, 1993. This register must be modified in accordance with Board regulations before release to the public.

The act also requires institutions to make their disclosure statement available to the public within three business days of receiving it from the Federal Financial Institutions Examinations Council. Currently they have thirty days to do so.

AMENDMENT TO REGULATION DD

The Federal Reserve Board published on March 16, 1993, a final rule amending Regulation DD (Truth in Savings) to carry out recent changes made to the Truth in Savings Act by the Housing and Community Development Act of 1992.

The law extends the mandatory date for compliance with the requirements of the Truth in Savings Act by three months, so that institutions must comply by June 21, 1993, rather than March 21, 1993.

The law also modifies the advertising rules relating to signs on the premises of an institution and makes a technical change to the provision dealing with notices required to be given to existing account holders.

The Board is also making two minor changes to the regulation and providing guidance on several issues that have been raised by institutions since publication of the final regulation in September 1992. The Board is also issuing a technical amendment to Regulation Q (Interest on Deposits).

ANNUAL REPORT: PUBLICATION

The *79th Annual Report, 1992,* of the Board of Governors of the Federal Reserve System, covering operations for the calendar year 1992, is available for distribution. Copies may be obtained on request to Publications Services, mail stop 138, Board of Governors of the Federal Reserve System, Washington, DC 20551. A separately printed companion document, entitled *Annual Report: Budget Review, 1992–93,* describes the budgeted expenses of the Federal Reserve System for 1993 and compares them with expenses for 1991 and 1992; it is also available from Publications Services.

CHANGES IN BOARD STAFF

The Board of Governors announced the appointment of Stephen M. Hoffman, Jr. to the position of Assistant Director for International Supervision in the Division of Banking Supervision and Regulation, effective March 29, 1993.

The Board of Governors also announced on April 2, 1993, the promotions of Brian Madigan to the position of Associate Director and Richard Porter to Deputy Associate Director and the appointment of Deborah Danker to the position of Assistant Director in the Division of Monetary Affairs.

Ms. Danker joined the Board's staff in 1984 with more than four years' experience at the Federal Reserve Bank of New York. She is currently on detail to the Department of the Treasury, where she is serving as Acting Assistant Secretary for Domestic Finance. Before her detail, she had been Chief of the Banking and Money Market Analysis Section. She holds a Ph.D. from Yale University.

Mr. Hoffman will be transferring from the Federal Reserve Bank of Philadelphia where he is currently Vice President in the Credit, Examination, Supervision and Regulation Department. He holds a B.S. degree in Finance from LaSalle University, with graduate courses at Drexel University and Widener University. He is a graduate of the Bank Administration Institute's School of Banking at the University of Wisconsin. □

Minutes of Federal Open Market Committee Meeting

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, February 2, 1993, at 2:30 p.m. and was continued on Wednesday, February 3, 1993, at 9:00 a.m.

Present:

Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. McTeer
Mr. Mullins
Ms. Phillips
Mr. Stern

Messrs. Broaddus, Jordan, Forrestal, and Parry, Alternate Members of the Federal Open Market Committee

Messrs. Hoenig, Melzer, and Syron, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Boston respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Patrikis,[1] Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. R. Davis, Lang, Lindsey, Promisel, Rosenblum, Scheld, Siegman, Simpson, and Slifman, Associate Economists

Mr. McDonough, Manager of the System Open Market Account

Ms. Greene, Deputy Manager for Foreign Operations
Ms. Lovett,[2] Deputy Manager for Domestic Operations

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Stockton, Associate Director, Division of Research and Statistics, Board of Governors
Mr. Madigan, Assistant Director, Division of Monetary Affairs, Board of Governors
Mr. Brady,[3] Section Chief, Division of Monetary Affairs, Board of Governors
Mr. Rosine,[3] Senior Economist, Division of Research and Statistics, Board of Governors
Mr. Wiles,[4] Secretary of the Board, Office of the Secretary, Board of Governors
Mr. Winn,[4] Assistant to the Board, Office of Board Members, Board of Governors
Ms. Werneke,[4] Special Assistant to the Board, Office of Board Members, Board of Governors
Mr. Siciliano,[4] Special Assistant to the General Counsel, Legal Division, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Beebe, T. Davis, Dewald, Goodfriend, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Kansas City, St. Louis, Richmond, and Atlanta respectively

Mr. McNees, Vice President, Federal Reserve Bank of Boston
Mr. Gavin, Assistant Vice President, Federal Reserve Bank of Cleveland
Mr. Weber, Senior Research Officer, Federal Reserve Bank of Minneapolis
Ms. Meulendyke, Manager, Open Market Operations, Federal Reserve Bank of New York

1. Attended Wednesday session only.

2. Attended Tuesday session only.

3. Attended portion of meeting relating to the Committee's discussion of the economic outlook and its longer-run objectives for monetary and debt aggregates.

4. Attended portion of the meeting relating to the release of FOMC information to the public.

The Secretary reported that advices of the election of the Reserve Bank members and alternate members of the Federal Open Market Committee for the period commencing January 1, 1993, and ending December 31, 1993, had been received and that these individuals had executed their oaths of office. The elected members and alternate members were as follows:

E. Gerald Corrigan, President of the Federal Reserve Bank of New York, with James H. Oltman, First Vice President of the Federal Reserve Bank of New York, as alternate;
Edward G. Boehne, President of the Federal Reserve Bank of Philadelphia, with J. Alfred Broaddus, Jr., President of the Federal Reserve Bank of Richmond, as alternate;
Silas Keehn, President of the Federal Reserve Bank of Chicago, with Jerry L. Jordan, President of the Federal Reserve Bank of Cleveland, as alternate;
Robert D. McTeer, Jr., President of the Federal Reserve Bank of Dallas, with Robert P. Forrestal, President of the Federal Reserve Bank of Atlanta, as alternate;
Gary H. Stern, President of the Federal Reserve Bank of Minneapolis, with Robert T. Parry, President of the Federal Reserve Bank of San Francisco, as alternate.

By unanimous vote, the Committee elected the following officers of the Federal Open Market Committee to serve until the election of their successors at the first meeting of the Committee after December 31, 1993, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, they would cease to have any official connection with the Federal Open Market Committee:

Alan Greenspan	Chairman
E. Gerald Corrigan	Vice Chairman
Donald L. Kohn	Secretary and Economist
Normand R.V. Bernard	Deputy Secretary
Joseph R. Coyne	Assistant Secretary
Gary P. Gillum	Assistant Secretary
J. Virgil Mattingly, Jr.	General Counsel
Ernest T. Patrikis	Deputy General Counsel
Michael J. Prell	Economist
Edwin M. Truman	Economist

Richard G. Davis, Richard W. Lang, David E. Lindsey, Larry J. Promisel, Arthur J. Rolnick, Harvey Rosenblum, Karl A. Scheld, Charles J. Siegman, Thomas D. Simpson, and Lawrence Slifman, Associate Economists

By unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after December 31, 1993.

By unanimous vote, William J. McDonough, Margaret L. Greene, and Joan E. Lovett were selected to serve at the pleasure of the Committee in the capacities of Manager of the System Open Market Account, Deputy Manager for Foreign Operations, System Open Market Account, and Deputy Manager for Domestic Operations, System Open Market Account respectively, on the understanding that their selection was subject to their being satisfactory to the Federal Reserve Bank of New York.

Secretary's note: Advice subsequently was received that the selections indicated above were satisfactory to the board of directors of the Federal Reserve Bank of New York.

On January 15, 1993, the continuing rules, regulations, authorizations, and other instruments of the Committee listed below were distributed with the advice that, in accordance with procedures approved by the Committee, they were being called to the Committee's attention before the February 2–3 organization meeting to give members an opportunity to raise any questions they might have concerning them. Members were asked to indicate if they wished to have any of the instruments in question placed on the agenda for consideration at this meeting. No requests for substantive consideration were received.

At the meeting, the Committee voted unanimously to update the references to the Management of the System Open Market Account that were contained in the following: (1) Procedures for allocation of securities in the System Open Market Account and (2) Program for Security of FOMC Information. Apart from the indicated updating of titles, all of the instruments listed below remained in effect in their existing forms.

1. Procedures for allocation of securities in the System Open Market Account

2. Authority for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account in case the New York Bank is unable to function
3. Resolution of FOMC to provide for the continued operation of the Committee during an emergency; Resolution of FOMC authorizing certain actions by Federal Reserve Banks during an emergency
4. Resolution relating to examinations of the System Open Market Account
5. Guidelines for the conduct of System operations in federal agency issues
6. Regulation relating to Open Market Operations of Federal Reserve Banks
7. Program for Security of FOMC Information
8. Federal Open Market Committee Rules.

By unanimous vote, the Authorization for Domestic Open Market Operations, as shown below, was reaffirmed:

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;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to nine months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

By unanimous vote, the Authorization for Foreign Currency Operations was amended to update the title of the Manager of the System Open Market Account. The Authorization, as amended, is shown below:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings	Italian lire
Belgian francs	Japanese yen
Canadian dollars	Mexican pesos
Danish kroner	Netherlands guilders
Pounds sterling	Norwegian kroner
French francs	Swedish kronor
German marks	Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $25.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager of the System Open Market Account, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(l) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

By unanimous vote, the Foreign Currency Directive, as shown below, was reaffirmed:

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

By unanimous vote, the Procedural Instructions with respect to Foreign Currency Operations were amended to update the title of the Manager of the System Open Market Account. The Procedural Instructions, as amended, are shown below:

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account ("Manager"), shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $300 million on any day or $600 million since the most recent regular meeting of the Committee.

B. Any operation that would result in a change on any day in the System's net position in a single foreign currency exceeding $150 million, or $300 million when the operation is associated with repayment of swap drawings.

C. Any operation that might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1(B).

D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $1.5 billion since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

The Report of Examination of the System Open Market Account, conducted by the Board's Division of Reserve Bank Operations and Payment Systems as of the close of business on July 31, 1992, was accepted.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on December 22, 1992, were approved.

The Deputy Manager for Foreign Operations reported on developments in foreign exchange markets during the period December 22, 1992, through February 2, 1993. There were no System open market transactions in foreign currencies during this period, and thus no vote was required of the Committee.

The Manager of the System Open Market Account reported on developments in domestic financial markets and on System open market transactions in government securities and federal agency obligations during the period December 22, 1992, through February 2, 1993. By unanimous vote, the Committee ratified these transactions.

The Committee then turned to a discussion of the economic outlook, the ranges for the growth of money and debt in 1993, and the implementation of monetary policy over the intermeeting period ahead. A summary of the economic and financial information available at the time of the meeting and of the Committee's discussion is provided below, followed by the domestic policy directive that was approved by the Committee and issued to the Federal Reserve Bank of New York.

The information reviewed at this meeting indicated that economic activity rose appreciably further in the fourth quarter. Final demands were buoyed by strength in consumption, business spending for durable equipment, and residential construction. Manufacturing activity also increased considerably, and employment appeared to be on a modest upward trajectory, despite a continuing flow of announcements of layoffs by large corporations. Although recent data on wages and prices had been mixed, on balance they suggested that inflation was trending gradually lower.

Total nonfarm payroll employment registered a small increase in December for the fourth consecutive month. Service industries, notably business and health services, and retail trade accounted for nearly all of the rise in jobs. Manufacturing and construction payrolls changed little, and government employment fell as temporary election workers were dropped from payrolls. The civilian unemployment rate remained at 7.3 percent, almost ½ percentage point below its midyear peak but slightly above its level at the beginning of the year.

Industrial production advanced further in December and was up considerably over the fourth quarter as a whole. Motor vehicle assemblies rose sharply during the quarter; strong gains also were registered in business equipment, partly reflecting a further jump in output of computers, and in nondurable consumer goods. By contrast, the production of durable consumer goods other than motor vehicles was lower on balance after changing little over the third quarter, and the output of defense and space equipment remained on a downward trend. Total utilization of industrial capacity increased significantly in the fourth quarter and for the year as a whole.

Consumer spending was up substantially in the fourth quarter. Retail sales, after rising sharply in October and changing little in November, posted a further sizable increase in December. The largest sales gains in the fourth quarter were reported at automotive dealers and at building material and supply outlets, but most other types of retail stores also recorded higher sales. By contrast, consumer spending for services, as indicated by data on personal consumption expenditures, rose more slowly. Housing starts surged in December, with single family starts reaching their highest level in nearly

three years and multifamily starts picking up slightly from the very low levels of October and November. Sales of new and existing homes remained on a strong upward trend in December.

Real outlays for business fixed investment apparently registered a notable gain in the fourth quarter, particularly for producers' durable equipment. Shipments of nondefense capital goods rose in November and December after changing little in October; for the quarter as a whole, shipments advanced substantially, with increases widespread by category. Business purchases of cars and trucks were up sharply in the fourth quarter, while nonresidential construction activity retraced a small part of a third-quarter decline.

Business inventories expanded moderately in November as a sizable drop in manufacturing inventories was more than offset by increases in wholesale and retail inventories. At the manufacturing level, the drawdown of stocks was associated with strong shipments of durable goods, and inventory-to-shipments ratios in most industries were at or near the bottom of their recent ranges. In the wholesale sector, sizable inventory increases were reported in November for a second straight month; most of the buildup was limited to machinery, motor vehicles, and miscellaneous nondurable goods. With stocks rising in line with sales since September, the stock-to-sales ratio in wholesaling remained at the low end of its range over the past year. Retail inventories increased moderately further in November; the inventory-to-sales ratio for the sector was slightly below its average for previous months of the year.

The nominal U.S. merchandise trade deficit widened slightly in November. For October and November together, however, the deficit narrowed a little from its average rate in the third quarter, as the value of exports rose more than the value of imports. Most of the increase in exports was in capital goods, both machinery and aircraft, and in consumer goods. Passenger cars accounted for a considerable part of the rise in imports, while the inflow of consumer goods eased from the very strong pace of the third quarter. Recent indicators suggested that economic activity had remained weak in the major foreign industrial countries and that unemployment rates had increased further in most of those countries. The recovery in Canada appeared to be continuing, but the downturn in western Germany and Japan evidently had persisted into the fourth quarter.

A small November decline in producer prices of finished goods was reversed in December, with a rebound in prices of finished foods outweighing a further drop in energy prices. For finished items other than food and energy, producer prices rose in December, but the advance followed six months of no change on balance; for 1992 as a whole, this measure of prices increased by a considerably smaller amount than in 1991. At the consumer level, the index for prices of nonfood, non-energy items edged higher in December after somewhat larger increases in the two preceding months. The rise in this index in 1992 was the smallest for any year since the early 1970s, when wage and price controls were in effect. Hourly compensation of private industry workers advanced a little more rapidly in the fourth quarter than in the two previous quarters, but the rise in total compensation over the year as a whole was considerably smaller than in 1991. The slowing of labor cost increases last year occurred in both the wages and benefits components.

At its meeting on December 22, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include a presumption about the likely direction of any adjustments to policy during the intermeeting period. Accordingly, the directive indicated that in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions associated with this directive were expected to be consistent with expansion of M2 at an annual rate of about 1½ percent and with M3 remaining about unchanged on balance over the four-month period from November through March.

Open market operations during the intermeeting period were directed toward maintaining the existing degree of pressure on reserve positions. Adjustment plus seasonal borrowing was well above expected levels in the first two full reserve maintenance periods in the intermeeting interval; borrowing was sizable over the long New Year's weekend and also later when unusually heavy Treasury

tax receipts drained reserves from the banking system. The federal funds rate averaged close to expected levels over the intermeeting period. However, the rate was somewhat volatile in late December as a result of sizable swings in market factors affecting reserves and of shifting market anticipations regarding year-end pressures.

Most other short-term interest rates declined somewhat over the intermeeting period, in part reflecting the passing of year-end pressures. Intermediate- and long-term rates, including those on fixed-rate mortgages, also moved somewhat lower; the declines occurred in response to growing indications that any proposed near-term fiscal stimulus would be quite moderate and that the new Administration intended to recommend steps, possibly including new taxes, to lower the trajectory of the fiscal deficit appreciably over time. Broad indexes of stock prices exhibited mixed results over the intermeeting period: Indexes giving heavy weight to large companies changed little, while those primarily reflecting smaller companies rose significantly.

In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose on balance over the intermeeting period. Through early January, the dollar appreciated against both the yen and the mark, especially the latter, in response to actual and expected further declines in interest rates in Japan and Germany. Subsequently, the dollar's gains were partially erased as the prospects for near-term easing in Germany diminished somewhat and perceptions grew that fiscal initiatives in the United States would lower the deficit and reduce the chances that monetary policy might be tightened in the months ahead.

After expanding at a moderate pace over the course of earlier months, M2 contracted in December and January. Some of the weakness reflected a slowdown in M1 growth associated with lower mortgage refinancing activity. Within M2's nontransactions component, the expansion of savings and money market deposit accounts slowed abruptly, perhaps owing in part to the wider spread that had developed during the fall between market rates and those paid on these accounts, as well as to the use of monies in these accounts to fund a step-up in consumer purchases and nonwithheld tax payments. In addition, the continued attractiveness to investors of bond and stock mutual funds might have contributed to a quickening of the runoff of holdings of money market mutual funds and to the persisting weakness in other M2 accounts. Appreciable declines in M3 in December and January reflected both the contraction in M2 and reduced needs by banks for managed liabilities at a time of weak overall credit demand. From the fourth quarter of 1991 to the fourth quarter of 1992, both M2 and M3 grew at rates somewhat below the lower ends of the Committee's annual ranges. Total domestic nonfinancial debt appeared to have expanded at the lower end of the Committee's monitoring range for 1992.

The staff projection prepared for this meeting suggested that economic activity would expand over the year ahead at a pace that would be sufficient to reduce gradually margins of unemployed labor and capital. Recent declines in long-term interest rates and more optimistic attitudes on the part of businesses and households were expected to support further solid gains in business fixed investment and in homebuying. Continuing progress in reducing debt service burdens and a gradual lessening of concerns regarding job security were projected to foster an expansion of consumer spending a shade faster than the growth in incomes. Export demand would be damped for some period of time by the appreciation of the dollar since mid-1992, but an anticipated pickup in growth abroad later this year would begin to counteract the effects of the higher dollar. Against the background of considerable uncertainties associated with still unannounced fiscal policy initiatives, the staff retained for this forecast the assumption contained in several previous forecasts that fiscal policy would remain mildly restrictive, largely because of declining defense outlays. The persisting slack in resource utilization over the forecast horizon was expected to be associated with some additional progress in reducing inflation.

In the Committee's discussion of current and prospective economic developments, the members were encouraged by the mounting evidence of appreciable momentum in the economic expansion. On the whole, recent developments tended to reinforce their forecasts of continuing growth at a moderate pace over the year ahead, especially in light of the improvement in business and consumer confidence. The impact of some retarding influ-

ences on the expansion, notably various balance sheet adjustment activities, appeared to be waning. In addition, while some major sectors of the economy such as defense spending and commercial construction remained weak, the economy was benefiting from considerable growth in consumer spending, from rising business expenditures for producer equipment, and from increasing outlays for housing. In one view, the recent behavior of commodity prices also tended to indicate some strengthening in the economy's expansion. Despite various indications of a more firmly established expansion, however, the members felt that the outlook remained subject to a good deal of uncertainty, and some commented that substantial deviations—in either direction—from their current forecasts could not be ruled out. It was noted in this connection that the specifics of the President's fiscal policy proposals were still unknown, and their reception by the public and the Congress would have a major influence on confidence, interest rates, and the performance of the economy. Other sources of uncertainty related to the outlook for further restructuring activities that involved cutbacks in operations and employment by many firms, and the prospective lending policies of banking institutions. With regard to the outlook for inflation, most of the members believed that some further progress toward stable prices was likely over the year ahead, given an economic outcome about in line with their forecasts of continued, albeit reduced, margins of unutilized or underutilized productive resources. Some members also referred to the extended period of relatively sluggish growth in the broad measures of money as a favorable indicator in the outlook for inflation.

In keeping with the practice at meetings when the Committee establishes its long-run ranges for growth of the money and debt aggregates, the Committee members and the Federal Reserve Bank presidents not currently serving as members had prepared projections of economic activity, the rate of unemployment, and inflation for 1993. The central tendencies of the forecasts pointed to slightly faster economic growth this year than currently seemed to have occurred in 1992. The anticipated rate of economic expansion would be at a pace that was rapid enough to reduce the rate of unemployment a little further. Nonetheless, with some slack in productive resources persisting, price and cost pressures would remain subdued and modest additional moderation in inflation was expected by most members. Measured from the fourth quarter of 1992 to the fourth quarter of 1993, the forecasts for growth of real GDP had a central tendency of 3 to 3¼ percent within a full range of 2½ to 4 percent. Projections of the civilian rate of unemployment in the fourth quarter of 1993 were concentrated in the upper half of a 6½ to 7 percent range. For the CPI, the central tendency of the forecasts for the period from the fourth quarter of 1992 to the fourth quarter of 1993 was centered on increases in a range of 2½ to 2¾ percent, and for nominal GDP the forecasts were clustered in a range of 5½ to 6 percent for the year.

In the course of the Committee's discussion of various factors underlying the outlook for economic activity, the members observed that on the whole the effects of a number of structural impediments to the expansion seemed to be diminishing as the financial condition of households, business firms, and financial institutions continued to improve. Household and business debt-service burdens had eased substantially, but it remained difficult to predict to what extent and for how long the ongoing balance sheet adjustments would continue to divert an unusual proportion of cash flows from spending to balance sheet repair. Improved profitability and new capital-market issuance had strengthened the capital positions of banking institutions, and in general they were now in a much better position to augment their lending activities. However, there were few indications thus far of any easing in terms or standards on business loans, and the depressed and uncertain values of commercial mortgages and real estate held in bank portfolios might continue to exert an inhibiting effect on the willingness of banks to lend. Another negative factor was the persistence of downsizing and other restructuring activities by numerous firms, notably large businesses. Such restructuring activities had not fully run their course as many firms continued to pare excess production capacity and to modernize production facilities to meet strong competition in domestic and foreign markets. The resulting layoffs had damped overall job growth.

Despite tepid job growth, retail sales had strengthened markedly during the closing months of 1992, and several members commented that such sales had continued to display surprising vigor

in some parts of the country during the early weeks of 1993. Apart from the improvement in consumer sentiment, other favorable factors cited with regard to the outlook for consumer spending included lower debt-service burdens and the capital gains or enhanced cash flows now being realized as sales of homes picked up and mortgage refinancings again strengthened. Some members nonetheless expressed a degree of concern about the sustainability of the gains in consumer spending unless there were faster growth in employment and income to support such spending. Announcements by prominent firms of cutbacks in their workforces had continued into the new year, and while job gains at other firms, especially smaller ones, were contributing to modest net growth in overall employment, the publicity surrounding the persisting job cutbacks and a tendency for many new jobs to be lower-paying added an element of caution to the outlook for consumer expenditures. On balance, with the measured saving rate already at a low level, though an argument could be made that the actual rate was somewhat higher than indicated by the currently published data, consumer spending seemed likely to expand about in line with the growth in consumer incomes over the coming year.

The growth in consumer incomes in turn was likely to depend importantly on the expansion in business investment spending, and members cited a number of factors that were expected to provide a favorable setting for sustained momentum in such spending over the year ahead. These included the strengthening of final demands, the recent declines in intermediate- and long-term interest rates, the greater leeway for financial intermediaries to increase their lending to businesses, and a continuing desire by business firms to improve their operating efficiencies. Commercial construction activity, however, was likely to remain quite sluggish. There were indications that commercial real estate values had stabilized in a number of areas, but at low levels, and given the persistence of marked imbalances in numerous real estate markets that were the result of several years of overbuilding, a significant rebound in commercial building activity for the nation as a whole might well be several years away. The outlook for housing construction was much more promising. Against the background of a general upswing in consumer confidence and the improved balance sheets of many households, the declines that had occurred in mortgage interest rates had fostered a marked strengthening in the demand for single-family housing as evidenced by reports from many parts of the country as well as the overall statistics on housing. On the basis of these developments, the members anticipated a continuing impetus to the economic expansion from housing construction and from related industries over the year ahead. In addition, the current indications of generally lean business inventories, associated in part with strong final demands over the past several months, suggested that the prospects for further gains in overall spending were likely to stimulate efforts by business firms to build up inventories over the quarters ahead.

The increasing signs of slow growth or recession in a number of foreign nations represented a greater downside risk to the demand for U.S. exports than had been apparent earlier. It was noted, for example, that firms engaged in business activities abroad were reporting substantial deterioration in markets for U.S. goods in many foreign countries. Growth in U.S. exports might remain positive over the year ahead, but against the background of a relatively expansive U.S. economy and the dollar's recent appreciation, the value of exports might well fall increasingly short of that of imports with adverse effects on the growth of U.S. economic activity.

Turning to the outlook for fiscal policy, members were encouraged by the prospect that the President would soon propose a program that would produce substantial reductions in the federal deficit over the years ahead. Such a deficit-reduction program, if deemed credible, could result in lower intermediate- and long-term interest rates than would otherwise prevail—even before the program was enacted—with very positive implications for interest-sensitive expenditures. For the nearer term, the President was expected to announce some modest fiscal stimulus relative to what was currently in train. However, the specifics of the President's proposals were not yet known and there was little current basis on which to judge prospective public and congressional reactions. Members emphasized the critical need for long-term deficit reduction, and some expressed concern about the adverse effects on financial markets if fiscal stimulus measures were to be enacted for the short run without the assurance of further legislation to cut federal deficits over time.

With regard to the outlook for inflation, most of the members anticipated that the trend toward lower price and wage inflation would be sustained over the year ahead, and one member observed that the disinflationary momentum in the economy might well be underestimated. Favorable developments relating to the outlook for inflation included evidence of slowing increases in labor costs and continued aggressive efforts by many business firms to improve productivity and reduce costs in the face of intense competition from domestic and foreign producers. Indeed, anecdotal reports from around the country continued to suggest little or no upward pressure on prices in many regions. In addition, the behavior of interest rates in longer-term debt markets was consistent with spreading expectations of gradually diminishing inflation. Some members believed, however, that little or no further progress in reducing inflation was a more likely outcome in the year ahead, though none anticipated higher inflation. Some commodity price indexes had edged higher recently, apparently in response to growing demands related to strengthening activity in several sectors of the economy. Lumber prices in particular had risen considerably in conjunction with the uptrend in single-family housing construction and various constraints on lumber supplies. Some business contacts reported for the first time in a long while that they were experiencing or anticipated some upward pressure on their raw materials prices. Further, while most business contacts saw or anticipated little or no upward pressure on prices in their own industries, many continued to expect rising inflation more generally. The still relatively steep slope of the yield curve and its implications with regard to expectations of future increases in interest rates also suggested that investors remained concerned about the possibility of higher inflation over the longer run, even though such concerns might have abated somewhat recently and did not appear to extend to the next year or two. In general, however, the members viewed the inflation outlook with considerable optimism on the presumption of favorable fiscal and monetary policy developments.

In keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey–Hawkins Act), the Committee at this meeting reviewed the ranges for growth of the monetary and debt aggregates in 1993 that it had established on a tentative basis at its meeting on June 30–July 1, 1992. The tentative ranges included expansion of 2½ to 6½ percent for M2 and 1 to 5 percent for M3, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The monitoring range for growth of total domestic nonfinancial debt had been set provisionally at 4½ to 8½ percent for 1993. All of these ranges were unchanged from those that the Committee had set for 1992 at its meeting in February of last year and had reaffirmed at midyear. When the provisional ranges for money growth were established, the Committee had noted that they were especially tentative and subject to revision in the latter part of 1992 or early 1993 owing to the considerable uncertainty about the evolving relationship of money to income.

In the event, the velocities of M2 and M3 had increased appreciably in the second half of 1992 and analysis of the factors behind this development suggested further increases in the year ahead. Consequently, in the Committee's discussion, which tended to focus on M2, all the members indicated that they could support a proposal to lower the tentative ranges for growth of the broad monetary aggregates by ½ percentage point for 1993. At the same time, a number of members indicated that they preferred somewhat different ranges including the retention of the tentative ranges, lowering the ranges by more than the proposal, and widening or narrowing them. All the members were in firm agreement that the purpose of the proposed reductions was not to signal or implement any change in monetary policy or to convey any intention to move away from the Committee's commitment to maximum sustainable economic expansion. Rather, the reductions were motivated by the persistence of marked shortfalls in the growth of M2 and M3 from their historical relationships with various measures of aggregate economic performance; those shortfalls appeared to be the technical result of forces that are altering the relationship between money and income. Members of the Committee urged that the Board's report to the Congress and the Chairman's accompanying testimony make clear the reasons for the unusual behavior of money and its consequences for the Committee's choice of ranges.

The deviations in monetary growth from historical norms reflected a number of developments

whose relative importance and intensity had shifted to some extent over the course of recent years, but in general they had served to rechannel funds away from depository institutions, and the associated weakness in deposit growth had raised velocity—the ratio of nominal GDP to money. The result was the need for lower money growth than in the past to support a given rate of income growth. Among the developments that had tended to retard the relative growth of M2 and M3 was the unprecedented steepness of the yield curve that had prompted large shifts of funds by savers from M2 accounts to higher-yielding intermediate- and long-term assets. At the same time, credit growth at bank and thrift depository institutions had been weak, partly as a result of efforts by these institutions to improve capital and liquidity positions, and partly owing to weak demand. As a consequence, they also had maintained relatively low offering rates on deposits that had provided consumers with an incentive to reduce or hold down their deposit holdings in order to pay down relatively high-cost mortgages and other debts. In 1992, sluggish growth of M2 and M3 had been associated with a considerable acceleration in nominal spending. Indeed, despite growth of both M2 and M3 at rates below the Committee's ranges, the expansion of the economy had exceeded most forecasts.

The members generally anticipated that the intensity of these forces might diminish in 1993 as borrowers and lending institutions achieved more comfortable balance sheet positions. Nonetheless, the relative weakness in money growth was seen as likely to persist to a marked extent. The yield curve, while it had flattened a bit recently, was still expected to provide a considerable incentive for many savers to shift funds out of M2 assets, especially as relatively high-yielding time deposits continued to mature. In addition, banks were likely to remain generally unaggressive in bidding for deposits, in part because their substantial earlier acquisitions of securities would permit them to accommodate some of the anticipated growth in loan demand by selling securities or limiting purchases. In these circumstances, restrained money growth seemed likely to remain consistent with relative strength in the economic expansion.

The members recognized that the strength of the factors that were expected to continue to depress broad money growth in relation to income in 1993 was still subject to considerable uncertainty, and this implied the need for flexibility in assessing the implications of money growth relative to the Committee's ranges. Should the factors influencing the behavior of the broad aggregates persist in holding down money growth to the extent seen in 1992, expansion of M2 and M3 in the lower portion of their reduced ranges would be consistent with considerable further growth in nominal spending. Indeed, a shortfall from the reduced ranges could not be ruled out, and one member felt that the potential for such a development warranted consideration of a somewhat larger reduction in the M2 range; such a reduction also would signal more clearly the Committee's commitment to price stability. On the other hand, the upper portions of the reduced ranges would still accommodate an ample provision of liquidity to support further economic expansion even if the growth of money and of income were to move toward a historically more normal alignment and velocity were to slow from its high rate of increase. In one view, widening the tentative M2 range by reducing its lower limit while retaining its upper limit would help the Committee to convey its views regarding the potential for a continuing but acceptable sluggishness in M2 growth while leaving room for the possibility of faster M2 expansion should changing circumstances foster diminishing strength in velocity. Another member expressed a preference for narrowing the tentative range by lowering only its upper limit as a means of signaling the Committee's intent to resist both inflationary and recessionary developments. In light of the uncertainties that were involved, the informational content of the aggregates probably had diminished and in any event the Committee would need to continue to evaluate monetary growth developments in the context of a careful assessment of a wide variety of other financial, economic, and price developments. In this connection, one member observed that the uncertainties were of such a magnitude that, while plausible arguments could be made for a number of different ranges, retention of the tentative ranges would be appropriate in light of the Committee's willingness to review the ranges in the event that unanticipated developments were to unfold.

All of the members agreed that it would be desirable to retain the monitoring range of 4½ to 8½ percent that the Committee had established on

a provisional basis for the growth of total domestic nonfinancial debt in 1993. The expansion in such debt had not been damped by special forces to the same extent as the broad monetary aggregates in 1992. Over the year ahead, growth in the federal debt was likely to remain substantial, and the expansion of debt in the nonfederal sectors was projected to accelerate somewhat given the continued improvement in borrower balance sheets and an anticipated increase in the willingness of financial institutions to lend as the economy continued to expand. Nonetheless, in the context of still cautious attitudes on the part of both borrowers and lenders, the growth of nonfederal debt probably would remain below that of nominal GDP in the year ahead.

At the conclusion of the Committee's discussion, all of the members indicated that they favored or could accept a technical downward adjustment of ½ percentage point in the tentative ranges for the broader monetary aggregates for 1993 to rates of 2 to 6 percent for M2 and ½ to 4½ percent for M3. It was agreed that there should be no change from the tentative range for total domestic nonfinancial debt. In keeping with the Committee's usual procedures under the Humphrey–Hawkins Act, the ranges would be reviewed at midyear, or sooner if deemed necessary, in light of the growth and velocity behavior of the aggregates and ongoing economic and financial developments. Accordingly, by unanimous vote, the following longer-run policy for 1993 was approved by the Committee for inclusion in the domestic policy directive:

> The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 2 to 6 percent and ½ to 4½ percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee expects that developments contributing to unusual velocity increases are likely to persist during the year. The monitoring range for growth of total domestic nonfinancial debt was set at 4½ to 8½ 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.

Turning to policy for the intermeeting period ahead, all of the members endorsed a proposal to maintain unchanged conditions in reserve markets, and all indicated that they could accept a directive that did not incorporate any presumption with regard to the likely direction of possible intermeeting adjustments to policy. While there was concern about the weakness in the monetary aggregates, the members generally agreed that recent economic developments tended to reinforce the view that monetary policy was on an appropriate course. The economy seemed to be on a stronger growth track than earlier in the expansion, and inflation remained quite subdued—only a bit above some estimates of price stability—and likely to moderate further in coming quarters in the view of most members. Some commented that a further easing move at this juncture might well have adverse effects on inflation sentiment and on interest rates in intermediate- and long-term debt markets. A few referred to the recent firming in some commodity prices and the consensus among private forecasters that inflation could drift higher over the next few years. In the view of one member, these developments might argue for a tilt in the directive toward possible restraint, but they did not call for an immediate tightening in reserve conditions.

A staff analysis prepared for this meeting suggested a resumption of some growth in the broad measures of money later in the first quarter but a decline in both M2 and M3 for the quarter as a whole. While part of the declines appeared to reflect difficulties with seasonal adjustments and the ebbing of special factors that previously had boosted growth, the uncertainties surrounding the behavior of these aggregates tended to reduce their role in current monetary policy. Nevertheless, there was concern about the persisting weakness in the broad aggregates, including the likelihood that they would fall well short of the Committee's new ranges over the first part of the year. Some members also noted that the growth of M1, while still fairly robust in December and January, was markedly below its pace over most of 1992. On the other hand, bank loans had increased in recent months, and the weakness in the monetary aggregates did not appear to reflect underlying softness in the economy. In these circumstances, a number of members believed that any effort to stimulate monetary growth under immediately prevailing economic conditions and market expectations might well prove to be counterproductive. An

easing at this time could accelerate outflows from interest-sensitive M2 assets if the easing were seen as signaling a weakening of the System's anti-inflationary resolve and were to result in higher rates on intermediate- and long-term debt securities.

At the conclusion of the Committee's discussion, all of the members indicated that they favored a directive that called for maintaining the existing degree of pressure on reserve positions. They also noted their preference for, or acceptance of, a directive that did not include a presumption about the likely direction of any adjustment to policy over the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, the Committee decided that slightly greater or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent with little change in the levels of M2 and M3 over the two-month period from January through March.

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

The information reviewed at this meeting indicates that economic activity rose appreciably further in the fourth quarter. Total nonfarm payroll employment registered another small increase in December, and the civilian unemployment rate remained at 7.3 percent. Industrial production posted solid gains over the closing months of the year. Retail sales were up substantially in the fourth quarter, and residential construction activity increased sharply. Indicators of business fixed investment suggest a notable gain in recent months, particularly for producers' durable equipment. The nominal U.S. merchandise trade deficit narrowed slightly in October–November from its average rate in the third quarter. Recent data on wages and prices have been mixed but they continue to suggest on balance a trend toward lower inflation.

Interest rates have declined somewhat since the Committee meeting on December 22. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose on balance over the intermeeting period.

M2 appears to have contracted in December and January, after expanding at a moderate pace over the course of previous months; M3 is estimated to have declined appreciably in both months. From the fourth quarter of 1991 to the fourth quarter of 1992, both M2 and M3 grew at rates somewhat below the lower ends of the Committee's annual ranges for 1992. Total domestic nonfinancial debt appears to have expanded at the lower end of the Committee's monitoring range for the year.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at this meeting established ranges for growth of M2 and M3 of 2 to 6 percent and ½ to 4½ percent respectively, measured from the fourth quarter of 1992 to the fourth quarter of 1993. The Committee expects that developments contributing to unusual velocity increases are likely to persist during the year. The monitoring range for growth of total domestic nonfinancial debt was set at 4½ to 8½ 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. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, 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 little change in M2 and M3 over the period from January to March.

At this meeting the Committee discussed a preliminary report of a subcommittee that had been established to examine various issues relating to the release of information about Committee meetings and decisions. All of the members agreed that the Committee should keep the public as fully informed as possible about its monetary policy decisions and their rationale. Such information could reduce uncertainty about the stance of policy and about the factors the Committee takes into account in reaching its decisions. However, release of information should not be allowed to compromise the overriding objective of making and implementing the best possible decisions. In that regard, the Committee noted that its deliberative process requires a free flow of ideas, including the ability to advance or question hypotheses, to speculate on alternative outcomes, and to change opinions in response to the views expressed by other members. The members also needed to feel at liberty during meetings to use a wide array of information that is obtained on a confidential basis; at least some of

that information would no longer be provided to the Committee if there were a risk of public disclosure. Moreover, the Committee wanted to give further consideration to the risk that the adoption of a different schedule for releasing information about policy decisions might have the effect, in difficult circumstances, of reducing its willingness to make needed policy adjustments promptly. No decisions were made at this meeting concerning various options for apprising the public more fully or promptly of the Committee's actions, and it was understood that the subcommittee would continue to study the matter.

It was agreed that the next meeting of the Committee would be held on Tuesday, March 23, 1993.

The meeting adjourned.

Donald L. Kohn
Secretary

Legal Developments

FINAL RULE—AMENDMENT TO REGULATION C

The Board of Governors is amending 12 C.F.R. Part 203, its Regulation C (Home Mortgage Disclosure Act ("HMDA")), to incorporate new statutory provisions. The Housing and Community Development Act of 1992 contains amendments to HMDA that require financial institutions to make their loan application register data available to the public beginning March 31, 1993; the register must be modified in accordance with Board regulations before release to the public. The act also requires institutions to make their disclosure statement—as compiled by the Federal Financial Institutions Examination Council later in the year—available to the public within three business days of receiving it from the Examination Council; they currently have 30 days to do so.

Effective March 1, 1993, 12 C.F.R. Part 203 is amended as follows:

Part 203—Home Mortgage Disclosure

1. The authority citation for part 203 continues to read as follows:

Authority: 12 U.S.C. 2801-2810.

2. Section 203.5 is amended by redesignating paragraphs (c) and (d) as (d) and (e), by adding a new paragraph (c), and by revising paragraphs (a) through (e) to read as follows:

Section 203.5—Disclosure and reporting.

(a) *Reporting to agency.* By March 1 following the calendar year for which the loan data are compiled, a financial institution shall send two copies of its complete loan application register (if submitted in paper form) to the agency office specified in appendix A of this regulation, and shall retain a copy for its records for a period of not less than three years. A financial institution need only submit one copy when the submission is on computer tape or diskette.

(b) *Public disclosure of statement.* A financial institution shall make its mortgage loan disclosure statement (to be prepared by the Federal Financial Institutions Examination Council) available to the public at its home office no later than three business days after receiving it from the Examination Council. A financial institution shall also make its disclosure statement available to the public within ten business days in at least one branch office in each additional MSA where it has offices. The disclosure statement at a branch office need only contain data relating to properties in the MSA where the branch office is located.

(c) *Public disclosure of loan application register.* A financial institution shall make its loan application register available to the public after modifying it in accordance with appendix A. An institution shall make its modified register available following the calendar year for which the data are compiled, by March 31 for a request received on or before March 1, and within 30 days for a request received after March 1. The modified register made available at a branch office need only contain data relating to properties in the MSA where the branch office is located.

(d) *Availability of data.* A financial institution shall make its modified register available to the public for a period of three years and its disclosure statement available for a period of five years. An institution shall make the data available for inspection and copying during the hours the office is normally open to the public for business. It may impose a reasonable fee for any cost incurred in providing or reproducing the data.

(e) *Notice of availability.* A financial institution shall post a general notice about the availability of its disclosure statement in the lobbies of its home office and any physical branch offices located in an MSA. Upon request, it shall promptly provide the location of the institution's offices where the statement is available. At its option, an institution may include the location in its notice.

3. Appendix A to part 203 is amended by revising the heading of section III., by revising section III.D., and by adding new sections III.E., F., and G., to read as follows:

APPENDIX A TO PART 203—FORM AND INSTRUCTIONS FOR COMPLETION OF HMDA LOAN/APPLICATION REGISTER

* * * * *

III. Submission of HMDA-LAR and Public Release of Data

D. *Availability of disclosure statement.* The Federal Financial Institutions Examination Council (FFIEC) will prepare a disclosure statement from the data you submit. Your disclosure statement will be returned to the name and address indicated on the transmittal sheet. Within three business days of receiving the disclosure statement, you must make a copy available at your home office for inspection by the public. You also must make the disclosure statement available, within ten business days after receiving it from the FFIEC, in at least one branch office in each additional MSA where you have physical offices. For these purposes, a business day is any calendar day other than a Saturday, Sunday, or legal public holiday.

E. *Availability of modified loan application register.*

1. To protect the privacy of applicants and borrowers, an institution must modify its loan application register by removing the following information before releasing it to the public: the application or loan number, date application received, and date of action taken.
2. A financial institution must make its modified register available following the calendar year for which the data are compiled, by March 31 for a request received on or before March 1, and within 30 days for a request received after March 1.

F. *Location and format of disclosed data.* A financial institution must make a complete copy of its disclosure statement and modified register available to the public at its home office. Institutions may make these data available in hard copy or in automated form (such as by floppy disk or computer tape). Although you are not required to make the modified loan application register available in census-tract order, you are strongly encouraged to do so in order to enhance its utility to users. If you have physical branch offices in other MSAs, you must make available, in at least one branch office in each of those MSAs, either a complete copy of the disclosure statement or the portion of it that relates to properties in that MSA. Similarly, a modified register at a branch office need only reflect data concerning properties within the MSA where the branch is located.

You are not required to prepare a modified loan application register in advance of receiving a request from the public for this information, but must be able to respond to a request within 30 days.

G. *Posters.* Your agency can provide you with HMDA posters that you can use to inform the public of the availability of your disclosure statement, or you may print your own posters.

Final Rule—Amendment to Regulation Y

The Board of Governors is amending 12 C.F.R. Part 225, its Real Estate Appraisal Regulations to reflect that the Board's Guidelines for Real Estate Appraisal Policies and Review Procedures have been superseded by the Guidelines for Real Estate Appraisal and Evaluation Programs.

Effective March 19, 1993, 12 C.F.R. Part 225 is amended as follows:

Part 225—Bank Holding Companies and Change in Bank Control

1. The authority citation for part 225 continues to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1831(i), 1843(c)(8), 1844(b), 3106, 3108, 3907, 3909, 3310, and 3331-3351, and sec. 306 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. 102-242, 105 Stat. 2236 (1991).

Subpart G—Appraisals

2. In section 225.63, the concluding text in paragraph (a) is revised to read as follows:

Section 225.63—Appraisals not required; transactions requiring a State certified or licensed appraiser.

(a) * * * Any transaction for which a State certified or licensed appraiser is not required nevertheless must have an appropriate evaluation of real property collateral that is consistent with the Board's Guidelines for Real Estate Appraisal and Evaluation Programs.

Final Rule—Amendment to Regulation Z

The Board of Governors is amending 12 C.F.R. Part 226, the official staff commentary to Regulation Z (Truth in Lending). The commentary applies and interprets the requirements of Regulation Z. The revisions are limited, and address regulatory provisions needing clarification or issues for which there may be a general need for more guidance. The revisions address the interplay between the Truth in Lending rules on demand features and other federal rules dealing with credit extended to executive officers of depository institutions. They provide greater flexibility in complying with the disclosure requirements under Regulation Z in these transactions. The disclosure rules for security interests (particularly those in

rescindable transactions) are also clarified. The commentary offers creditors alternative methods of disclosing security interests in rescindable transactions.

Effective April 1, 1993; but compliance is option until October 1, 1993, 12 C.F.R. Part 226 is amended as follows:

Part 226—[Amended]

1. The authority citation for part 226 continues to read as follows:

Authority: 12 U.S.C. 3806, 15 U.S.C., 1604 and 1637(c)(5); sec. 1204(c).

Supplement I to Part 226—[Amended]

2. In Supplement I to part 226, under the heading *"2(a) Definitions,"* comment 2(a)(25)-6 is amended by adding five new sentences at the end to read as follows:

2(a)(25) Security interest.

* * * * *

6. *Specificity of disclosure.* * * * In disclosing the fact that the transaction is secured by the collateral, the creditor also need not disclose how the security interest arose. For example, in a closed-end credit transaction, a rescission notice need not specifically state that a new security interest is "acquired" or an existing security interest is "retained" in the transaction. The acquisition or retention of a security interest in the consumer's principal dwelling instead may be disclosed in a rescission notice with a general statement such as the following: "Your home is the security for the new transaction." A statement such as this may be used, for example, instead of the second sentence in model form H-9 and could apply both to a refinancing in which a new security interest is taken by the original creditor to replace a preexisting security interest and one in which an existing security interest is maintained. Of course, because model form H-9 adequately discloses the fact that the home is security for the transaction, it may be used without modification in both a refinancing in which a new security interest is taken by the original creditor to replace a preexisting security interest and one in which an existing security interest is retained by that creditor.

* * * * *

Supplement I to Part 226—[Amended]

3. In Supplement I to part 226, under the heading *"5b(d) Content of Disclosures,"* comment 5b(d)(4)(iii)-1 is amended by revising the fourth sentence and adding a sentence after the fourth sentence to read as follows:

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

1. *Disclosure of conditions.* * * * 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)(i)-(iii), 226.5b(f)(3)(i) (regarding freezing the line when the maximum annual percentage rate is reached), and 226.5b(f)(3)(vi) or language that is substantially similar. The condition contained in section 226.5b(f)(2)(iv) need not be stated. * * *

* * * * *

Supplement I to Part 226—[Amended]

4. In Supplement I to part 226, under the heading *"5b(f) Limitations on Home Equity Plans,"* comment 5b(f)(2)-1 is amended by revising the second sentence to read as follows:

Paragraph 5b(f)(2).

1. *Limitations on termination and acceleration.* * * * However, creditors may take these actions in the four circumstances specified in section 226.5b(f)(2). * * *

* * * * *

Supplement I to Part 226—[Amended]

5. In Supplement I to part 226, under the heading *"6(e) Home Equity Plan Information,"* comment 6(e)-1 is amended by adding a parenthetical at the end to read as follows:

1. *Additional disclosures required.* * * * 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. (See comment 5b(d)(4)(iii)-1.)

* * * * *

Supplement I to Part 226—[Amended]

6. In Supplement I to part 226, under the heading *"Appendix G—Open-end model forms and clauses,"* comment 4 to Appendix G is amended by adding a new sentence at the end to read as follows:

4. *Models G-5 through G-9.* * * * See the commentary to section 226.2(a)(25) regarding the specificity of the security interest disclosure for model form G-7.

* * * * *

Supplement I to Part 226—[Amended]

7. In Supplement I to part 226, under the heading "*18(i) Demand feature,*" comment 18(i)-2 is amended by adding a new sentence at the end to read as follows:

2. *Covered demand features.* * * * A creditor may, but need not, treat its contractual right to demand payment of a loan made to its executive officers as a demand feature to the extent that the contractual right is required by Regulation O (12 C.F.R. 215.5) or other federal law.

* * * * *

Supplement I to Part 226—[Amended]

8. In Supplement I to part 226, under the heading "*19(b) Certain variable-rate transactions,*" comment 19(b)(2)(xi)-1 is amended by revising the first sentence to read as follows:

Paragraph 19(b)(2)(xi).

1. *Demand feature.* If a variable-rate loan subject to section 226.19(b) requirements contains a demand feature as discussed in the commentary to section 226.18(i), this fact must be disclosed. * * *

* * * * *

Supplement I to Part 226—[Amended]

8. In Supplement I to part 226, under the heading "*Appendix G—Open-end model forms and clauses,*" comment 4 to Appendix G is amended by adding a new sentence at the end to read as follows:

4. *Models G-5 through G-9.* * * * See the commentary to section 226.2(a)(25) regarding the specificity of the security interest disclosure for model form G-7.

* * * * *

Supplement I to Part 226—[Amended]

9. In Supplement I to part 226, under the heading "*Appendix H—Closed-end model forms and clauses,*" comment 11 to Appendix H is amended by adding a new sentence at the end to read as follows:

11. *Models H-8 through H-9.* * * * See the commentary to section 226.2(a)(25) regarding the specificity of the security interest disclosure for model form H-9.

Final Rule—Amendment to Regulation DD

The Board of Governors is amending 12 C.F.R. Part 230, its Regulation DD (Truth in Savings), to implement recent changes made to the Truth in Savings Act by the Housing and Community Development Act of 1992. The law extends the mandatory date for compliance with the requirements of the Truth in Savings Act by three months, so that institutions must comply by June 21, 1993, rather than March 21, 1993. The law also modifies the advertising rules relating to signs on the premises of an institution, and makes a technical change to the provision dealing with notices required to be given to existing account holders. In addition, the Board is making two minor changes to the regulation and providing guidance on several issues that have been raised by institutions since publication of the final regulation in September 1992.

Effective March 21, 1993, 12 C.F.R. Part 230 is amended as follows:

Part 230—Truth in Savings

1. The authority citation for part 230 continues to read as follows:

Authority: 12 U.S.C. 4301.

2. Section 230.2 is amended by revising the second sentence in paragraph (a) to read as follows:

Section 230.2—Definitions

* * * * *

(a) * * * The term does not include an existing account held by an unincorporated nonbusiness association of natural persons prior to June 21, 1993, unless the association notifies the institution that it meets the definition of "consumer."

* * * * *

3. Section 230.4 is amended by revising the first and second sentences in paragraph (c)(1) to read as follows:

Section 230.4—Account disclosures.

* * * * *

(c) * * * Depository institutions shall provide a notice to consumers who receive periodic statements and who hold existing accounts of the type offered by the institution on June 21, 1993. The notice shall be included on or with the first periodic statement sent on or after June 21, 1993 (or on or with the first periodic statement for a statement cycle beginning on or after that date). * * *

* * * * *

4. Section 230.5 is amended by revising paragraph (a)(2)(ii) to read as follows:

Section 230.5—Subsequent disclosures.

(a) * * *

(2) * * *

(ii) *Check printing fees.* Changes in fees assessed for check printing.

* * * * *

5. Section 230.8 is amended by revising paragraph (e) to read as follows:

Section 230.8—Advertising.

* * * * *

(e) *Exemption for certain advertisements.*

(1) *Certain media.* If an advertisement is made through one of the following media, it need not contain the information in paragraphs (c)(1), (c)(2), (c)(4), (c)(5), (c)(6)(ii), (d)(4), and (d)(5) of this section:

(i) Broadcast or electronic media, such as television or radio;

(ii) Outdoor media, such as billboards; or

(iii) Telephone response machines.

(2) *Indoor Signs.*

(i) Signs inside the premises of a depository institution (or the premises of a deposit broker) are not subject to paragraphs (b), (c), (d) or (e)(1) of this section unless they face outside the premises and can reasonably be viewed by a consumer only from outside the premises.

(ii) If a sign exempt by this paragraph states a rate of return, it shall:

(A) State the rate as an "annual percentage yield," using that term or the term "APY." The sign shall not state any other rate, except that the interest rate may be stated in conjunction with the annual percentage yield to which it relates.

(B) Contain a statement advising consumers to contact an employee for further information about applicable fees and terms.

6. In Appendix A to Part 230, Part II is amended by revising the first paragraph following the introductory text, by adding a heading for a new section A after the first paragraph following the introductory text, and by adding a new section B after Example (3) to read as follows:

Appendix A to Part 230—Annual Percentage Yield Calculation

* * * * *

Part II. Annual percentage yield earned for periodic statements

* * * * *

The annual percentage yield earned shall be calculated by using the following formulas ("APY Earned" is used for convenience in the formulas):

A. *General formula* * * *

B. *Special formula for use where periodic statement is sent more often than the period for which interest is compounded*

Institutions that use the daily balance method to accrue interest and that issue periodic statements more often than the period for which interest is compounded shall use the following special formula:

$$\text{APY Earned} = 100\left\{\left[1 + \frac{(\text{Interest earned}/\text{Balance})(\text{Compounding})}{\text{Days in period}}\right]^{(365/\text{Compounding})} - 1\right\}$$

The following definition applies for use in this formula (all other terms are defined under Part II):

"Compounding" is the number of days in each compounding period.

Assume an institution calculates interest for the statement period using the daily balance method, pays a 5.00% interest rate, compounded annually, and provides periodic statements for each monthly cycle. The account has a daily balance of $1,000 for a 30-day statement period. The interest earned is $4.11 for the period, and the annual percentage yield earned (using the special formula above) is 5.00%:

$$\text{APY Earned} = 100\left\{\left[1 + \frac{(4.11/1{,}000)(365)}{30}\right]^{(365/365)} - 1\right\}$$

$$\text{APY Earned} = 5.00\%$$

* * * * *

FINAL RULE—AMENDMENT TO REGULATION Q

The Board of Governors is amending 12 C.F.R. Part 217, its Regulation Q (Prohibition Against the Payment of Interest on Demand), in conjunction with its amendments to Regulation DD, which implements the Truth in Savings Act. Deletion of the advertising rules in Regulation Q is delayed by three months until June 21, 1993. Regulation Q retains provisions prohibiting the payment of interest on demand deposits.

Effective June 21, 1993, Regulation Q sets forth disclosure and advertising rules for interest on deposits by member banks and certain other institutions. Institutions that begin compliance with Regulation DD prior to the mandatory compliance date may comply solely with the advertising provisions of Regulation DD, and not the advertising and disclosure provisions in Regulation Q.

* * * * *

ORDERS ISSUED UNDER BANK HOLDING COMPANY ACT

Orders Issued Under Section 3 of the Bank Holding Company Act

Comerica Incorporated
Detroit, Michigan

Order Approving Acquisition of a Bank Holding Company

Comerica Incorporated ("Comerica"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), and Comerica Texas Incorporated ("Comerica-Texas"), both of Detroit, Michigan, have applied under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire Nasher Financial Corporation ("Nasher"), and its wholly owned subsidiary NorthPark National Corporation ("NNC"), both of Dallas, Texas, and thereby indirectly acquire NorthPark National Bank of Dallas, Dallas, Texas ("NorthPark Bank"). In connection with this application, Comerica-Texas also has applied to become a bank holding company by merging with Nasher and NNC. Upon consummation of the proposal, Comerica proposes to merge NorthPark Bank into Comerica's subsidiary bank, Comerica Bank-Texas, Dallas, Texas ("Comerica Bank").[1]

Notice of the applications, affording interested persons an opportunity to submit comments, has been published (57 *Federal Register* 58,022 (1992)). 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.

Comerica, with approximately $27.8 billion in consolidated assets, controls seven banks and one thrift located in Michigan, California, Florida, Illinois, Ohio, Delaware, and Texas.[2] Comerica is the ninth largest commercial banking organization in Texas, controlling deposits of approximately $2.0 billion, representing 1.4 percent of total deposits in commercial banks in the state. Nasher is the 18th largest commercial banking organization in Texas, controlling deposits of approximately $633 million, representing less than 1 percent of total deposits in commercial banks in the state. Upon consummation of the proposed transaction, Comerica would remain the ninth largest commercial banking organization in Texas, controlling deposits of $2.6 billion, representing 1.8 percent of total deposits in commercial banks in the state.[3]

Competitive, Financial, Managerial and Supervisory Considerations

Comerica and Nasher compete directly in the Dallas banking market.[4] Upon consummation of this proposal, Comerica would become the fourth largest commercial bank or thrift organization ("depository institution") in the Dallas banking market, controlling deposits of $2.3 billion, representing approximately 7.4 percent of total deposits in the depository institutions in the market ("market deposits").[5] After con-

1. This merger is subject to review under the Bank Merger Act by the Federal Deposit Insurance Corporation ("FDIC"), Comerica Bank's primary federal regulator.

2. Asset and deposit data are as of June 30, 1992 and includes Comerica's acquisitions approved by the Board as of January 31, 1993. These data do not include Comerica's credit card bank in Ohio which has received approval to operate as a full-service bank.

3. Deposit and market data are as of December 31, 1991.

4. The Dallas banking market is approximated by Dallas County; the southwest quadrant of Denton County (including Denton and Lewisville); the southwest quadrant of Collin County (including McKinney and Plano); the northern half of Rockwall County; the communities of Forney and Terrel in Kaufman County; Midlothian, Waxahachie and Ferris in Ellis County; and Grapevine and Arlington in Tarrant County, Texas.

5. Market deposit data are as of June 30, 1991. Market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. *See Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984).

Currently, Comerica Bank is the fifth largest depository institution in the Dallas banking market, controlling $1.7 billion in deposits, representing 5.4 percent of market deposits. NorthPark Bank is the 10th largest depository institution in the market, controlling $627 million in deposits, representing 2.0 percent of market deposits.

sidering Comerica's resulting market share, the number of competitors remaining in the market, the relatively small increase in concentration as measured by the Herfindahl–Hirschman Index ("HHI"),[6] and all other facts of record, the Board concludes that consummation of the proposal would not result in a significantly adverse effect on competition in the Dallas banking market or any other relevant banking market.

The Board also concludes that the financial and managerial resources and future prospects of Comerica and Nasher, and their respective subsidiaries, and the other supervisory factors that the Board must consider under section 3 of the BHC Act, are consistent with approval.

Convenience and Needs Considerations

In considering the application under section 3 of the BHC Act, the Board must consider the convenience and needs of the communities to be served and take into account the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et. seq.*) ("CRA"). The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate consistent with the safe and sound operation of such institutions. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operations of such institution," and to take that record into account in its evaluation of bank holding company applications.[7]

In connection with this application, the Board has received comments from an organization ("Protestant") alleging that Comerica Bank and NorthPark Bank have not reinvested into the communities that they serve, and have failed to meet the credit and needs of low- and moderate-income residents.[8] Protestant also alleges that the banks illegally discriminate against ethnic minorities in making lending decisions by citing data for the banks that has been filed under the Home Mortgage Disclosure Act ("HMDA").[9] The Board has carefully reviewed the CRA performance records of Comerica, Nasher, and their subsidiary banks, as well as all comments received, and all the other relevant facts of record, in light of the Statement of the Federal Financial Supervisory Agencies regarding the Community Reinvestment Act ("Agency CRA statement").[10] The Board also notes that similar allegations by the Protestant relating to Comerica's record of performance under the CRA in Texas were extensively reviewed in connection with the Board's recent approval of Comerica's application to acquire Hibernia National Bank in Texas, Dallas, Texas.[11]

Record of Performance Under the CRA

A. CRA Performance Examinations

The Agency CRA Statement provides that a CRA examination is an important, and often controlling, factor in the consideration of an institution's CRA record and that these reports will be given great weight in the applications process.[12] Comerica Bank received an overall "outstanding" rating in the examination of its CRA performance conducted by the FDIC as of October 18, 1991. In addition, Comerica's other six subsidiary banks have received either "satisfactory" or "outstanding" ratings from their primary supervisors in the most recent examinations of their CRA performance.[13] NorthPark Bank received a "satisfac-

6. The HHI in the Dallas banking market would increase 22 points to 1402. 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 between 1000 and 1800 is considered moderately concentrated. 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 anti-competitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anti-competitive effects implicitly recognize the competitive effect of limited-purpose lenders and other non-depository financial entities.

7. 12 U.S.C. § 2903.

8. The Board received another protest raising similar allegations regarding NorthPark Bank's record under the CRA. After meeting with staff from Comerica Bank and NorthPark Bank, this protest was withdrawn.

9. Protestant also raised concerns about the minority employment and outreach practices of Comerica Bank. Comerica disputes these allegations, and maintains that it actively promotes employment opportunities for minorities. Although the Board fully supports affirmative programs designed to promote equal opportunity in every aspect of a bank's personnel policies and practices in the employment, development, advancement, and treatment of employees, the Board believes that the alleged deficiencies in Comerica Bank's general personnel and employment practices are beyond the scope of the factors that the Board may properly consider under the CRA or the convenience and needs factor of the BHC Act.

10. 54 *Federal Register* 13,742 (1989).

11. *Comerica Incorporated*, 79 *Federal Reserve Bulletin* 31 (1993) (the "Hibernia Order").

12. *Id.*

13. Comerica's thrift subsidiary, Comerica Bank-Florida, Federal Savings Bank, Clearwater, Florida ("Comerica-Florida"), representing less than 1 percent of Comerica's consolidated assets, received a "needs to improve" rating from the Office of Thrift Supervision ("OTS") at its most recent CRA performance examination as of February 1992. As discussed in the Hibernia Order, Comerica immediately initiated a number of steps to address areas for improvement that were identified in the examination. In addition, Comerica will open an office of its mortgage company subsidiary in Florida, and will offer special mortgage and home improvement products to low- and

tory" rating for CRA performance in its most recent examination from the Office of the Comptroller of the Currency ("OCC") in December 1991.

B. Corporate Policies

As determined in the Hibernia Order, Comerica Bank has in place the types of policies outlined in the Agency CRA Statement that contribute to an effective CRA program, and these policies and programs will be implemented following NorthPark Bank's merger with Comerica Bank. For example, the board of directors of Comerica has adopted a written CRA plan for 1991–1993, which includes goals, objectives, and a methodology for self-assessment. The Comerica board also has established a CRA Committee, and a Public Responsibility Committee, to compile and issue status reports, review technical CRA compliance, conduct annual reviews of the distribution of credit products, submit annual CRA statements to the board for review, and provide the board with a summary of CRA activities. Comerica Bank also conducts regular CRA self-assessments, and the bank's board of directors actively supports CRA training for all bank personnel in the form of workshops, seminars, in-house training, and a periodic CRA newsletter.

C. Ascertainment and Marketing

As discussed in the Hibernia Order, Comerica Bank ascertains community credit needs through a multilayered approach to community outreach. For example, the bank's management has ongoing, substantive contacts with numerous civic, religious, neighborhood, minority, and small business organizations. Comerica Bank also has an extensive officer call program at each branch. Approximately 25 percent of all calls are made by officers from the four branches located in low- and moderate-income areas of the bank's delineated market. In addition, the bank has developed, and will soon distribute, a credit needs survey.

Comerica Bank markets its products and services through a variety of advertising activities, including neighborhood and regional newspapers, local radio stations, billboards, statement stuffers, and lobby signs. All of the bank's marketing and advertising programs are reviewed, approved, and monitored by the board and senior management of the bank. For example, home improvement loans, budget checking accounts, and small business loans are regularly advertised in minority publications and on billboards located in low- and moderate-income areas. In addition, the bank plans to offer both English and Spanish language versions of support materials such as brochures and rate sheets. Comerica Bank also has established a Speakers Bureau as a further means to provide credit and banking information to individuals and community groups. Comerica Bank also proposes that its Community Development Lending Group will meet with various neighborhood groups to promote economic and community development.

In addition, Comerica Bank has contracted with a minority-owned firm to advise the bank on marketing its services and to implement a comprehensive marketing plan for low- and moderate-income areas. This marketing plan will focus on mortgage lending, lending to small businesses, and improving community awareness of the bank's services. A substantial portion of Comerica Bank's marketing budget for 1993 will be dedicated to low- and moderate-income areas in southern Dallas, and represents a significant increase over the amount spent in these areas in 1992.

Comerica Bank also has developed a Community Outreach Plan to improve relationships with community and government organizations and has already held meetings with a number of community organizations. Comerica Bank also plans to create a CRA status report that will report on the bank's CRA efforts and shared with community groups.

D. Lending and Other Activities

In the Hibernia Order, the Board found that Comerica Bank supports a number of governmental programs designed to help meet the housing-related credit needs of low- and moderate-income borrowers, including the Dallas Affordable Housing Partnership, ("DAHP") which provides low-interest mortgages to low-income first-time homebuyers.

In addition, Comerica Bank has provided over $1 million to Common Ground Community Economic Development Corporation to provide financing for single-family residences. Comerica Bank has supported this organization since its inception over ten years ago. Comerica Bank also supports the Southern Dallas Development Corporation both financially and through service on its board of directors, and has recently committed to assist the Corporation in the funding of development loans over a four-year period.

Comerica Bank continues to participate in the U.S. Department of Housing and Urban Development's 203K Program, through which it has funded loans for the rehabilitation of properties. In South Dallas and West Dallas, Comerica Bank has provided financing

moderate-income customers. These loan products feature more flexible underwriting standards than existing credit products offered by Comerica-Florida. The OTS has reviewed this plan and informed the Board that Comerica-Florida is making satisfactory progress in improving its CRA performance record.

for more than 60 houses owned by a neighborhood-based, non-profit organization, and rented to low-income residents. Since the Hibernia Order, the bank has received approval to become a lender under the Title I program for home improvement loans, and product development and training for this program are underway. The bank's new Affordable Housing Mortgage Program, which began in August of 1992 and operates in the Wynnewood branch of South Dallas, has provided a significant number of mortgages since its implementation, and Comerica estimates the 82 percent of the mortgages originated under this program were provided to minorities. In addition, the bank has participated in various other programs directed at economic revitalization of various low- and moderate-income areas of the Dallas metropolitan area. Comerica Bank also has begun to implement an Auto Improvement Loan Program that is being tested in certain low-income branches to provide loans for auto repairs.

With respect to small business lending, Comerica Bank participates in a number of Small Business Administration loan programs. Comerica Bank also has sponsored numerous business conferences and seminars for individuals interested in starting small businesses. The bank uses these occasions to discuss credit requirements and standards for small- to medium-sized companies in need of bank financing.

To strengthen its CRA performance, especially in low- and moderate-income areas, Comerica Bank has developed a marketing plan that will include community participation and an officer calling program. In this regard, the bank has made a number of calls in low- and moderate-income areas through its General Banking Calling Program and Small Business Lenders Program. Comerica Bank has also established focus groups to evaluate small business lending needs and consumer loan needs within the bank's delineated service community.

E. HMDA Data and Lending Practices

In the Hibernia Order, the Board reviewed the 1990 and 1991 HMDA data reported by Comerica Bank and has reviewed the data for NorthPark Bank as part of its review of this proposal.[14] The HMDA data show disparities in the rates for housing-related loan applications, approvals, and denials that vary by racial or ethnic group in certain areas of Dallas. The Protestant has alleged illegal discriminatory lending practices on the basis of these data.

Because all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also ensure equal access to credit by creditworthy applicants regardless of race, the Board is concerned when the record of an institution indicates disparities in lending to minority applicants. The Board recognizes, however, that HMDA data alone provide only a limited measure of any given institution's lending in the communities that the institution serves. The Board also recognizes that HMDA data have limitations that make the data an inadequate basis, absent other information, for conclusively determining whether an institution has engaged in illegal discrimination on the basis of race or ethnicity in making lending decisions.

The most recent examinations for CRA compliance and performance conducted by bank supervisory agencies found no evidence of illegal discrimination or other illegal credit practices at Comerica Bank or NorthPark Bank.[15] In the case of Comerica Bank, the examination specifically considered the results of the 1990 HMDA data and the loan policies and procedures which governed the loan applications that were the source for the 1991 data.

Comerica Bank also has taken steps designed to improve its lending to minority and low- and moderate-income neighborhoods in Dallas. For example, Comerica Bank's management determined that the bank should review its minority mortgage lending practices, and established a task force to review the bank's mortgage products and recommend additional credit products, if needed, to facilitate lending to low- and moderate-income customers. To help improve its mortgage lending program, Comerica Bank has also adopted a mortgage program to promote affordable housing in low- and moderate-income areas in Dallas. Since September, Comerica Bank has closed 16 loans under the program and a number of other loans are in process.

F. Conclusion Regarding Convenience and Needs Factors

The Board has carefully considered the entire record, including the comment filed in this case, in reviewing the convenience and needs factor under the BHC Act.

14. Banks are required under the HMDA to report certain information regarding loan applications, approvals, and denials to the various banking agencies and the public. This information includes data on the race, gender, and income of individual loan applicants, as well as the location of the property securing the potential loan, and a description of the application.

15. Both NorthPark Bank and Comerica Bank were cited for technical noncompliance with the Equal Credit Opportunity Act ("ECOA") and the Fair Housing Home Loan Data System regulations. The primary regulators for each bank found that NorthPark Bank and Comerica Bank have adequate policies and procedures in place to ensure compliance and there was no evidence of prohibited discriminatory or other illegal credit practices.

Based on a review of the entire record of performance, including information provided by the Protestant and by the banks' primary regulators, the Board believes that the efforts of Comerica Bank and NorthPark Bank to help meet the credit needs of all segments of the communities served by the banks, including low- and moderate-income neighborhoods, are consistent with approval.

The Board recognizes that the record compiled in this application points to areas for improvement, especially in housing-related lending to minority and low- and moderate-income borrowers. Comerica has already initiated steps, since the Board's earlier decision, to strengthen the CRA performance of the insured institutions. Comerica's recent actions as well as the outstanding CRA performance rating received by Comerica Bank reflects Comerica's willingness to address promptly areas where the improvements can be made to help meet community credit needs. The Board believes that this record, and the initiatives proposed by Comerica, will help the resulting organization improve its CRA performance and address weaknesses identified by Protestant.

In this light, and on the basis of all of the facts of record, including the Board's determinations in the Hibernia Order, the Board concludes that the convenience and needs considerations, including the CRA performance records of Comerica Bank and NorthPark Bank, are consistent with approval of this application. The Board expects Comerica Bank to implement fully the CRA initiatives discussed in this Order, and contained in this application. Comerica Bank's progress in implementing these initiatives will be monitored by the Federal Reserve Bank of Chicago, and in future applications by Comerica to expand its deposit-taking facilities.[16]

Based on the foregoing, including the conditions and commitments described in this Order and those made in this application, and all of the facts of record, the Board has determined that this application should be, and hereby is, approved. The Board's approval is specifically conditioned upon compliance by Comerica with all the commitments made in connection with this application. The commitments and conditions relied on by the Board in reaching this decision are both conditions imposed in writing by the Board in connection with its findings and decision, and as such may be enforced in proceedings under applicable law. This approval is also conditioned upon Comerica receiving all necessary Federal and state approvals.

This transaction should not be consummated before the thirtieth calendar day following the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Chicago, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 1, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

16. Protestant requested that the Board hold a public meeting or hearing on this application. The Board is not required under section 3(b) of the BHC Act to hold a hearing on an application unless the appropriate banking authority for the bank to be acquired makes a timely written recommendation of denial of the application. In this case, the OCC has not recommended denial of the proposal.

Generally, under the Board's rules, the Board may, in its discretion, hold a public hearing or meeting on an application to clarify factual issues related to the application and to provide an opportunity for testimony, if appropriate. 12 U.S.C. §§ 262.3(e) and 262.25(d). The Board has carefully considered this request. In the Board's view, interested parties have had a sufficient opportunity to present written submissions, and have submitted substantial written comments that have been considered by the Board. On the basis of all the facts of record, the Board has determined that a public meeting or hearing is not necessary to clarify the factual record in these applications, or otherwise warranted in this case. Accordingly, the request for a public meeting or hearing on this application is hereby denied.

Eva Bancshares, Inc.
Eva, Alabama

Order Approving Formation of a Bank Holding Company

Eva Bancshares, Inc., Eva, Alabama ("Applicant"), has applied, under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)), to become a bank holding company by acquiring all the voting shares of First Bank of Eva, Eva, Alabama ("Bank").

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published (57 *Federal Register* 54,792 (1992)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the BHC Act.

Applicant is a non-operating company formed for the purpose of acquiring Bank in order to restructure Bank's existing individual ownership into corporate form. Bank is the 122nd largest banking organization in Alabama, controlling approximately $13 million in deposits, representing less than 1 percent of total deposits in commercial banks in the state.[1] Based on

1. State banking data are as of December 31, 1991.

all the facts of record, the Board has concluded that consummation of this proposal would not result in a significantly adverse effect on competition in any relevant banking market.

In connection with this proposal, the Board has received comments from a shareholder of Bank ("Protestant") objecting to the transaction on several grounds, including:

(1) That the proposal would violate relevant Alabama corporate statutes and federal banking regulations;[2]

(2) That Applicant lacks the financial resources necessary to consummate the transaction, and will not be able to repay indebtedness incurred in connection with the proposal; and

(3) That the competence and integrity of Applicant's and Bank's management are inconsistent with approval.

Protestant also maintains that the transaction provides inadequate benefits to Bank and its shareholders, and is less advantageous than alternative means of raising capital for Bank.

Alabama law provides that corporate transactions involving banks are governed by the general business corporation law unless otherwise provided in the banking statute.[3] The business corporation law provides that a share exchange must be approved by shareholders as though it were a merger.[4] Although corporate mergers in Alabama generally require approval by a two-thirds vote of the shareholders, the banking statute provides that bank mergers require only a majority shareholder vote for approval.[5] On the basis of these provisions, the Alabama Banking Department has concluded that an Alabama-chartered bank and another corporation may engage in a share exchange upon approval by a majority vote of the Bank's stock.[6]

Alabama law also expressly provides that shareholders do not have preemptive rights if a corporation's charter denies such rights,[7] and Applicant's articles of incorporation specifically deny preemptive rights to its shareholders. Because Bank is not issuing any stock in connection with this proposal, any preemptive rights held by its shareholders would not be activated by the proposed transactions. Protestant's argument based upon federal banking regulations also is inapplicable to this proposal because there is no proposed redemption or purchase by Bank of its own stock.

The Board notes that Bank currently is in satisfactory financial condition, and Applicant's debt service projections and *pro forma* debt-to-equity ratio are reasonable and consistent with the Board's guidelines. In addition, Applicant's financing sources appear to be adequate to meet Applicant's cash needs in connection with this proposal. In light of the foregoing considerations and all the other facts of record, the Board has concluded that the financial resources and future prospects of Applicant and Bank are consistent with approval of this proposal.[8]

The Board has carefully reviewed Protestant's allegations with respect to management, including allegations pertaining to improper insider loan transactions involving directors, in light of recent examinations conducted by Bank's primary regulators, the Alabama Banking Department and the Federal Deposit Insurance Corporation. On the basis of this review and all the other facts of record, the Board has concluded that Protestant's comments regarding management do not raise issues that warrant denial of the application,[9] and

2. Specifically, Protestant alleges that:

(i) Alabama law requires a two-thirds vote of the shareholders to approve the transaction, while the proposal calls for a majority vote;

(ii) The proposed purchase of new common stock by directors abridges the preemptive rights granted to Bank's shareholders under Alabama law; and

(iii) The transaction constitutes an evasion of federal regulatory restrictions against a bank's purchase of its own stock.

3. Ala. Code § 5-1A-6. *See also* Ala. Code § 10-2A-336.

4. Ala. Code § 10-2A-171.

5. Ala. Code § § 10-2A-142 and 5-7A-2.

6. The Board has received an opinion to this effect from the Deputy Superintendent of the Alabama Banking Department. The Deputy Superintendent is authorized by statute to issue such interpretations. See Ala. Code §§ 5-2A-8 and 5-2A-15(b) (providing that the superintendent, and in his absence the deputy superintendent, shall issue written interpretations of banking laws, and that banks and their officers and directors relying on such an interpretation shall be fully protected even if a court later rules that the interpretation is invalid).

7. Ala. Code § 10-2A-44.

8. The Board also has carefully considered Protestant's comments with respect to the benefits to be conferred upon Bank and its shareholders as a result of this proposal, and possible alternative methods of raising capital. Protestant has not suggested that the price or other terms of Applicant's proposed stock offering are inadequate or otherwise unfair to Applicant or Bank. Rather, Protestant believes that Bank should issue additional common stock to its current shareholders. Applicant has stated that its proposal will raise capital on terms highly favorable to Applicant, Bank, and their shareholders, and that the proposed holding company structure will facilitate more flexible capital-raising capabilities, the creation of a limited market for shareholders wishing to dispose of their stock, and the organization's possible entrance into permissible nonbanking activities. In light of these circumstances and other facts of record, the Board has concluded that Protestant's comments in this regard do not reflect adversely on the factors the Board must consider under section 3(c) of the BHC Act. *See Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973).

9. Some of Protestant's allegations, including allegations with respect to improper insider loan transactions and stock repurchases by Bank, are not supported by the record of this application. Protestant also objects to increased voting control by the board of directors and the exclusion of a dissenting Bank director from membership on Applicant's board. These actions do not raise a legal bar to this transaction, and the proposed management and directors of Applicant and Bank appear to be satisfactory. Other matters raised by Protes-

that managerial considerations are consistent with approval of this proposal. In addition, the Board has concluded that convenience and needs considerations, as well as all other supervisory factors the Board must consider under section 3(c) of the BHC Act, also are consistent with approval.

Based on the foregoing and other facts of record, and subject to and in reliance upon representations and commitments made by Applicant, the Board has determined that the application should be, and hereby is, approved. The Board's approval is specifically conditioned upon compliance by Applicant with all the commitments made in connection with this application and with the conditions referenced in this Order. For purposes of this action, the commitments and conditions relied on in reaching this decision shall be deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

The proposal 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 Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 1, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

First Commercial Corporation
Little Rock, Arkansas

Order Approving Acquisition of a Bank Holding Company

First Commercial Corporation, Little Rock, Arkansas ("FCC"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied pursuant to section 3(a)(3) of the BHC Act (12 U.S.C. § 1842(a)(3)) to acquire all of the voting shares of First City, Inc. ("First City"), and thereby indirectly acquire First City National Bank ("First Bank"), both of Memphis, Tennessee.

tant, including allegations with respect to shareholder communications and asset quality, do not reflect so adversely on the factors the Board is required to consider under the BHC Act as to warrant denial of this proposal. The remaining managerial issue raised by Protestant concerns a director whose service on the boards of Bank and Applicant has been suspended in a manner satisfactory to the Board.

Notice of the application, affording interested parties an opportunity to submit comments, has been published (57 *Federal Register* 43,458 (1992)). 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.

FCC, with approximately $3 billion in consolidated assets, controls twelve banking subsidiaries in Arkansas, Oklahoma, Tennessee, and Texas.[1] In Tennessee, FCC is the 56th largest commercial banking organization, controlling deposits of $88.9 million, representing less than 1 percent of the total deposits in commercial banking organizations in the state.[2] First City is the 136th largest commercial banking organization in Tennessee, controlling deposits of $41.1 million, representing less than 1 percent of the total deposits in commercial banking organizations in the state. Upon consummation of the proposed transaction, FCC would become the 38th largest commercial banking organization in the state, controlling $130 million in deposits, representing less than 1 percent of total deposits in commercial banking organizations in the state.

Douglas Amendment

Section 3(d) of the BHC Act, the Douglas Amendment, prohibits the Board from approving an application by a bank holding company to acquire 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 such bank is located, by language to that effect and not merely by implication."[3] FCC, whose home state is Arkansas,[4] seeks to acquire a bank in Tennessee. Tennessee has enacted a reciprocal interstate banking statute that permits an out-of-state bank holding company to acquire a bank in Tennessee if certain conditions are satisfied.[5] Arkansas has a comparable inter-

1. The banking subsidiaries of FCC include Security National Bank and Trust Company, Norman, Oklahoma, of which FCC owns 50 percent and another bank holding company owns 50 percent.

2. State and market deposit data are as of June 30, 1991.

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 subsidiaries were principally conducted on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

5. Under Tennessee's interstate banking statute, an out-of-state bank holding company may acquire a Tennessee bank or bank holding company if the laws of the state in which the acquiring bank holding company is located allow Tennessee bank holding companies to acquire banks and bank holding companies in that state, subject to any conditions, restrictions, requirements, or other limitations that would apply to such acquisitions but would not apply to an in-state acquisition in that state. Tenn. Code Ann. §§ 45-12-102, -103. The Tennessee statute also conditions entry on the requirement that the out-of-state

state banking statute.[6] After careful review of the relevant statutes, and in light of the facts of record, the Board conludes that FCC's acquisition of First City complies with the Tennessee interstate banking statute, and that Board approval of this proposal is not prohibited by the Douglas Amendment. Approval of this proposal is conditioned upon FCC receiving all required state regulatory approvals.

Competitive, Financial, Managerial, and Supervisory Considerations

FCC and First City compete directly in the Memphis, Tennessee, banking market.[7] Based on all of the facts of record in this case, the Board concludes that consummation of this proposal would not have a significantly adverse effect on competition or the concentration of banking resources in any relevant banking market.[8] Considerations relating to the financial and managerial resources and future prospects of FCC, its subsidiary banks, and First Bank, and other supervisory factors that the Board is required to consider under section 3 of the BHC Act, also are consistent with approval of this application.

Convenience and Needs Considerations

In reviewing this application, the Board also is required to consider the convenience and needs of the community to be served and take into account the records of performance of FCC and its subsidiary banks, as well as First City, under the Community Reinvestment Act (12 U.S.C. § 2901 *et. seq.*) ("CRA").[9] The Board notes that eleven of FCC's twelve subsidiary banks, including its lead bank, representing approximately 96.5 percent of FCC's assets, have received ratings of "outstanding" or "satisfactory" from their primary regulators in their most recent examinations for CRA performance.[10] However, one of FCC's subsidiary banks, First Commercial Bank, N.A., Memphis, Tennessee ("FCBM"), which controls approximately 3.5 percent of FCC's assets, received two consecutive less than satisfactory examination ratings for CRA performance in 1991 and 1992 from its primary regulator, the Office of the Comptroller of the Currency ("OCC").[11]

The Board has carefully reviewed these examinations and the CRA performance of FCC and its subisidiary banks, as well as First Bank, in light of the CRA, the Board's regulations, and the jointly issued Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement").[12] The Board previously has stated that applicants should address their CRA responsibilities and have the necessary policies in place and working well before they file an application.[13] In this regard, actions taken by FCC and FCBM to improve the CRA performance of FCBM have been carefully considered in this application.[14]

bank holding company not hold more than 16½ percent of the total deposits held by all federally-insured financial institutions located in Tennessee. Tenn. Code Ann. § 45-2-1405. Under this proposal, FCC would hold less than 1 percent of the federally-insured deposits in Tennessee.

6. Ark. Code Ann. §§ 23-32-1802, -1804.

7. The Memphis, Tennessee, banking market is approximated by Shelby and Tipton Counties in Tennessee, De Soto and Tate Counties in Mississippi, and Crittenden County in Arkansas.

8. In the Memphis, Tennessee, banking market, FCC would become the tenth largest commercial banking organization, and the Herfindahl-Hirschman Index ("HHI") would increase by 1 point to 1005. 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 between 1000 and 1800 is considered moderately concentrated. 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.

9. The CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution," and to take this record into account in its evaluation of bank holding company applications. 12 U.S.C. § 2903.

10. First Commercial Bank, N.A., Little Rock, Arkansas, received a "satisfactory" performance rating from the OCC on July 6, 1992; First National Bank of Russellville, Russellville, Arkansas, received an "outstanding" rating from the OCC on July 6, 1992; Morrilton Security Bank, N.A., Morrilton, Arkansas, received a "satisfactory" rating from the OCC on July 6, 1992; First National Bank of Conway, Conway, Arkansas, received a "satisfactory" rating from the OCC on May 4, 1992; Benton State Bank, Benton, Arkansas, received an "outstanding" rating from the FDIC on December 30, 1990; Arkansas Bank and Trust Company, Hot Springs, Arkansas, received a "satisfactory" rating from the FDIC on January 13, 1987; Security Bank, Harrison, Arkansas, received an "outstanding" rating from the FDIC on June 5, 1991; and Farmers and Merchants Bank and Trust Company, Rogers, Arkansas, received a "satisfactory" rating from the FDIC on November 23, 1990; Citizens First National Bank of Tyler, Tyler, Texas, received a "satisfactory" rating from the OCC on February 7, 1991; Lufkin National Bank, Lufkin, Texas, received a "satisfactory" rating from the OCC on February 28, 1991; Security National Bank and Trust Company, Norman, Oklahoma, received a "satisfactory" rating from the OCC on June 26, 1990.

11. FCBM received a "needs to improve" rating in its first examination in August 1991. At its next examination, in May 1992, FCBM showed improvement in several categories, including ascertainment of community credit needs, geographic distribution and record of opening and closing offices, and discrimination and other illegal credit practices, but still received a "needs to improve" rating overall.

12. 54 *Federal Register* 13,742 (1989).

13. *First Interstate BancSystem of Montana, Inc.*, 77 *Federal Reserve Bulletin* 1007 (1991); Agency CRA Statement, 54 *Federal Register* at 13,743.

14. The Board also has received a comment from the Mid-South Peace and Justice Center ("Protestant") criticizing the efforts of FCBM to market its credit products to low- and moderate-income neighborhoods and the disparities in the rates of housing-related loan applications, and approvals and denials thereof, among residents of low- and moderate-income neighborhoods and other neighborhoods. In support of its criticisms, Protestant cited HMDA data for 1990 and

The record in this case indicates that FCBM was chartered in June 1990 when FCC acquired the main office and three branches of a failed thrift institution, and that substantial efforts were required of the board of directors and management of FCBM during its first months of operation to accomplish the transition from receivership. In April 1991, the FCC compliance management department began working with the FCBM board of directors concerning CRA compliance matters. The FCC director of loan review and compliance management met with the FCBM board of directors and conducted a training session concerning CRA and the roles of directors, officers, and employees in achieving compliance. The board of directors appointed itself to be the CRA compliance committee of the bank, adopted a ten-point plan developed by FCC for implementing an effective CRA program, and appointed a CRA compliance officer. In August 1991, in connection with the application of FCBM to relocate its main office, the OCC conducted its initial examination of FCBM for CRA performance.

In response to the 1991 examination, the board of directors of FCBM requested the further assistance of FCC to develop a written action plan addressing the major areas of criticism. The action plan included specific performance goals and target dates, and FCC required FCBM to submit quarterly reports concerning its compliance with the action plan. In addition, the FCC compliance management department conducted an on-site review of FCBM's CRA compliance program in November 1991 and March 1992, and provided additional training in March 1992. Examiners found in the 1992 examination that these steps had resulted in an improvement in FCBM's CRA program, and upgraded FCBM's rating to satisfactory in three of five categories of CRA performance. This second examination occurred in conjunction with the CRA examination of all national bank subsidiaries of FCC. In this regard, the record in this case indicates that substantial improvement in FCBM's CRA performance was accomplished in the nine months that elapsed between the two examinations.

In response to the 1992 examination, FCBM has implemented, and has committed to implement, various measures to address the identified weaknesses in its CRA program. The board of directors, with the assistance of the FCC compliance department, adopted a new action plan. At the suggestion of the OCC, a new, smaller community delineation was adopted, which includes all neighborhoods, including low- and moderate-income neighborhoods, within a 3½ mile radius of the main office and each branch office, within which approximately 70 percent of all its current loans were made. Banking hours have been extended, and the bank plans to convert a branch serving a large area of low- to moderate-income neighborhoods into a full-service facility by hiring a lending officer for the location. FCBM's officer call program has been modified to place greater emphasis on marketing efforts, and the bank's general advertising, which formerly was limited to a certificate of deposit campaign, now also features general deposit and credit services. The marketing budget for 1993 includes increased funds for CRA-related marketing, which will include newspapers, including a minority-oriented weekly, radio, and direct mail. Home equity credit lines and a home improvement loan product oriented to low- and moderate-income borrowers will be featured.[15] In response to mail survey results, a low cost checking account and student loans have been added. In addition, a new chief lending officer, with extensive experience in commercial lending, has been hired to replace an officer whose experience was in indirect consumer automobile lending.

FCBM also has made efforts since the 1992 examination to improve its involvement in community development. The bank has increased its contacts among government programs and local organizations, including the Multi-Bank Community Development Corporation, the Greater Memphis Redevel-

1991. The HMDA data cited by Protestant, however, actually represents first mortgage home lending in the Memphis, Tennessee, banking market by First Commercial Mortgage Company ("FCMC"), the mortgage lending subsidiary of FCC's lead bank, First Commercial Bank, N.A., Little Rock, Arkansas. The HMDA data for FCMC indicate disparities in rates of housing-related loan applications, and in approvals and denials, that vary by racial and economic group in the areas served by FCMC. These disparities appear to be less than those of other lenders in the Memphis area.

Because all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also ensure equal access to credit by creditworthy applicants regardless of race, the Board is concerned when the record of an institution indicates disparities in lending to minority applicants. The Board recognizes, however, that HMDA data alone provide only a limited measure of any given institution's lending in the communities that the institution serves. The Board also recognizes that HMDA data have limitations that make the data an inadequate basis, absent other information, for conclusively demonstrating whether an institution has engaged in illegal discrimination on the basis of race or ethnicity in making lending decisions. FCMC was the subject of a special examination by the OCC in 1992 based on the discrepancy in its 1990 HMDA data between its minority and non-minority applicant denial rates, and the OCC found no policies, procedures, or practices that indicated that illegal discrimination was occurring. Moreover, to address the low levels of loan applications from minorities, FCBM has recently instituted enhanced marketing and ascertainment efforts described in this Order in minority and low- and moderate-income neighborhoods.

15. In this regard, FCBM has introduced the LMI Home Improvement Loan, which features no origination fees or points, an interest rate below the average rate for home improvement loans, and a minimum loan amount of $500. This product was developed in response to mail survey results. It will be featured in the bank's sponsor identification messages during a home improvement program broadcast on local television.

opment Authority, the Memphis Housing and Development Association, St. Mary's Manassas Alabama Revitalization Team ("SMART"), and Habitat for Humanity. FCBM participates with Neighborhood Christian Center and the Center for Neighborhoods in providing credit counseling, and works with SMART and Habitat for Humanity in providing credit counseling and reconstruction financing as well as participating in rehabilitation projects. The bank has agreed to participate with the Tennessee Housing Development Agency in a model program to increase the availability of home improvement loans to low-income borrowers. The bank is planning to be both a sponsor and participant in Neighborfest, an annual neighborhood festival, and is planning to conduct educational seminars directed mainly to children. FCBM also holds $815,000 in local municipal bonds.

FCBM's primary regulator has advised the Board that the actions proposed by FCBM to continue to improve its CRA performance, together with the commitment of FCC to support those actions, should be sufficient when effectively implemented to improve FCBM's overall CRA performance rating. In this regard, the Board notes that another subsidiary bank of FCC, Benton State Bank, Benton, Arkansas, received a composite "needs to improve" rating from the FDIC in December 1990 for compliance with consumer banking laws, and that corrective measures were implemented there rapidly enough for the FDIC to find that the bank was in substantial compliance by June 1991. The Board concludes, in view of all the facts of record, including the significant progress made by FCBM in addressing the deficiencies in its record of CRA performance during the interval between its 1991 and 1992 CRA examinations, the record in this case of CRA compliance among FCC's other subsidiary banks, the additional initiatives implemented by FCBM, and the further steps that FCC and FCBM have committed to take since the 1992 CRA examination, that, on balance, the CRA performance record of FCBM is consistent with approval under the convenience and needs factor. The Board recognizes that the record compiled in this application points to areas that continue to require improvement in the CRA performance of FCBM. FCC has implemented effective CRA programs at its other subsidiary banks, as reflected in the CRA examination reports of these institutions, and the Board believes that FCC and FCBM have taken strong steps to ensure that the deficiencies in FCBM's record of CRA performance will be redressed. The Board expects FCC and FCBM to implement fully the CRA initiatives and commitments discussed in this order and contained in its application.

Based on all of the facts of record, including the representations and commitments made by FCC and FCBM in this case, the Board concludes that convenience and needs considerations, including the CRA performance records of FCC and its subsidiary banks and First Bank, are consistent with approval of this application. FCC's progress in implementing these initiatives and commitments will be monitored by the Federal Reserve Bank of St. Louis and in connection with future applications to expand its deposit-taking facilities.

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 of this transaction is specifically conditioned upon compliance with the representations and commitments made by FCC and FCBM in connection with this application, including their continued compliance with their commitments and initiatives relating to FCBM's CRA performance. For purposes of this action, the representations and commitments relied on in reaching this decision are both considered commitments imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable laws. The transaction approved in this order 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 the Federal Reserve Bank of St. Louis, pursuant to delegated authority.

By order of the Board of Governors, effective March 10, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, LaWare, and Phillips. Absent and not voting: Governors Kelley and Lindsey.

JENNIFER J. JOHNSON
Associate Secretary of the Board

First Independence Bancshares, Inc. Independence, Kansas

Order Denying Formation of a Bank Holding Company

First Independence Bancshares, Inc., Independence, Kansas ("Applicant"), has applied under section 3(a)(1) of the Bank Holding Company Act ("BHC Act") (12 U.S.C. § 1842(a)(1)) to acquire at least 80 percent of the voting shares of First National Bank, Independence, Kansas ("Bank"), and thereby become a bank holding company within the meaning of the BHC Act.

Notice of the application, affording interested persons an opportunity to submit comments, has been published (57 *Federal Register* 43,458 (1992)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3(c) of the BHC Act.

Applicant is a nonoperating corporation formed for the purpose of becoming a bank holding company through the acquisition of Bank.[1] Bank is the 443d largest commercial banking organization in Kansas, controlling deposits of $8.7 million, representing less than 1 percent of the total deposits in commercial banks in the state.[2]

In reviewing an application under section 3(c) of the BHC Act, the Board must consider several factors, including the financial and managerial resources and future prospects of the company or companies and the banks involved in the proposal.[3] In considering the managerial resources of a bank holding company, the Board shall consider the competence, experience, and integrity of the officers, directors, and principal shareholders of a bank holding company, including their record of compliance with applicable laws and regulations.[4] The Board's regulations also provide that the Board will consider a bank holding company's ability to serve as a source of financial and managerial strength to its subsidiary banks.[5]

As required by the BHC Act, the Board has reviewed the experience, competence, and integrity of the officers, directors, and principal shareholders of Applicant. Based on this review, including review of relevant examination reports, information obtained from other federal and state banking authorities, and information provided by the management and principal shareholder in this case, the Board believes managerial factors are not consistent with approval of this application. In reaching this conclusion, the Board has considered that Applicant and certain shareholders of Applicant have provided inaccurate responses to requests for information by the Board, and, in one instance, information that conflicted with representations made to another federal banking regulator on financial and managerial matters material to the Board's evaluation under the BHC Act.

Considerations relating to competitive factors, financial resources and future prospects, and the convenience and needs of the community do not lend sufficient weight to warrant approval of this application.

Accordingly, for these reasons and based on all the facts of record, it is the Board's judgment that approval of this application is not warranted and that the application should be, and hereby is, denied.

By order of the Board of Governors, effective March 15, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, LaWare, Lindsey, and Phillips. Absent and not voting: Governor Kelley.

WILLIAM W. WILES
Secretary of the Board

1. The proposal primarily represents a reorganization of existing ownership interests.
2. State deposit data are as of December 31, 1991.
3. 12 U.S.C. § 1842(c). In interpreting the Board's authority under section 3 of the BHC Act, the Supreme Court has stated that the Board is authorized to disapprove a formation of a bank holding company solely on the grounds of financial or managerial unsoundness, and that the authority of the Board is not limited to instances in which the financial or managerial unsoundness would be caused or exacerbated by the proposed transaction. *Board of Governors v. First Lincolnwood Corp.*, 546 F.2d 718 (7th Cir. 1976), *modified*, 560 F.2d 258 (7th Cir. 1977), *rev'd on other grounds*, 439 U.S. 234 (1978).
4. *See* 12 U.S.C. § 1842(c)(5), *amended by* section 210 of the Federal Deposit Insurance Corporation Improvement Act of 1991, Pub. L. No. 102-242, § 210, 105 Stat. 2236, 2298; 12 C.F.R. 225.13(b)(2).
5. 12 C.F.R. 225.4(a).

Westamerica Bancorporation
San Rafael, California

Order Approving Merger of Bank Holding Companies

Westamerica Bancorporation, San Rafael, California ("Westamerica"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied pursuant to section 3 of the BHC Act (12 U.S.C. § 1842) to merge with Napa Valley Bancorp, Napa, California ("Napa"), and thereby acquire indirectly Napa Valley Bank, Napa, California ("Napa Bank"), Bank of Lake County, N.A., Lakeport, California ("Lake Bank"), Sonoma Valley Bank, Sonoma, California ("Sonoma Bank"), and Suisun Valley Bank, Fairfield, California ("Suisun Bank").[1]

Notice of the application, affording interested persons an opportunity to submit comments, has been duly published (57 *Federal Register* 55,257 (1992)). 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.

Westamerica is the 14th largest commercial banking organization in California, controlling deposits of

1. Upon consummation of this proposal, Westamerica would control all the voting shares of Napa Bank, 88 percent of the voting shares of Lake Bank, 50.1 percent of the voting shares of Sonoma Bank, and all the voting shares of Suisun Bank.

$1.2 billion, representing less than 1 percent of total deposits in commercial banks in the state.[2] Napa is the 37th largest commercial banking organization in California, controlling deposits of $519 million, representing less than 1 percent of total deposits in commercial banks in the state. Upon consummation of the proposed transaction, Westamerica would become the 13th largest commercial banking organization in California, controlling deposits of $1.7 billion, representing less than 1 percent of total deposits in commercial banks in the state.

Westamerica and Napa compete directly in the San Francisco-Oakland and Fairfield banking markets in California.[3] Upon consummation of this proposal, Westamerica would remain the fifteenth largest commercial banking or thrift organization in the San Francisco-Oakland banking market, controlling less than 1 percent of the total deposits in depository institutions in the market ("market deposits").[4] Westamerica would become the third largest depository institution in the Fairfield banking market, controlling approximately 13.7 percent of market deposits. After considering the number of competitors remaining in each of these markets, the relatively small increase in concentration as measured by the Herfindahl–Hirschman Index ("HHI"),[5] and other facts of record, the Board concludes that consummation of this proposal would not have a significantly adverse effect on competition in the San Francisco-Oakland banking market, the Fairfield banking market, or any other relevant banking market.

Considerations relating to the financial and managerial resources and future prospects of Westamerica, Napa, and their respective subsidiaries, and other supervisory factors the Board is required to consider under section 3 of the BHC Act, also are consistent with approval of this proposal.

Convenience and Needs Considerations

In considering the convenience and needs of the communities to be served, the Board has taken into account the records of the subsidiary banks of Westamerica and Napa under the Community Reinvestment Act (12 U.S.C. § 2901 *et. seq.*) ("CRA"). The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate consistently with the safe and sound operation of such institutions. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution," and to take that record into account in its consideration of applications.[6]

In this regard, the Board has received comments in support of Westamerica's CRA record from approximately 18 individuals, small businesses, and religious, cultural, and community groups. These commenters have praised Westamerica's CRA efforts in such areas as low-income housing, attentiveness to the needs of minorities, and community investments and activities.

The Board also has received comments from several organizations ("Protestants") criticizing the CRA performance of Westamerica's only subsidiary bank, Westamerica Bank, N.A. ("Westamerica Bank").[7] Protestants' comments focus upon Westamerica Bank's record in meeting the credit needs of low- and moderate-income and minority communities, and specifically allege that the bank's performance is inadequate in the following areas:

(1) Outreach efforts, particularly in minority communities;

(2) Marketing and services provided to minority communities, especially the African-American community;

(3) The amount of lending to low- and moderate-income households and minority businesses, consumers, and homeowners; and

(4) Philanthropic contributions to underserved communities.[8]

---

2. Deposit data are as of June 30, 1991.

3. The San Francisco-Oakland banking market is approximated by the San Francisco-Oakland, California RMA. The Fairfield banking market is approximated by the Fairfield, California RMA.

4. The Board previously has indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *See Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, for purposes of this analysis, deposits of thrift institutions are included at 50 percent.

5. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (1984), a market in which the post-merger HHI is between 1000 and 1800 is considered to be moderately concentrated. 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 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.

Upon consummation of this proposal, the HHI in the San Francisco-Oakland banking market would increase by less than 1 point to 1377. The HHI in the Fairfield banking market would increase by 93 points to 1515.

6. *See* 12 U.S.C. § 2903.

7. Protestants include The Greenlining Coalition, the West Coast Black Publishers Association, The Observer Newspapers, and the National Association for the Advancement of Colored People, Western Region.

8. Some of the Protestants also believe that Westamerica's and Napa's board of directors and senior management include an inade-

Some of the Protestants also have criticized the CRA record of Napa and its subsidiary banks, particularly its lead bank, Napa Bank, with respect to outreach efforts, the involvement of the board of directors in CRA-related matters, and housing-related lending to minorities and to low- and moderate-income families.[9]

The Board has carefully reviewed the CRA performance records of Westamerica Bank and Napa's subsidiary banks, as well as all comments received,[10] Westamerica's responses to those comments, and all of the other relevant facts of record in light of the CRA, the Board's regulations, and the Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement").[11]

Record of Performance Under the CRA

A. CRA Performance Examinations

The Agency CRA Statement provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that these reports will be given great weight in the applications process.[12] The Board notes that Westamerica Bank received a "satisfactory" rating at the examination for CRA performance conducted by the Office of the Comptroller of the Currency ("OCC") as of June 30, 1992 ("1992 Examination"). The Board also notes that each of Napa's subsidiary banks, including Napa Bank, received a "satisfactory" CRA performance rating in 1992 at its most recent examination by its primary regulator.[13]

B. Corporate Policies

Westamerica Bank has in place the types of policies and programs that the Board and other federal bank supervisory agencies have indicated contribute to an effective CRA program, and Westamerica has stated that it will implement these policies and programs at all the banks to be acquired from Napa. Westamerica Bank's board of directors has adopted a formal CRA policy, and annually approves an official CRA statement for the institution. Westamerica Bank also has in place a comprehensive CRA program, with responsibilities specifically assigned and involving all levels of the bank's management. This CRA program includes a detailed timetable outlining Westamerica Bank's conduct of CRA-related activities. Annually, the board of directors also approves the bank's CRA and marketing plans, which include CRA-related objectives, responsibilities, and employee training schedules.[14] The Community Needs Assessment Committee of senior management and the Loan and Investment Committee of the board of directors convene monthly to develop strategies to address identified banking needs and to perform monitoring of CRA ascertainment and outreach efforts and other activities. Westamerica Bank's compliance manager regularly performs an assessment of CRA activities which includes geographic distribution studies and analyses of the disposition of credit applications. In addition to general bankwide policies and programs, the institution prepares a Regional Community Relations Plan for each of the bank's service areas.[15]

At the 1992 Examination, the OCC concluded that the board of directors of Westamerica Bank provided adequate policy oversight and monitoring for the

---

quate number of minorities, and that Westamerica has failed to award a sufficient number of contracts to minority-owned businesses. While the Board fully supports affirmative programs designed to promote equal opportunity in every aspect of a bank's personnel policies and practices, the Board believes that the alleged deficiencies in the banks' general personnel practices, including third-party contracting matters, are beyond the scope of factors that may be assessed under the CRA or the BHC Act's convenience and needs factor.

9. Several Protestants have requested the Board to delay the processing of this application pending an audit by the Board of the CRA activities of Westamerica and Napa on the basis of 1990 census data, and anticipated changes in CRA and other policies relevant to the application by new Administration officials. For the reasons discussed in this Order, the Board believes that there is a sufficient record to permit an assessment of all the statutory factors, including considerations relating to the convenience and needs of the communities to be served, required to be considered under the BHC Act, and therefore that delay in processing this application is unwarranted.

Protestants also believe that notice of this application should have been published in minority, including Spanish-language, media. The Board's rules require that notice of an application and a public comment period be published in a newspaper of general circulation in the communities in which the head offices of the applicant (or its largest subsidiary bank) and the banks to be acquired are located, as well as publication in the Federal Register. 12 C.F.R. 225.14(b)(2) and 262.3(b). These publication requirements ensure that interested members of the community are afforded an adequate opportunity to present their views to the Board.

10. The Board notes that it has considered all comments submitted in this case that were received on or before February 26, 1993.

11. 54 *Federal Register* 13,742 (1989).

In connection with its review of the convenience and needs factor under the BHC Act, the Board also has taken into account the financial condition of Westamerica, Napa, and their respective subsidiary banks, including matters relating to federal regulatory actions issued with respect to the Napa organization in 1992. These regulatory actions restrict the operations of the Napa organization in various respects, including prohibiting the payment of dividends by Napa and placing restrictions on dividend payments by Napa Bank.

12. 54 *Federal Register* at 13,745.

13. These examinations were conducted as follows:

(1) Napa Bank (FDIC as of June 15, 1992);

(2) Lake Bank (OCC as of May 31, 1992);

(3) Sonoma Bank (FDIC as of August 5, 1992); and

(4) Suisun Bank (FDIC as of April 30, 1992).

14. The CRA plan is disseminated to all branches through the bank's Community Banking CRA Resource Handbook.

15. The only exceptions are in San Francisco, where the bank has a limited presence, and in Marin County, where Westamerica's familiarity with the area does not require regional planning.

bank's CRA activities.[16] In general, the OCC indicated that senior management is committed to the bank's CRA responsibilities. The 1992 Examination also indicated that the board of directors and employees of Westamerica Bank are actively involved with local community organizations, including groups with direct relevance to CRA activities through a focus on development and redevelopment efforts.

C. Ascertainment and Marketing Efforts

The 1992 Examination concluded that Westamerica Bank has made strong efforts to ascertain the credit needs of the bank's delineated communities. Senior management has instituted a formal community outreach program,[17] and is actively involved in outreach efforts. Branch employees are required to have ongoing, meaningful contact with civic, minority, religious, and small business groups, and at least regular contact with nonprofit and governmental housing organizations.[18] These contacts are documented by the bank's Community Relations Officer and compliance department, and form the basis for Westamerica Bank's comprehensive list of outreach sources, which is centered in the areas of affordable housing and redevelopment. Branch employees document and report perceived credit needs ascertained through this program pursuant to instructions from senior management.

These community outreach efforts are supplemented by the bank's Regional Community Advisory Boards, which are comprised of various community members who are able to advise the bank on its image and marketing and outreach programs throughout its delineated communities. Community Roundtable meetings sponsored by Westamerica Bank provide another forum for open discussion of community banking needs between representatives from the bank and community organizations. In addition to these direct community contacts, bank management uses various statistical and other objective means to ascertain local credit needs, including Comprehensive Housing Affordability Strategy reports, coded census tract maps, and analyses of regional demographic data and deposit and loan penetration prepared by a consulting firm engaged by the bank.

The 1992 Examination commended the marketing aspects of the bank's extensive outreach program. In particular, the examination concluded that Westamerica Bank has made reasonable marketing efforts to ensure that all segments of its delineated communities, including low- and moderate-income areas, are informed of the bank's products and services, and noted that the Community Needs Assessment Committee provides for sound consideration of CRA-related concerns in marketing efforts.

Westamerica Bank markets its products and services in a wide variety of newspaper publications evenly distributed throughout its service areas, including bilingual and local neighborhood media. The 1992 Examination noted that the bank's advertising copy reflects a concentration on business, mortgage, and consumer loan products, including flexible loan products targeted to low- and moderate-income households. After concluding that certain loan products designed to meet the credit needs of low- and moderate-income households were not efficiently marketed through traditional media advertising and direct mail campaigns, the bank began utilizing its contacts with local community groups to help identify and educate the target market with respect to the bank's products. Further targeted marketing efforts take the form of focus groups and banking clinics for low-income individuals as well as Spanish-language advertising, brochures, and seminars.[19]

Napa's subsidiary banks also were found to have made adequate ascertainment and marketing efforts by their respective primary regulators. In this regard, the Board notes that the FDIC commended Napa Bank's programs for the initiation and reporting of community contacts, and concluded that these programs assisted the bank in responding to local needs for affordable housing. In addition, Westamerica has stated that it will expand its CRA program, including specific aspects of its outreach efforts, to its new service communities.

D. Lending and Other Activities

The 1992 Examination indicated that Westamerica Bank has made positive efforts in the areas of product development and loan originations. In this regard, the OCC noted that the bank offers a variety of credit products that reasonably address identified credit needs, and that management has demonstrated flexi-

16. In this regard, the OCC noted that the board of directors receives quarterly summaries of CRA activities as well as monthly compliance reports that include specific CRA-related information.

17. The Board notes that the bank recently amended its community outreach program and related internal reports in order to emphasize that minority and low-income individuals and related groups are considered high priorities in the bank's CRA calling program.

18. In addition, Westamerica Bank employees, including its chief credit officer and credit administrator, its chief financial officer, and its marketing and public relations managers, meet with leaders of organizations who represent low-income populations within the bank's delineated communities.

19. The Board notes that all branches in Hispanic areas of Westamerica Bank's service communities, including all branches in Sonoma County, employ at least one Spanish-speaking banker.

bility in modifying products and underwriting criteria to make the institution's services more widely available throughout its delineated communities. The 1992 Examination also concluded that loan activity is consistent with the organization's resources and the identified credit needs of its communities, and that the bank's loan portfolio contains a reasonable volume of various types of loans, including small business, consumer, and mortgage loans.

In the area of family housing loans, Westamerica Bank offers, in addition to traditional construction and mortgage loans, assistance in meeting special credit needs through its Community Access Loan ("CAL") Program. This program addresses the needs of lower-income credit applicants through more flexible underwriting standards, fixed interest rates, and lower monthly payment terms.[20] Westamerica Bank also participates in government-sponsored housing loan programs, including the Community Home Buyers Program and the First Time Home Buyers Program, each of which is supported by the Federal National Mortgage Association ("FNMA").[21] The bank also has extended a small volume of loans supported by the Federal Housing Administration and the Veterans Administration.

In the area of commercial loans, Westamerica Bank offers several specialized loan products targeted to small businesses, as well as more traditional types of business credits.[22] The 1992 Examination concluded that since the commencement of its Small Business Administration ("SBA") loan program in 1991, the bank has generated a favorable volume of loans supported by this agency. The record of this application indicates that the bank has approximately $12.7 million in loans outstanding under the SBA 504 and 7(a) programs. Since mid-1992, Westamerica Bank also has offered long-term small business loans through two Small Business and Microbusiness programs sponsored by the State of California, and the bank currently has approximately $700,000 in loans outstanding under those programs.

The 1992 Examination also concluded that Westamerica Bank's senior management is well-informed regarding community development and redevelopment opportunities within its delineated service areas, and that the bank's participation in projects and programs promoting economic revitalization and growth is appropriate and consistent with its size and capacities. In this regard, the OCC commended the bank's initiative in establishing low-income housing fund consortia. Westamerica Bank is the lead institution in one of these consortia, and participates in other private and public housing programs throughout its service communities. In addition, Westamerica Bank has made significant investments in the municipal bonds of its local communities, and also has invested in the California Equity Fund, which raises capital for low-income housing projects in the state.[23] The bank also is active in underwriting municipal bond offerings, many of which are targeted for housing projects, educational enhancement, or other community development purposes, and contributes to affordable housing and economic and community development through loans to and investments in related social service agencies in its delineated communities.

Napa's subsidiary banks also were found by their respective primary regulators to have adequate records of marketing and originating loans to address identified community credit needs, including residential mortgage loans, home improvement loans, small business loans, and agricultural loans. In this regard, the Board notes that the FDIC concluded that Napa Bank's loan volume was adequate in relation to the bank's resources and its communities' credit needs, and also notes that the bank participates in various government-sponsored loan programs, including programs supported by the SBA, the Federal Housing Administration, and the Veterans Administration.

E. HMDA Data and Lending Practices

The Board has carefully reviewed the 1991 data required to be reported under the HMDA for Westamerica Bank and Napa Bank, as well as Napa's other subsidiary banks, in light of the comments submitted by Protestants.[24] These data show some disparities for certain communities in rates for hous-

20. The CAL Program is available for home equity, home improvement, and consumer loans. This program is designed to meet the credit needs of customers who do not qualify for standard loans because of their income levels.

21. Westamerica Bank has executed an agreement with FNMA providing for the delivery of $2 million in loans under the Community Home Buyers Program, and has committed $500,000 under this program for low interest rate mortgages for a project in Petaluma, California.

22. The Board notes that these specialized lending programs are available for all small businesses, including small, minority-owned businesses.

23. The record of this application indicates that Westamerica Bank has committed $1 million to this low-income housing fund, and has made other substantial commitments to similar low-income housing programs, as well as to the rehabilitation of low-income housing, several affordable housing projects, and other projects targeted to the housing needs of the elderly and the disabled.

24. HMDA reports based on 1990 census data will not be available until the 1992 HMDA reports are released in the fall of 1993.

ing loan applications, approvals, and denials that vary by racial or ethnic group.[25]

Because all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of race or ethnicity, the Board is concerned when the record of an institution indicates disparities in lending to minority applicants. The Board recognizes, however, that HMDA data alone provide only a limited measure of any given institution's lending in the communities it serves. The Board also recognizes that HMDA data have limitations that make the data an inadequate basis, absent other information, for conclusively determining whether an institution has engaged in illegal discrimination on the basis of race or ethnicity in making lending decisions.

The 1992 Examination found no evidence of illegal discrimination or other illegal credit practices at Westamerica Bank or Napa's subsidiary banks. In this regard, the Board notes that the OCC reviewed geographic distribution analyses of Westamerica Bank's credit applications and denials, and concluded that these analyses disclosed a reasonable penetration of the bank's communities.

Westamerica has taken steps to improve its lending record in low- and moderate-income and minority areas. For example, Westamerica Bank has increased marketing of special credit products, and the bank's substantial outreach programs also represent an effort to improve this aspect of its CRA performance record. In addition, Westamerica Bank recently created a new employee position in its residential real estate lending group whose duties will be to focus exclusively on low-income and minority housing loans, including related outreach efforts.

F. Conclusion on Convenience and Needs Factor

The Board has carefully considered all the facts of record, including the comments filed in this case, in reviewing the convenience and needs factor under the BHC Act. Based on a review of the entire record, including information provided by commenters opposing this proposal and the results of CRA performance examinations conducted by the respective primary regulators of Westamerica's and Napa's subsidiary banks, the Board believes that the efforts of these subsidiary banks to help meet the credit needs of all segments of the communities they serve, including low- and moderate-income neighborhoods, as well as all other convenience and needs considerations, are consistent with approval of this application.[26]

The Board expects the Westamerica banking organization to continue its progress in addressing the credit needs of low- and moderate-income and minority neighborhoods in its service communities, and to implement fully the CRA program discussed in this Order. Westamerica's progress in these areas will be considered in future applications by Westamerica to expand its deposit-taking facilities.

Based on the foregoing and other facts of record, the Board has determined that the application should be, and hereby is, approved. This approval is specifically conditioned upon compliance by Westamerica with all of the commitments made in connection with this application and with the conditions referenced in this Order. For purposes of this action, the commitments and conditions relied on in reaching this decision shall be deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

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

By order of the Board of Governors, effective March 1, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

25. These data also disclosed lower application rates in low- and moderate-income areas than in other areas of the banks' delineated communities.

26. Several Protestants have requested that the Board hold a public meeting or hearing with respect to this application. The Board is not required under section 3 of the BHC Act to hold a public hearing unless the primary supervisor for the bank to be acquired disapproves the proposal. In this case, the primary supervisors for the institutions to be acquired have not objected to Westamerica's application.

Under its rules, the Board may, in its discretion, hold a public meeting or hearing on an application to clarify factual issues related to the application and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 262.3(e) and 262.25(d). The Board has carefully considered Protestants' requests for such a meeting or hearing, and the written comments submitted by Protestants. In the Board's view, interested parties have had ample opportunity to submit and have submitted substantial written comments that have been considered by the Board. Moreover, Protestants have indicated general disagreement regarding the appropriate conclusions to be drawn from the facts of record, but have not identified facts that are in dispute and material to the Board's decision. In light of these considerations, the Board has determined that a public meeting or hearing is not necessary to clarify the factual record in this application, or otherwise warranted in this case. Accordingly, the requests for a public meeting or hearing on this application are hereby denied.

Worthen Banking Corporation
Little Rock, Arkansas

Worthen Financial Corporation
Little Rock, Arkansas

Order Approving Formation of Bank Holding Company and Acquisition of Banks

Worthen Banking Corporation, Little Rock, Arkansas ("Worthen"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), and Worthen Financial Corporation ("Worthen Financial"), a wholly owned *de novo* subsidiary of Worthen, have applied under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire The Union of Arkansas Corporation, Little Rock, Arkansas ("Union"), and its two bank subsidiaries, Union National Bank of Arkansas, Little Rock, Arkansas ("Union Arkansas"), and Union National Bank of Texas, Austin, Texas ("Union Texas").[1]

Notice of the applications, affording interested persons an opportunity to submit comments, has been published (57 *Federal Register* 46,171 (1992)). 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.

Worthen is the largest commercial banking organization in Arkansas, controlling 10 subsidiary banks with total deposits of $2.2 billion, representing 11.1 percent of total deposits in commercial banking organizations in the state.[2] Union is the seventh largest commercial banking organization in Arkansas, controlling deposits of $498.2 million within the state, representing 2.5 percent of total deposits in commercial banking organizations in the state. Upon consummation of this proposal, Worthen would remain the largest commercial banking organization in Arkansas, controlling deposits of $2.7 billion, representing 13.6 percent of total deposits in commercial banking organizations in the state.[3]

Competitive Considerations

Worthen and Union compete directly in three banking markets in the state of Arkansas: Little Rock, Faulkner County, and Russellville. In the Little Rock banking market,[4] Worthen is the second largest depository institution, controlling deposits of $812.2 million, representing approximately 18.1 percent of total deposits in depository institutions in the market ("market deposits").[5] Union is the fourth largest depository institution in the market, controlling deposits of $482.1 million, representing 10.8 percent of market deposits. Upon consummation of the proposal, Worthen would become the largest depository institution in the market, controlling 28.9 percent of market deposits, and the Herfindahl-Hirschman Index ("HHI") would increase 391 points to a level of 1971.[6] The three-firm concentration ratio in the market would increase to 72.7 percent.

Seventeen commercial banking organizations and one thrift institution would continue to operate in the Little Rock banking market after consummation of the proposal. In addition, the Little Rock banking market has certain features that make it attractive to potential

1. Worthen will acquire Union indirectly through a merger of Union with Worthen Financial, with Worthen Financial to be the surviving entity. Following this acquisition, Worthen will merge Union Arkansas into Worthen's lead banking subsidiary, Worthen National Bank of Arkansas, Little Rock, Arkansas ("Worthen Little Rock"). In addition, Worthen National Bank of Conway, Conway, Arkansas, will purchase certain assets and assume certain liabilities of the Conway, Arkansas, branch of Union Arkansas, and Worthen National Bank of Russellville, Russellville, Arkansas, will purchase certain assets and assume certain liabilities of the Russellville, Arkansas, branch of Union Arkansas. Worthen will seek the necessary regulatory approvals for these transactions. Following these transactions, Worthen Financial will retain ownership of Union Texas, and will remain in existence as an intermediate bank holding company.

2. State banking data are as of June 30, 1991.

3. Union is the 216th largest commercial banking organization in Texas, controlling deposits of $83.9 million within the state, representing less than 1 percent of total deposits in commercial banking organizations in the state. Worthen does not control any deposits in any banking market in Texas. Upon consummation of this proposal, Worthen would become the 216th largest commercial banking organization within the state.

4. The Little Rock banking market is approximated by Pulaski and Saline Counties; Butler, Caroline, Magness, Oak Grove, Ward, and York townships in Lonoke County; and El Paso, Royal, and Union townships in White County.

5. Market data are as of March 31, 1992. In this context, depository institutions include commercial banks and savings banks. The Board previously has indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *See Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). In considering the competition offered by thrifts in the Little Rock banking market, market share data are based on calculations in which the deposits of two thrift institutions that are controlled by bank holding companies are included at 100 percent, and the deposits of the one other thrift institution in the market, which is not controlled by a bank holding company, is included at 50 percent.

6. 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 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 Department of Justice has informed the Board that, as a general matter, a bank merger or acquisition 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.

entrants. The Little Rock banking market is the largest banking market in Arkansas and is growing in population more than twice as fast as the state as a whole.[7] Pulaski County, which is a part of the Little Rock banking market, ranks first in population and total deposits among all counties in Arkansas, and has total deposits nearly three times greater than the next largest county. In addition, the rate of employment and per capita income is higher in the Little Rock banking market than in the state as a whole, and employment and per capita personal income in the Little Rock banking market grew at a faster rate between 1980 and 1990 than in the state as a whole. Four banks have been chartered *de novo* in the market since 1987.[8]

In the Faulkner County banking market,[9] Worthen is the second largest of six depository organizations, controlling deposits of $177.4 million, representing 39.1 percent of market deposits. Union is the sixth largest depository organization, controlling deposits of $6.1 million, representing 1.4 percent of market deposits. Upon consummation of this proposal, Worthen would remain the second largest depository organization in the market, controlling deposits of $183.5 million, representing 40.5 percent of market deposits. The HHI for this market would increase by 106 points to 3562.

The rapid growth of the Faulkner County banking market is a substantial mitigating factor when considering the effect of this proposal on competition in this market.[10] In addition, this banking market appears to be attractive to potential entrants.[11]

In light of the number of competitors remaining in these markets, the attractiveness of these markets to potential entrants, and other facts of record in this case, the Board concludes that consummation of this proposal would not have a significantly adverse effect on competition or the concentration of banking resources in the Little Rock, Faulkner County, or Russellville banking markets, or in any other relevant banking market.[12]

Financial, Managerial, and Other Considerations

The Board concludes that the financial and managerial resources and future prospects of Worthen, Union, and their subsidiary banks are consistent with approval of this proposal. Considerations relating to the convenience and needs of the communities to be served and other factors the Board is required to consider under section 3 of the BHC Act also 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 Board's approval of this transaction is specifically conditioned upon compliance with all the commitments given in connection with these applications. For the purposes of this action, these commitments are considered to be conditions imposed in writing in connection with the approval of these applications, and, as such, may be enforced in proceedings under the Federal Deposit Insurance Act. The transactions approved in this Order shall not be consummated before the thirtieth calendar day following the effective date of this Order, or later than three months after the effective date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors, effective March 30, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Orders Issued Under Section 4 of the Bank Holding Company Act

Norwest Corporation Minneapolis, Minnesota

Order Approving the Acquisition of a Title Insurance Agency

Norwest Corporation, Minneapolis, Minnesota ("Norwest"), a bank holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has applied under section 4(c)(8) of the BHC Act

7. The Little Rock banking market grew 5.8 percent in population between 1980 and 1990, compared to 2.8 percent for the state as a whole.

8. A major regional bank holding company entered the market in 1992 by the acquisition of a thrift institution, and after the consummation of this proposal would be the fourth largest depository institution in the market.

9. The Faulkner County banking market is approximated by Faulkner County.

10. The population in the Faulkner County banking market grew 32.5 percent between 1980 and 1990, the fastest rate of growth of any county in Arkansas, and population per banking office and total deposits per banking office exceed the averages for the state. Market deposits grew 9.5 percent between 1988 and 1991, compared to 3.2 percent for the state.

11. A *de novo* commercial bank entered the market in 1991, and controls 2.9 percent of market deposits. In addition, a regional bank holding company entered the market in 1992, and controls 6.2 percent of market deposits.

12. In the Russellville banking market, Worthen would remain the second largest depository institution, and the HHI would increase by 105 points to 1756. The Russellville banking market comprises Pope and Yell Counties.

(12 U.S.C. § 1843(c)(8)) and section 225.23(a) of the Board's Regulation Y (12 C.F.R. 225.23(a)) to acquire through its indirect subsidiary, American Land Title Co., Inc., Omaha, Nebraska ("American Land Title"), substantially all of the assets of Community Title Guaranty Company, Lombard, Illinois ("Community Guaranty"), and thereby engage in title insurance agency and real estate settlement activities. These activities will be performed in five offices in Illinois.[1]

Notice of the application, affording interested persons an opportunity to submit comments, has been published (57 *Federal Register* 61,601 (1992)). 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 4(c)(8) of the BHC Act.

Norwest, with total consolidated assets of $35.3 billion, is the largest commercial banking organization in Minnesota.[2] Norwest controls 79 banking subsidiaries that operate in 12 states and owns a number of subsidiaries engaged in nonbanking activities.

The Board previously has determined that title insurance agency activities are permissible under section 4(c)(8)(G) of the BHC Act ("exemption G"), which authorizes bank holding companies that engaged in insurance agency activities, with Board approval, prior to 1971, to engage, or control a company engaged, in general insurance agency activities.[3] Norwest qualifies for exemption G rights.[4]

Real estate settlement services include activities associated with the closing of a real estate purchase transaction,[5] and the Board previously has determined that these activities are closely related to banking.[6] The proposed activities of Community Guaranty are identical to those activities previously approved by the Board, and Norwest has proposed to conduct the settlement activities under the same terms and subject to the same conditions as in the earlier Board Order regarding this activity.[7] Thus, the Board concludes that Norwest's proposal to engage in real estate settlement services is closely related to banking for purposes of section 4(c)(8) of the BHC Act.

The Board is also required to determine whether the performance of the proposed activity by Norwest is a proper incident to banking—that is, whether the proposed activity "can reasonably be expected to produce benefits, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." 12 U.S.C. § 1843(c)(8).

Consummation of this proposal can reasonably be expected to result in public benefits by providing added convenience to Norwest's customers. In addition, the activities of Community Guaranty represent a small share of the total market of these services, and there are numerous competitors that provide title insurance agency and real estate settlement services. Accordingly, 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.

There is no evidence in the record to indicate that consummation of these proposals is likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices that are not outweighed by the public benefits in this case. The financial and managerial resources of Norwest and its subsidiaries are also consistent with approval. Accordingly, on the basis of all of the facts of record and commitments made by Norwest, the

1. Community Guaranty also performs title abstracting activities, including title searches of real estate. The Board believes that title abstracting is incidental to conducting title insurance agency activities, because it provides necessary information needed to authorize the sale of a title insurance policy.

2. Data are as of June 30, 1992.

3. *Norwest Corporation*, 76 *Federal Reserve Bulletin* 1058 (1990) ("*Norwest/American Land Title*"); *see First Wisconsin Corporation*, 75 *Federal Reserve Bulletin* 31 (1989), *aff'd sub nom. American Land Title Association v. Board of Governors*, 892 F.2d 1059 (D.C. Cir. 1989).

4. In 1959, Norwest received Board approval to retain its general insurance agency subsidiaries and, accordingly, is a grandfathered bank holding company for purposes of exemption G. *Northwest Bancorporation*, 45 *Federal Reserve Bulletin* 963 (1959); *Norwest Corporation*, 70 *Federal Reserve Bulletin* 235, 470 (1984); *Norwest/American Land Title, supra.*

5. Specifically Community Guaranty will:

(1) Review the status of the title in the title commitment, resolve any exceptions to the title, and review the purchase agreement to identify any requirements in it in order to ensure compliance with them;

(2) Verify the payment of existing loans secured by the real estate and verify the amount of and then calculate the prorating of special assessments and taxes on the property;

(3) Obtain an updated title insurance commitment to the date of closing, prepare the required checks, deeds, affidavits, and obtain any authorization letter needed;

(4) Establish a time and place for the closing, and ensure that all parties properly execute all appropriate documents and meet all commitments;

(5) Collect and disburse funds for the parties, hold funds in escrow pending satisfaction of certain commitments, prepare the HUD settlement statement, the deed of trust, mortgage notes, the Truth-in-Lending statement, and purchaser's affidavits; and

(6) Record the appropriate documents as required under law.

6. *Norwest/American Land Title, supra.*

7. *Id.* Norwest has committed to advise its customers that they are not required to purchase its real estate settlement services in connection with the purchase of title insurance in a real estate transaction. Norwest has further committed that it will not require its customers to purchase its real estate settlement services in connection with a loan origination. In addition, section 106 of the Bank Holding Company Act Amendments of 1970 generally would prohibit Norwest from tying extensions of credit to the purchase of services from American Land Title or Community Guaranty.

Board concludes that the public benefits that would result from approval of these applications outweigh the potential adverse effects, and that the public interest factors it must consider under section 4(c)(8) of the BHC Act are consistent with approval.

Based on the foregoing and all the other facts of record, the Board has determined to, and hereby does, approve the application subject to all of the terms and conditions set forth in this order, and in the above noted Board Orders that relate to these activities. The Board's decision is specifically conditioned on compliance with all of the commitments made in this application, including the commitments discussed in this Order and the conditions set forth in *Norwest/American Land Title*. For the purpose of this action, all of these commitments and conditions will be considered conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law. The Board's determination is also subject to all of the terms and conditions set forth in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions of the BHC Act, and the Board's regulations and orders issued thereunder.

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

By order of the Board of Governors, effective March 8, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Kelley, LaWare, and Lindsey. Absent and not voting: Governors Angell and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

ORDERS ISSUED UNDER SECTIONS 3 AND 4 OF THE BANK HOLDING COMPANY ACT

Banc One Corporation
Columbus, Ohio

Order Approving the Acquisition of Bank Holding Companies

Banc One Corporation, Columbus, Ohio ("Banc One"), and its wholly owned subsidiary, Banc One Illinois Corporation, Springfield, Illinois, bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have applied for the Board's approval under section 3 of the BHC Act (12 U.S.C. § 1842) to acquire First Community Bancorp, Inc., Rockford, Illinois ("First Community"), and thereby indirectly acquire First Community's subsidiary banks, First National Bank and Trust Company of Rockford, Rockford, Illinois ("First National"), First Bank of Roscoe, Roscoe, Illinois, and First Bank of Loves Park, Loves Park, Illinois. Banc One also has applied for the Board's approval under section 3 of the BHC Act to acquire Key Centurion Bancshares, Inc., Charleston, West Virginia ("Key Centurion"),[1] and thereby indirectly acquire Key Centurion's subsidiary banks.[2]

Banc One also has applied under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) to acquire First Bancorp Credit Life Insurance Company, Rockford, Illinois ("First Bancorp"), and thereby engage in the sale of credit-related insurance pursuant to section 225.25(b)(8) of the Board's Regulation Y (12 C.F.R. 225.25(b)(8)), and to acquire Reliable Mortgage Company, Charleston, West Virginia ("Reliable"), and thereby engage in mortgage banking activities pursuant to section 225.25(b)(1) of Regulation Y (12 C.F.R. 225.25(b)(1)).

Notice of the applications, affording interested persons an opportunity to submit comments, has been published (57 *Federal Register* 55,533, 61,600 (1992)). The time for filing comments has expired, and the Board has considered the applications and all com-

1. Banc One has established a *de novo* subsidiary holding company, Banc One West Virginia Corporation, for the purpose of facilitating this acquisition by merging with and into Key Centurion.

2. By acquiring Key Centurion, Banc One will acquire the following banks: Charleston National Bank, Charleston, West Virginia; Citizens National Bank of St. Albans, St. Albans, West Virginia; Beckley National Bank, Beckley, West Virginia; The National Bank of Logan, Logan, West Virginia; The National Bank of Commerce of Williamson, Williamson, West Virginia; Boone National Bank, Madison, West Virginia; Nicholas County Bank, Summersville, West Virginia; The Central National Bank of Buckhannon, Buckhannon, West Virginia; The Lincoln National Bank of Hamlin, Hamlin, West Virginia; Security National Bank & Trust Co., Wheeling, West Virginia; The First National Bank of New Martinsville, New Martinsville, West Virginia; The First Huntington National Bank, Huntington, West Virginia; and Peoples Bank of Charles Town, Charles Town, West Virginia.

Banc One's acquisition of Key Centurion's remaining subsidiary banks will be accomplished by acquiring the following wholly owned bank holding company subsidiaries of Key Centurion:

(1) Union Bancorp of West Virginia, Inc., Charleston, West Virginia (parent of Union National Bank of West Virginia, Clarksburg, West Virginia, and First National Bank in Philippi, Philippi, West Virginia);

(2) Wayne Bancorp, Inc., Charleston, West Virginia (parent of Wayne County Bank, Inc., Wayne, West Virginia); and First National Company, Pikeville, Kentucky (parent of The First National Bank of Pikeville, Pikeville, Kentucky).

ments received in light of the factors set forth in sections 3(c) and 4(c)(8) of the BHC Act.

Banc One, with total deposits of $39.6 billion, controls banking subsidiaries in Ohio, Indiana, Michigan, Wisconsin, Illinois, Texas, Colorado, and Kentucky.[3] By acquiring First Community and Key Centurion, Banc One proposes to acquire additional banks in Illinois and Kentucky, and to make an initial entry into West Virginia.

Banc One is the eighth largest commercial banking organization in Illinois, controlling $2.4 billion in deposits, representing 1.8 percent of total deposits in commercial banks in Illinois. First Community is the 26th largest commercial banking organization in Illinois, controlling $680 million in deposits, representing less than one percent of total deposits in commercial banks in the state. Upon consummation of Banc One's acquisition of First Community, Banc One would become the seventh largest commercial banking organization in the state, controlling $3.1 billion in deposits, representing 2.3 percent of the total deposits in commercial banks in Illinois.

Banc One is the fourth largest commercial banking organization in Kentucky, controlling $1.4 billion in deposits, representing 4.2 percent of total deposits in commercial banks in Kentucky. Key Centurion is the 24th largest commercial banking organization in Kentucky, controlling $201.8 million in deposits, representing less than one percent of total deposits in commercial banks in Kentucky. Upon consummation of Banc One's acquisition of Key Centurion,[4] Banc One would remain the fourth largest commercial banking organization in Kentucky, controlling $1.6 billion in deposits, representing 4.8 percent of total deposits in commercial banks in Kentucky.

Douglas Amendment

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 such bank is located, by language to that effect and not merely by implication."[5] For purposes of the Douglas Amendment, the home state of Banc One is Ohio.[6] In considering this proposal, the Board has analyzed the interstate banking statutes of Ohio, Illinois, West Virginia, and Kentucky, and has concluded that Banc One is authorized under those statutes to acquire the banking subsidiaries of First Community in Illinois, and the banking subsidiaries of Key Centurion in West Virginia and Kentucky.[7] In addition, the Illinois Commissioner of Banks and Trust Companies has approved the acquisition of First Community's bank subsidiaries in Illinois, and the West Virginia Commissioner of Banking has approved the acquisition of Key Centurion's bank subsidiaries in West Virginia.[8] Accordingly, Board approval of this proposal is not prohibited by the Douglas Amendment.

Competitive, Financial, Managerial and Supervisory Considerations

Banc One and First Community do not compete directly in any relevant banking markets. Based on all the facts of record, the Board concludes that Banc One's acquisition of First Community would not have significantly adverse effects on competition in any relevant banking market.

Banc One and Key Centurion compete directly in the Wheeling, West Virginia, banking market.[9] Based on all of the facts of record, including the characteristics of the Wheeling banking market and the effects this proposal would have on competition in this market, the Board concludes that consummation of Banc One's acquisition of Key Centurion would not have significantly adverse effects on competition in the Wheeling banking market[10] or any relevant banking market.

3. State deposit data are as of September 30, 1992, and includes acquisitions approved by the Board as of January 31, 1992.

4. Banc One would become the largest commercial banking organization in West Virginia, controlling $2.8 billion in deposits, representing 14.3 percent of total deposits in commercial banks in West Virginia.

5. 12 U.S.C. § 1842(d).

6. 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.

7. Ohio's interstate banking statute permits banks from Illinois and West Virginia to acquire banks in Ohio. *See* Ohio Rev. Code Ann. § 1101.05; Ill. Rev. Stat. ch. 17 para. 2510.01; W. Va. Code § 31A-8A-7; Ky. Rev. Stat. Ann. § 287.900.

8. The Kentucky Commissioner of the Department of Financial Institutions has indicated that no application is necessary in order for Banc One to acquire Key Centurion's one subsidiary bank in Kentucky.

9. The Wheeling banking market is approximated by Marshall County and Ohio County in West Virginia, and Colerain, Pease, Pultney, Mead and York Townships and the eastern two-thirds of Richland Township in Belmont County, Ohio.

10. Under the revised Department of Justice Merger Guidelines, 49 *Federal Register* 26,823 (June 29, 1984), a market in which the post-merger Herfindahl–Hirschman Index ("HHI") is below 1000 is considered unconcentrated and a market in which the post-merger HHI is between 1000 and 1800 is moderately concentrated. 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 anti-competitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by 200 points. The Justice Department has stated that the higher than normal HHI thresholds for screening bank mergers for anti-competitive effects

The financial and managerial resources and future prospects of Banc One, First Community, Key Centurion, and their respective subsidiaries, and other supervisory factors the Board must consider under section 3 of the BHC Act, are consistent with approval of this proposal.

Convenience and Needs Considerations

In acting upon an application to acquire a depository institution under the BHC Act, the Board must consider the convenience and needs of the communities to be served, and take into account the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C § 2901 *et. seq.*) ("CRA"). The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with the safe and sound operation of such institutions. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution," and to take that record into account in its evaluation of bank holding company applications.[11]

In this regard, the Board has received comments from various organizations ("Protestants") that raise issues regarding the efforts by Banc One, First Community and Key Centurion to meet the credit needs of their entire communities, including low- and moderate-income neighborhoods.[12] In addition to the comments made regarding the CRA performance of Banc One and its subsidiary banks,[13] Protestants allege that First Community has not sufficiently met its responsibility to invest in the development of Southwest Rockford, especially commercial and industrial development for low-income individuals and minorities.[14]

The Board has carefully reviewed the CRA performance records of Banc One, First Community, Key Centurion, and their respective subsidiary banks, as well as all comments received regarding these applications, Banc One's responses to those comments, and all other relevant facts of record in light of the CRA, the Board's regulations, and the Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement").[15]

Record of Performance Under the CRA

A. CRA Performance Examinations

The Agency CRA Statement provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that these reports will be given great weight in the applications process.[16] The Board notes that Banc One's lead subsidiary bank in Ohio, Bank One, Columbus, N.A., Columbus, Ohio, received an "outstanding" rating from the Office of the Comptroller of the Currency ("OCC") at its most recent examination for CRA performance in May, 1991. In addition, Banc One's remaining 61 subsidiary banks received either "outstanding" or "satisfactory" ratings from their primary regulators in the most recent examinations of their CRA performance. The Board also notes that First National, First Community's lead bank, received a "satisfactory" rating from its primary regulator at its most recent examination for CRA performance.[17] Additionally, sixteen of Key Centurion's seventeen subsidiary banks have received either a "satisfactory" or "outstanding" rating from their primary regulator examiner in the most recent examinations of their CRA performance.[18]

---

implicitly recognize the competitive effect of limited purpose lenders and other non-depository financial entities.

Upon consummation of this proposal, the HHI for the Wheeling banking market would increase 79 points to 1104.

11. 12 U.S.C. § 2903.

12. The Board has received comments regarding the CRA performance record of First Community from the Progressive West Rockford Community Development Corporation ("Progressive"), and the CRA performance record of Banc One from the United Paperworkers International Union ("UPIU") and The Main Street Business Association ("MSBA"). The Protestants submitted no adverse comments regarding the CRA performance of Key Centurion or its subsidiary banks.

13. The comments submitted by the UPIU and the MSBA in the context of these applications were also filed in connection with Banc One's application to acquire Valley National Corporation, Phoenix, Arizona ("Valley National"). For the reasons set forth more fully in the Board's Order in the Valley National application (*Banc One Corporation*, 79 *Federal Reserve Bulletin* 524 (1993) ("*Banc One/Valley National*")), these comments by the UPIU and the MSBA do not warrant denial of this application.

14. Progressive alleges that First National failed to provide conventional financing for the development of a supermarket and pharmacy to be located in a low-income area of southwest Rockford. In response to Progressive's allegations, First National has submitted its credit analysis of this project. The Board has previously determined that the failure of a financial institution to fund Progressive's proposed development project did not warrant a denial of the application. *AMCORE Financial, Inc.*, 78 *Federal Reserve Bulletin* 929 (1992). In light of all of the facts of record, the Board believes that First National's decision to not participate in funding the supermarket and pharmacy project identified by Progressive does not indicate that First National has failed to meet the credit needs of its community.

15. 54 *Federal Register* 13,742 (1989).

16. *Id.* at 13,745 (1989).

17. First National received a satisfactory rating from the OCC in December, 1990.

18. Nicholas County Bank received a "less than satisfactory" performance rating from the Federal Deposit Insurance Corporation ("FDIC") in December, 1991. In July, 1992, the FDIC noted signifi-

The OCC has recently concluded a CRA performance examination of Bank One, Cleveland, N.A., Cleveland, Ohio ("Bank One Cleveland"), and the Board has been advised that the preliminary examination rating assigned to this institution is "needs to improve". As explained more fully below, Bank One Cleveland constitutes a small part of the overall organization, and the Board expects Banc One to address the areas of weakness identified by the OCC.

B. Other Aspects of CRA Performance

The Board has carefully considered the CRA performance record of Banc One in connection with these applications and the *Banc One/Valley National* application. For the reasons set forth more fully in *Banc One/Valley National,* the Board believes that Banc One has in place the types of policies and procedures that the Board and other Federal bank supervisory agencies have indicated contribute to an effective CRA program, and Banc One has committed to implement these policies and programs at all the newly acquired banks.[19] In addition, Banc One will implement its ascertainment and marketing programs at First National,[20] and intends to establish a Community Advisory Council at First National made up of target populations in the Rockford area. This Council will enhance existing CRA ascertainment efforts, institutionalize the dialogue between the bank and its community, and provide a means by which to identify opportunities for use of the Banc One Community Development Corporation ("CDC").

Banc One has instituted or participates in a number of programs designed to provide a variety of credit products to low- and moderate-income and minority borrowers. At the corporate level, Banc One has established a system-wide CDC with the resources to assist all bank affiliates in financing projects designed to promote community welfare, housing availability and economic development. Banc One also has a mortgage subsidiary, Banc One Mortgage Corporation, that assists affiliates by offering specialized mortgage products designed for low- and moderate-income applicants.

Banc One also requires all affiliate banks to participate in federal, state and local lending programs which are designed to assist disadvantaged populations such as the poor, disabled, elderly and minorities, including programs sponsored by the Small Business Administration ("SBA"), the Department of Housing and Urban Development and the Federal Housing Administration. Banc One subsidiaries are certified SBA lenders and have made millions of dollars of loans through this program. Banc One subsidiaries also provide funding for programs designed to help finance small businesses, including the Minority Enterprise Small Business Investment Corporation.

First National also participates with city and state governments in various lending programs, including:

(1) The First Time Home Buyers Program;

(2) Tri-Way Rehabilitation Program, a program to provide home improvement loans in low- and moderate-income areas;[21]

(3) In-Fill Project, a project designed to provide affordable housing in low- and moderate-income areas; and

(4) A student loan program.

Commercial loans at First National also cover all types and sizes of businesses including small businesses.[22]

C. Recent CRA Examination of Bank One Cleveland

In connection with its recent CRA examination of Bank One Cleveland, the OCC has preliminarily rated the CRA performance of this institution as "needs to improve." The Board notes that Bank One Cleveland represents less than 5 percent of Banc One's total consolidated assets. As previously discussed in this Order and in *Banc One/Valley National,* the Banc One organization has a demonstrated history of compliance with the CRA, and the remaining banking assets of the Banc One organization are in institutions rated "satisfactory" or "outstanding" for CRA performance.

In this regard, the Board notes that Bank One Cleveland's preliminary rating of "needs to improve" represents a recent downgrading from the current rating of "satisfactory" for this institution. The Board expects Banc One to take steps that will address the areas of weakness identified in the OCC's most recent examination. In addition, Banc One must submit to the

cant improvement in the Nicholas County Bank CRA program and discontinued its periodic on-site reviews.

19. *Banc One/Valley National, supra* note 13.

20. Subsequent to Banc One's acquisition of First Community, First National proposes to merge with First Bank of Loves Park and First Bank of Roscoe, with First National as the surviving entity, pursuant to section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828). In this regard, Banc One represents that the CRA policies and programs that Banc One proposes to implement at First National will be implemented at the resultant institution.

21. During 1992, First National originated $100,000 in second mortgage loans through Tri-Way Rehabilitation Program.

22. First National provides financial and management support to the Rockford Small Business Loan Program, as well as participating in the Small Business Loan Program. First National is the area's only certified SBA lender, and as of November, 1992, First National recorded $3.25 million in outstanding SBA loans. Five of the six SBA 504 loans made in the Rockford market in 1992 were made by First National.

Board, when delivered to the OCC, a copy of the plan to address the weaknesses in the CRA performance record of Bank One Cleveland identified by the OCC. Banc One also must report to the Federal Reserve Bank of Cleveland, on a quarterly basis commencing June 30, 1993, as to its progress in remedying these problems and implementing the plan for improvement. Banc One's progress in remedying these deficiencies will be taken into account in connection with future applications by Banc One.[23]

D. Conclusion Regarding Convenience and Needs Factors

The Board has carefully considered all of the facts of record, including the comments filed in this case, in reviewing the convenience and needs factors under the BHC Act. Based on a review of the entire record of performance, including information provided by commenters opposing the proposal, the CRA performance examinations by the banks' primary regulators, and the Board's consideration of Banc One's CRA record of performance as determined in *Banc One/Valley National*, the Board believes that the efforts of Banc One, First Community, and Key Centurion to help meet the credit needs of all segments of the communities served by their subsidiary banks, including low- and moderate-income neighborhoods, are consistent with approval. For these reasons, and based on all the facts of record, the Board concludes that convenience and needs considerations, including the CRA performance records of the companies and banks involved in these proposals, are consistent with approval of these applications.[24]

23. For the reasons discussed in *Banc One/Valley National*, the Board has taken into account the preliminary CRA exam rating of Bank One Cleveland rather than delay consideration of these applications.

24. Protestants have requested a public hearing or meeting to collect information about the mortgage, consumer, and commercial lending practices of Banc One. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for the bank to be acquired makes a timely written recommendation of denial of the application. In this case, the Illinois State Banking Commissioner has not recommended denial of the proposal.

Generally, under the Board's rules, the Board may, in its discretion, hold a public hearing or meeting on an application to clarify factual issues related to the application and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 262.3(e) and 262.25(d). The Board has carefully considered this request. In the Board's view, Protestants have had ample opportunity to present written submissions, and Protestants have submitted written comments that have not identified facts that are material to the Board's decision and that are in dispute. Therefore, the Board has determined that a public meeting or hearing is not necessary to clarify the factual record in this application, or otherwise warranted in this case, and the request for a public meeting or hearing on this application is denied.

Nonbanking Activities

The Board has previously determined that the activities that Banc One proposes to conduct through First Bancorp and Reliable are closely related to banking and a proper incident thereto within the meaning of section 4 of the BHC Act.[25] Banc One has committed to conduct these activities in accordance with the Board's regulations.[26] Furthermore, there is no evidence in the record to indicate that Banc One's acquisition of First Bancorp or Reliable is likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practice. 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 Banc One's application to acquire these companies.

Conclusion

Based on the foregoing, including the commitments made to the Board by Banc One in these applications and in related correspondence, and in light of all the facts of record, the Board has determined that these applications should be, and hereby are, approved. The Board's approval is specifically conditioned upon compliance by Banc One with all commitments made in connection with these applications as well as the conditions discussed in this order. The commitments and conditions relied on by the Board in reaching this decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and as such may be enforced in proceedings under applicable law. This approval is also conditioned upon Banc One receiving all necessary Federal and state approvals.

The Board's determinations as to the nonbanking activities to be conducted by Banc One are subject to all of the conditions contained in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b)(3) (12 C.F.R. 225.4(d) and 225.23(b)(3)), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or to prevent evasions of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

The banking acquisitions should not be consummated before the thirtieth calendar day following the

25. *See* 12 C.F.R. 225.25(b)(8) and (b)(1).

26. *See id.*

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

By order of the Board of Governors, effective March 1, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

Banc One Corporation
Columbus, Ohio

Order Approving Acquisition of Banks and Certain Nonbanking Companies

Banc One Corporation, Columbus, Ohio ("Banc One"), 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 Valley National Corporation, Phoenix, Arizona ("Valley National"), and thereby indirectly acquire Valley National's subsidiary banks, The Valley National Bank of Arizona, Phoenix, Arizona ("Valley National Bank"), Valley Bank & Trust Company, N.A., Salt Lake City, Utah, Valley Central Bank, Richfield, Utah, and California Valley Bank, N.A., Fresno, California.[1]

Banc One also has applied under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) to acquire Concho Insurance Agency, Inc. ("Concho Insurance") and VNC Investment Corporation ("VNC Investment"), both of Phoenix, Arizona, and thereby engage in the sale of credit-related insurance pursuant to 12 C.F.R. 225.25(b)(8)(i), and in the making and arranging of commercial loans pursuant to 12 C.F.R. 225.25(b)(1).

Notice of the applications, affording interested persons an opportunity to submit comments, has been published (57 *Federal Register* 46,170 (1992)). 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.

Banc One, with $51.2 billion in total consolidated assets, is the ninth largest commercial banking organization in the United States, controlling $39.6 billion in deposits.[2] Banc One operates 61 subsidiary banks in Ohio, Indiana, Michigan, Wisconsin, Illinois, Texas, Colorado, and Kentucky. Valley National, with $10.9 billion in total consolidated assets, is the largest commercial banking organization in Arizona, controlling approximately $9 billion in deposits in the state.

Douglas Amendment

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 such bank is located, by language to that effect and not merely by implication."[3] Banc One proposes to acquire banks in Arizona, Utah, and California. For purposes of the Douglas Amendment, the home state of Banc One is Ohio.[4]

The interstate banking statutes of Arizona and Utah permit out-of-state bank holding companies to acquire banks located in those states, subject only to the approval of state banking officials.[5] The banking authorities of Arizona and Utah have indicated that the proposed transaction is authorized under their respective state laws. Under California law, a foreign bank holding company may acquire a bank located in California, if the Superintendent determines that substantial reciprocity exists between California and the state in which the foreign bank holding company's operations are principally conducted, which in this case is Ohio.[6] Ohio law imposes a similar substantial reci-

1. The proposal is structured as a merger of Banc One's wholly owned subsidiary, Banc One Alpha Corporation, Columbus, Ohio ("Banc One Alpha"), with and into Valley National. Pursuant to the merger, the shares of Valley National will be converted into shares of Banc One, and the shares of Banc One Alpha will be converted into shares of Valley National as the surviving corporation. Banc One Alpha has no assets or operations, and was formed for the purpose of consummating this transaction.

2. Asset and deposit data are as of September 30, 1992.

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. *See* 12 U.S.C. § 1842(d).

5. *See* Ariz. Rev. Stat. Ann. § 6-322(A); Utah Code Ann. § 7-1-702(2).

6. *See* Cal. Fin. Code § 3751 *et seq.* (West 1993). Substantial reciprocity exists between California and a second state if the laws of the second state:

(i) Authorize a California bank holding company to acquire banks in that state on substantially the same terms and conditions as would be applicable to an acquisition by an in-state bank holding company, and

(ii) Grant to a bank owned by a California bank holding company substantially the same rights and powers as would be granted to a bank owned by an in-state bank holding company. Cal. Fin. Code § 3751(l) (West 1993).

procity requirement.[7] The California Superintendent of Banks has determined that the interstate banking provisions of Ohio law meet the California requirement of substantial reciprocity, and has approved this proposal.

For these reasons, the Board has concluded that Banc One is authorized under the statute laws of Arizona, Utah, and California to acquire the banking subsidiaries of Valley National. Accordingly, Board approval of this proposal is not prohibited by the Douglas Amendment. Approval of this proposal is conditioned, however, upon the receipt by Banc One of all required state regulatory approvals.

Public Comments on Convenience and Needs Considerations

In acting upon an application to acquire a depository institution under the BHC Act, the Board must consider the convenience and needs of the communities to be served, and take into account the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"). The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistently with the safe and sound operation of such institutions. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution," and to take that record into account in its evaluation of applications.[8]

In connection with these applications, the Board has received comments from approximately 60 organizations and individuals who have expressed their views as to the merits of Banc One's proposal. Of these commenters, approximately half submitted statements supporting the proposal, primarily on the basis of the CRA record of the Banc One organization. These commenters generally praised the CRA efforts of Banc One and its subsidiaries. For example, some of these commenters—focusing on Banc One's efforts in Middletown, Cleveland, Columbus, and Cincinnati, all in Ohio—commended Banc One's minority outreach programs, activities to assist low- and moderate-income residents, financing to small and minority businesses, and lending for low-income housing, among other areas of CRA performance.

Other favorable commenters, including public officials, religious and minority groups, business and social service organizations, community development corporations, and members of the public, commended Banc One's CRA record in Dayton, Ohio. Their comments noted with approval Banc One's efforts in such areas as technical assistance for and investments in community development initiatives; lending programs, including flexible loan products designed to meet the credit needs of low- and moderate-income borrowers; support for small minority businesses; and funding for first-time home buyers. Favorable comments also have been received on various aspects of Banc One's CRA efforts elsewhere in Ohio or in Texas, or with respect to the CRA record of Valley National Bank in Arizona.

Commenters opposing the proposal ("Protestants") have objected on the basis of the CRA performance records of Banc One's and Valley National's subsidiary banks, and have criticized the efforts of Banc One and Valley National to meet the credit needs of their entire communities, including low- and moderate-income neighborhoods.[9] Protestants believe that Valley National Bank has insufficient outreach and marketing programs for low- and moderate-income families and

See also Cal. Fin. Code § 3752(a)(4) (West 1993) (providing that the state in which the operations of a U.S. bank holding company are principally conducted is the state in which the total deposits of its subsidiary banks are largest).

7. *See* Ohio Rev. Code Ann. § 1101.05 (Anderson 1988) (permitting interstate acquisitions if the acquiring company's home state would permit acquisitions of banks in such state by an Ohio-based bank holding company on terms that are substantially no more restrictive than those established for out-of-state bank holding companies under Ohio law). Ohio law also prohibits an acquiring out-of-state institution from controlling more than 20 percent of all financial institution deposits in Ohio upon consummation of the transaction, and requires the bank commissioner to review the financial, managerial, and convenience and needs considerations of the proposed acquisition. *Id.*

8. *See* 12 U.S.C. § 2903.

9. The Board has received a number of comments from individuals and businesses alleging that the denial of their loan applications by subsidiaries of Banc One or Valley National evidenced a failure to comply with the CRA or fair lending laws. Financial information has been provided regarding some of these transactions. The Board believes that the decision whether to grant credit in an individual case rests with the lending institution. In making this decision, the Board expects the institution to abide by safe and sound banking practices and to provide equal opportunity for credit to all applicants. After careful consideration of the comments and all the evidence in the record, including relevant examination reports and responses to those comments, the Board has concluded that the comments regarding individual loan denials do not indicate that Banc One or Valley National has engaged in any unsafe or unsound lending practices or has refused to extend credit in violation of the Equal Credit Opportunity Act or other relevant statutes.

The Board also has reviewed comments from parties currently or previously involved in litigation or other disputes with Banc One or Valley National, or one of their respective subsidiaries, in connection with bankruptcy or foreclosure proceedings or other matters relating to outstanding loans. In light of all the facts of record, including relevant examination reports, the Board does not believe that these comments warrant denial of these applications. The Board also notes that these commenters will be able to obtain any appropriate relief to their grievances under applicable principles of law.

for minorities, particularly Hispanics and African- and Native-Americans, and insufficient involvement by its board of directors in CRA-related matters and oversight. Protestants also have specifically criticized Valley National Bank's record regarding:

(1) Lending to minority businesses, homeowners, and consumers and to low- and moderate-income neighborhoods and persons in its service communities;

(2) Lending to small businesses, particularly with respect to loan programs supported by the Small Business Administration ("SBA");

(3) Disproportionate rates of denying applications submitted by minority and low- and moderate-income credit applicants as reflected in data reported under the Home Mortgage Disclosure Act ("HMDA"); and

(4) Support for community development projects and programs, and philanthropic contributions relating to the economic and housing needs of inner-city and minority communities.[10]

These criticisms also were reflected in Protestants' comments relating to the CRA performance records of Banc One's subsidiary banks, particularly banks located in Cleveland, Columbus, and Cincinnati, all in Ohio. Several Protestants also criticized the geographic distribution of Banc One's branch offices in Cleveland, and the overall commitment of Banc One's boards of directors and senior management to CRA-related objectives, particularly in the development of special credit products to assist in meeting the credit needs of low- and moderate-income individuals. One Protestant, while acknowledging positive CRA efforts of Banc One in Ohio, expressed concern that this transaction would result in adverse impacts upon, or insufficient benefits for, minority and low- and moderate-income communities similar to deficiencies alleged by this Protestant in connection with Banc One's previous expansion into Texas.[11]

Some Protestants have requested that the Board delay the processing of these applications so that the Board may receive additional information and comment, including loan information from Banc One.[12] Several Protestants also have urged the Board not to act until the results of a pending CRA performance examination of Valley National Bank by the Office of the Comptroller of the Currency ("OCC") have been made available for public comment. Other commenters have requested that the Board conduct audits of the lending records and practices of both the Banc One and the Valley National organizations.

The Board has invited public comment over an extended period of time in this case and, as noted above, has received substantial submissions regarding the CRA performance of Banc One's and Valley National's subsidiary banks. In addition, the Federal Reserve Bank of Cleveland ("Reserve Bank") conducted an inspection of Valley National Bank's CRA performance as of November 1992 ("November Inspection") in conjunction with the OCC's examination of that institution. The results of this inspection were made available to Valley National, Banc One and the Protestants, and their comments in response to the inspection have been carefully considered by the Board.

As discussed in this Order, the record of these applications contains substantial information regarding the issues raised by the Protestants. In the Board's view, the record as it currently stands permits a fair evaluation of the CRA performance records of the Banc One and Valley National organizations and the convenience and needs factor of the BHC Act with respect to this proposal.

In this regard, the Board has carefully reviewed the CRA performance records of Banc One and Valley National and their respective subsidiary banks, the comments presented in written submissions and Banc One's and Valley National's responses to those com-

10. Protestants also have suggested that approval of this proposal should be conditioned upon Banc One's agreement to CRA-related commitments; upon the sale of Valley National's operations in California to an institution that would be more committed than Banc One to CRA-related objectives; or upon Banc One's presentation of a specific plan to improve the CRA performance record of Valley National Bank.

11. The Board notes that it recently examined the CRA performance record of Banc One's subsidiary in Texas, and concluded that this record was consistent with approval of a proposal by Banc One to expand its banking operations in that state. *See Banc One Corporation*, 78 *Federal Reserve Bulletin* 932 (1992).

Protestants also have raised issues that are not related to the record of performance by Banc One and Valley National under the CRA, including matters relating to third-party minority contracts, ethnic diversity within senior management and boards of directors, and equal employment opportunity throughout the work force. While the Board fully supports affirmative programs designed to promote equal opportunity in every aspect of a bank's personnel policies and practices in the employment, development, advancement, and treatment of employees and applicants for employment, the Board believes that the alleged deficiencies in the organizations' general personnel and employment practices, including third-party contracting matters, are beyond the scope of the factors that may be assessed under the CRA or the convenience and needs factor of the BHC Act.

12. Several Protestants believe that notice of these applications should be republished in Spanish-language media. The Board's rules require, in addition to publication in the *Federal Register*, that notice of an application and a public comment period be published in a newspaper of general circulation in the communities in which the head offices of the applicant (or its largest subsidiary bank) and the banks to be acquired are located. 12 C.F.R. 225.14(b)(2) and 262.3(b). These publication requirements ensure that interested members of the public are afforded an adequate opportunity to present their views to the Board.

Other Protestants believe that a delay is warranted until anticipated changes in CRA and other policies relevant to the application can be implemented by the new Administration.

ments, and the November Inspection and comments related to that inspection, as well as all other relevant facts of record, in light of the CRA, the Board's regulations, and the Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement").[13]

Record of Performance Under the CRA

A. Evaluations of CRA Performance

The Agency CRA Statement provides that a CRA examination is an important and often controlling factor in the consideration of an institution's CRA record and that these reports will be given great weight in the applications process.[14] In this regard, Banc One's lead subsidiary bank in Ohio, Bank One, Columbus, N.A., Columbus, Ohio ("Bank One Columbus"), received an "outstanding" rating at its most recent examination for CRA performance conducted by the OCC as of May 13, 1991. Among Banc One's other large subsidiaries in Ohio, the banks in Akron and Dayton also received "outstanding" ratings, and the banks in Cincinnati and Cleveland received "satisfactory" ratings, at their most recent examinations for CRA performance conducted by the OCC.[15] Overall, the most recent CRA performance examinations for Banc One's subsidiary banks show 19 "outstanding" ratings and 41 "satisfactory" ratings. Banc One has committed to integrate its CRA policies and programs at all the banks to be acquired from Valley National and, where appropriate, to supplement or replace Valley National's programs with its own.

The OCC has recently concluded a CRA performance examination of Bank One, Cleveland, N.A., Cleveland, Ohio ("Bank One Cleveland"), and the Board has been advised that the preliminary examination rating assigned to this institution is "needs to improve." As explained more fully below, Bank One Cleveland constitutes a small part of the overall Banc One organization, and the Board expects Banc One to address the areas of weakness identified by the OCC.

With respect to Valley National's examination record, all of Valley National's subsidiary banks for which public examination data are available have been rated "satisfactory" in their most recent examinations for CRA performance by their primary regulators.[16] In addition, the Board has been advised that the OCC recently concluded its CRA examination of Valley National Bank, and assigned the bank a CRA rating of "satisfactory." The OCC's CRA examination report has been forwarded to Valley National Bank, but has not yet become publicly available. The Board also has carefully reviewed the information collected in the November Inspection, as well as the responses to that inspection submitted by Protestants and other facts of record, regarding the CRA performance of Valley National Bank. In this regard, the November Inspection noted areas in which Valley National Bank's CRA performance record could be strengthened. For example, the inspection concluded that the CRA self-assessment measures adopted at Valley National Bank were somewhat limited, and involved no direct assessment performed by the board. In addition, the November Inspection indicated that ascertainment activities largely are not the result of an established, board-directed effort, but instead include a variety of formal and informal means utilized to ascertain local credit needs, including an officer calling program, customer surveys, contacts with public officials and neighborhood organizations, and focus group meetings with consumers and small businesses.[17] As discussed below, Banc One intends to address these areas of weakness by integrating its CRA policies and programs at Valley National.

B. Corporate Policies

Banc One has in place the types of policies and procedures that the Board and the other Federal bank supervisory agencies have indicated contribute to an effective CRA program. In this regard, Banc One monitors subsidiary bank CRA performance at both the corporate level and the state holding company level. At the corporate level, a corporate CRA committee, composed of the CRA officers of several state holding companies and senior corporate mortgage representatives, monitors community reinvestment performance of all Banc One affiliates and reports on this performance directly to the board of directors of Banc One. The CRA committee requires quarterly reports from all affiliate banks describing their CRA efforts. The CRA committee also reviews and updates corporate-wide CRA policy, monitors local issues to detect possible matters of concern, and conducts

13. 54 *Federal Register* 13,742 (1989).
14. *Id.* at 13,745.
15. Each of these examinations was conducted during 1991.
16. These examinations were conducted as follows:
(1) Valley Bank & Trust Company, N.A., Salt Lake City, Utah (OCC as of February 1992);
(2) Valley Central Bank, Richfield, Utah (Federal Deposit Insurance Corporation as of June 1991); and
(3) California Valley Bank, N.A., Fresno, California (OCC as of July 1990).
17. Generally, the November Inspection found that the center of Valley National Bank's ascertainment efforts had recently been redirected toward external discussions with local groups and organizations as opposed to internal analysis of community credit needs.

extensive CRA training programs. Company-wide training programs are held annually for bank CRA officers serving medium- and large-sized communities. In addition, the CRA committee has produced a CRA training video designed to instruct every Banc One employee on CRA policy, CRA reporting requirements, and CRA performance expectations. Banc One's corporate CRA Research Division assists Banc One's subsidiary banks in collecting and analyzing lending data to monitor the distribution of loan products throughout their delineated market areas.[18]

At the bank level, subsidiary banks file quarterly reports to their state holding company CRA Officer detailing the banks' CRA performance. The CRA officers also work together with internal bank CRA committees comprised of senior managers representing different areas of the bank such as marketing, retail lending and mortgage functions. Banc One requires that CRA officers be personally involved in reporting bank CRA performance to their local boards of directors to ensure that the directors maintain a comprehensive understanding of the bank's CRA efforts and performance. Each Banc One subsidiary bank utilizes Banc One's CRA Policy and Procedure Manual, which is updated to address changes in regulatory requirements or Banc One's policies. The manual sets forth the 12 assessment factors examined by federal regulators and includes Banc One's principles for subsidiary bank programs.

Banc One also requires each subsidiary bank to submit a strategic plan identifying local banking needs. Once these needs are identified, Banc One subsidiaries attempt to meet these needs through product development and modification, marketing initiatives, and community outreach programs.

Banc One's subsidiary banks also are encouraged to establish Community Advisory Councils to institutionalize the process of communication between the bank and its market. The banks utilize this resource to open avenues for enhanced market penetration and to foster a better understanding between the bank and the community. In addition to Banc One's company-wide CRA training program, state holding company CRA officers also hold monthly or quarterly information and training sessions for all bank CRA officers in their state.

Valley National Bank's board of directors and senior management also provide oversight and direction of CRA activities through three standing committees, the CRA Policy Committee, the CRA Public Policy Committee, and the CRA Implementation Committee. As previously noted, Banc One has stated that it will integrate Valley National into its own CRA program. Specific elements of the Banc One program to be incorporated include: detailed quarterly reporting on CRA matters, which will be furnished to the boards of directors and senior management of the institutions to be acquired; direct contact between Valley National Bank's CRA Officer and its board of directors; and the review of quarterly CRA reports at board meetings. In addition, Banc One intends to enhance other elements of the Valley National Bank CRA program, as discussed in this Order and in Banc One's response to the November Inspection.

C. Ascertainment and Marketing

Banc One affiliates actively assess the credit and banking needs of their local service areas. Each affiliate bank is responsible for formulating and submitting to its board of directors a strategic plan for identifying local banking needs. Each bank engages in direct communication with its service communities through interviews with community leaders, the creation of community advisory councils, and bank participation in community organizations.

With respect to ongoing marketing efforts, Banc One has distributed a *CRA Marketing and Advertising Guide* to all affiliate banks which instructs subsidiary banks on such matters as the relationship between CRA goals and general marketing objectives, the characteristics of populations with special credit needs, and creative requirements and advertising copy points to be considered in penetrating particular markets.[19] Banc One also markets specific banking products by advertising on television and radio and in print media. In specific markets, corporate marketing materials are supplemented where deemed appropriate.[20] With respect to its marketing efforts in the Hispanic community, certain Banc One subsidiaries provide Spanish-language home buyer counseling, bilingual ATM service, and Spanish-language brochures on basic banking products. Banc One's subsidiary banks also employ bilingual mortgage originators in communities where such expertise is warranted. In addition, Bank One, Texas, N.A., Dallas, Texas, has developed numerous Spanish-language print advertisements which

18. Banc One's CRA Research Division has provided training in understanding HMDA aggregation tables and ensures that all affiliates file complete and accurate reports of residential lending activity. This has enabled affiliate banks to identify areas of opportunity or concern and to target initiatives so as to address perceived needs.

19. This guide also includes a selection of product-specific advertisements that can be customized for particular markets where government programs are available.

20. For example, Banc One runs a national television media campaign. In addition, the Banc One organization advertises on a Spanish-language television station in the Milwaukee, Wisconsin area and on the Black Entertainment Network in the Lima, Ohio area.

it has made available to other Banc One subsidiaries that might benefit from their use.

Valley National Bank's ascertainment activities are administered by its board of directors and senior management, which provide direction through the formulation of the bank's CRA Mission Statement and CRA Strategic Action Plan, as well as oversight and monitoring of these efforts. The Strategic Action Plan details the process that the bank has established to identify community credit needs, to research how the bank might respond to those needs, and to develop or enhance products and services designed to meet those needs. Valley National Bank also has designed a comprehensive marketing plan which articulates the various methods to be used for promoting the bank's credit products and services throughout its delineated communities, including low- and moderate-income areas.

Banc One has indicated that it intends to continue Valley National Bank's recent orientation toward ascertainment activities that are based upon direct contact with community representatives as opposed to institutional reflection regarding community credit needs. Banc One also intends to review the community delineations of Valley National Bank, and has indicated that the institution should have at least four regional markets in the State of Arizona, each with a full-time CRA Officer dedicated to understanding community credit needs and evaluating the extent to which the bank is successful in meeting such needs. Evaluations of CRA performance also will be conducted on a market-by-market basis as opposed to the current state-wide system of review. In addition, the ascertainment methods currently employed by Valley National Bank will be supplemented by locally-appointed Community Advisory Councils and geodemographic reports compiled by Banc One's CRA Research Division. With respect to CRA-related marketing, Banc One will require that the bank's CRA Officer attend and participate in meetings of marketing personnel. Banc One expects that the continuing and active participation of the CRA Officer in all activities of the marketing department will be effective to ensure that all marketing initiatives are sensitive to the institution's CRA-related objectives.

D. Banc One's Lending and Other Activities

Banc One has instituted or participates in a number of programs designed to provide a variety of credit products to low- and moderate-income and minority persons. At the corporate level, Banc One has established a system-wide Community Development Corporation ("CDC") with resources to assist all bank affiliates in financing projects designed to promote community welfare, housing availability and economic development. As of December 1992, the CDC had provided $20 million in equity for low-income housing projects utilizing low-income housing tax credits.

Banc One also has a mortgage subsidiary, Banc One Mortgage Corporation, which assists affiliates by offering specialized mortgage products designed for low- and moderate-income applicants. In addition, the mortgage subsidiary has created and sponsors an affordable housing lender program, through which affiliates with sufficient customer demand for affordable housing have employed mortgage originators specialized in affordable housing loans and low-income mortgage products.

Banc One requires all affiliate banks to participate in federal, state, and local lending programs which are designed to assist disadvantaged populations such as racial and ethnic minorities and the poor, disabled, or elderly, including particularly those programs sponsored by the Small Business Administration, the Department of Housing and Urban Development, and the Federal Housing Administration. Banc One subsidiaries are certified SBA lenders and have made millions of dollars of loans through this program. Banc One subsidiaries also provide funding for other programs designed to help finance small businesses, including the Minority Enterprise Small Business Investment Corporation and the Cleveland Micro Loan Program.

Banc One subsidiaries also have made investments in numerous programs designed to help provide housing for low-income families, including the Cincinnati Equity Fund, the Cleveland Housing Network, and the Cleveland Neighborhood Equity Fund. Banc One also holds an annual Retail Lending Conference, which focuses on such matters as the collection and use of geocoded information for market delineation and understanding bank performance with respect to the equitable distribution of credit.

Banc One affiliate banks may design and promote special lending programs which, by their interest rates, amortization schedules, and collateral requirements, target particular types of credit needs. Banc One also encourages its subsidiary banks to be flexible in the application of lending criteria to low-income populations. Examples of such flexibility include the financing of points and closing costs in mortgage loans, and the use of a 95 percent loan-to-value ratio for loans with mortgage insurance.

The Board also has reviewed Banc One's loan products and community development activities in light of Protestants' comments on a city-by-city basis. In each of the principal cities in which it operates, Banc One has put in place a number of programs designed to help meet the credit needs of its service communities, including the following:

Cincinnati. In Cincinnati, Banc One has hired an affordable housing lender and offers products targeted to low- and moderate-income home buyers such as the Community Homebuyer 3/2 mortgage and a loan product with flexible underwriting guidelines. Banc One also supplements the efforts of its affordable housing originator with targeted marketing strategies such as outdoor advertising, minority-audience media, and advertisements on bus benches in target neighborhoods. The Cincinnati bank also uses the services of a minority appraiser and participates in numerous home buying seminars. The bank recently hired a research manager to develop a more comprehensive system to analyze the geographic distribution of loans.

In 1989, Banc One began offering in Cincinnati both FHA and Ohio Housing Finance Agency ("OHFA") First Time Homebuyer loans, which feature below-market interest rates and reduced down payments. In 1990, 21 percent of the bank's home purchase loans in the Cincinnati area were FHA loans. The bank also introduced in 1990 a new home equity loan product which allows individuals to borrow up to 100 percent of the equity in their homes.

Banc One also has committed $250,000 through its CDC to a low-income housing tax credit investment in the Cincinnati Equity Fund to rehabilitate housing in low- and moderate-income neighborhoods, and has invested $1 million in the Ohio Equity Fund in connection with low-income housing. Banc One has recently established a Cincinnati/Hamilton County Community Advisory Council as part of its effort to serve the Cincinnati market.

Banc One has focused on improving originations of its home improvement loan products in the Cincinnati market.[21] Banc One's lending under this program has increased from only 8 minority borrowers in 1990 to 82 borrowers in 1991 and 130 borrowers through the third quarter of 1992. In addition, in its most recent examination, the OCC stated that the bank's loan volume was adequate in relation to the institution's resources and community credit needs.[22]

The majority of the bank's commercial loans are to small businesses. In June 1992, Banc One established a Business Banking Division in Cincinnati and hired six commercial lenders to assist the bank in accommodating the credit needs of small and minority businesses. Banc One representatives also serve on committees and projects that help fund small businesses.

Columbus. Bank One Columbus offers loans through FHA, VA, and OHFA loan programs. In 1990, the bank closed 85 housing loans through these programs in the aggregate amount of $4.5 million. In addition, in 1990 the bank generated 570 home mortgage loans totalling $31.5 million and 1871 home improvement loans totalling $19 million within its market area. The bank also has adopted real estate loan programs with flexible underwriting standards and expanded consumer education in an effort to help address the affordable housing needs of the community.

In the Columbus market, Banc One approved 529 loans to small businesses through the first three quarters of 1992 in the aggregate amount of $27.3 million.[23] Banc One conducts its small business lending in Columbus through the Business Banking Group, which has a target market that includes businesses owned by women and minorities. Outreach activities include media advertising, direct mailings, telemarketing, newsletters, direct calling, and special promotions. The bank also provides special educational and informational services to businesses, and works with community and government groups to enhance lending opportunities to targeted businesses.

Banc One is involved in community development activities throughout the Columbus market. The bank committed $3.5 million to the Columbus Housing Partnership for affordable housing projects. The bank also participated in funding the Urban Land Institute's recent study of the Columbus area's housing needs, and now is addressing the study's results. In addition, the bank utilizes the corporate CDC in addressing community needs. On behalf of the bank, the CDC invested $1.3 million in two Franklin County projects sponsored by the Columbus Housing Partnership and Urban Rental Housing Development.

Dayton. Banc One has taken steps to improve significantly its lending to low- and moderate-income individuals in the Dayton area. In response to ascertained credit needs, Banc One has developed in Dayton a purchase-rehabilitation loan program, and has added FHA and VA mortgage products. The bank also has developed mortgage products which offer flexible lending criteria and lower down payments. An example of this is the Community Home Buyers Program,

21. In this regard, the bank recently implemented improved procedures to ensure that all home equity loans used for home improvement purposes are reported on the HMDA loan register.

22. The bank's loan mix has a larger concentration of 1–4 family residential loans, home equity loans, loans to individuals, and municipal loans, and a smaller concentration of commercial and industrial loans, than banks with similar asset sizes and branching structures. The institution's loan mix at the end of 1990 included 48 percent real estate loans, 31 percent loans to individuals, 13 percent commercial and industrial loans, and 3 percent municipal loans. Of the real estate loans, 31 percent were for 1–4 family residential homes and 14 percent were for home equity loans.

23. Through the third quarter of 1992, the regional office of the SBA reported that no other lender in the fifty-two county region had extended more SBA loans.

where down payment and other underwriting requirements are reduced for low- and moderate-income individuals. Other housing-related loan programs are offered in conjunction with the bank's Historic Restoration Mortgage and the Sponsored Purchase Mortgage program, under which a non-profit organization can participate in creating affordable housing for low- and moderate-income individuals. The bank also regularly extends loans through the Vision Loan program, which is designed to provide affordable housing for low- and moderate-income home buyers in the area, and through the City of Dayton's Neighborhood Lending Program. The bank is the leading lender in the Neighborhood Lending Program's home purchase and purchase-rehab program, which provides an interest buy-down feature by the City of Dayton during the first three years of the mortgage loan. The bank also participates in the OHFA First Time Homebuyer Program, which offers below-market interest rates and reduced down payment requirements.

Through the Banc One CDC, the bank is an equity participant in County Corp's Homestart II Program, which is designed to develop affordable housing. The bank also is involved through the CDC in the McPherson Town neighborhood renovation program, to which Banc One has provided funding for the acquisition, renovation, and resale of residential properties.

In 1990, the bank closed 110 FHA and VA loans, representing approximately 29 percent of the bank's home purchase and refinancing loans during the period. In addition, the bank made 57 residential mortgage loans in low- and moderate-income census tracts in 1990.

In 1992, Banc One in Dayton introduced a small business revolving line of credit offered to businesses with less than $2 million in annual sales. The bank has approved over 100 applications for this product representing over $2 million in credit commitments. Banc One also has committed $200,000 in loans to the Dayton-Montgomery MicroEnterprise Fund, and has recently agreed to invest an additional $90,000 in the Minority Enterprise Small Business Investment Corporation, which would raise the bank's total investment in this corporation to $175,000 and make it the largest investor in this fund.

The Dayton bank is a certified SBA lender and has made nearly 60 SBA-guaranteed loans totalling $14 million in the past four years. Through September, Banc One had extended 11 SBA loans for a total of $2 million in 1992. In 1990, the Dayton bank made 63 loans totalling $7.7 million to small businesses located in areas with a minority population of at least 20 percent. This figure increased to 69 loans totalling $8.4 million in 1991.

E. Valley National Bank's Lending and Other Activities

Banc One has indicated that it intends to enhance Valley National Bank's lending programs upon consummation of this proposal. For example, Banc One intends to incorporate the bank's Low/Moderate Income Mortgage Lending Program into Banc One's affordable housing lender program, which includes review of all denied loan applications and specialized underwriting personnel. Banc One also will expect Valley National Bank to employ the resources of the Banc One CDC as well as government programs for community or economic development.

Banc One has noted, however, that Valley National Bank has developed a number of programs designed to meet the credit needs of low- and moderate-income populations in Arizona. Banc One expects this bank following consummation to continue these products and programs to the extent they are effective in meeting local credit needs. Banc One expects that Valley National Bank will continue to be an active participant in government-sponsored loan programs, and that CRA officers will work with local government officials to modify or develop programs in response to the changing needs of their respective service communities.

The November Inspection indicated that Valley National Bank offers a wide range of loan products throughout its delineated communities. In the area of single-family housing loans, the bank offers, in addition to an array of traditional mortgage products, various loan programs targeted to the credit needs of low- and moderate-income households. For example, Valley National Bank's Express Mortgage Program was developed to enable lower-income families to obtain, through a simple application process, long-term fixed-rate mortgages in amounts from $10,000 with no mortgage points. In the first two months after its introduction, the bank approved over 1,000 loans under the Express Mortgage Program for a total of approximately $33.5 million. The bank also has introduced a Low/Moderate Income Mortgage Lending Program under which low- and moderate-income applicants may obtain long-term fixed-rate mortgages for the purchase of affordable housing. The program provides for flexible underwriting criteria and down payment requirements. Valley National Bank has established a fund of $10 million to fund these loans for the first year of the program, and has hired three loan officers to manage the product from designated low- and moderate-income branches.

Valley National Bank also helps to meet the credit needs of low- and moderate-income home owners through joint efforts with such organizations as Hous-

ing for Mesa, Catholic Social Services of Tucson, Comite De Bienestar, and the Tucson Urban League. In addition to these private efforts and the programs designed by the bank itself, Valley National Bank also participates in various government-sponsored loan programs targeted to the needs of lower-income households, including the FNMA Community Home Buyers Program and Neighbors Mortgage Loan Program, the Veterans Administration No Down Payment Loan Program, and the HUD 203(k) and 221(d)(2) programs.

The bank also offers home equity loans on both fixed- and variable-rate terms for up to 100 percent of the borrower's home equity, as well as FHA- and HUD-sponsored home improvement loan programs, and participates to a significant extent in the City of Phoenix Home Improvement Loan program.[24]

To improve credit services to small businesses, Valley National Bank opened its Small Business Loan Center in April 1991, and in January 1992 organized the Small Business Banking Division. These groups were established to work with businesses with annual sales of not more than $1 million and aggregate credit needs of $250,000 or less. The bank is a significant lender to small businesses, with $142 million in its small business loan portfolio as of September 1992.[25] Valley National Bank also participates in a SBA-sponsored lending program for small businesses, and has begun to increase the number and amount of loans made under this program.

The bank also participates to a significant extent in community development and redevelopment projects. In addition to significant purchases of municipal bonds issued by its local communities, the bank is receptive to meeting articulated financial needs on both an individual and joint-efforts basis. In this regard, the November Inspection concluded that the bank appears to be committed to investing in development and redevelopment projects. For example, Valley National Bank provided $3 million of the initial $10 million of funding for the Arizona Multibank Community Development Corporation, which was established by the Arizona Bankers Association to provide financial and technical assistance for the advancement of small business, low- and moderate-income housing, and economic development. The bank also has joined with a non-profit organization to provide credit to small, family-owned businesses, and provides funding to various business development and housing rehabilitation programs.

F. HMDA Data and Lending Practices

The Board has reviewed the HMDA data reported by subsidiary banks of Banc One and Valley National in light of Protestants' comments. Data cited by Protestants indicate some disparities in approvals and denials of loan applications according to racial and ethnic group and income status in the areas served by these organizations. Because all banks are obligated to adopt and implement lending practices that ensure not only safe and sound lending but also equal access to credit by creditworthy applicants regardless of race, the Board is concerned when the record of an institution indicates disparities in lending to minority credit applicants. The Board recognizes, however, that HMDA data alone provide only a limited measure of any given institution's lending in its community. The Board also recognizes that HMDA data have limitations that make the data an inadequate basis, absent other information, for conclusively determining whether an institution has engaged in illegal discrimination on the basis of race or ethnicity in making lending decisions.

The most recent examinations for CRA compliance and performance conducted by bank supervisory agencies found no evidence of illegal discrimination or other illegal credit practices at any subsidiary bank of Banc One or Valley National. In addition, the November Inspection found no illegal credit practices or discrimination at Valley National Bank.

HMDA data also show some improvement in certain areas of lending to minorities and to low- and moderate-income credit applicants by the Banc One organization. These improvements appear to have resulted from steps taken by the organization to improve its lending record, such as the affordable housing lender program and the activities of the CRA Research Division discussed above.

G. Recent CRA Examination of Bank One Cleveland

In connection with its recent CRA examination of Bank One Cleveland, the OCC has preliminarily rated the CRA performance of this institution as "needs to improve." The Board notes that Bank One Cleveland represents less than 5 percent of Banc One's total consolidated assets. As previously discussed in this Order, the Banc One organization has a demonstrated history of compliance with the CRA, and the remaining banking assets of the Banc One organization are in

24. Valley National Bank has approved loan requests totalling approximately $3.75 million under this program, which provides for subsidized interest rates and a maximum loan amount of $15,000.

25. The Board notes that 14 percent of the bank's small business borrowers are located in minority census tracts.

institutions rated "satisfactory" or "outstanding" for CRA performance.

In this regard, the Board notes that Bank One Cleveland's preliminary rating of "needs to improve" represents a recent downgrading from the current rating of "satisfactory" for this institution. The Board expects Banc One to take steps that will address the areas of weakness identified in the OCC's most recent examination. In addition, Banc One must submit to the Board, when delivered to the OCC, a copy of the plan to address the weaknesses in the CRA performance record of Bank One Cleveland identified by the OCC. Banc One also must report to the Reserve Bank, on a quarterly basis commencing June 30, 1993, as to its progress in remedying these problems and implementing the plan for improvement. Banc One's progress in remedying these deficiencies will be taken into account in connection with future applications by Banc One.[26]

H. Conclusion Regarding Convenience and Needs Factor

The Board has carefully considered all of the facts of record, including the comments filed in this case, in reviewing the convenience and needs factor under the BHC Act. Based on a review of the entire record, including the findings of the November Inspection, information provided by commenters supporting and opposing this proposal, and the results of CRA performance examinations conducted by the respective primary regulators of the subsidiary banks of Banc One and Valley National, the Board believes that the efforts of Banc One and Valley National to help meet the credit needs of all segments of the communities served by their subsidiary banks, including low- and moderate-income neighborhoods, as well as all other convenience and needs considerations, are consistent with approval of this proposal.[27]

Other Considerations

Banc One and Valley National do not compete in any banking market. Hence, the Board has concluded that the proposed acquisition would not adversely affect competition in any relevant banking market.[28] The Board also has concluded that the financial and managerial resources[29] and future prospects of Banc One, Valley National, and their respective subsidiaries, and all other supervisory factors the Board must consider under section 3 of the BHC Act, are consistent with approval of this proposal.

Banc One also has applied, pursuant to section 4(c)(8) of the BHC Act, to acquire Concho Insurance, a company that provides credit-related life and disability insurance issued in connection with extensions of credit by Valley National Bank, and VNC Investment, a company that engages in the making and arranging of commercial loans.[30] These activities are permissible for bank holding companies under the Board's Regulation Y,[31] and Banc One proposes to conduct these activities in accordance with the Board's regulations.

In order to approve this application, the Board also must find that the performance of the proposed activities by Concho Insurance and VNC Investment "can

26. One Protestant has requested that the Board delay consideration of these applications to permit consideration of the OCC's pending CRA performance examination of Bank One Cleveland. As discussed in this Order, the Board has taken into account the preliminary examination rating assigned to Bank One Cleveland by the OCC rather than delay consideration of these applications.

27. Certain of the Protestants have requested that the Board hold a public meeting or hearing with respect to this application. The Board is not required under section 3 of the BHC Act to hold a public hearing unless the primary supervisor for the bank to be acquired disapproves the proposal. In this case, the primary supervisors for the institutions to be acquired have not objected to Banc One's application.

Under its rules, the Board may, in its discretion, hold a public meeting or hearing on an application to clarify factual issues related to the application and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 262.3(e) and 262.25(d). The Board has carefully considered Protestants' requests for such a meeting or hearing, and the written comments submitted by Protestants. In the Board's view, interested parties have had ample opportunity to submit and have submitted substantial written comments that have been considered by the Board. Moreover, Protestants have indicated general disagreement regarding the appropriate conclusions to be drawn from the facts of record, but have not identified facts that are in dispute and material to the Board's decision. In light of these considerations, the Board has determined that a public meeting or hearing is not necessary to clarify the factual record in this application, or otherwise warranted in this case. Accordingly, the requests for a public meeting or hearing on this application are hereby denied.

28. In this regard, one commenter has maintained that the proposal would result in a undue concentration of banking resources in Banc One.

29. In addressing the managerial considerations of this proposal, the Board has carefully considered several comments that related to the operations of the subsidiary banks of Banc One and Valley National. Some comments related to particular consumer and business dealings, including loan transactions and payroll processing matters, involving certain of these institutions. Other commenters have alleged, without providing any supporting facts or documentation, that management officials of the Banc One and Valley National organizations have engaged in improper, and in some cases criminal, activity and conduct. The Board has reviewed these comments in light of all of the facts of record in this case, including information responding to these comments provided by Banc One and Valley National, relevant examination reports, and information provided by other federal regulatory agencies. Based on this review, the Board has concluded that these comments do not reflect so adversely upon the managerial resources of these organizations as to warrant denial of this proposal.

30. VNC Investment also is an investment company which invests in debt and equity securities which do not comprise more than 5 percent of the voting securities of any issuer. This is an activity permitted to bank holding company subsidiaries without the Board's prior approval under section 4(c)(7) of the BHC Act and section 225.22(c)(6) of the Board's Regulation Y.

31. *See* 12 C.F.R. 225.25(b)(8)(i) and 225.25(b)(1).

reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." 12 U.S.C. § 1843(c)(8). The Board expects that the continuance of these activities by these nonbanking subsidiaries would maintain the level of competition among providers of these services. In addition, there is no evidence in the record that consummation of this proposal would result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Accordingly, the Board concludes that the balance of the public interest factors that it is required to consider under section 4(c)(8) of the BHC Act is favorable, and consistent with approval of Banc One's section 4 application.

Based on the foregoing and other facts of record, the Board has determined that the application should be, and hereby is, approved. This approval is specifically conditioned upon compliance by Banc One with all of the commitments made in connection with this application and with the conditions referenced in this Order. The Board's determination with respect to its nonbanking activities also is subject to all of the conditions set forth in Regulation Y, including those in sections 225.4(d) and 225.23(b), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of this action, the commitments and conditions relied on in reaching this decision shall be deemed to be conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

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

By order of the Board of Governors, effective March 1, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

First Bank System, Inc.
Minneapolis, Minnesota

Order Approving the Acquisition of a Bank Holding Company

First Bank System, Inc., Minneapolis, Minnesota, and its wholly owned subsidiary, Central Bancorporation, Inc., Denver, Colorado (together, "FBS"), both bank holding companies within the meaning of the Bank Holding Company Act ("BHC Act"), have applied under sections 3(a)(3) and 3(a)(5) of the BHC Act (12 U.S.C. § 1842(a)(3) and (a)(5)), to acquire all of the voting shares of Colorado National Bankshares, Inc., Denver, Colorado ("CNB"),[1] and thereby indirectly acquire CNB's eight subsidiary banks: Colorado National Bank, Denver, Colorado; Colorado National Bank-Belmont, Pueblo, Colorado; Colorado National Bank-Pueblo, Pueblo, Colorado; Colorado National Bank-Glenwood, Glenwood Springs, Colorado ("CNB-Glenwood"); Colorado National Bank-Grand Junction, Grand Junction, Colorado ("CNB-Grand Junction"); Colorado National Bank-Longmont, Longmont, Colorado; Colorado National Bank-Fort Collins, Fort Collins, Colorado; and Colorado National Bank-Exchange, Colorado Springs, Colorado.[2]

FBS also has applied under section 4(c)(8) of the BHC Act to engage in nonbanking activities through the acquisition of the following CNB subsidiaries pursuant to section 225.25(b)(8)(i) of the Board's Regulation Y (12 C.F.R. 225.25(b)(8)(i)):

(1) Colorado National Insurance Agency, Inc., Denver, Colorado, and thereby engage in selling credit life, and accident and disability insurance; and
(2) Colorado National Life Insurance Company, Inc., Denver, Colorado, and thereby engage in reinsuring credit life, and accident and disability insurance.

Notice of the applications, affording interested persons an opportunity to submit comments, has been published (58 *Federal Register* 4,436 (1993)). The time for filing has expired, and the Board has considered the application and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

FBS, with total consolidated assets of approximately $23.4 billion, controls 21 subsidiary banks and

1. CNB will merge into Central Bancorporation, Inc. and the resulting entity will operate in Colorado using the CNB name.

2. In connection with FBS's proposed acquisition of CNB, FBS has requested Board approval under section 3 of the BHC Act to acquire an option to purchase up to 20.6 percent of the voting shares of CNB. This option will become moot upon consummation of FBS's application to acquire CNB.

one thrift organization in Colorado, Minnesota, Montana, North Dakota, South Dakota, Washington and Wisconsin.[3] FBS is the second largest commercial banking organization in Colorado, controlling deposits of approximately $4.3 billion, representing 14.3 percent of total deposits in commercial banking organizations in the state.[4] CNB is the third largest commercial banking organization in Colorado, controlling deposits of approximately $2.7 billion, representing 8.9 percent of total deposits in commercial banking organizations in the state. Upon consummation of this proposal, FBS would become the largest commercial banking organization in Colorado, controlling deposits of approximately $6.9 billion, representing 22.9 percent of total deposits in commercial banking organizations in the state.

Competitive Considerations

FBS and CNB compete directly in six banking markets in Colorado: Pueblo, Garfield County, Mesa County, Denver-Boulder, Colorado Springs, and Fort Collins. In the Pueblo banking market,[5] FBS is the sixth largest banking or thrift organization ("depository institution"), controlling deposits of $109.1 million, representing 12.5 percent of total deposits in depository institutions in the market ("market deposits").[6] CNB is the largest depository institution in the market, controlling deposits of $202.4 million, representing 23.2 percent of market deposits. Upon consummation of this proposal, FBS would become the largest depository institution in the Pueblo banking market, controlling deposits of $311.5 million, representing 35.7 percent of market deposits. The Herfindahl-Hirschman Index ("HHI") would increase by 580 points to 2055.[7]

The Board believes that a number of factors indicate that this increased level of concentration in the Pueblo banking market, as measured by the HHI, overstates the competitive effects of this proposal. For example, six commercial banks and two thrift institutions with a total of $560.8 million in deposits, representing 64.3 percent of market deposits, would remain in the market. Among these remaining institutions are four depository institutions with market shares of approximately 14 percent, including one large bank holding company, two local banking organizations, and one thrift institution. These remaining competitors will provide local consumers and small businesses with a number of large local lending alternatives. Twelve credit unions also have a significant competitive presence in this market, controlling approximately 16 percent of market deposits as compared with an average of approximately five percent nationwide. Although these credit unions do not have open membership, the membership requirements and the number of alternative credit unions are sufficiently broad to ensure that most consumers in the market would be eligible to join one or more of the credit unions. In addition, a large bank holding company recently entered the Pueblo banking market with a small market share, and its competitive presence may be understated by its current small market share. In light of these and other facts of record, the Board does not believe that this proposal would have a significantly adverse effect on competition in the Pueblo banking market.

In order to mitigate the potential anti-competitive effects in the Garfield County[8] and Mesa County[9] banking markets, FBS has committed to divest the banks acquired from CNB in these markets (CNB-Glenwood in Garfield County, and CNB-Grand Junction in Mesa County). FBS also has committed that consummation of these divestitures will not exceed the Department of Justice Merger Guidelines.[10]

3. Asset data are as of December 31, 1992.

4. State deposit data are as of December 31, 1991.

5. The Pueblo banking market is defined as the Pueblo Ranally Market Area ("RMA").

6. Market data are as of June 30, 1991. Market share data are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, major competitors of commercial banks. *See Midwest Financial Group*, 75 *Federal Reserve Bulletin* 386 (1989); *National City Corporation*, 70 *Federal Reserve Bulletin* 743 (1984). Thus, the Board has regularly included thrift deposits in the calculation of market share on a 50 percent weighted basis. *See, e.g., First Hawaiian Inc.*, 77 *Federal Reserve Bulletin* 52 (1991).

7. 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 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 anti-competitive effects) unless the post-merger HHI is at least 1800 and the merger or acquisition increases the HHI by at least 200 points. The Justice Department has stated that the higher than normal threshold for an increase in the HHI when screening bank mergers and acquisitions for anti-competitive effects implicitly recognizes the competitive effect of limited-purpose lenders and other non-depository financial entities.

8. The Garfield County banking market comprises Garfield County. Upon consummation of this proposal, FBS would remain the largest depository institution in the Garfield County banking market, controlling total deposits of $144.8 million, representing 46.1 percent of market deposits. The HHI would increase by 1157 points to 3265.

9. The Mesa County banking market comprises Mesa County. Upon consummation of this proposal, FBS would become the largest depository institution in the Mesa County banking market, controlling total deposits of $224.4 million, representing 30.5 percent of market deposits. The HHI would increase by 346 points to 2085.

10. CNB-Glenwood and CNB-Grand Junction have deposits of $44.7 million and $55.4 million, respectively. FBS has executed final sales agreements effecting these divestitures within 180 days of consummation of the acquisition of CNB. FBS also has committed that, in the event it is unsuccessful in completing the divestiture within

Consummation of the proposal in the remaining banking markets of Colorado Springs,[11] Denver-Boulder,[12] and Fort Collins[13] also would not exceed the Department of Justice Merger Guidelines. The Colorado Springs and Denver-Boulder banking markets would both remain moderately concentrated upon consummation of this proposal, with 24 and 92 depository institutions remaining in the respective markets.[14] The Fort Collins banking market would remain highly concentrated but the level of concentration, as measured by the market HHI, would increase less than 100 points.[15] Eleven depository institutions would continue to compete in this market. Based on these and other facts of record, the Board concludes that this proposal would not have a significantly adverse effect in these markets.

The Board also sought comments from the United States Attorney General, the Office of the Comptroller of the Currency ("OCC"), and the Federal Deposit Insurance Corporation ("FDIC") on the competitive effects of this proposal. The Attorney General has indicated that, subject to FBS's divestitures in Garfield and Mesa counties, there would be no significantly adverse effects on competition in any relevant banking market. Neither the OCC nor the FDIC has provided any objection to consummation of the proposal or indicated that the proposal would have any significantly adverse competitive effects.

In light of all of the facts of record, including the divestitures FBS has proposed in this case in various markets, the resulting market concentration measures, competition offered by thrifts and credit unions, the number of competitors remaining in the markets, and the substantial mitigating factors in the Pueblo banking market discussed above, the Board has concluded that the proposal would not result in a significantly adverse effect on competition in any relevant banking market.[16]

Convenience and Needs Consideration

In acting upon an application to acquire a depository institution under the BHC Act, the Board must consider the convenience and needs of the communities to be served, and take into account the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) ("CRA"). The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of the local communities in which they operate, consistent with the safe and sound operation of such institutions. To accomplish this end, the CRA requires the appropriate federal supervisory authority to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution," and to take that record into account in its evaluation of bank holding company applications.[17]

The Board has received comments from the Denver-Community Reinvestment Alliance ("Protestant") criticizing the efforts made by FBS and CNB to meet the credit needs of their communities, including low- and moderate-income neighborhoods. In particular, Protestant alleges that FBS and CNB illegally discriminate against ethnic minorities in making lending decisions, citing data for 1990 and 1991 filed under the Home Mortgage Disclosure Act ("HMDA").[18] Protestant also alleges that FBS has failed to implement its

180 days of consummation of the proposal, FBS will transfer the relevant office or offices to an independent trustee that has been instructed to sell the office or offices promptly. *See, e.g., BankAmerica Corporation*, 78 *Federal Reserve Bulletin* 338, 340 (1992); *United New Mexico Financial Corporation*, 77 *Federal Reserve Bulletin* 484, 485 (1991).

11. The Colorado Springs banking market is defined as the Colorado Springs RMA.

12. The Denver-Boulder banking market is defined as the Denver RMA and Boulder County (including the Boulder RMA), and the town of Parker in Douglas County.

13. The Fort Collins banking market is defined as the Fort Collins RMA.

14. FBS would become the largest depository institution in the Colorado Springs banking market, controlling deposits of $584.7 million, representing 27.7 percent of market deposits, and the HHI would increase by 382 points to 1500. In the Denver-Boulder banking market, FBS would become the largest depository institution, controlling deposits of $4.6 billion, representing 26.2 percent of market deposits, and the HHI would increase by 335 points to 1157. Under the Department of Justice Merger Guidelines, a post-merger market concentration of between 1000 and 1800 points is considered moderately concentrated.

15. Upon consummation of this proposal, FBS would become the third largest depository institution in the Fort Collins banking market, controlling deposits of $117.8 million, representing 14.6 percent of market deposits, and the HHI would increase by 96 points to 2037.

16. In reaching this conclusion, the Board has carefully reviewed comments maintaining that the consummation of this proposal would result in significantly adverse competitive effects. For the reasons discussed above, the Board does not believe that these comments warrant denial of the proposal.

17. 12 U.S.C. § 2903.

18. Protestant also alleges discriminatory practices because:

(1) Minority and non-minority "testers" were subjected to disparate treatment by personnel of FBS's savings association subsidiary, Bank Western, Denver, Colorado ("Bank Western"), when seeking loan information on two separate occasions; and

(2) Bank Western delayed the processing of a loan to a bi-racial couple purchasing real property in a predominantly minority neighborhood.

FBS responds that Bank Western personnel receive training to prevent discriminatory practices on a continuous basis and that a further response will require Protestant to identify when and where these events occurred. FBS also states that the loan referenced in Protestant's comments was closed in a period slightly longer than the average of 60 days because of difficulties in obtaining documentation and verification required for marketing the mortgage on the secondary market.

Community Action Plan into its banking and nonbanking subsidiaries in Colorado.[19] Another commenter representing minority business professionals in Colorado has commended FBS's lending practices and affirmative steps to address discriminatory practices in Colorado.

The Board has carefully reviewed the CRA performance records of FBS and CNB, and their respective subsidiary banks, as well as all comments received regarding this application, FBS's responses to those comments, and all of the other relevant facts of record in light of the CRA, the Board's regulations, and the Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act ("Agency CRA Statement").[20] The Board also notes that similar allegations by Protestant relating to FBS's record of performance under the CRA in Colorado were extensively reviewed in connection with the Board's recent approval of FBS's application to acquire Western Capital Investment Corporation, Denver, Colorado ("Western Capital"), and its savings association subsidiary, Bank Western.[21]

Record of Performance Under the CRA

A. CRA Performance Examination

The Agency CRA Statement provides that a CRA examination is an important, and often controlling, factor in the consideration of an institution's CRA record and that these reports will be given great weight in the applications process.[22] The Board notes that all but one of FBS's subsidiary banks have received "outstanding" or "satisfactory" ratings during the most recent examinations of their CRA performance.[23] In particular, FBS's lead subsidiary bank, First Bank, N.A., Minneapolis, Minnesota, received a "satisfactory" rating for CRA performance from its primary regulator, the OCC, in January 1991, and FBS's lead bank in Colorado, Central Bank, N.A., Denver, Colorado ("Central Bank-Denver"), received a "satisfactory" rating from the OCC in May 1991.

Bank Western, FBS's savings association subsidiary acquired last November, received a "needs to improve" CRA rating in its most recent examination by its primary regulator, the Office of Thrift Supervision ("OTS") in May 1992. As a condition to the Board's approval of FBS's acquisition of Western Capital, FBS committed to immediately institute CRA training programs for Bank Western staff and to institute its CRA policies, discussed below, at Bank Western.[24] In addition, all of CNB's subsidiary banks have received "outstanding" or "satisfactory" ratings during their most recent examinations for CRA performance.

B. Corporate Policies

The Board recently has concluded that FBS's corporate CRA policies and procedures contribute to an effective CRA program,[25] and FBS has committed that these policies and programs will be implemented into all CNB subsidiary banks following FBS's acquisition of CNB. FBS has a Vice-President for Community Relations that coordinates and provides support to all community reinvestment efforts within FBS. In addition, FBS has a nine-member Senior CRA Policy Committee which is charged with overseeing the overall CRA performance of FBS's subsidiary banks and resolving any CRA issues that arise. In Colorado, FBS has its own full-time Community Relations Department to oversee FBS's CRA activities in local markets and to provide technical assistance on CRA matters.

19. Several individual commenters raise concerns that a large out-of-state bank would eliminate local lending decisions by bank personnel who understand the special circumstances and credit needs of the relevant Colorado communities. FBS states that final decisions whether to approve or deny a loan application will be made by the FBS bank entity on the local level under criteria used throughout the FBS corporate structure.

20. 54 *Federal Register* 13,742 (1989).

21. *First Bank System, Inc.*, 78 *Federal Reserve Bulletin* 948 (1992) (Order dated October 29, 1992, the "Bank Western Order").

22. *See* 54 *Federal Register* at 13,745.

23. As noted in the Bank Western Order, which constitutes less than 1 percent of FBS's consolidated assets, received a "needs to improve" CRA performance rating from the OCC as of June 1991. Following this examination, Central Bank-GJ promptly undertook a number of steps to address identified areas of weakness in CRA performance. For example, the bank has improved its efforts to ascertain community credit needs through a demographic analysis and community contacts. Central Bank-GJ also increased its marketing efforts, including to low- and moderate-income communities, through media advertisements, direct mail, product brochures, tele-marketing and realtor calls, and is working directly with community groups involved in building low-income housing. In addition, Central Bank-GJ is participating in new lending programs to meet the needs of its community, such as the Community Enterprise Loan Initiative ("CELI"), a microlending program. On the basis of these and other facts of record, the Board believed that these initiatives sufficiently addressed relevant areas of weakness in Central Bank-GJ's record of performance under the CRA.

24. As part of its application to acquire Bank Western, FBS committed to provide CRA training to all Bank Western employees within 45 days of consummation. FBS has fulfilled this commitment and has conducted 21 CRA training sessions with Bank Western employees. In addition, all branch members and employees involved with credit products were trained on the requirements of the Fair Housing Act ("FHA") and the Equal Credit Opportunity Act ("ECOA"). FBS has committed to monitor the performance of all its branches, particularly Bank Western branches, for compliance with the CRA, the FHA, and the ECOA, and provide additional training as needed. In this regard, follow-up training already has been conducted by retail district managers and branch managers.

25. *First Bank System, Inc.*, 78 *Federal Reserve Bulletin* at 950. In the Bank Western Order, the Board considered the combined records of FBS's subsidiary banks in Colorado (collectively, the "Central Banks") and FBS Mortgage Corporation ("FBS Mortgage"), a mortgage company subsidiary of FBS, in serving the Denver community.

FBS also has formed a Senior CRA Policy Committee for Colorado, composed of senior managing officers, to review overall CRA performance and planning in Colorado to ensure that community credit needs are met.[26]

C. Ascertainment and Marketing

FBS ascertains community credit needs through various community outreach programs as previously described in the Bank Western Order.[27] For example, each of the subsidiary banks of FBS has a market manager whose primary responsibility is developing and implementing the local community reinvestment efforts. To assist these market managers, FBS has developed a Community Reinvestment Evaluation and Planning Handbook ("CRA Handbook"). The CRA Handbook requires each of FBS's subsidiary banks to annually complete a six-step CRA planning process which includes: delineating the bank's community; evaluating the bank's CRA performance for the prior year; assessing community needs through community involvement and analyzing pertinent economic and demographic information; identifying specific community credit needs, including for low- and moderate-income individuals; developing specific plans for meeting these credit needs, including the development of products and outreach mechanisms to targeted borrowers; and involving the bank's board of directors in CRA planning.

Following the Bank Western Order, Central Bank-Denver established a Community Advisory Board ("CAB"), and FBS Mortgage established a Community Advisory Committee to assist in understanding community credit needs, evaluating progress against plans, and marketing products and programs to the community. The CAB is comprised of representatives of community-based organizations (including four individuals who are affiliated with Protestant), consumers, and small business owners. The CAB reports semi-annually to the Central Bank board and has the opportunity to review the Community Action Plan of the Central Banks and FBS Mortgage (the "Plan").[28]

As part of its commitments in the Bank Western Order, FBS has developed a marketing support program as part of the Plan to communicate available services and credit opportunities to the public.[29] FBS and its affiliates make direct mail inquiries and needs ascertainment calls on community groups to ascertain the credit needs of the communities, including low- and moderate-income neighborhoods. In conjunction with FBS's CRA planning process, all branch managers identify key community contacts and prepare written plans for ascertaining community credit needs. FBS and its affiliates also conduct seminars for community groups to introduce members to available credit products and provide education in the basics of banking.

In addition, FBS Mortgage has taken a number of steps designed to improve its record of ascertainment, marketing and lending to minority and low- and moderate-income communities in Denver. For example, FBS Mortgage has hired a new Community Lending Manager who is responsible for community outreach and marketing of affordable mortgage programs. FBS Mortgage also hired two additional mortgage originators assigned exclusively to mortgage programs for low- and moderate-income borrowers. In addition, FBS Mortgage and the Central Banks will convene at least four focus group meetings in the Denver metropolitan area in 1993 to ascertain community awareness of credit products and services offered by both the Central Banks and FBS Mortgage, and to solicit feedback on performance.[30]

D. Lending and Other Activities

In the Bank Western Order, the Board identified numerous FBS programs that are designed to provide a variety of credit products to low- and moderate-income borrowers.[31] In late 1991, FBS Mortgage developed the FBS Mortgage affordable housing program, called "L.O.A.N. Resource," or Lending Options for All Neighborhoods. This program offers standard products and processes that are customized to meet the credit needs of particular communities, and includes the availability of secondary market affordable housing programs, such as the Colorado Housing Finance Authority ("CHFA") bond programs, FNMA's Community Homebuyer's Program, FHA 203K, and FHA 203B mortgages. L.O.A.N. Resource also provides financial assistance for downpayment and closing costs, and initiates credit and property counseling through community organizations.

26. FBS's Senior CRA Policy Committee for Colorado includes senior managers from Bank Western.

27. *First Bank System, Inc.*, 78 *Federal Reserve Bulletin* at 951.

28. The plan was distributed to members of the CAB on January 11, 1993 and will be considered by CAB in the near future.

29. Under the Plan, the Central Banks, Bank Western, and FBS work in partnership with many community organizations, including Protestant, to address identified community needs. These organizations include community-based developers, neighborhood associations, church representatives, local Chambers of Commerce, merchant associations, and government agencies.

30. FBS has begun to survey all available publications, including neighborhood newspapers and newspapers directed to specific ethnic populations, to determine appropriate vehicles for FBS Mortgage and the Central Banks to reach minority and low- and moderate-income communities in Colorado. As a result of this survey, FBS has targeted several publications in which FBS will advertise its services in 1993.

31. *First Bank System, Inc.*, 78 *Federal Reserve Bulletin* at 951.

As of February 1993, the L.O.A.N. Resource program, which combines flexible underwriting standards with loan counseling, has closed seventeen loans and three are in the process of closing. The Central Banks also have recently introduced the CELI to provide technical assistance and credit to small and emerging businesses. A CELI Advisory Council, formed to discuss the needs of small and emerging businesses and to assess the effectiveness of the CELI program, includes several key organizations that represent minority communities. Since November 1992, five new CELI loans totaling $49,000 have been originated.

The Central Banks offer SBA lending and provide small business loans through their Mainstreet Credit program. Mainstreet Credit uses simplified application forms and guarantees a 48-hour response after receiving a completed loan application. In December 1992, Central Bank-Denver became a certified SBA lender, and since then it has originated $467,000 in SBA loans. In addition 117 Mainstreet loans, totaling $2.3 million have been approved. Fifty-six percent of these loans have been in census tracts 100 percent or less than median income.

E. HMDA Data and Lending Practices

The Board has reviewed the 1990 and 1991 HMDA data[32] reported by FBS, Bank Western, and CNB, as well as Protestant's comments regarding this data. The HMDA data shows disparities in the rates for housing-related loan applications, approvals, and denials that vary by racial or ethnic groups in Denver. Protestant has alleged illegal discriminatory lending practices on the basis of this data.

Because all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also ensure equal access to credit by creditworthy applicants regardless of race, the Board is concerned when the record of an institution indicates disparities in lending to minority applicants. The Board recognizes, however, that HMDA data alone provides only a limited measure of any given institution's lending in the communities that the institution serves. The Board also recognizes that HMDA data have limitations that make the data an inadequate basis, absent other information, for conclusively determining whether an institution has engaged in illegal discrimination on the basis of race or ethnicity in making lending decisions.

The Board notes that the OTS found no evidence of illegal discrimination in its CRA examination of Bank Western, nor have any instances of illegal discrimination been found in any regulatory examinations of FBS banks or CNB banks, or their subsidiaries. The Board also has previously discussed a number of steps FBS has taken to improve its lending record in Colorado.[33] For example, the Central Banks provide a number credit products and services to residents and businesses located in low- and moderate-income and minority communities in Denver. As of year-end 1991, the Central Banks originated $7.3 million in consumer loans to consumers from low- and moderate-income zip codes in the Denver Metropolitan Statistical Area ("MSA"). Central Bank-Denver also has approximately $11.4 million in outstanding loans to minority-owned businesses and approximately $4.4 million in outstanding loans to businesses owned by women. In addition, Central Bank-Denver has committed to provide $300,000 over a three-year period to the Cole Coalition, a community development partnership initiated to help strengthen a low-income neighborhood in Denver.[34] The Central Banks also have extended $500,000 in credit to support the construction of housing for persons with disabilities in the Denver MSA.

Following the Bank Western Order, FBS Mortgage implemented a new procedure for bank officer referrals, along with a new referral form. These changes are designed to establish consistency among all FBS locations and to ensure that all prospective applicants for home mortgages are asked for the same information when they meet with bank employees. In addition, FBS Mortgage instituted a second level of review for all rejected loan applications. A committee consisting of the head underwriter, underwriting supervisor, chief appraiser, closing manager, and operations manager meet daily to review all rejected applications. Also, as stated above, a Senior CRA Policy Committee was established for Colorado to review overall CRA performance and planning in Colorado to ensure that FBS is meeting community credit needs.

F. Conclusion Regarding Convenience and Needs Factors

The Board has carefully considered the entire record, including the comments filed in this case, in reviewing

32. Banks are required under the HMDA to report certain information regarding loan applications, approvals, and denials to the various banking agencies and the public. This information includes data on the race, gender and income of individual loan applicants, as well as the location of the property securing the potential loan, and a description of the application.

33. *See First Bank System, Inc.*, 78 *Federal Reserve Bulletin* at 950.

34. Senior officers and board members of Central Bank-Denver serve on the board of directors of several organizations related to community development and affordable housing, including the Capital Hill Community Center and the Cole Neighborhood Project.

the convenience and needs factor under the BHC Act. Based on a review of the entire record of performance, including information provided by the Protestant and by the bank's primary regulators, and the commitments made by FBS, the Board believes that the efforts of FBS to help meet the credit needs of all segments of the communities served by FBS, including low- and moderate-income neighborhoods, are consistent with approval. In this light, and on the basis of all of the facts of record, the Board concludes that the convenience and needs considerations, including the CRA performance of all bank subsidiaries, are consistent with approval of this application.[35]

Other Considerations

The Board also concludes that the financial and managerial and future prospects of FBS and CNB, and their respective subsidiaries, and the other supervisory factors that the Board must consider under section 3 of the BHC Act are consistent with approval.[36]

FBS also has applied, pursuant to section 4 of the BHC Act, to engage in selling and reinsuring credit life, and accident and disability insurance. As noted above, the Board has previously determined that these activities are closely related to banking and generally permissible for bank holding companies under section 4(c)(8) of the BHC Act. FBS proposes to conduct these activities in accordance with the Board's Regulation Y.

In considering FBS's acquisition of the nonbanking activities of CNB, the Board notes that these subsidiaries compete in geographic markets that are regional and national in scope. These markets are served by numerous competitors, and FBS does not have a significant market share in any of these markets. Accordingly, in light of the facts of record, the Board concludes that FBS's acquisition of CNB's nonbanking subsidiaries would not significantly affect competition in any relevant market. Furthermore, there is no evidence in the record to indicate that consummation of this proposal is likely to result in any significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practice. 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 FBS's application to acquire CNB's nonbanking subsidiaries.

Conclusion

Based on the foregoing, including the conditions and commitments described in this Order and those made in these applications, and all of the facts of record, the Board has determined that these applications should be, and hereby are, approved. The Board's approval is specifically conditioned upon compliance by FBS with all the commitments made in connection with these applications.

The determinations as to the nonbanking activities are subject to all of the conditions contained in the Board's Regulation Y, including those in sections 225.4(d) and 225.23(b)(3) (12 C.F.R. 225.4(d) and 225.23(b)(3)), and to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with, or to prevent evasions of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder. The commitments and conditions relied on by the Board in reaching this decision are both deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and as such may be enforced in proceedings under applicable law.

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

By order of the Board of Governors, effective March 29, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, Lindsey, and Phillips.

JENNIFER J. JOHNSON
Associate Secretary of the Board

35. Protestant has requested that the Board hold a public meeting or hearing on these applications. The Board is not required under section 3(b) of the BHC Act to hold a hearing on an application unless the appropriate banking authority for the bank to be acquired makes a timely written recommendation of denial of the application. In this case, the OCC has not recommended denial of the proposal.

Generally, under the Board's rules, the Board may, in its discretion, hold a public hearing or meeting on an application to clarify factual issues related to the application, and to provide an opportunity for testimony, if appropriate. 12 C.F.R. 262.3(e) and 262.25(d). The Board has carefully considered this request. In the Board's view, interested parties have had a sufficient opportunity to present written submissions, and have submitted substantial written comments that have been considered by the Board. On the basis of all of the facts of record, the Board has determined that a public meeting or hearing is not necessary to clarify the factual record in these applications, or otherwise warranted in this case. Accordingly, the request for a public meeting or hearing on these applications is hereby denied.

36. In light of all the facts of record, including financial information contained in reports of examination by bank regulatory agencies and these applications, the Board does not believe that comments relating to whether the Board could adequately assess the financial condition of the resulting institution warrant denial of the proposal.

Orders Issued Under International Banking Act

Bank of Taiwan
Taipei, Taiwan

Order Approving Establishment of a Branch

Bank of Taiwan, Taipei, Taiwan ("Bank"), a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a state-licensed branch in Los Angeles, California. A foreign bank must obtain the approval of the Board to establish a branch, agency, commercial lending company, or representative office in the United States under the Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), which amended the IBA.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in Los Angeles, California (*Los Angeles Times*, April 23, 1992). The time for filing comments has expired and no public comments were received.

Bank became the first commercial bank in Taiwan in 1946 through the reorganization of a predecessor that had operated since 1899. Bank is wholly-owned by the Provincial Government of Taiwan ("Provincial Government"). Bank also is the second largest bank in Taiwan in terms of total assets, which at year-end 1992 were $42.2 billion.

Bank operates an agency in New York City, a representative office in London, an offshore banking unit in Taiwan, and over 125 offices in Taiwan. Bank also owns ten subsidiaries, nine incorporated in Taiwan and one incorporated in Belgium. Three of these subsidiaries are banks; one subsidiary, the Hua Nan Bank, operates a branch in California and an agency in New York. Bank does not engage, directly or indirectly, in any nonbanking activities in the United States. Bank will remain a qualifying foreign banking organization under Regulation K after establishing the proposed branch (12 C.F.R. 211.23(b)).

Under the IBA, in order to approve an application by a foreign bank to establish a branch in the United States, the Board must determine that the foreign bank:

(1) Engages directly in the business of banking outside of the United States;

(2) Has furnished to the Board the information it needs to assess adequately the application; and

(3) Is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2)).

The Board may also take into account additional standards as set forth in the IBA (12 U.S.C. § 3105(d)(3)-(4)) and Regulation K (12 C.F.R. 211.24(c)).

Bank engages directly in the business of banking outside of the United States through its extensive commercial banking operations in Taiwan. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

Bank is supervised and regulated by the Ministry of Finance of Taiwan ("Ministry") and the Central Bank of China ("Central Bank"), which share responsibility for the supervision of Taiwanese banks. The Banking Law of Taiwan grants the Ministry overall authority for the regulation and supervision of Taiwanese banks, including commercial banks, such as Bank.[1] The Ministry has delegated the authority to the Central Bank to act as the primary examiner of banks in Taiwan, in which capacity the Central Bank conducts mandatory annual examinations.[2]

Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the foreign bank is supervised and regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including the relationship of the bank to any affiliate, to assess the overall financial condition of the foreign bank and its compliance with law and regulation (12 C.F.R. 211.24(c)(1)).[3] In making its determination under this standard on this application by Bank, the Board considered the following information.

1. This authority permits the Ministry to, among other things, issue licenses, limit activities and expansion, conduct examinations, set minimum capital and liquidity ratios, limit credit extensions, restrict director interlocks, define qualifications for management, and take enforcement actions.

2. Bank receives additional oversight by its owner, the Provincial Government, and by the Ministry of Audit of the Control Yuan, an auditor of government agencies and government-owned enterprises.

3. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisor:

(i) Ensures that the bank has adequate procedures for monitoring and controlling its activities worldwide;

(ii) Obtains information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;

(iii) Obtains information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;

(iv) Receives from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;

(v) Evaluates prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

These are indicia of comprehensive, consolidated supervision. No single factor is essential and other elements may inform the Board's determination.

The Ministry and the Central Bank obtain information on the condition of Bank, its subsidiaries, and its foreign offices through regular examinations. Bank also submits periodic financial reports to the Central Bank that reflect the financial condition of Bank and its offices.

The Central Bank performs mandatory annual onsite head office examinations, bi-annual office examinations, and, if warranted, targeted examinations of Bank. The Ministry coordinates examinations and takes corrective measures based on the examination reports. The annual examination of the head office of Bank specifically includes a review of Bank's international department, foreign operations, and offices. The Ministry has also implemented annual on-site examinations of Bank's foreign offices to supplement this review. The review of the activities of Bank's foreign offices includes scrutiny of host country examination reports, internal control and audit reports, and annual outside audit reports. Examiners also review the corporate records of Bank's subsidiaries; such records contain financial information and other corporate information.

With respect to monitoring and oversight of foreign offices, the Ministry must approve the establishment of such offices by Bank. The Ministry and the Central Bank have also required Bank to establish procedures under which a foreign office must obtain head office approval of certain transactions, undergo an annual internal audit, and document its transactions. Bank has established procedures that conform to these requirements for the proposed office. The Central Bank evaluates the adequacy of the required procedures and the records of approved transactions during the annual examination of Bank's head office. The Ministry also requires Bank's overseas offices to submit host-country examination reports.

The Ministry and Central Bank obtain information on the dealings and relationship between Bank and its subsidiaries through certain regulatory requirements. Such requirements include mandatory Ministry approval of investments by Bank, Central Bank examinations, and the prohibition on certain unsecured lending to companies in which Bank holds certain investments. Actual control over Bank's subsidiaries rests with the Provincial Government. Nonetheless, the Ministry must approve any investment by Bank in a company, and the Ministry or Central Bank may review the corporate records of such companies. The Ministry or Central Bank also may require Bank to divest its interest in a subsidiary, if the subsidiary is found to pose an undue risk to Bank or is engaging in unsafe or improper activities.

The Ministry and the Central Bank evaluate prudential standards, such as capital adequacy and risk asset exposure, for Bank on a worldwide basis. The government of Taiwan incorporated the risk-based capital standards of the Basle Accord into its Banking Law in 1989, with variations that conform to local accounting practices and that apply to government-controlled banks.[4] The Ministry implemented these standards to restrict all dividend and other distributions by any Taiwanese bank that has a risk-weighted capital ratio of less than 8 percent.

Based on all the facts of record, which include the information described above, the Board concludes that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisors.

In considering this application, the Board has also taken into account the additional standards set forth in section 7 of the IBA (12 U.S.C. § 3105(d)(3)-(4)). As noted above, Bank has received the consent of its home country authorities to establish the proposed branch. In addition, the Ministry may share information on Bank's operations with other supervisors, including the Board.

As noted, under local regulation, Bank must comply with the capital standards of the Basle Accord, as implemented by Taiwan. Bank's capital exceeds these minimum standards and can be considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval. The proposed branch will be Bank's second office in the United States, and Bank appears to have the experience and capacity to support this additional office. In addition, Bank has established controls and procedures for its U.S. offices to ensure compliance with U.S. law. Under the IBA, the proposed state-licensed branch may not engage in any type of activity that is not permissible for a federally-licensed branch without the Board's approval.

Finally, Bank has committed that it will make available to the Board such information on the operations of Bank and any affiliate of Bank that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable Federal law, to the extent permitted by law. The Board has reviewed relevant provisions of Taiwanese law and has communicated with the appropriate government authorities concerning access to information. Bank also has committed to cooperate with the Board to obtain any

4. The Ministry has issued regulations that implement these standards. Generally, these regulations fall within the parameters of the Basle Accord, with the exception of one equity adjustment item that applies only to government-owned banks. This factor is not significant in this case.

approvals or consents that may be needed to gain access to information that may be requested by the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information the Board may request.

On the basis of all of the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this Order, the Board has determined that Bank's application to establish a branch should be, and hereby is, approved. If any restrictions on access to information on the operations or activities of Bank and any of its affiliates subsequently interfere with the Board's ability to determine the safety and soundness of Bank's U.S. operations or the compliance by Bank or its affiliates with applicable Federal statutes, the Board may require termination of any of the Bank's direct or indirect activities in the United States. Approval of this application is also specifically conditioned on compliance by Bank with the commitments made in connection with this application, and with the conditions contained in this Order.[5] The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision, and may be enforced in proceedings under 12 U.S.C. § 1818 or 12 U.S.C. § 1847 against Bank, its office and its affiliates.

By order of the Board of Governors, effective March 18, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, and Lindsey. Absent and not voting: Governor Phillips.

WILLIAM W. WILES
Secretary of the Board

Chiao Tung Bank
Taipei, Taiwan

Order Approving Establishment of an Agency

Chiao Tung Bank, Taipei, Taiwan ("Bank"), a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a state-licensed agency in New York, New York. A foreign bank must obtain the approval of the Board to establish a branch, agency, commercial lending company, or representative office in the United States under the Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), which amended the IBA.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York, New York (*New York Times*, June 5, 1992). The time for filing comments has expired and no public comments were received.

Bank was founded in 1907 as the Bank of Communications. In 1928, the Bank of Communications Act ("BOC Act") gave Bank a new charter as a development bank that must promote emerging and infrastructure industries. Since 1975 Bank also has operated as Taiwan's only "Industrial Bank" under the Banking Law of Taiwan. The Ministry of Finance of Taiwan, an agency of the central government, owns 97.6 percent of Bank's stock. The remaining 2.4 percent of Bank's shares are widely held.

As an Industrial Bank and a development bank, Bank provides medium- and long-term development credits, equity and venture capital investments,[1] and advice to industrial, mining, transportation, and other public enterprises.

Bank held total assets of $11.0 billion as of June 30, 1992. Bank directly conducts international operations through its Foreign and Business Departments, an offshore banking unit,[2] a state-licensed branch in San Jose, California, a branch in Singapore, and through certain of its 22 domestic branches. These international operations include trade finance, issuance of debentures and guarantees, remittance, lending, foreign exchange, and correspondent banking activities. Bank's also owns a banking subsidiary, Chiao Tung Bank Europe, N.V., the Netherlands, and holds investments in several nonbanking companies.

Because it operates a branch in the United States, Bank is subject to the nonbanking restrictions of section 4 of the Bank Holding Company Act of 1956, as amended ("BHC"), and conducts its U.S. activities subject to the requirements of the BHC Act.[3] Bank will remain a qualifying foreign banking organization

5. The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of California to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of California, and its agent, the California State Banking Department, to license the proposed branch of Bank in accordance with any terms or conditions that the California State Banking Department may impose.

1. Bank invests capital in "strategic industrial enterprises" and government policy projects such as financial institutions and leasing companies.

2. Offshore banking units in Taiwan generally offer foreign currency deposits and loans to non-residents and financial institutions, and conduct securities, interbank deposit and placement, and foreign exchange activities.

3. Bank engages indirectly in nonbanking activities in the United States through two investments: Universal Venture Capital Investment Corp., Taiwan, and Twin Head International Corp., Taiwan. The U.S. activities of these companies are subject to continuing review under Regulation K.

under Regulation K after establishing the proposed agency (12 C.F.R. 211.23(b)).

Under the IBA, in order to approve an application by a foreign bank to establish an agency in the United States, the Board must determine that the foreign bank:

(1) Engages directly in the business of banking outside of the United States;

(2) Has furnished to the Board the information it needs to assess adequately the application; and

(3) Is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2)).

The Board may also take into account additional standards as set forth in the IBA (12 U.S.C. § 3105(d)(3)-(4)) and Regulation K (12 C.F.R. 211.24(c)).

Bank engages directly in the business of banking outside of the United States through its extensive banking operations in Taiwan. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

Bank is supervised and regulated by both the Ministry of Finance of Taiwan ("Ministry") and the Central Bank of China ("Central Bank"), which share responsibility for the supervision of Taiwanese banks. The Banking Law of Taiwan authorizes the Ministry to regulate and supervise industrial banks in Taiwan, including Bank.[4] The Ministry has delegated the authority to the Central Bank to act as the primary examiner of banks in Taiwan, in which capacity the Central Bank conducts mandatory annual examinations.[5]

Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the foreign bank is supervised and regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including the relationship of the bank to any affiliate, to assess the overall financial condition of the bank and its compliance with law and regulation (12 C.F.R. 211.24(c)(1)).[6] In making its determination under this standard on this application by Bank, the Board considered the following information.

The Ministry and the Central Bank obtain information on the condition of Bank, its subsidiaries, and its foreign office through regular examinations and periodic financial reports. The Central Bank examines Bank's head office on-site each year and its branches more frequently, if warranted. The Ministry has implemented annual on-site examinations of a Taiwanese bank's foreign offices to supplement this review. The Ministry also coordinates examinations and takes corrective measures based on the examination reports.

In its examinations, the Central Bank reviews, among other things, Bank's financial condition, legal compliance, managerial goals and performance, conformance with the government's economic development guidelines, and audit control system. The documents that may be examined include host country examination reports, transaction documentation, internal control and audit reports, and, for overseas branches, annual external audit reports.

The Ministry and Central Bank obtain information on the dealings and relationship between Bank and its subsidiaries through reports to and examinations by the Central Bank and through the requirement that the Ministry approve investments in other companies. The Banking Law of Taiwan also imposes a prohibition on certain unsecured lending to companies in which Bank holds certain investments. Finally, if the Ministry or Central Bank determines that a subsidiary poses an undue risk to Bank or is engaging in unsafe or improper activities, the Ministry may require Bank to divest its interest in the subsidiary. Bank has no parent or sister affiliates.

With respect to foreign offices, the Ministry must approve the establishment of such offices by Bank. Bank also has internal controls in its foreign office that require head office pre-screening of loan proposals and approval of certain transactions, apply loan policies and procedures, and provide for monitoring by an

4. With respect to banks, this authority permits the Ministry to, among other things, issue licenses, limit activities and expansion, conduct examinations, set minimum capital and liquidity ratios, limit credit extensions, restrict director interlocks, define qualifications for management, and take enforcement actions.

5. Bank receives additional oversight by the Ministry of Audit of the Control Yuan, an auditor of government agencies and government-owned enterprises.

6. In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisor:

(i) Ensures that the bank has adequate procedures for monitoring and controlling its activities worldwide;

(ii) Obtains information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise;

(iii) Obtains information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic;

(iv) Receives from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis;

(v) Evaluates prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis.

These are indicia of comprehensive, consolidated supervision. No single factor is essential and other elements may inform the Board's determination.

internal audit department. Bank's head office also evaluates the performance of its branches and majority-owned subsidiaries and reviews the financial condition of its investments and other subsidiaries. Controls in the proposed agency will include requiring submission of a monthly internal audit report to the head office. The Central Bank evaluates the adequacy of these procedures and the records of approved transactions during the annual examination of Bank's head office.

Taiwanese law requires Bank to obtain Ministry approval for investments above a *de minimis* size and for expansion into certain new activities. The Ministry and Central Bank also require Taiwanese banks to make financial statements and corporate records of its subsidiaries available to the supervisors upon request.

The BOC Act requires that Bank monitor and oversee its worldwide operations through additional measures that are particular to Bank. One such measure created a Board of Supervisors of Bank that consists of 5 members appointed by the Ministry, and that exercises oversight over Bank's operations. Another requires Bank to divest any investment once the company is "properly operating in accordance with its business purposes."

The Ministry and the Central Bank evaluate prudential standards, such as capital adequacy and risk asset exposure, for Bank on a worldwide basis. The government of Taiwan incorporated the risk-based capital standards of the Basle Accord into its Banking Law in 1989, with variations that conform to local accounting practices and that apply to government-controlled banks.[7] The Ministry implemented these standards to restrict all dividend and other distributions by any Taiwanese bank that has a risk-weighted capital ratio of less than 8 percent.

Based on all the facts of record, which include the information described above, the Board concludes that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisors.

In considering this application, the Board has also taken into account the additional standards set forth in section 7 of the IBA (12 U.S.C. § 3105(d)(3)-(4)). As noted above, Bank has received the consent of its home country authorities to establish the proposed agency. In addition, the Ministry may share information on Bank's operations with other supervisors, including the Board.

Also as noted above, Bank must comply with the capital standards of the Basle Accord, as implemented by Taiwan. Bank's capital exceeds the minimum standards and is equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval. The proposed agency will be Bank's second office in the United States, and Bank appears to have the experience and capacity to support this additional office. In addition, Bank has established controls and procedures for its U.S. offices to ensure compliance with U.S. law. Under the IBA, the proposed state-licensed agency may not engage in any type of activity that is not permissible for a federally-licensed branch without the Board's approval.

Finally, Bank has committed that it will make available to the Board such information on the operations of Bank and any affiliate of Bank that the Board deems necessary to determine and enforce compliance with the IBA, the BHC Act, and other applicable Federal law, to the extent permitted by law. The Board has reviewed relevant provisions of Taiwanese law and has communicated with the appropriate government authorities concerning access to information. Bank also has committed to cooperate with the Board to obtain any approvals or consents that may be needed to gain access to information that may be requested by the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank has provided adequate assurances of access to any necessary information the Board may request.

On the basis of all of the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this Order, the Board has determined that Bank's application to establish an agency should be, and hereby is, approved. If any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to determine the safety and soundness of Bank's U.S. operations or the compliance by Bank or its affiliates with applicable Federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of this application is also specifically conditioned on compliance by Bank with the commitments made in connection with this application, and with the conditions contained in this Order.[8] The commitments and conditions referred to above are conditions imposed in writing by the Board in connec-

7. The Ministry has issued regulations that implement these standards. Generally, these regulations fall within the parameters of the Basle Accord, with the exception of one equity adjustment item that applies only to government-owned banks. This factor is not significant in this case.

8. The Board's authority to approve the establishment of the proposed agency parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of New York, and its agent, the New York State Banking Department, to license the proposed agency of Bank in accordance with any terms or conditions that the New York State Banking Department may impose.

tion with its decision, and may be enforced in proceedings under 12 U.S.C. § 1818 or 12 U.S.C. § 1847 against Bank, its office, and its affiliates.

By order of the Board of Governors, effective March 18, 1993.

Voting for this action: Chairman Greenspan and Governors Mullins, Angell, Kelley, LaWare, and Lindsey. Absent and not voting: Governor Phillips.

WILLIAM W. WILES
Secretary of the Board

ACTIONS TAKEN UNDER THE FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT OF 1991

By the Director of the Division of Banking Supervision and Regulation and the General Counsel of the Board

Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Bank Holding Company	Acquired Thrift	Surviving Bank(s)	Approval Date
Central Bancshares of the South, Inc., Birmingham, Alabama	Altus Federal Savings Bank, Mobile, Alabama	Central Bank of the South, Birmingham, Alabama	March 22, 1993
Evergreen Bancshares, Inc., Tallahassee, Florida	Anchor Savings Bank, F.S.B., Hewlett, New York	Guaranty National Bank of Tallahassee, Tallahassee, Florida	March 10, 1993
Mid Am, Inc., Bowling Green, Ohio	Home Savings of America, F.S.B., Irwindale, California	Mid American National Bank & Trust Company, Bowling Green, Ohio American Community Bank, N.A., Lima, Ohio	March 5, 1993
Wes-Tenn Bancorp, Inc., Covington, Tennessee	Tri-County Federal Savings Bank, Covington, Tennessee	Tipton County Bank, Covington, Tennessee	March 3, 1993

APPLICATIONS APPROVED UNDER BANK HOLDING COMPANY ACT

By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Section 4

Applicant(s)	Nonbanking Activity/Company	Effective Date
BayBanks, Inc., Boston, Massachusetts Chemical Banking Corporation, New York, New York Fleet Financial Group, Providence, Rhode Island National Westminster Bank PLC, London, Great Britain The Bank of New York Company, Inc., New York, New York The Chase Manhattan Corporation, New York, New York HSBC Holdings PLC, London, Great Britain HSBC Holdings BV, Amsterdam, the Netherlands	to engage in the expansion of certain data processing activities, including the ownership, installation, operation and maintenance of automated teller machines and scrip terminals at supermarket and other merchant locations in the states of Connecticut and Vermont	March 4, 1993

APPLICATIONS APPROVED UNDER BANK MERGER ACT

By the Secretary of the Board

Recent applications have been approved by the Secretary of the Board as listed below. Copies are available upon request to the Freedom of Information Office, Office of the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

Applicant(s)	Bank(s)	Effective Date
SouthTrust Bank of West Florida, St. Petersburg, Florida	Gulf Bank of Dunedin, Dunedin, Florida	March 10, 1993

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(s)	Bank(s)	Reserve Bank	Effective Date
ABC Employee Stock Ownership Plan, Anchor, Illinois	Anchor Bancorporation, Farmer City, Illinois	Chicago	February 26, 1993
Alpha-Omega Holding Company, Victor, Montana	Farmers State Bank, Victor, Montana	Minneapolis	March 3, 1993
Archer, Inc., Palmer, Nebraska Osceola Insurance, Inc., Osceola, Nebraska	Guaranty Corporation, Denver, Colorado	Kansas City	March 5, 1993
Area Bancshares Corporation, Owensboro, Kentucky	Commonwealth Bancorp, Glasgow, Kentucky	St. Louis	March 2, 1993
BBS Corp., Socorro, New Mexico	First State Bank, Socorro, New Mexico	Dallas	March 1, 1993
Century Bancorp, Inc, Milledgeville, Georgia	Century Bank and Trust, Milledgeville, Georgia	Atlanta	March 2, 1993
Clear Creek Bank Corp., Idaho Springs, Colorado	First State Bank, Idaho Springs, Colorado	Kansas City	March 25, 1993
Commerce Bancshares, Inc., Kansas City, Missouri CBI Security Corporation, Kansas City, Missouri	Republic Bancshares, Inc., Neosho, Missouri	Kansas City	March 11, 1993
Community Bank Group, Inc., Eden Prairie, Minnesota	Cleveland Bancshares, Inc., Cleveland, Minnesota	Minneapolis	March 10, 1993
Craco, Inc., Vinita, Oklahoma	The First National Bank and Trust Company, Vinita, Oklahoma	Kansas City	March 16, 1993
Dickinson Financial Corporation, Kansas City, Missouri	Army National Bancshares, Inc., Kansas City, Missouri	Kansas City	March 8, 1993
Early Bancshares, Inc., Blakely, Georgia	Bank of Early, Blakely, Georgia	Atlanta	March 5, 1993
Exchange National Bancshares, Inc., Jefferson City, Missouri	Exchange National Bank of Jefferson City, Jefferson City, Missouri Exchange National Interim Bank, Jefferson City, Missouri	St. Louis	March 3, 1993

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Farmers & Merchants Bancshares, Inc., Burlington, Iowa	Farmers & Merchants Bank & Trust, Burlington, Iowa	Chicago	March 1, 1993
Fourth Financial Corporation, Wichita, Kansas	Guaranty Bancorporation, Tulsa, Oklahoma	Kansas City	March 17, 1993
F.S.B., Inc., Superior, Nebraska	Tipton Insurance Agency, Inc., Tipton, Kansas Glen Elder Agency, Inc., Glen Elder, Kansas	Kansas City	February 26, 1993
Green-Top, Inc., Central City, Nebraska	Anmer Corporation, Neligh, Nebraska Dawson Corporation, Lexington, Nebraska Heartland Bancorporation, Aurora, Nebraska North Platte Corporation, Torrington, Wyoming Pinnacle Bancorp, Abilene, Kansas Pinnacle Bancorp, Inc., Papillion, Nebraska Pinnacle Bancorp, Inc., Newcastle, Wyoming Pinnacle Bancorp, Inc., Ft. Lupton, Colorado Shelby Insurance, Inc., Shelby, Nebraska	Kansas City	March 5, 1993
Hawkeye Bancorporation, Des Moines, Iowa	First Dubuque Corp., Dubuque, Iowa	Chicago	March 12, 1993
ISB Bancshares, Inc., Ipava, Illinois	Ipava State Bank, Ipava, Illinois	Chicago	March 11, 1993
Jewell County Bank, Mankato, Kansas	Tipton State Bank, Tipton, Kansas Traders State Bank, Glen Elder, Kansas	Kansas City	February 26, 1993
Midstate Bancorp, Inc., Hinton, Oklahoma	First Community Bank, Blanchard, Oklahoma	Kansas City	March 15, 1993
Midwest National Bancshares, Inc., Midwest City, Oklahoma	Harrah National Bancshares, Inc., Harrah, Oklahoma	Kansas City	March 4, 1993
NationsBank Corporation, Charlotte, North Carolina Charter Bancshares, Inc., Houston, Texas	University National Bank, Galveston, Texas	Richmond	March 11, 1993

Section 3—Continued

Applicant(s)	Bank(s)	Reserve Bank	Effective Date
Peotone Bancorp, Inc., Peotone, Illinois Southwest Bancorp, Inc., Worth, Illinois SC Bancorp, Inc., Worth, Illinois	The Sun City Bank, Sun City, Arizona	Chicago	March 1, 1993
The Sumitomo Bank, Limited, Chuo-ku, Osaka, Japan	CPB, Inc., Honolulu, Hawaii	San Francisco	March 2, 1993

Section 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
American Bancorp of Edmond, Inc., Edmond, Oklahoma	American Capital Mortgage Company, Inc., Edmond, Oklahoma	Kansas City	March 18, 1993
Green-Top, Inc., Central City, Nebraska	to engage *de novo* in making loans	Kansas City	March 5, 1993
Lincolnshire Bancshares, Inc., Lincolnshire, Illinois	Success National Bank, Lincolnshire, Illinois	Chicago	March 19, 1993
Newberry Bancorp, Inc., Sault Ste. Marie, Michigan	Northern Michigan BIDCO, Inc., Sault Ste. Marie, Michigan	Minneapolis	March 3, 1993
Otto Bremer Foundation, St. Paul, Minnesota Bremer Financial Corporation, St. Paul, Minnesota	First American Insurance Agencies, Inc., St. Paul, Minnesota	Minneapolis	March 8, 1993

Sections 3 and 4

Applicant(s)	Nonbanking Activity/Company	Reserve Bank	Effective Date
Bank of Montana System, Great Falls, Montana	Montana Bancsystem, Inc., Billings, Montana	Minneapolis	March 1, 1993

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.

Adams v. Greenspan, No. 93–0167 (D. D.C., filed January 27, 1993). Action by former employee under the Civil Rights Act of 1964 concerning termination of employment.

Sisti v. Board of Governors, No. 93–0033 (D.D.C., filed January 6, 1993). Challenge to Board staff interpretation with respect to margin accounts.

U.S. Check v. Board of Governors, No. 92–2892 (D.D.C., filed December 30, 1992). Challenge to partial denial of request for information under the Freedom of Information Act.

CBC, Inc. v. Board of Governors, No. 92–9572 (10th Cir., filed December 2, 1992). Petition for review of civil money penalty assessment against a bank holding company and three of its officers and directors for failure to comply with reporting requirements. The Board's brief was filed on March 19, 1993.

DLG Financial Corporation v. Board of Governors, No. 392 Civ. 2086-G (N.D. Texas, filed October 9, 1992). Action to enjoin the Board and the Federal Reserve Bank of Dallas from taking certain enforcement actions, and seeking money damages on a variety of tort and contract theories. On October 9, 1992, the court denied plaintiffs' motion for a temporary restraining order. On November 20, 1992, the Board filed a motion to dismiss. On December 17, 1992, plaintiffs filed an amended complaint.

Zemel v. Board of Governors, No. 92–1056 (D. District of Columbia, filed May 4, 1992). Age Discrimination in Employment Act case.

State of Idaho, Department of Finance v. Board of Governors, No. 92–70107 (9th Cir., filed February 24, 1992). Petition for review of Board order returning without action a bank holding company application to relocate its subsidiary bank from Washington to Idaho. The Board's brief was filed on June 29, 1992. Oral argument was held October 6, 1992.

In re Subpoena Served on the Board of Governors, 91–5427, 91–5428 (D.C. Cir., filed December 27, 1991). Appeal of order of district court, dated December 3, 1991, requiring the Board and the Office of the Comptroller of the Currency to produce confidential examination material to a private litigant. On June 26, 1992, the court of appeals affirmed the district court order in part, but held that the bank examination privilege was not waived by the agencies' provision of examination materials to the examined institution, and remanded for further consideration of the privilege issue. On August 6, 1992, the district court ordered the matter held in abeyance pending settlement of the underlying action.

Board of Governors v. Kemal Shoaib, No. CV 91–5152 (C.D. California, filed September 24, 1991). Action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On October 15, 1991, the court issued a preliminary injunction restraining the transfer or disposition of the individual's assets.

Board of Governors v. Ghaith R. Pharaon, No. 91-CIV-6250 (S.D. New York, filed September 17, 1991). Action to freeze assets of individual pending administrative adjudication of civil money penalty assessment by the Board. On September 17, 1991, the court issued an order temporarily restraining the transfer or disposition of the individual's assets.

FINAL ENFORCEMENT ORDERS ISSUED BY THE BOARD OF GOVERNORS

Arthur T. Ciccarello
Eleanor, West Virginia

The Federal Reserve Board announced on March 3, 1993, the issuance of an Order of Assessment of a Civil Money Penalty against Arthur T. Ciccarello, an institution-affiliated party of The Buffalo Bank, Eleanor, West Virginia.

The Guardian Bank
Los Angeles, California

The Federal Reserve Board announced on March 26, 1993, the issuance of an Order of Assessment of a Civil Money Penalty against The Guardian Bank, Los Angeles, California.

Sayed Jawhary
Luxembourg, Luxembourg

The Federal Reserve Board announced on March 25, 1993, the issuance of a combined Order of Prohibition, Order to Cease and Desist, and Assessment of Civil Money Penalty against Sayed Jawhary, an institution-affiliated party of BCCI. The Order settles the Federal Reserve's charges against Jawhary that were made in its July 29, 1991, notice against BCCI, Jawhary and several other individuals associated with BCCI.

Randolph S. Miles and Cynthia Stout
Antioch, Illinois

The Federal Reserve Board announced on March 25, 1993, the issuance of Orders of Assessment of a Civil Money Penalty against Randolph S. Miles and Cynthia Stout, institution-affiliated parties of Antioch Holding Company, Antioch, Illinois.

WRITTEN AGREEMENTS APPROVED BY FEDERAL RESERVE BANKS

Marin National Bancorp
San Rafael, California

The Federal Reserve Board announced on March 31, 1993, the execution of a Written Agreement between the Federal Reserve Bank of San Francisco and Marin National Bancorp, San Rafael, California.

New East Bancorp
Selma, North Carolina

The Federal Reserve Board announced on March 31, 1993, the execution of a Written Agreement among the Federal Reserve Bank of Richmond, the Commissioner of Banks of the State of North Carolina and New East Bancorp, Selma, North Carolina.

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 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 A94 of this *Bulletin*.

DISTRICT 1—BOSTON		*Term expires December 31*
Class A		
David A. Page	President and Chief Executive Officer, Ocean National Bank of Kennebunk, Kennebunk, Maine	1993
Robert M. Silva	President, Chief Executive Officer, and Director, The Citizens National Bank, Putnam, Connecticut	1994
Ira Stepanian	Chairman and Chief Executive Officer, The Bank of Boston Corporation, Boston, Massachusetts	1995

DISTRICT 1—Continued

Term expires December 31

Class B

Stephen R. Levy	Chairman of the Board and Chief Executive Officer, Bolt Beranek and Newman, Inc., Cambridge, Massachusetts	1993
Edward H. Ladd	Chairman and Chief Executive Officer, Standish, Ayer and Wood, Inc., Boston, Massachusetts	1994
Joan T. Bok	Chairman of the Board, New England Electric System, Westborough, Massachusetts	1995

Class C

John E. Flynn	Executive Director, The Quality Connection, East Dennis, Massachusetts	1993
Jerome H. Grossman	*Chairman of the Board and Chief Executive Officer*, New England Medical Center, Inc., Boston, Massachusetts	*1994*
Warren B. Rudman, Esq.	Sheehan, Phinney, Bass, and Green, Manchester, New Hampshire	1995

DISTRICT 2—NEW YORK

Class A

Barbara Harding	Chairman of the Board and Chief Executive Officer, Phillipsburg National Bank and Trust Company, Phillipsburg, New Jersey	1993
Thomas G. Labrecque	Chairman and Chief Executive Officer, The Chase Manhattan Bank, N.A., New York, New York	1994
Robert G. Wilmers	Chairman, President, and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, New York	1995

Class B

Rand V. Araskog	Chairman, President, and Chief Executive Officer, ITT Corporation, New York, New York	1993
Robert E. Allen	Chairman and Chief Executive Officer, American Telephone and Telegraph Company, Basking Ridge, New Jersey	1994
William C. Steere, Jr.	Chairman of the Board and Chief Executive Officer, PFIZER Inc., New York, New York	1995

Class C

Ellen V. Futter	President, Barnard College, New York, New York	1993
Maurice R. Greenberg	Chairman and Chief Executive Officer, American International Group, Inc., New York, New York	1994
Cyrus R. Vance	Presiding Partner, Simpson Thacher & Bartlett, New York, New York	1995

BUFFALO BRANCH

Appointed by the Federal Reserve Bank

Susan A. McLaughlin	General Credit Manager, Eastman Kodak Company, Rochester, New York	1993
Charles M. Mitschow	Senior Executive Vice President, Regional Banking, Marine Midland Bank, N.A., Buffalo, New York	1994
Richard H. Popp	Operating Partner, Southview Farm, Castile, New York	1994
George W. Hamlin IV	President and Chief Executive Officer, The Canandaigua National Bank and Trust Company, Canandaigua, New York	1995

DISTRICT 2—Continued — *Term expires December 31*

Buffalo Branch—Continued

Appointed by the Board of Governors

Name	Position	Term expires December 31
Joseph J. Castiglia	President and Chief Executive Officer, Pratt & Lambert, Inc., Buffalo, New York	1993
Donald L. Rust	Plant Manager, General Motors Powertrain Division, Tonawanda Engine Plant, Buffalo, New York	1994
Herbert L. Washington	HLW Fast Track, Inc., Rochester, New York	1995

DISTRICT 3—PHILADELPHIA

Class A

Name	Position	Term expires December 31
Gary F. Simmerman	President and Chief Executive Officer, United Jersey Bank/South, N.A., Cherry Hill, New Jersey	1993
H. Bernard Lynch	President and Chief Executive Officer, The First National Bank of Wyoming, Wyoming, Delaware	1994
Carl L. Campbell	President and Chief Executive Officer, Keystone Financial, Inc., Harrisburg, Pennsylvania	1995

Class B

Name	Position	Term expires December 31
J. Richard Jones	President and Chief Executive Officer, Jackson-Cross Company, Philadelphia, Pennsylvania	1993
James A. Hagen	Chairman, President, and Chief Executive Officer, Consolidated Rail Corporation, Philadelphia, Pennsylvania	1994
David W. Huggins	President and Chief Executive Officer, R M S Technologies, Inc., Marlton, New Jersey	1995

Class C

Name	Position	Term expires December 31
Jane G. Pepper	President, The Pennsylvania Horticultural Society, Philadelphia, Pennsylvania	1993
Donald J. Kennedy	Business Manager, International Brotherhood of Electrical Workers, Local Union No. 269, Trenton, New Jersey	1994
James M. Mead	President, Capital Blue Cross, Harrisburg, Pennsylvania	1995

DISTRICT 4—CLEVELAND

Class A

Name	Position	Term expires December 31
Alfred C. Leist	Chairman, President and Chief Executive Officer, Apple Creek Banking Company, Apple Creek, Ohio	1993
William T. McConnell	President, The Park National Bank, Newark, Ohio	1994
Edward B. Brandon	Chairman and Chief Executive Officer, National City Corporation, Cleveland, Ohio	1995

Class B

Name	Position	Term expires December 31
Verna K. Gibson	Business Consultant, Columbus, Ohio	1993
Douglas E. Olesen	President and Chief Executive Officer, Battelle Memorial Institute, Columbus, Ohio	1994
I.N. Rendall Harper, Jr.	President and Chief Executive Officer, American Micrographics Company, Inc., Monroeville, Pennsylvania	1995

DISTRICT 4—Continued

		Term expires December 31
Class C		
John R. Hodges	President, Ohio AFL-CIO, Columbus, Ohio	1993
G. Watts Humphrey	President, GWH Holdings, Inc., Pittsburgh, Pennsylvania	1994
A. William Reynolds	Chairman and Chief Executive Officer, GenCorp, Fairlawn, Ohio	1995

CINCINNATI BRANCH

Appointed by the Federal Reserve Bank		
Jack W. Buchanan	President, Sphar & Company, Inc., Winchester, Kentucky	1993
John N. Taylor, Jr.	Chairman and Chief Executive Officer, Kurz-Kasch, Inc., Dayton, Ohio	1993
Marvin J. Stammen	President and Chief Executive Officer, Second National Bank, Greenville, Ohio	1994
Jerry W. Carey	President and Chief Executive Officer, Union National Bank and Trust Company, Barbourville, Kentucky	1995
Appointed by the Board of Governors		
Marvin Rosenberg	Partner, Towne Properties, Ltd., Cincinnati, Ohio	1993
Raymond A. Bradbury	Chairman, Martin County Coal Corporation, Inez, Kentucky	1994
Eleanor Hicks	Hicks & Kinley, International Access Marketing, Cincinnati, Ohio	1995

PITTSBURGH BRANCH

Appointed by the Federal Reserve Bank		
George A. Davidson, Jr.	Chairman and Chief Executive Officer, Consolidated Natural Gas Company, Pittsburgh, Pennsylvania	1993
Randall L.C. Russell	President and Chief Executive Officer, Ranbar Technology, Inc., Glenshaw, Pennsylvania	1993
David S. Dahlmann	President and Chief Executive Officer, Southwest National Corporation, Greensburg, Pennsylvania	1994
Frank V. Cahouet	Chairman, President, and Chief Executive Officer, Mellon Bank, N.A., Pittsburgh, Pennsylvania	1995
Appointed by the Board of Governors		
Sandra L. Phillips	Executive Director, Pittsburgh Partnership for Neighborhood Development, Pittsburgh, Pennsylvania	1993
Jack B. Piatt	Chairman of the Board and President, Millcraft Industries, Inc., Washington, Pennsylvania	1994
Robert P. Bozzone	President and Chief Executive Officer, Allegheny Ludlum Corporation, Pittsburgh, Pennsylvania	1995

DISTRICT 5—RICHMOND

Class A		
James G. Lindley	Chairman, President, and Chief Executive Officer, South Carolina National Bank, Columbia, South Carolina	1993
Webb C. Hayes IV	President, The Palmer National Bank, Washington, D.C.	1994
Charles E. Weller	President, Elkridge National Bank and ENB Financial Corporation, Elkridge, Maryland	1995

DISTRICT 5—Continued		*Term expires December 31*
Class B		
Paul A. DelaCourt	Chairman, The North Carolina Enterprise Corporation, Raleigh, North Carolina	1993
L. Newton Thomas, Jr.	Retired Senior Vice President, ITT/Carbon Industries, Inc., Charleston, West Virginia	1994
R.E. Atkinson, Jr.	Chairman, Dilmar Oil Company, Inc., Florence, South Carolina	1995
Class C		
Stephen Brobeck	Executive Director, Consumer Federation of America, Washington, D.C.	1993
Anne Marie Whittemore	Partner, McGuire, Woods, Battle & Boothe, Richmond, Virginia	1994
Henry J. Faison	President, Faison Associates, Charlotte, North Carolina	1995

BALTIMORE BRANCH

Appointed by the Federal Reserve Bank		
Vacancy		1993
Thomas J. Hughes	President, Navy Federal Credit Union, Vienna, Virginia	1994
F. Levi Ruark	Chairman of the Board and President, The National Bank of Cambridge, Cambridge, Maryland	1994
Richard M. Adams	Chairman and Chief Executive Officer, United Bankshares, Inc., Parkersburg, West Virginia	1995
Appointed by the Board of Governors		
Michael R. Watson	President, Association of Maryland Pilots, Annapolis, Maryland	1993
Rebecca Hahn Windsor	Chairman and Chief Executive Officer, Hahn Transportation, Inc., New Market, Maryland	1994
Vacancy		1995

CHARLOTTE BRANCH

Appointed by the Federal Reserve Bank		
Jim M. Cherry, Jr.	President and Chief Executive Officer, Williamsburg First National Bank, Kingstree, South Carolina	1993
Dorothy H. Aranda	President, Dohara Associates, Inc., Hilton Head Island, South Carolina	1994
L. Glenn Orr, Jr.	Chairman, President, and Chief Executive Officer, Southern National Corporation, Lumberton, North Carolina	1994
David B. Jordan	Vice Chairman, Chief Executive Officer, and Director, Security Capital Bancorp, Salisbury, North Carolina	1995
Appointed by the Board of Governors		
William E. Masters	President, Perception, Inc., Easley, South Carolina	1993
Harold D. Kingsmore	President and Chief Operating Officer, Graniteville Company, Graniteville, South Carolina	1994
Anne M. Allen	President, Anne Allen & Associates, Inc., Greensboro, North Carolina	1995

DISTRICT 6—ATLANTA

		Term expires December 31
Class A		
James B. Williams	Chairman and Chief Executive Officer, SunTrust Banks, Inc., Atlanta, Georgia	1993
Simpson Russell	Chairman and Chief Executive Officer, The First National Bank of Florence, Florence, Alabama	1994
W.H. Swain	Chairman of the Board, First National Bank, Oneida, Tennessee	1995
Class B		
Andre M. Rubenstein	Chairman of the Board and Chief Executive Officer, Rubenstein Brothers, Inc., New Orleans, Louisiana	1993
Victoria B. Jackson	President, DSS/ProDiesel, Nashville, Tennessee	1994
J. Thomas Holton	Chairman and President, Sherman International Corporation, Birmingham, Alabama	1995
Class C		
Edwin A. Huston	Senior Executive Vice President–Finance, Ryder System, Inc., Miami, Florida	1993
Hugh M. Brown	President and Chief Executive Officer, BAMSI, Inc., Titusville, Florida	1994
Leo Benatar	Chairman of the Board and President, Engraph, Inc., Atlanta, Georgia	1995

BIRMINGHAM BRANCH

Appointed by the Federal Reserve Bank		
Julian W. Banton	Chairman, President, and Chief Executive Officer, SouthTrust Bank of Alabama, N.A., Birmingham, Alabama	1993
Marlin D. Moore, Jr.	Chairman, Pritchett-Moore, Inc., Tuscaloosa, Alabama	1994
Columbus Sanders	President, Consolidated Industries, Inc., Huntsville, Alabama	1994
J. Stephen Nelson	President and Chief Executive Officer, First National Bank, Brewton, Alabama	1995
Appointed by the Board of Governors		
Donald E. Boomershine	President, Better Business Bureau of Central Alabama, Inc., Birmingham, Alabama	1993
Shelton E. Allred	Chairman of the Board, President, and Chief Executive Officer, Frit Incorporated, Ozark, Alabama	1994
Patricia B. Compton	President, Patco, Inc., Georgiana, Alabama	1995

JACKSONVILLE BRANCH

Appointed by the Federal Reserve Bank		
Hugh H. Jones, Jr.	Chairman of the Board, Barnett Bank of Jacksonville, N.A., Jacksonville, Florida	1993
Perry M. Dawson	President and Chief Executive Officer, Suncoast Schools Federal Credit Union, Tampa, Florida	1994
Arnold A. Heggestad	William H. Dial Professor and Director, College of Business Administration, University of Florida, Gainesville, Florida	1994
Merle L. Graser	Chairman and Chief Executive Officer, First National Bank of Venice, Venice, Florida	1995

DISTRICT 6—Continued

Jacksonville Branch—Continued

Appointed by the Board of Governors

		Term expires December 31
Joan Dial Ruffier	General Partner, Sunshine Cafes, Orlando, Florida	1993
Samuel H. Vickers	Chairman, President, and Chief Executive Officer, Design Containers, Inc., Jacksonville, Florida	1994
Lana Jane Lewis-Brent	President, Paul Brent Designer, Inc., Panama City, Florida	1995

MIAMI BRANCH

Appointed by the Federal Reserve Bank

Steven C. Shimp	President, O-A-K/Florida, Inc., Fort Myers, Florida	1993
Pat L. Tornillo, Jr.	Executive Vice President, United Teachers of Dade, Miami, Florida	1993
Roberto G. Blanco	Vice Chairman and Chief Financial Officer, Republic National Bank of Miami, Miami, Florida	1994
E. Anthony Newton	President, Island National Bank of Palm Beach, Palm Beach, Florida	1995

Appointed by the Board of Governors

Michael T. Wilson	President, Vinegar Bend Farms, Inc., Belle Glade, Florida	1993
Dorothy C. Weaver	Executive Vice President, Intercap Investments, Inc., Coral Gables, Florida	1994
R. Kirk Landon	Chairman and Chief Executive Officer, American Bankers Insurance Group, Miami, Florida	1995

NASHVILLE BRANCH

Appointed by the Federal Reserve Bank

Williams E. Arant, Jr.	President and Chief Executive Officer, First National Bank of Knoxville, Knoxville, Tennessee	1993
William Baxter Lee III	Chairman and President, Southeast Services Corporation, Knoxville, Tennessee	1994
Marguerite W. Sallee	President and Chief Executive Officer, Corporate Child Care Management Services, Nashville, Tennessee	1994
James D. Harris	President and Chief Executive Officer, Brentwood National Bank, Brentwood, Tennessee	1995

Appointed by the Board of Governors

William C. Wallace	Vice President–Central Division, American Airlines, Nashville, Tennessee	1993
James R. Tuerff	President and Chief Executive Officer, American General Life and Accident Insurance Company, Nashville, Tennessee	1994
Harold A. Black	James F. Smith, Jr., Professor of Financial Institutions, College of Business Administration, University of Tennessee, Knoxville, Tennessee	1995

DISTRICT 6—Continued

NEW ORLEANS BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires December 31
Howard C. Gaines	Chairman and Chief Executive Officer, First National Bank of Commerce, New Orleans, Louisiana	1993
Angus R. Cooper II	Chairman and Chief Executive Officer, Cooper/T. Smith Corporation, Mobile, Alabama	1994
Kay L. Nelson	Managing Director, Nelson Capital Corporation, New Orleans, Louisiana	1994
Thomas E. Walker	President and Chief Executive Officer, Bank of Forest, Forest, Mississippi	1995

Appointed by the Board of Governors

Name	Position	Term expires December 31
Victor Bussie	President, Louisiana AFL-CIO, Baton Rouge, Louisiana	1993
Jo Ann Slaydon	President, Slaydon Consultants and Insight Productions and Advertising, Baton Rouge, Louisiana	1994
Lucimarian Tolliver Roberts	President, Mississippi Coast Coliseum Commission, Pass Christian, Mississippi	1995

DISTRICT 7—CHICAGO

Class A

Name	Position	Term expires December 31
David W. Fox	Chairman, President, and Chief Executive Officer, The Northern Trust Corporation and The Northern Trust Company, Chicago, Illinois	1993
Stefan S. Anderson	Chairman, President, and Chief Executive Officer, First Merchants Bank, N.A., and First Merchants Corporation, Muncie, Indiana	1994
Arnold C. Schultz	Chairman, President, and Chief Executive Officer, Grundy National Bank, Grundy Center, Iowa	1995

Class B

Name	Position	Term expires December 31
A. Charlene Sullivan	Associate Professor of Management, Krannert Graduate School of Management, Purdue University, West Lafayette, Indiana	1993
Thomas C. Dorr	President and Chief Executive Officer, Dorr's Pine Grove Farm Co., Marcus, Iowa	1994
Donald J. Schneider	President, Schneider National, Inc., Green Bay, Wisconsin	1995

Class C

Name	Position	Term expires December 31
Robert M. Healey	President, Chicago Federation of Labor and Industrial Union Council, AFL-CIO, Chicago, Illinois	1993
Duane L. Burnham	Chairman and Chief Executive Officer, Abbott Laboratories, Abbott Park, Illinois	1994
Richard G. Cline	Chairman, President, and Chief Executive Officer, NICOR, Inc., Naperville, Illinois	1995

DISTRICT 7—Continued

		Term expires December 31
DETROIT BRANCH		
Appointed by the Federal Reserve Bank		
Charles E. Allen	President and Chief Executive Officer, Graimark Realty Advisors, Inc., Detroit, Michigan	1993
William E. Odom	Chairman, Ford Motor Credit Company, Dearborn, Michigan	1993
Daniel R. Smith	Chairman and Chief Executive Officer, First of America Bank Corporation, Kalamazoo, Michigan	1994
Norman F. Rodgers	President and Chief Executive Officer, Hillsdale County National Bank, Hillsdale, Michigan	1995
Appointed by the Board of Governors		
Beverly A. Beltaire	President, P R Associates, Inc., Detroit, Michigan	1993
John D. Forsyth	Executive Director, University of Michigan Hospitals, Ann Arbor, Michigan	1994
J. Michael Moore	Chairman and Chief Executive Officer, Invetech Company, Detroit, Michigan	1995

DISTRICT 8—ST. LOUIS

Class A		
Ray U. Tanner	Chairman, Director, and Chief Executive Officer, Volunteer Bank, Jackson, Tennessee	1993
Henry G. River, Jr.	President and Chief Executive Officer, First National Bank in Pinckneyville, Pinckneyville, Illinois	1994
Douglas M. Lester	Chairman and President, Trans Financial Bancorp, Inc., Bowling Green, Kentucky	1995
Class B		
Warren R. Lee	President, W. R. Lee & Associates, Inc., Louisville, Kentucky	1993
Sandra B. Sanderson-Chesnut	President and Chief Executive Officer, Sanderson Plumbing Products, Inc., Columbus, Mississippi	1994
Richard E. Bell	President and Chief Executive Officer, Riceland Foods, Inc., Stuttgart, Arkansas	1995
Class C		
Janet McAfee Weakley	President, Janet McAfee, Inc., St. Louis, Missouri	1993
Robert H. Quenon	Mining Consultant, St. Louis, Missouri	1994
John F. McDonnell	Chairman and Chief Executive Officer, McDonnell Douglas Corporation, St. Louis, Missouri	1995
LITTLE ROCK BRANCH		
Appointed by the Federal Reserve Bank		
James V. Kelley	Chairman, President, and Chief Executive Officer, First United Bancshares, Inc., El Dorado, Arkansas	1993
Mahlon A. Martin	President, Winthrop Rockefeller Foundation, Little Rock, Arkansas	1993
Barnett Grace	Chairman and Chief Executive Officer, First Commercial Bank, N.A., Little Rock, Arkansas	1994
Mark A. Shelton III	President, M.A. Shelton Farming Company, Altheimer, Arkansas	1995

DISTRICT 8—Continued

Little Rock Branch—Continued

Name	Position	Term expires December 31
Appointed by the Board of Governors		
L. Dickson Flake	President, Barnes, Quinn, Flake & Anderson, Inc., Little Rock, Arkansas	1993
Robert Daniel Nabholz, Jr.	Chief Executive Officer, Nabholz Construction Corporation, Conway, Arkansas	1994
Betta Carney	President and Chief Executive Officer, World Wide Travel Service, Inc., Little Rock, Arkansas	1995

LOUISVILLE BRANCH

Name	Position	Term expires December 31
Appointed by the Federal Reserve Bank		
Robert M. Hall	Owner, Mike Hall Farm, Seymour, Indiana	1993
Charles D. Storms	President and Chief Executive Officer, Red Spot Paint and Varnish Company, Inc., Evansville, Indiana	1993
Thomas E. Spragens, Jr.	President, The Farmers National Bank of Lebanon, Lebanon, Kentucky	1994
Malcolm B. Chancey, Jr.	Chairman and Chief Executive Officer, Liberty National Bank, Louisville, Kentucky	1995
Appointed by the Board of Governors		
John A. Williams	Chairman and Chief Executive Officer, Computer Services, Inc., Paducah, Kentucky	1993
Laura M. Douglas	Legal Director, Metropolitan Sewer District, Louisville, Kentucky	1994
Daniel L. Ash	Consultant, Louisville Energy and Environment Corporation, Louisville, Kentucky	1995

MEMPHIS BRANCH

Name	Position	Term expires December 31
Appointed by the Federal Reserve Bank		
Thomas M. Garrott	President and Chief Operating Officer, National Bank of Commerce and National Commerce Bancorporation, Memphis, Tennessee	1993
Larry A. Watson	Chairman of the Board and President, Liberty Federal Savings Bank, Paris, Tennessee	1993
Lewis F. Mallory, Jr.	President and Chief Executive Officer, National Bank of Commerce of Mississippi, Starkville, Mississippi	1994
Anthony M. Rampley	President, Chief Executive Officer, and Director, Arkansas Glass Container Corporation, Jonesboro, Arkansas	1995
Appointed by the Board of Governors		
Seymour B. Johnson	Owner, Kay Planting Company, Indianola, Mississippi	1993
Sidney Wilson	Owner, Wilson Automotive Group Inc., Jackson, Tennessee	1994
M. Rita Schroeder	President, St. Francis Hospital, Memphis, Tennessee	1995

DISTRICT 9—MINNEAPOLIS

		Term expires December 31
Class A		
Charles L. Seaman	President and Chief Executive Officer, First State Bank of Warner, Warner, South Dakota	1993
William W. Strausburg	Chairman and Chief Executive Officer, First Bank Montana, N.A., and General Manager, First Bank–Regional Banking Group, Billings, Montana	1994
Susanne V. Boxer	President and Chief Executive Officer, Houghton National Bank, Houghton, Michigan	1995
Class B		
Earl R. St. John, Jr.	President, St. John Forest Products, Inc., Spalding, Michigan	1993
Duane E. Dingmann	President, Trubilt Auto Body, Inc., Eau Claire, Wisconsin	1994
Dennis W. Johnson	President, TMI Systems Design Corporation/TMI Transport Corporation, Dickinson, North Dakota	1995
Class C		
Delbert W. Johnson	President and Chief Executive Officer, Pioneer Metal Finishing, Minneapolis, Minnesota	1993
Jean D. Kinsey	Professor, Consumption and Consumer Economics, Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, Minnesota	1994
Gerald A. Rauenhorst	Chairman of the Board and Chief Executive Officer, Opus Corporation, Minneapolis, Minnesota	1995

HELENA BRANCH

Appointed by the Federal Reserve Bank		
Beverly D. Harris	President, Empire Federal Savings and Loan Association, Livingston, Montana	1993
Donald E. Olsson, Jr.	Executive Vice President, Ronan State Bank, Ronan, Montana	1994
Nancy M. Stephenson	Executive Director, Neighborhood Housing Services, Great Falls, Montana	1994
Appointed by the Board of Governors		
James E. Jenks	Jenks Farms, Hogeland, Montana	1993
Lane W. Basso	President, Deaconess Medical Center of Billings, Inc., Billings, Montana	1994

DISTRICT 10—KANSAS CITY

Class A		
Roger L. Reisher	Co-Chairman of the Board, FirstBank Holding Company of Colorado, Lakewood, Colorado	1993
Charles I. Moyer	Chairman and Chief Executive Officer, The First National Bank of Phillipsburg, Phillipsburg, Kansas	1994
William L. McQuillan	President and Chief Executive Officer, City National Bank, Greeley, Nebraska	1995

DISTRICT 10—Continued

		Term expires December 31
Class B		
Don E. Adams	Buffalo, Oklahoma	1993
Frank J. Yaklich, Jr.	President and Chief Executive Officer, CF & I Steel Corporation, Pueblo, Colorado	1994
W.W. Allen	President and Chief Operating Officer, Phillips Petroleum Company, Bartlesville, Oklahoma	1995
Class C		
Thomas E. Rodriguez	President and General Manager, Thomas E. Rodriguez & Associates, P.C., Aurora, Colorado	1993
Burton A. Dole, Jr.	Chairman of the Board and President, Puritan-Bennett Corporation, Overland Park, Kansas	1994
Herman Cain	President and Chief Executive Officer, Godfather's Pizza, Inc., Omaha, Nebraska	1995

DENVER BRANCH

Appointed by the Federal Reserve Bank		
Peter R. Decker	President, Decker & Associates, Denver, Colorado	1993
Clifford E. Kirk	President, First National Bank of Gillette, Gillette, Wyoming	1994
Richard I. Ledbetter	President and Chief Executive Officer, First National Bank of Farmington, Farmington, New Mexico	1994
Peter I. Wold	Partner, Wold Oil and Gas Company, Casper, Wyoming	1995
Appointed by the Board of Governors		
Gilbert Sanchez	President, New Mexico Highlands University, Las Vegas, New Mexico	1993
Barbara B. Grogan	President, Western Industrial Contractors, Inc., Denver, Colorado	1994
Sandra K. Woods	Vice President, Adolph Coors Company, Corporate Real Estate, Golden, Colorado	1995

OKLAHOMA CITY BRANCH

Appointed by the Federal Reserve Bank		
Gordona Duca	President and Owner, Gordona Duca, Inc., Realtors, Tulsa, Oklahoma	1993
C. Kendric Fergeson	Chairman of the Board and Chief Executive Officer, The National Bank of Commerce, Altus, Oklahoma	1993
John Wm. Laisle	President and Chief Executive Officer, MidFirst Bank, SSB, Oklahoma City, Oklahoma	1994
Dennis M. Mitchell	President, Citizens Bank of Ardmore, Ardmore, Oklahoma	1995
Appointed by the Board of Governors		
Ernest L. Holloway	President, Langston University, Langston, Oklahoma	1993
Victor R. Schock	President and Chief Executive Officer, Credit Counseling Services of Oklahoma, Inc., Tulsa, Oklahoma	1994
Barry L. Eller	Sr. Vice President and General Manager, MerCruiser, Mercury Marine Business Unit, Division of Brunswick Corp., Stillwater, Oklahoma	1995

DISTRICT 10—Continued

Term expires December 31

OMAHA BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires December 31
Bruce R. Lauritzen	President, First National Bank of Omaha, Omaha, Nebraska	1993
Donald A. Leu	President and Chief Executive Officer, Consumer Credit Counseling Service, Omaha, Nebraska	1993
Thomas H. Olson	President and Chief Executive Officer, Lisco State Bank, Lisco, Nebraska	1993
Robert L. Peterson	Chairman, President, and Chief Executive Officer, IBP, Inc., Dakota City, Nebraska	1995

Appointed by the Board of Governors

Name	Position	Term expires December 31
LeRoy W. Thom	President, T-L Irrigation Company, Hastings, Nebraska	1993
Arthur L. Shoener	Executive Vice President–Operations, Union Pacific Railroad, Omaha, Nebraska	1994
Sheila Griffin	Special Advisor to the Governor of the State of Nebraska for International Trade, Lincoln, Nebraska	1995

DISTRICT 11—DALLAS

Class A

Name	Position	Term expires December 31
T.C. Frost	Chairman of the Board, Frost National Bank, San Antonio, Texas	1993
Eugene M. Phillips	Chairman of the Board and President, The First National Bank of Panhandle, Panhandle, Texas	1994
Jeff Austin, Jr.	Chairman of the Board, Texas National Bank, Longview, Texas	1995

Class B

Name	Position	Term expires December 31
J.B. Cooper, Jr.	Farmer, Roscoe, Texas	1993
Peyton Yates	President, Yates Drilling Company and Executive Vice President, Yates Petroleum Corporation, Artesia, New Mexico	1994
Milton Carroll	Chairman of the Board and Chief Executive Officer, Instrument Products, Inc., Houston, Texas	1995

Class C

Name	Position	Term expires December 31
James A. Martin	Third General Vice President, International Association of Bridge, Structural and Ornamental Iron Workers, Austin, Texas	1993
Cece Smith	General Partner, Phillips-Smith Specialty Retail Group, Dallas, Texas	1994
Leo E. Linbeck, Jr.	Chairman of the Board and Chief Executive Officer, Linbeck Construction Corporation, Houston, Texas	1995

EL PASO BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires December 31
Veronica K. Callaghan	Vice President and Principal, KASCO Ventures, Inc., El Paso, Texas	1993
Ben H. Haines, Jr.	President and Chief Operating Officer, First National Bank of Dona Ana County, Las Cruces, New Mexico	1993
Hugo Bustamante, Jr.	Owner and Chief Executive Officer, ProntoLube, El Paso, Texas	1994
Wayne Merritt	Chairman of the Board and President, Texas National Bank of Midland, Midland, Texas	1995

DISTRICT 11—Continued

El Paso Branch—Continued

Appointed by the Board of Governors

Name	Position	Term expires December 31
Diana S. Natalicio	President, The University of Texas at El Paso, El Paso, Texas	1993
Alvin T. Johnson	President, Management Assistance Corporation of America, El Paso, Texas	1994
W. Thomas Beard III	President, Leoncita Cattle Company, Alpine, Texas	1995

HOUSTON BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires December 31
Walter E. Johnson	President and Chief Executive Officer, Southwest Bank of Texas, Houston, Texas	1993
Clive Runnells	President and Director, Runnells Cattle Company, Bay City, Texas	1993
Tieman H. Dippel, Jr.	Chairman of the Board and President, Brenham Bancshares, Inc., Brenham, Texas	1994
J. Michael Solar	Principal Attorney, Solar & Ellis L.L.P., Houston, Texas	1995

Appointed by the Board of Governors

Name	Position	Term expires December 31
Robert C. McNair	Chairman and Chief Executive Officer, Cogen Technologies, Inc., Houston, Texas	1993
Isaac H. Kempner III	Chairman of the Board, Imperial Holly Corporation, Sugar Land, Texas	1994
Judy Ley Allen	Partner and Administrator, Allen Investments, Houston, Texas	1995

SAN ANTONIO BRANCH

Appointed by the Federal Reserve Bank

Name	Position	Term expires December 31
Javier Garza	Executive Vice President, The Laredo National Bank, Laredo, Texas	1993
Sam R. Sparks	President, Sam R. Sparks, Inc., Progreso, Texas	1993
T. Jack Moore III	Owner and Manager, T.J. Moore Lumber Inc., Ingram, Texas	1994
Gregory W. Crane	President and Chief Executive Officer, Broadway National Bank, San Antonio, Texas	1995

Appointed by the Board of Governors

Name	Position	Term expires December 31
Erich Wendl	President and Chief Executive Officer, Maverick Markets, Inc., Corpus Christi, Texas	1993
Roger R. Hemminghaus	Chairman, President, and Chief Executive Officer, Diamond Shamrock, Inc., San Antonio, Texas	1994
Carol L. Thompson	Vice President, Computerland, Austin, Texas	1995

DISTRICT 12—SAN FRANCISCO

Class A

Name	Position	Term expires December 31
Richard L. Mount	Chairman, President, and Chief Executive Officer, Saratoga Bancorp, Saratoga, California	1993
William E.B. Siart	President, First Interstate Bancorp, Los Angeles, California	1994
Carl J. Schmitt	Chairman of the Board and Chief Executive Officer, University National Bank & Trust Company, Palo Alto, California	1995

DISTRICT 12—Continued		*Term expires December 31*
Class B		
John N. Nordstrom	Co-Chairman of the Board, Nordstrom, Inc., Seattle, Washington	1993
William L. Tooley	Chairman, Tooley & Company, Investment Builders, Los Angeles, California	1994
E. Kay Stepp	Former President and Chief Operating Officer, Portland General Electric Company, Portland, Oregon	1995
Class C		
James A. Vohs	Chairman and Chief Executive Officer (Retired), Kaiser Foundation Health Plan, Inc., and Kaiser Foundation Hospitals, Oakland, California	1993
Judith M. Runstad	Partner and Managing Director, Foster Pepper and Shefelman, Seattle, Washington	1994
Cynthia A. Parker	Executive Director, Anchorage Neighborhood Housing Services, Inc., Anchorage, Alaska	1995

LOS ANGELES BRANCH

Appointed by the Federal Reserve Bank		
Anita Landecker	Regional Vice President, Local Initiatives Support Corporation, Los Angeles, California	1993
Antonia Hernandez	President and General Counsel, Mexican American Legal Defense and Educational Fund, Los Angeles, California	1994
William S. Randall	Chief Executive Officer, Southwest Region, First Interstate Bank, Phoenix, Arizona	1994
Steven R. Sensenbach	President and Chief Executive Officer, Vineyard National Bank, Rancho Cucamonga, California	1995
Appointed by the Board of Governors		
Donald G. Phelps	Chancellor, Los Angeles Community College District, Los Angeles, California	1993
David L. Moore	President, Western Growers Association, Newport Beach, California	1994
Anne L. Evans	Chairman, Evans Hotels, San Diego, California	1995

PORTLAND BRANCH

Appointed by the Federal Reserve Bank		
Cecil W. Drinkward	President, Hoffman Construction Company, Portland, Oregon	1993
Stephen G. Kimball	Chairman, President, and Chief Executive Officer, Baker Boyer Bancorp, Walla Walla, Washington	1993
Stuart H. Compton	Chairman, Pioneer Trust Bank, N.A., Salem, Oregon	1994
Elizabeth K. Johnson	President, TransWestern Helicopters, Inc., Scappoose, Oregon	1995
Appointed by the Board of Governors		
Ross R. Runkel	Professor of Law, Willamette University, Salem, Oregon	1993
William A. Hilliard	Editor, *The Oregonian*, Portland, Oregon	1994
Carol A. Whipple	Owner/Manager, Rocking C Ranch, Elkton, Oregon	1995

DISTRICT 12—Continued

Term expires December 31

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	1993
Virginia P. Kelson	Partner, Ralston Consulting Group, Salt Lake City, Utah	1993
Gerald R. Sherratt	President, Southern Utah University, Cedar City, Utah	1994
Roy C. Nelson	President, Bank of Utah, Ogden, Utah	1995

Appointed by the Board of Governors

Constance G. Hogland	Executive Director, Boise Neighborhood Housing Services, Inc., Boise, Idaho	1993
H. Roger Boyer	Chairman of the Board, The Boyer Company, Salt Lake City, Utah	1994
Gary G. Michael	Chairman and Chief Executive Officer, Albertson's, Inc., Boise, Idaho	1995

SEATTLE BRANCH

Appointed by the Federal Reserve Bank

B.R. Beeksma	Chairman of the Board, InterWest Savings Bank, Oak Harbor, Washington	1993
Gerry B. Cameron	Vice Chairman, U.S. Bancorp, Seattle, Washington	1993
Thomas E. Cleveland	Chairman of the Board and Chief Executive Officer, Enterprise Bank of Bellevue, N.A., Bellevue, Washington	1994
Constance L. Proctor	Partner, Alston, Courtnage, MacAulay & Proctor, Seattle, Washington	1995

Appointed by the Board of Governors

George F. Russell, Jr.	Chairman, Frank Russell Company, Tacoma, Washington	1993
William R. Wiley	Senior Vice President, Battelle Memorial Institute; Director, Battelle/Pacific Northwest Division; and Director, U.S. Department of Energy, Pacific Northwest Laboratory, Richland, Washington	1994
Emilie A. Adams	President and Chief Executive Officer, Better Business Bureau, Seattle, Washington	1995

Financial and Business Statistics

CONTENTS

A3 *Guide to Tabular Presentation*

Domestic Financial Statistics

MONEY STOCK AND BANK CREDIT

A4 Reserves, money stock, liquid assets, and debt measures
A5 Reserves of depository institutions, Reserve Bank credit
A6 Reserves and borrowings—Depository institutions
A7 Selected borrowings in immediately available funds—Large member banks

POLICY INSTRUMENTS

A8 Federal Reserve Bank interest rates
A9 Reserve requirements of depository institutions
A10 Federal Reserve open market transactions

FEDERAL RESERVE BANKS

A11 Condition and Federal Reserve note statements
A12 Maturity distribution of loan and security holdings

MONETARY AND CREDIT AGGREGATES

A13 Aggregate reserves of depository institutions and monetary base
A14 Money stock, liquid assets, and debt measures
A16 Bank debits and deposit turnover
A17 Loans and securities—All commercial banks

COMMERCIAL BANKING INSTITUTIONS

A18 Major nondeposit funds
A19 Assets and liabilities, last-Wednesday-of-month series

WEEKLY REPORTING COMMERCIAL BANKS

Assets and liabilities
A21 All reporting banks
A23 Branches and agencies of foreign banks

FINANCIAL MARKETS

A24 Commercial paper and bankers dollar acceptances outstanding
A24 Prime rate charged by banks on short-term business loans
A25 Interest rates—money and capital markets
A26 Stock market—Selected statistics
A27 Selected financial institutions—Selected assets and liabilities

FEDERAL FINANCE

A27 Federal fiscal and financing operations
A28 U.S. budget receipts and outlays
A29 Federal debt subject to statutory limitation
A29 Gross public debt of U.S. Treasury—Types and ownership
A30 U.S. government securities dealers—Transactions
A31 U.S. government securities dealers—Positions and financing
A32 Federal and federally sponsored credit agencies—Debt outstanding

SECURITIES MARKETS AND CORPORATE FINANCE

A33 New security issues—State and local governments and corporations
A34 Open-end investment companies—Net sales and asset position
A34 Corporate profits and their distribution
A34 Nonfarm business expenditures on new plant and equipment
A35 Domestic finance companies—Assets and liabilities and business credit

Domestic Financial Statistics—Continued

REAL ESTATE

A36 Mortgage markets
A37 Mortgage debt outstanding

CONSUMER INSTALLMENT CREDIT

A38 Total outstanding and net change
A38 Terms

FLOW OF FUNDS

A39 Funds raised in U.S. credit markets
A41 Summary of financial transactions
A42 Summary of credit market debt outstanding
A43 Summary of financial assets and liabilities

Domestic Nonfinancial Statistics

SELECTED MEASURES

A44 Nonfinancial business activity—Selected measures
A45 Labor force, employment, and unemployment
A46 Output, capacity, and capacity utilization
A47 Industrial production—Indexes and gross value
A49 Housing and construction
A50 Consumer and producer prices
A51 Gross domestic product and income
A52 Personal income and saving

International Statistics

SUMMARY STATISTICS

A53 U.S. international transactions—Summary
A54 U.S. foreign trade
A54 U.S. reserve assets
A54 Foreign official assets held at Federal Reserve Banks
A55 Foreign branches of U.S. banks—Balance sheet data
A57 Selected U.S. liabilities to foreign official institutions

REPORTED BY BANKS IN THE UNITED STATES

A57 Liabilities to and claims on foreigners
A58 Liabilities to foreigners
A60 Banks' own claims on foreigners
A61 Banks' own and domestic customers' claims on foreigners
A61 Banks' own claims on unaffiliated foreigners
A62 Claims on foreign countries—Combined domestic offices and foreign branches

REPORTED BY NONBANKING BUSINESS ENTERPRISES IN THE UNITED STATES

A63 Liabilities to unaffiliated foreigners
A64 Claims on unaffiliated foreigners

SECURITIES HOLDINGS AND TRANSACTIONS

A65 Foreign transactions in securities
A66 Marketable U.S. Treasury bonds and notes—Foreign transactions

INTEREST AND EXCHANGE RATES

A67 Discount rates of foreign central banks
A67 Foreign short-term interest rates
A68 Foreign exchange rates

A69 *Guide to Statistical Releases and Special Tables*

SPECIAL TABLES

A70 Assets and liabilities of commercial banks, December 31, 1992
A76 Terms of lending at commercial banks, February 1–5, 1993
A80 Assets and liabilities of U.S. branches and agencies of foreign banks, December 31, 1992

Guide to Tabular Presentation

SYMBOLS AND ABBREVIATIONS

c	Corrected
e	Estimated
n.a.	Not available
n.e.c.	Not elsewhere classified
p	Preliminary
r	Revised (Notation appears on column heading when about half of the figures in that column are changed.)
*	Amounts insignificant in terms of the last decimal place shown in the table (for example, less than 500,000 when the smallest unit given is millions)
0	Calculated to be zero
. . .	Cell not applicable
ATS	Automatic transfer service
CD	Certificate of deposit
CMO	Collateralized mortgage obligation
FFB	Federal Financing Bank
FHA	Federal Housing Administration
FHLBB	Federal Home Loan Bank Board
FHLMC	Federal Home Loan Mortgage Corporation
FmHA	Farmers Home Administration
FNMA	Federal National Mortgage Association
FSLIC	Federal Savings and Loan Insurance Corporation
G-7	Group of Seven
G-10	Group of Ten
GNMA	Government National Mortgage Association
GDP	Gross domestic product
HUD	Department of Housing and Urban Development
IMF	International Monetary Fund
IO	Interest only
IPCs	Individuals, partnerships, and corporations
IRA	Individual retirement account
MMDA	Money market deposit account
NOW	Negotiable order of withdrawal
OCD	Other checkable deposit
OPEC	Organization of Petroleum Exporting Countries
OTS	Office of Thrift Supervision
PO	Principal only
REIT	Real estate investment trust
REMIC	Real estate mortgage investment conduit
RP	Repurchase agreement
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SCO	Securitized credit obligation
SDR	Special drawing right
SIC	Standard Industrial Classification
SMSA	Standard metropolitan statistical area
VA	Veterans Administration

GENERAL INFORMATION

In many of the tables, components do not sum to totals because of rounding.

Minus signs are used to indicate (1) a decrease, (2) a negative figure, or (3) an outflow.

"U.S. government securities" may include guaranteed issues of U.S. government agencies (the flow of funds figures also include not fully guaranteed issues) as well as direct obligations of the Treasury. "State and local government" also includes municipalities, special districts, and other political subdivisions.

1.10 RESERVES, MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES

Percent annual rate of change, seasonally adjusted[1]

Monetary and credit aggregate	1992				1992			1993	
	Q1[r]	Q2	Q3	Q4[r]	Oct.[r]	Nov.[r]	Dec.[r]	Jan.[r]	Feb.
Reserves of depository institutions[2]									
1 Total	25.2	14.8[r]	9.3	25.8	36.6	22.2	12.0	6.9	5.6
2 Required	25.3	15.3[r]	9.9	25.3	35.4	23.4	9.6	4.7	9.3
3 Nonborrowed	25.8	14.6[r]	8.4	27.1	40.2	23.2	11.6	6.0	8.3
4 Monetary base[3]	9.3	7.8	10.5	12.6	11.5	10.4	10.2	8.3	8.6
Concepts of money, liquid assets, and debt[4]									
5 M1	15.4	10.6	11.7	16.8	19.1	15.7	8.8	7.7	−.5
6 M2	3.2	.3[r]	.8	2.7	3.9	2.3	−.3	−3.1	−4.2
7 M3	1.9	−.6[r]	.1	−.2	−.9	−.4	−3.3	−7.1	−2.3
8 L	1.3	1.3[r]	1.1	2.0	1.3	3.1	−.9	−2.4	n.a.
9 Debt	4.2	5.7[r]	4.9[r]	4.4	2.8	5.7	6.2	3.2	n.a.
Nontransaction components									
10 In M2[5]	−1.1	−3.4[r]	−3.2	−2.8	−2.2	−3.2	−4.0	−7.6	−5.7
11 In M3 only[6]	−4.2	−4.9	−3.6	−14.3	−24.4	−13.8	−18.7	−27.8	8.1
Time and savings deposits									
Commercial banks									
12 Savings, including MMDAs	18.8	12.6	10.9	12.9	14.5	10.3	5.7	−3.2	2.5
13 Small time[7]	−19.6	−13.4	−17.4	−17.1	−17.3	−18.5	−11.5	−10.4	2.1
14 Large time[8,9]	−15.2	−13.3	−18.6	−18.4	−26.5	−16.2	−10.7	−26.9	−6.3
Thrift institutions									
15 Savings, including MMDAs	20.2	18.1	9.2	8.7	7.7	9.9	5.6	1.1	−10.0
16 Small time[7]	−24.0	−29.8	−18.6	−21.6	−26.8	−21.0	−21.1	−15.5	−24.1
17 Large time[8,9]	−26.8	−31.9	−14.9	−11.3	.0	−29.1	−21.0	−3.6	−28.6
Money market mutual funds									
18 General purpose and broker-dealer	−3.0	−6.6[r]	−7.4[r]	−4.2	8.4	−9.0	−4.9	−8.1	−20.5
19 Institution-only	33.0	23.9	32.9	−19.4	−53.3	−9.7	−39.6	−27.3	25.5
Debt components[4]									
20 Federal	10.0	14.4	10.7[r]	6.0	−1.1	10.5	16.3	2.9	n.a.
21 Nonfederal	2.3	2.8[r]	2.9[r]	3.8	4.2	4.0	2.7	3.3	n.a.

1. Unless otherwise noted, rates of change are calculated from average amounts outstanding during preceding month or quarter.
2. Figures incorporate adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.20.)
3. Seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits, and Vault Cash" and for all weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.
4. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the 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 (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) 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, (2) savings (including MMDAs) and small time deposits (time deposits—including retail repurchase agreements (RPs)—in amounts of less than $100,000), and (3) balances in both taxable and tax-exempt general-purpose and broker–dealer money market funds. Excludes individual retirement accounts (IRAs) 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. Seasonally adjusted M2 is computed by adjusting its non-M1 component as a whole and then adding this result to seasonally adjusted M1.

M3: M2 plus (1) large time deposits and term RP liabilities (in amounts of $100,000 or more) issued by all depository institutions, (2) 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 (3) balances in both taxable and tax-exempt, institution-only money market funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also excluded is the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds. Seasonally adjusted M3 is computed by adjusting its non-M2 component as a whole and then adding this result to seasonally adjusted M2.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, net of money market fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: 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. Data are derived from the Federal Reserve Board's flow of funds accounts. Data on debt of domestic nonfinancial sectors are monthly averages, derived by averaging adjacent month-end levels. Growth rates for debt reflect adjustments for discontinuities over time in the levels of debt presented in other tables.

5. Sum of (1) overnight RPs and Eurodollars, (2) money market fund balances (general purpose and broker–dealer), (3) MMDAs, and (4) savings and small time deposits.
6. Sum of (1) large time deposits, (2) term RPs, (3) term Eurodollars of U.S. residents, and (4) money market fund balances (institution-only), less (5) a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds. This sum is seasonally adjusted as a whole.
7. Small time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits.
8. Large time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.
9. Large time deposits at commercial banks less those held by money market funds, depository institutions, and foreign banks and official institutions.

1.11 RESERVES OF DEPOSITORY INSTITUTIONS AND RESERVE BANK CREDIT[1]

Millions of dollars

Factor	Average of daily figures			Average of daily figures for week ending on date indicated						
	1992	1993		1993						
	Dec.	Jan.	Feb.	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	335,874	336,822[r]	334,937	336,140	337,363	332,695[r]	336,314	332,443	334,964	333,564
U.S. government securities[2]										
2 Bought outright—System account	295,258	297,541	297,289	299,052	298,631	296,880	297,221	296,017	297,127	298,136
3 Held under repurchase agreements	3,780	2,582	1,358	864	2,290	0	2,863	0	1,008	0
Federal agency obligations										
4 Bought outright	5,477	5,379	5,271	5,413	5,403	5,331	5,310	5,302	5,260	5,260
5 Held under repurchase agreements	174	189	73	32	168	0	72	0	64	0
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions										
7 Adjustment credit	62	182	22	40	341	71	30	15	14	24
8 Seasonal credit	18	10	18	6	15	10	11	17	19	22
9 Extended credit	1	1	0	0	1	3	2	0	0	0
10 Float	1,310	1,025[r]	763	1,132	741	520[r]	−27	491	1,110	999
11 Other Federal Reserve assets	29,795	29,913	30,143	29,601	29,773	29,879	30,833	30,600	30,362	29,123
12 Gold stock	11,057	11,055	11,055	11,056	11,055	11,055	11,055	11,055	11,055	11,055
13 Special drawing rights certificate account	8,663	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018
14 Treasury currency outstanding	21,432[r]	21,470[r]	21,519	21,461[r]	21,471[r]	21,480[r]	21,490	21,504	21,518	21,532
ABSORBING RESERVE FUNDS										
15 Currency in circulation	330,548[r]	330,334[r]	329,479	331,876[r]	329,742[r]	327,913[r]	326,928	328,530	330,488	330,230
16 Treasury cash holdings	515	505	467	505	502	502	502	466	464	463
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	6,011	7,693	6,018	5,492	6,988	8,761	11,447	5,391	4,791	4,967
18 Foreign	201	215	243	196	212	215	255	222	240	237
19 Service-related balances and adjustments	5,953	6,426[r]	6,304	6,539	6,969	6,224[r]	6,004	6,595	6,197	6,184
20 Other	295	285	302	255	282	276	284	298	305	306
21 Other Federal Reserve liabilities and capital	8,109	8,523	9,006	8,262	8,692	8,739	9,076	9,050	8,925	8,928
22 Reserve balances with Federal Reserve Banks[3]	25,394	23,386[r]	23,709	23,550	24,520	20,618[r]	22,382	22,467	24,144	22,853

Factor	End-of-month figures			Wednesday figures						
	Dec.	Jan.	Feb.	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24
SUPPLYING RESERVE FUNDS										
1 Reserve Bank credit outstanding	342,512	333,077[r]	337,550	334,532	348,010	332,644[r]	338,816	330,218	336,621	335,258
U.S. government securities[2]										
2 Bought outright—System account	295,011	296,977	298,835	296,764	296,550	297,426	297,820	293,932	297,025	299,778
3 Held under repurchase agreements	7,463	0	2,655	0	10,128	0	5,838	0	2,831	0
Federal agency obligations										
4 Bought outright	5,413	5,310	5,225	5,413	5,348	5,310	5,310	5,260	5,260	5,260
5 Held under repurchase agreements	631	0	275	0	1,027	0	0	0	150	0
6 Acceptances	0	0	0	0	0	0	0	0	0	0
Loans to depository institutions										
7 Adjustment credit	671	21	40	36	2,233	251	82	16	17	27
8 Seasonal credit	4	10	17	4	5	15	11	19	22	22
9 Extended credit	0	4	0	0	2	4	0	0	0	0
10 Float	3,253	226[r]	663	2,558	2,196	−343[r]	−1,263	179	1,887	930
11 Other Federal Reserve assets	30,067	30,529	29,841	29,757	30,521	29,982	31,018	30,812	29,430	29,241
12 Gold stock	11,056	11,055	11,055	11,056	11,055	11,055	11,055	11,055	11,055	11,055
13 Special drawing rights certificate account	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018
14 Treasury currency outstanding	21,452[r]	21,490[r]	21,546	21,461[r]	21,471[r]	21,480[r]	21,490	21,504	21,518	21,532
ABSORBING RESERVE FUNDS										
15 Currency in circulation	334,706[r]	326,573[r]	329,638	330,837[r]	329,312[r]	327,140[r]	327,659	329,467	330,993	329,937
16 Treasury cash holdings	508	508	463	502	501	508	466	466	463	463
Deposits, other than reserve balances, with Federal Reserve Banks										
17 Treasury	7,492	9,572	5,350	5,080	17,577	10,750	7,284	4,980	4,869	4,973
18 Foreign	206	244	296	203	226	274	284	200	256	232
19 Service-related balances and adjustments	6,179	6,004[r]	6,420	6,539	6,969	6,224[r]	6,004	6,595	6,197	6,184
20 Other	372	282	302	282	279	273	302	291	324	282
21 Other Federal Reserve liabilities and capital	7,984	9,141	9,180	8,360	8,649	8,624	8,954	8,683	8,773	8,817
22 Reserve balances with Federal Reserve Banks[3]	25,592	21,315[r]	26,519	23,265	25,042	19,404[r]	28,425	20,112	25,338	24,974

1. For amounts of cash held as reserves, see table 1.12.
2. 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.
3. Excludes required clearing balances and adjustments to compensate for float.

1.12 RESERVES AND BORROWINGS Depository Institutions[1]

Millions of dollars

Reserve classification	Prorated monthly averages of biweekly averages									
	1990	1991	1992	1992					1993	
	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 Reserve balances with Reserve Banks[2]	30,237	26,659	25,368	21,272	22,627	23,626	25,462	25,368	23,636	23,515
2 Total vault cash[3]	31,786	32,510	34,535	32,458	32,342	32,987	32,457	34,535	35,991	33,915
3 Applied vault cash[4]	28,884	28,872	31,172	28,890	28,894	29,510	29,205	31,172	32,368[r]	30,368
4 Surplus vault cash[5]	2,903	3,638	3,364	3,568	3,448	3,477	3,252	3,364	3,624	3,547
5 Total reserves[6]	59,120	55,532	56,540	50,162	51,521	53,136	54,666	56,540	56,004[r]	53,882
6 Required reserves	57,456	54,553	55,385	49,227	50,527	52,062	53,624	55,385	54,744[r]	52,778
7 Excess reserve balances at Reserve Banks[7]	1,664	979	1,155	935	994	1,074	1,043	1,155	1,260[r]	1,104
8 Total borrowings at Reserve Banks[8]	326	192	124	251	287	143	104	124	165	45
9 Seasonal borrowings	76	38	18	223	193	114	40	18	11	18
10 Extended credit[9]	23	1	1	0	0	0	0	1	1	0
	Biweekly averages of daily figures for weeks ending									
	1992					1993				
	Oct. 28	Nov. 11	Nov. 25	Dec. 9	Dec. 23	Jan. 6	Jan. 20	Feb. 3[r]	Feb. 17	Mar. 3
1 Reserve balances with Reserve Banks[2]	23,031	25,535	25,730	24,548	25,209	26,569	24,057	21,500	23,301	24,335
2 Total vault cash[3]	33,324	31,688	32,398	34,315	34,770	34,374	36,389	36,369	34,765	32,164
3 Applied vault cash[4]	29,790	28,539	29,117	30,918	31,373	31,105	32,829	32,470	31,069	28,902
4 Surplus vault cash[5]	3,534	3,150	3,281	3,397	3,397	3,269	3,560	3,899	3,696	3,262
5 Total reserves[6]	52,821	54,074	54,846	55,466	56,582	57,674	56,886	53,970	54,370	53,237
6 Required reserves	51,750	53,346	53,485	54,625	55,357	56,289	55,657	52,740	52,875	52,666
7 Excess reserve balances at Reserve Banks[7]	1,071	728	1,361	841	1,225	1,385	1,229	1,230	1,495	571
8 Total borrowings at Reserve Banks[8]	118	66	138	95	60	269	202	64	33	56
9 Seasonal borrowings	95	53	37	22	19	12	11	11	18	20
10 Extended credit[9]	0	0	0	0	2	0	1	3	0	0

1. Data in this table also appear in the Board's H.3 (502) weekly statistical release. For ordering address, see inside front cover.
2. Excludes required clearing balances and adjustments to compensate for float and includes other off-balance-sheet "as-of" adjustments.
3. Total "lagged" vault cash held by depository institutions subject to reserve requirements. Dates refer to the maintenance periods during which the vault cash can be used to satisfy reserve requirements. Under contemporaneous reserve requirements, maintenance periods end thirty days after the lagged computation periods during which the balances are held.
4. All vault cash held during the lagged computation period by "bound" institutions (that is, those whose required reserves exceed their vault cash) plus the amount of vault cash applied during the maintenance period by "nonbound" institutions (that is, those whose vault cash exceeds their required reserves) to satisfy current reserve requirements.
5. Total vault cash (line 2) less applied vault cash (line 3).
6. Reserve balances with Federal Reserve Banks (line 1) plus applied vault cash (line 3).
7. Total reserves (line 5) less required reserves (line 6).
8. Also includes adjustment credit.
9. Consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

1.13 SELECTED BORROWINGS IN IMMEDIATELY AVAILABLE FUNDS Large Banks[1]

Millions of dollars, averages of daily figures

Source and maturity	1992, week ending Monday					1993, week ending Monday			
	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28	Jan. 4	Jan. 11	Jan. 18	Jan. 25
Federal funds purchased, repurchase agreements, and other selected borrowings									
From commercial banks in the United States									
1 For one day or under continuing contract	73,294	78,107	79,155	74,281	71,828	74,139	75,338	71,955	66,880
2 For all other maturities	16,355	15,108	14,754	14,242	13,825	14,747	13,384	13,895	13,456
From other depository institutions, foreign banks and official institutions, and U.S. government agencies									
3 For one day or under continuing contract	17,881	16,203	18,475	19,157	20,597	19,060	20,531	20,277	19,871
4 For all other maturities	19,369	18,294	19,201	19,013	18,783	16,955	17,419	17,441	17,469
Repurchase agreements on U.S. government and federal agency securities									
Brokers and nonbank dealers in securities									
5 For one day or under continuing contract	11,784	12,150	11,568	11,118	10,237	9,686	11,114	8,554	10,218
6 For all other maturities	20,397	20,577	22,850	18,899	18,183	18,317	18,434	18,775	18,836
All other customers									
7 For one day or under continuing contract	20,912	23,747	23,883	23,265	22,808	23,609	23,604	23,692	24,415
8 For all other maturities	15,722	13,102	13,173	12,897	14,151	13,594	13,567	13,755	13,344
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	36,849	40,002	38,196	38,439	37,991	41,221	37,458	37,316	37,614
10 To all other specified customers[2]	20,546	22,053	22,097	20,570	18,270	20,750	18,322	22,669	19,362

1. Banks with assets of $4 billion or more as of Dec. 31, 1988.
Data in this table also appear in the Board's H.5 (507) weekly statistical release. For ordering address, see inside front cover.

2. Brokers and nonbank dealers in securities, other depository institutions, foreign banks and official institutions, and U.S. government agencies.

1.14 FEDERAL RESERVE BANK INTEREST RATES

Percent per year

Current and previous levels

Federal Reserve Bank	Adjustment credit[1]			Seasonal credit[2]			Extended credit[3]		
	On 4/2/93	Effective date	Previous rate	On 4/2/93	Effective date	Previous rate	On 4/2/93	Effective date	Previous rate
Boston	3	7/2/92	3.5	3.10	4/1/93	3.05	3.60	4/1/93	3.55
New York		7/2/92			4/1/93			4/1/93	
Philadelphia		7/2/92			4/1/93			4/1/93	
Cleveland		7/6/92			4/1/93			4/1/93	
Richmond		7/2/92			4/1/93			4/1/93	
Atlanta		7/2/92			4/1/93			4/1/93	
Chicago		7/2/92			4/1/93			4/1/93	
St. Louis		7/7/92			4/1/93			4/1/93	
Minneapolis		7/2/92			4/1/93			4/1/93	
Kansas City		7/2/92			4/1/93			4/1/93	
Dallas		7/2/92			4/1/93			4/1/93	
San Francisco	3	7/2/92	3.5	3.10	4/1/93	3.05	3.60	4/1/93	3.55

Range of rates for adjustment credit in recent years[4]

Effective date	Range (or level)— All F.R. Banks	F.R. Bank of N.Y.
In effect Dec. 31, 1977	6	6
1978—Jan. 9	6–6.5	6.5
20	6.5	6.5
May 11	6.5–7	7
12	7	7
July 3	7–7.25	7.25
10	7.25	7.25
Aug. 21	7.75	7.75
Sept. 22	8	8
Oct. 16	8–8.5	8.5
20	8.5	8.5
Nov. 1	8.5–9.5	9.5
3	9.5	9.5
1979—July 20	10	10
Aug. 17	10–10.5	10.5
20	10.5	10.5
Sept. 19	10.5–11	11
21	11	11
Oct. 8	11–12	12
10	12	12
1980—Feb. 15	12–13	13
19	13	13
May 29	12–13	13
30	12	12
June 13	11–12	11
16	11	11
29	10	10
July 28	10–11	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	11.5–12	11.5
23	11.5	11.5
Aug. 2	11–11.5	11
3	11	11
16	10.5	10.5
27	10–10.5	10
30	10	10
Oct. 12	9.5–10	9.5
13	9.5	9.5
Nov. 22	9–9.5	9
26	9	9
Dec. 14	8.5–9	9
15	8.5–9	8.5
17	8.5	8.5
1984—Apr. 9	8.5–9	9
13	9	9
Nov. 21	8.5–9	8.5
26	8.5	8.5
Dec. 24	8	8
1985—May 20	7.5–8	7.5
24	7.5	7.5
1986—Mar. 7	7–7.5	7
10	7	7
Apr. 21	6.5–7	6.5
July 11	6	6
1986—Aug. 21	5.5–6	5.5
22	5.5	5.5
1987—Sept. 4	5.5–6	6
11	6	6
1988—Aug. 9	6–6.5	6.5
11		
1989—Feb. 24	6.5–7	7
27	7	7
1990—Dec. 19	6.5	6.5
1991—Feb. 1	6–6.5	6
4	6	6
Apr. 30	5.5–6	5.5
May 2	5.5	5.5
Sept. 13	5–5.5	5
Sept. 17	5	5
Nov. 6	4.5–5	4.5
7	4.5	4.5
Dec. 20	3.5–4.5	3.5
24	3.5	3.5
1992—July 2	3–3.5	3
7	3	3
In effect Apr. 2, 1993	3	3

1. Available on a short-term basis to help depository institutions meet temporary needs for funds that cannot be met through reasonable alternative sources. The highest rate established for loans to depository institutions may be charged on adjustment-credit loans of unusual size that result from a major operating problem at the borrower's facility.

2. Available to help relatively small depository institutions meet regular seasonal needs for funds that arise from a clear pattern of intrayearly movements in their deposits and loans and that cannot be met through special industry lenders. The discount rate on seasonal credit takes into account rates on market sources of funds and ordinarily is reestablished on the first business day of each two-week reserve maintenance period; however, it is never less than the discount rate applicable to adjustment credit.

3. May be made available to depository institutions when similar assistance is not reasonably available from other sources, including special industry lenders. Such credit may be provided when exceptional circumstances (including sustained deposit drains, impaired access to money market funds, or sudden deterioration in loan repayment performance) or practices involve only a particular institution, or to meet the needs of institutions experiencing difficulties adjusting to changing market conditions over a longer period (particularly at times of deposit disintermediation). The discount rate applicable to adjustment credit ordinarily is charged on extended-credit loans outstanding less than thirty days; however, at the discretion of the Federal Reserve Bank, this time period may be shortened. Beyond this initial period, a flexible rate somewhat above rates on market sources of funds is charged. The rate ordinarily is reestablished on the first business day of each two-week reserve maintenance period, but it is never less than the discount rate applicable to adjustment credit plus 50 basis points.

4. For earlier data, see the following publications of the Board of Governors: *Banking and Monetary Statistics, 1914–1941*, and *1941–1970*; and the *Annual Statistical Digest, 1970–1979.*

In 1980 and 1981, the Federal Reserve applied a surcharge to short-term adjustment-credit borrowings by institutions with deposits of $500 million or more that had borrowed in successive weeks or in more than four weeks in a calendar quarter. A 3 percent surcharge was in effect from Mar. 17, 1980, through May 7, 1980. A surcharge of 2 percent was reimposed on Nov. 17, 1980; the surcharge was subsequently raised to 3 percent on Dec. 5, 1980, and to 4 percent on May 5, 1981. The surcharge was reduced to 3 percent effective Sept. 22, 1981, and to 2 percent effective Oct. 12, 1981. As of Oct. 1, 1981, the formula for applying the surcharge was changed from a calendar quarter to a moving thirteen-week period. The surcharge was eliminated on Nov. 17, 1981.

1.15 RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS[1]

Type of deposit[2]	Requirements	
	Percent of deposits	Effective date
Net transaction accounts[3]		
1 $0 million–$46.8 million	3	12/15/92
2 More than $46.8 million[4]	10	12/15/92
3 Nonpersonal time deposits[5]	0	12/27/90
4 Eurocurrency liabilities[6]	0	12/27/90

1. Required reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Nonmember institutions may maintain reserve balances with a Federal Reserve Bank indirectly on a pass-through basis with certain approved institutions. For previous reserve requirements, see earlier editions of the *Annual Report* or the *Federal Reserve Bulletin*. Under 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 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. 15, 1992, the exemption was raised from $3.6 million to $3.8 million. The exemption applies in the following order: (1) net negotiable order of withdrawal (NOW) accounts (NOW accounts less allowable deductions); and (2) net other transaction accounts. The exemption applies only to accounts that would be subject to a 3 percent reserve requirement.

3. Include all deposits against 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, money market deposit accounts (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 may be checks, are not transaction accounts (such accounts are savings deposits).

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. 15, 1992, for institutions reporting quarterly, and Dec. 24, 1992, for institutions reporting weekly, the amount was increased from $42.2 million to $46.8 million.

4. The reserve requirement was reduced from 12 percent to 10 percent on Apr. 2, 1992, for institutions that report weekly, and on Apr. 16, 1992, for institutions that report quarterly.

5. For institutions that report weekly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to 1½ percent for the maintenance period that began Dec. 13, 1990, and to zero for the maintenance period that began Dec. 27, 1990. The reserve requirement on nonpersonal time deposits with an original maturity of 1½ years or more has been zero since Oct. 6, 1983.

For institutions that report quarterly, the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years was reduced from 3 percent to zero on Jan. 17, 1991.

6. The reserve requirement on Eurocurrency liabilities was reduced from 3 percent to zero in the same manner and on the same dates as were the reserve requirement on nonpersonal time deposits with an original maturity of less than 1½ years (see note 4).

1.17 FEDERAL RESERVE OPEN MARKET TRANSACTIONS[1]

Millions of dollars

	Type of transaction	1990	1991	1992	1992						1993
					July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	U.S. Treasury Securities										
	Outright transactions (excluding matched transactions)										
	Treasury bills										
1	Gross purchases	24,739	20,158	14,714	0	271	595	4,072	1,064	3,669	0
2	Gross sales	7,291	120	1,628	0	0	0	0	0	0	0
3	Exchanges	241,086	277,314	308,699	30,755	25,041	22,277	28,907	25,468	29,562	24,542
4	Redemptions	4,400	1,000	1,600	0	0	0	0	0	0	0
	Others within one year										
5	Gross purchases	425	3,043	1,096	0	0	350	0	461	0	0
6	Gross sales	0	0	0	0	0	0	0	0	0	0
7	Maturity shifts	25,638	24,454	36,662	985	4,448	2,753	2,010	7,160	2,777	561
8	Exchanges	-27,424	-28,090	-30,543	-1,669	-4,617	-1,905	-982	-4,615	-1,570	-1,202
9	Redemptions	0	1,000	0	0	0	0	0	0	0	0
	One to five years										
10	Gross purchases	250	6,583	13,118	0	400	3,500	200	4,172	200	0
11	Gross sales	200	0	0	0	0	0	0	0	0	0
12	Maturity shifts	-21,770	-21,211	-34,478	-514	-4,036	-2,753	-1,762	-6,800	-2,777	-64
13	Exchanges	25,410	24,594	25,811	1,478	3,567	1,905	884	3,415	1,570	882
	Five to ten years										
14	Gross purchases	0	1,280	2,818	0	195	750	0	1,176	100	0
15	Gross sales	100	0	0	0	0	0	0	0	0	0
16	Maturity shifts	-2,186	-2,037	-1,915	-471	-412	0	-248	-187	0	-497
17	Exchanges	789	2,894	3,532	191	700	0	97	800	0	0
	More than ten years										
18	Gross purchases	0	375	2,333	0	0	731	0	947	0	0
19	Gross sales	0	0	0	0	0	0	0	0	0	0
20	Maturity shifts	-1,681	-1,209	-269	0	0	0	0	-173	0	0
21	Exchanges	1,226	600	1,200	0	350	0	0	400	0	0
	All maturities										
22	Gross purchases	25,414	31,439	34,079	0	866	5,927	4,272	7,820	3,969	0
23	Gross sales	7,591	120	1,628	0	0	0	0	0	0	0
24	Redemptions	4,400	1,000	1,600	0	0	0	0	0	0	0
	Matched transactions										
25	Gross sales	1,369,052	1,570,456	1,482,467	127,051	103,708	116,331	116,024	115,020	144,232	114,543
26	Gross purchases	1,363,434	1,571,534	1,480,140	126,137	101,410	115,579	114,917	117,020	142,578	116,510
	Repurchase agreements[2]										
27	Gross purchases	219,632	310,084	378,374	12,224	39,484	68,697	18,698	42,373	48,904	34,768
28	Gross sales	202,551	311,752	386,257	12,224	31,868	59,628	35,383	39,117	44,697	42,231
29	Net change in U.S. government securities	24,886	29,729	20,642	-914	6,184	14,244	-13,520	13,075	6,521	-5,497
	Federal Agency Obligations										
	Outright transactions										
30	Gross purchases	0	0	0	0	0	0	0	0	0	0
31	Gross sales	0	5	0	0	0	0	0	0	0	0
32	Redemptions	183	292	632	85	54	37	0	0	121	103
	Repurchase agreements[2]										
33	Gross purchases	41,836	22,807	14,565	94	601	3,222	1,778	2,760	1,601	2,237
34	Gross sales	40,461	23,595	14,486	94	548	1,800	3,253	2,506	1,224	2,868
35	Net change in federal agency obligations	1,192	-1,085	-554	-85	-1	1,385	-1,475	254	256	-734
36	**Total net change in System Open Market Account**	**26,078**	**28,644**	**20,089**	**-1,000**	**6,183**	**15,629**	**-14,995**	**13,329**	**6,777**	**-6,231**

1. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings.

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		
	1993					1992	1993	
	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24	Dec. 31	Jan. 31	Feb. 28
	Consolidated condition statement							
ASSETS								
1 Gold certificate account	11,055	11,055	11,055	11,055	11,055	11,056	11,055	11,055
2 Special drawing rights certificate account	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018
3 Coin	508	528	542	540	531	446	519	525
Loans								
4 To depository institutions	269	94	35	39	49	675	35	57
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	5,310	5,310	5,260	5,260	5,260	5,413	5,310	5,225
8 Held under repurchase agreements	0	0	0	150	0	631	0	275
9 **Total U.S. Treasury securities**	**297,426**	**303,658**	**293,932**	**299,856**	**299,778**	**302,474**	**296,977**	**301,490**
10 Bought outright[2]	297,426	297,820	293,932	297,025	299,778	295,011	296,977	298,835
11 Bills	144,210	144,604	140,715	143,809	146,562	141,794	143,761	145,618
12 Notes	118,179	118,179	118,179	117,955	117,955	118,179	118,179	117,955
13 Bonds	35,037	35,037	35,037	35,261	35,261	35,037	35,037	35,261
14 Held under repurchase agreements	0	5,838	0	2,831	0	7,463	0	2,655
15 **Total loans and securities**	**303,005**	**309,062**	**299,226**	**305,305**	**305,087**	**309,192**	**302,321**	**307,046**
16 Items in process of collection	5,337	5,796	5,277	10,475	5,131	8,378	4,565	4,937
17 Bank premises	1,026	1,029	1,025	1,025	1,026	1,026	1,026	1,026
Other assets								
18 Denominated in foreign currencies[3]	21,609	21,990	22,010	22,032	22,062	21,514	21,980	22,263
19 All other[4]	7,373	8,005	7,717	6,428	6,168	7,738	7,572	6,577
20 **Total assets**	**357,932**	**365,482**	**354,870**	**364,879**	**359,077**	**367,368**	**357,057**	**361,446**
LIABILITIES								
21 Federal Reserve notes	306,675	307,163	308,972	310,479	309,399	314,208	306,110	309,080
22 **Total deposits**	**38,052**	**43,912**	**32,477**	**37,591**	**36,403**	**40,148**	**37,632**	**39,034**
23 Depository institutions	26,753	36,041	27,007	32,142	30,916	32,079	27,533	33,085
24 U.S. Treasury—General account	10,750	7,284	4,980	4,869	4,973	7,492	9,572	5,350
25 Foreign—Official accounts	274	284	200	256	232	206	244	296
26 Other	273	302	291	324	282	372	282	302
27 Deferred credit items	4,580	5,453	4,738	8,036	4,458	5,028	4,174	4,152
28 Other liabilities and accrued dividends[5]	2,281	2,254	2,213	2,307	2,304	1,876	2,288	2,323
29 **Total liabilities**	**351,589**	**358,782**	**348,400**	**358,413**	**352,565**	**361,260**	**350,204**	**354,589**
CAPITAL ACCOUNTS								
30 Capital paid in	3,069	3,074	3,078	3,084	3,110	3,054	3,074	3,116
31 Surplus	2,967	3,027	3,037	3,048	3,054	3,054	2,974	3,054
32 Other capital accounts	307	599	356	334	349	0	806	687
33 **Total liabilities and capital accounts**	**357,932**	**365,482**	**354,870**	**364,879**	**359,077**	**367,368**	**357,057**	**361,446**
MEMO								
34 Marketable U.S. Treasury securities held in custody for foreign and international accounts	300,586	301,377	305,792	303,503	301,356	291,393	297,501	306,378
	Federal Reserve note statement							
35 Federal Reserve notes outstanding (issued to Bank)	366,095	366,998	368,277	369,273	370,402	363,479	366,486	370,756
36 LESS: Held by Federal Reserve Bank	59,420	59,835	59,305	58,795	61,003	49,271	60,376	61,676
37 Federal Reserve notes, net	306,675	307,163	308,972	310,479	309,399	314,208	306,110	309,080
Collateral held against notes, net:								
38 Gold certificate account	11,055	11,055	11,055	11,055	11,055	11,056	11,055	11,055
39 Special drawing rights certificate account	8,018	8,018	8,018	8,018	8,018	8,018	8,018	8,018
40 Other eligible assets	0	0	0	0	0	0	0	0
41 U.S. Treasury and agency securities	287,602	288,090	289,899	291,405	290,326	295,134	287,037	290,007
42 **Total collateral**	**306,675**	**307,163**	**308,972**	**310,479**	**309,399**	**314,208**	**306,110**	**309,080**

1. Some of the data in this table also appear in the Board's H.4.1 (503) weekly statistical release. For ordering address, see inside front cover.
2. Includes securities loaned—fully guaranteed by U.S. Treasury securities pledged with Federal Reserve Banks—and excludes securities sold and scheduled to be bought back under matched sale–purchase transactions.
3. Valued monthly at market exchange rates.
4. Includes special investment account at the Federal Reserve Bank of Chicago in Treasury bills maturing within ninety days.
5. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign exchange commitments.

1.19 FEDERAL RESERVE BANKS Maturity Distribution of Loan and Security Holding[1]

Millions of dollars

Type and maturity grouping	Wednesday					End of month		
	1993					1992	1993	
	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24	Dec. 31	Jan. 31	Feb. 28
1 **Total loans**	**269**	**94**	**35**	**39**	**49**	**675**	**35**	**57**
2 Within fifteen days	268	89	28	39	48	673	33	54
3 Sixteen days to ninety days	1	5	7	1	1	1	1	3
4 Ninety-one days to one year	0	0	0	0	0	0	0	0
5 **Total acceptances**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
6 Within fifteen days	0	0	0	0	0	0	0	0
7 Sixteen days to ninety days	0	0	0	0	0	0	0	0
8 Ninety-one days to one year	0	0	0	0	0	0	0	0
9 **Total U.S. Treasury securities**	**297,426**	**303,658**	**293,931**	**299,856**	**299,778**	**302,474**	**296,977**	**301,490**
10 Within fifteen days[2]	14,844	25,456	17,168	14,651	17,416	12,824	9,160	13,331
11 Sixteen days to ninety days	68,910	64,593	66,747	69,642	66,774	70,610	74,289	72,699
12 Ninety-one days to one year	98,456	98,149	94,556	97,536	97,561	103,582	98,311	97,433
13 One year to five years	68,686	68,930	68,930	70,291	70,291	68,750	68,686	70,291
14 Five years to ten years	18,726	18,726	18,726	19,628	19,628	18,903	18,726	19,628
15 More than ten years	27,805	27,805	27,805	28,108	28,108	27,805	27,805	28,108
16 **Total federal agency obligations**	**5,310**	**5,310**	**5,260**	**5,410**	**5,260**	**6,044**	**5,310**	**5,500**
17 Within fifteen days[2]	183	75	35	523	483	821	183	723
18 Sixteen days to ninety days	840	955	920	582	513	810	840	513
19 Ninety-one days to one year	1,023	1,016	1,016	1,016	975	1,064	1,023	1,022
20 One year to five years	2,426	2,426	2,436	2,436	2,436	2,511	2,426	2,389
21 Five years to ten years	696	696	711	711	711	696	696	711
22 More than ten years	142	142	142	142	142	142	142	142

1. Holdings under repurchase agreements are classified as maturing within fifteen days in accordance with maximum maturity of the agreements.

1.20 AGGREGATE RESERVES OF DEPOSITORY INSTITUTIONS AND MONETARY BASE[1]

Billions of dollars, averages of daily figures

Item	1989 Dec.	1990 Dec.	1991 Dec.	1992 Dec.[r]	1992[r]						1993	
					July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[2]	Seasonally adjusted											
1 Total reserves[3]	40.56	41.83	45.53[r]	54.35	49.63	50.34	51.27	52.84	53.82	54.35	54.67[r]	54.92
2 Nonborrowed reserves[4]	40.29	41.51	45.34[r]	54.23	49.35	50.09	50.99	52.69	53.71	54.23	54.50[r]	54.88
3 Nonborrowed reserves plus extended credit[5]	40.31	41.53	45.34[r]	54.23	49.35	50.09	50.99	52.69	53.71	54.23	54.50[r]	54.88
4 Required reserves	39.64	40.17	44.56[r]	53.20	48.66	49.41	50.28	51.76	52.77	53.20	53.41[r]	53.82
5 Monetary base[6]	267.77	293.29	317.17[r]	350.80	333.18	336.84	341.59	344.85	347.83	350.80	353.22[r]	355.74
	Not seasonally adjusted											
6 Total reserves[7]	41.77	43.07	46.98	56.06	49.49	49.78	51.07	52.62	54.08	56.06	55.97	53.81
7 Nonborrowed reserves	41.51	42.74	46.78	55.93	49.21	49.53	50.78	52.47	53.97	55.93	55.80	53.77
8 Nonborrowed reserves plus extended credit[5]	41.53	42.77	46.78	55.93	49.21	49.53	50.78	52.47	53.97	55.93	55.80	53.77
9 Required reserves[8]	40.85	41.40	46.00	54.90	48.53	48.84	50.08	51.54	53.04	54.90	54.71	52.71
10 Monetary base[9]	271.18	296.68	321.07	354.55	334.08	336.57	340.08	343.63	347.89	354.55	354.41[r]	353.19
NOT ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS[10]												
11 Total reserves[11]	62.81	59.12	55.53	56.54	49.82	50.16	51.52	53.14	54.67	56.54	56.00	53.88
12 Nonborrowed reserves	62.54	58.80	55.34	56.42	49.54	49.91	51.23	52.99	54.56	56.42	55.84	53.84
13 Nonborrowed reserves plus extended credit[5]	62.56	58.82	55.34	56.42	49.54	49.91	51.23	52.99	54.56	56.42	55.84	53.84
14 Required reserves	61.89	57.46	54.55	55.39	48.86	49.23	50.53	52.06	53.62	55.39	54.74[r]	52.78
15 Monetary base[12]	292.55	313.70	333.61	360.90	339.87	342.49	346.21	349.81	354.25	360.90	360.88[r]	359.57
16 Excess reserves[13]	.92	1.66	.98	1.16	.97	.94	.99	1.07	1.04	1.16	1.26	1.10
17 Borrowings from the Federal Reserve	.27	.33	.19	.12	.28	.25	.29	.14	.10	.12	.17	.05

1. Latest monthly and biweekly figures are available from the Board's H.3 (502) weekly 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, DC 20551.

2. Figures reflect adjustments for discontinuities, or "breaks," associated with regulatory changes in reserve requirements. (See also table 1.10)

3. Seasonally adjusted, break-adjusted total reserves equal seasonally adjusted, break-adjusted required reserves (line 4) plus excess reserves (line 16).

4. Seasonally adjusted, break-adjusted nonborrowed reserves equal seasonally adjusted, break-adjusted total reserves (line 1) less total borrowings of depository institutions from the Federal Reserve (line 17).

5. Extended credit consists of borrowing at the discount window under the terms and conditions established for the extended credit program to help depository institutions deal with sustained liquidity pressures. Because there is not the same need to repay such borrowing promptly as there is with traditional short-term adjustment credit, the money market impact of extended credit is similar to that of nonborrowed reserves.

6. The seasonally adjusted, break-adjusted monetary base consists of (1) seasonally adjusted, break-adjusted total reserves (line 1), plus (2) the seasonally adjusted currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the seasonally adjusted, break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

7. Break-adjusted total reserves equal break-adjusted required reserves (line 9) plus excess reserves (line 16).

8. To adjust required reserves for discontinuities that are due to regulatory changes in reserve requirements, a multiplicative procedure is used to estimate what required reserves would have been in past periods had current reserve requirements been in effect. Break-adjusted required reserves include required reserves against transactions deposits and nonpersonal time and savings deposits (but not reservable nondeposit liabilities).

9. The break-adjusted monetary base equals (1) break-adjusted total reserves (line 6), plus (2) the (unadjusted) currency component of the money stock, plus (3) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all weekly reporters whose vault cash exceeds their required reserves) the break-adjusted difference between current vault cash and the amount applied to satisfy current reserve requirements.

10. Reflects actual reserve requirements, including those on nondeposit liabilities, with no adjustments to eliminate the effects of discontinuities associated with changes in reserve requirements.

11. Reserve balances with Federal Reserve Banks plus vault cash used to satisfy reserve requirements.

12. The monetary base, not break-adjusted and not seasonally adjusted, consists of (1) total reserves (line 11), plus (2) required clearing balances and adjustments to compensate for float at Federal Reserve Banks, plus (3) the currency component of the money stock, plus (4) (for all quarterly reporters on the "Report of Transaction Accounts, Other Deposits and Vault Cash" and for all those weekly reporters whose vault cash exceeds their required reserves) the difference between current vault cash and the amount applied to satisfy current reserve requirements. Since the introduction of changes in reserve requirements (CRR), currency and vault cash figures have been measured over the computation periods ending on Mondays.

13. Unadjusted total reserves (line 11) less unadjusted required reserves (line 14).

1.21 MONEY STOCK, LIQUID ASSETS, AND DEBT MEASURES[1]

Billions of dollars, averages of daily figures

Item	1989 Dec.	1990 Dec.	1991 Dec.	1992 Dec.[r]	1992		1993	
					Nov.	Dec.[r]	Jan.[r]	Feb.
	Seasonally adjusted							
Measures[2]								
1 M1	794.1	826.1	899.3	1,026.6	1,019.1	1,026.6	1,033.2	1,032.8
2 M2	3,227.3	3,339.0	3,445.8	3,497.3	3,498.1[r]	3,497.3	3,488.2	3,476.1
3 M3	4,059.8	4,114.6	4,168.1	4,167.1	4,178.5[r]	4,167.1	4,142.6	4,134.8
4 L	4,890.6	4,965.2	4,982.2	5,051.3	5,055.0[r]	5,051.3	5,041.1	n.a.
5 Debt	10,076.7	10,751.3	11,192.7[r]	11,768.2	11,707.6[r]	11,768.2	11,799.7	n.a.
M1 components								
6 Currency[3]	222.6	246.8	267.2	292.3	289.8	292.3	294.8	296.9
7 Travelers checks[4]	7.4	8.3	7.8	8.1	8.2	8.1	8.0	8.0
8 Demand deposits[5]	279.0	277.1	290.5	340.9	339.5	340.9	342.0	341.9
9 Other checkable deposits[6]	285.1	293.9	333.8	385.2	381.6	385.2	388.5	386.1
Nontransaction components								
10 In M2[7]	2,433.2	2,512.9	2,546.6	2,470.7	2,479.0[r]	2,470.7	2,455.0	2,443.3
11 In M3[8]	832.5	775.6	722.3	669.8	680.4[r]	669.8	654.3	658.7
Commercial banks								
12 Savings deposits, including MMDAs	541.5	581.9	666.2	756.1	752.5	756.1	754.1	755.7
13 Small time deposits[9]	531.0	606.4	601.5	507.0	511.9	507.0	502.6	503.5
14 Large time deposits[10, 11]	398.2	374.0	341.3	290.2	292.8	290.2	283.7	282.2
Thrift institutions								
15 Savings deposits, including MMDAs	349.7	338.8	376.3	429.9	427.9	429.9	430.3	426.7
16 Small time deposits[9]	617.5	562.3	463.2	363.5	370.0	363.5	358.8	351.6
17 Large time deposits[10]	161.1	120.9	83.4	67.3	68.5	67.3	67.1	65.5
Money market mutual funds								
18 General purpose and broker–dealer	316.3	348.9	363.9	342.3	343.7[r]	342.3	340.0	334.2
19 Institution-only	107.2	133.7	182.1	202.3	209.2	202.3	197.7	201.9
Debt components								
20 Federal debt	2,249.5	2,493.4	2,764.8	3,068.8	3,027.6[r]	3,068.8	3,076.3	n.a.
21 Nonfederal debt	7,827.2	8,258.0	8,428.0[r]	8,699.4	8,679.9[r]	8,699.4	8,723.5	n.a.
	Not seasonally adjusted							
Measures[2]								
22 M1	811.9	844.1	916.4	1,045.7	1,021.5	1,045.7	1,040.1	1,022.0
23 M2	3,240.0	3,351.9	3,457.9	3,511.5	3,500.9[r]	3,511.5	3,494.0	3,470.1
24 M3	4,070.3	4,124.7	4,178.1	4,179.2	4,183.8[r]	4,179.2	4,145.2	4,132.2
25 L	4,909.9	4,984.9	5,004.2	5,076.1	5,068.0[r]	5,076.1	5,058.1	n.a.
26 Debt	10,063.6	10,739.9	11,182.8[r]	11,760.6	11,689.9[r]	11,760.6	11,787.0	n.a.
M1 components								
27 Currency[3]	225.3	249.5	269.9	295.0	290.0	295.0	293.6	295.3
28 Travelers checks[4]	6.9	7.8	7.4	7.8	7.9	7.8	7.8	7.7
29 Demand deposits[5]	291.5	289.9	302.9	355.3	343.9	355.3	346.2	334.3
30 Other checkable deposits[6]	288.1	296.9	336.3	387.6	379.7	387.6	392.6	384.6
Nontransaction components								
31 In M2[7]	2,428.1	2,507.8	2,541.5	2,465.8	2,479.4[r]	2,465.8	2,453.9	2,448.1
32 In M3[8]	830.3	772.8	720.1	667.7	682.8[r]	667.7	651.2	662.1
Commercial banks								
33 Savings deposits, including MMDAs	543.0	580.0	663.3	752.3	751.9	752.3	749.5	753.1
34 Small time deposits[9]	529.5	606.3	602.0	507.8	512.5	507.8	504.3	504.2
35 Large time deposits[10, 11]	397.1	373.0	340.1	289.1	292.7	289.1	281.7	281.8
Thrift institutions								
36 Savings deposits, including MMDAs	347.6	337.7	374.7	427.8	427.5	427.8	427.6	425.2
37 Small time deposits[9]	616.0	562.2	463.6	364.1	370.5	364.1	360.1	352.1
38 Large time deposits[10]	162.0	120.6	83.1	67.1	68.5	67.1	66.6	65.4
Money market mutual funds								
39 General purpose and broker–dealer	314.6	346.8	361.5	340.0	341.9[r]	340.0	339.5	340.4
40 Institution-only	107.8	134.4	182.4	202.4	209.5	202.4	202.3	210.3
Repurchase agreements and eurodollars								
41 Overnight	77.5	74.7	76.3	73.9	75.1[r]	73.9	72.8	73.2
42 Term	178.5	158.3	130.1	126.5	128.5[r]	126.5	123.7	128.4
Debt components								
43 Federal debt	2,247.5	2,491.3	2,765.0	3,069.8	3,028.3	3,069.8	3,076.2	n.a.
44 Nonfederal debt	7,816.2	8,248.6	8,417.9[r]	8,690.8	8,661.7[r]	8,690.8	8,710.8	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) weekly statistical release. Historical data are available from the Money and Reserves Projection Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.

2. Composition of the money stock measures and debt is as follows:

M1: (1) currency outside the 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 (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions. Seasonally adjusted M1 is computed by summing currency, travelers checks, demand deposits, and OCDs, each seasonally adjusted separately.

M2: M1 plus (1) 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, (2) savings (including MMDAs) and small time deposits (time deposits—including retail RPs—in amounts of less than $100,000), and (3) balances in both taxable and tax-exempt general purpose and broker–dealer money market funds. Excludes individual retirement accounts (IRAs) 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. Seasonally adjusted M2 is computed by adjusting its non-M1 component as a whole and then adding this result to seasonally adjusted M1.

M3: M2 plus (1) large time deposits and term RP liabilities (in amounts of $100,000 or more) issued by all depository institutions, (2) 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 (3) balances in both taxable and tax-exempt, institution-only money market funds. Excludes amounts held by depository institutions, the U.S. government, money market funds, and foreign banks and official institutions. Also excluded is the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds. Seasonally adjusted M3 is computed by adjusting its non-M2 component as a whole and then adding this result to seasonally adjusted M2.

L: M3 plus the nonbank public holdings of U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, net of money market fund holdings of these assets. Seasonally adjusted L is computed by summing U.S. savings bonds, short-term Treasury securities, commercial paper, and bankers acceptances, each seasonally adjusted separately, and then adding this result to M3.

Debt: 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. Data are derived from the Federal Reserve Board's flow of funds accounts. Debt data are based on monthly averages. This sum is seasonally adjusted as a whole.

3. Currency outside the U.S. Treasury, Federal Reserve Banks, and vaults of depository institutions.

4. Outstanding amount of U.S. dollar-denominated travelers checks of nonbank issuers. Travelers checks issued by depository institutions are included in demand deposits.

5. Demand deposits at commercial banks and foreign-related institutions other than those owed to depository institutions, the U.S. government, and foreign banks and official institutions, less cash items in the process of collection and Federal Reserve float.

6. Consists of NOW and ATS account balances at all depository institutions, credit union share draft account balances, and demand deposits at thrift institutions.

7. Sum of (1) overnight RPs and overnight Eurodollars, (2) money market fund balances (general purpose and broker–dealer), (3) MMDAs, and (4) savings and small time deposits.

8. Sum of (1) large time deposits, (2) term RPs, (3) term Eurodollars of U.S. residents, and (4) money market fund balances (institution-only), less a consolidation adjustment that represents the estimated amount of overnight RPs and Eurodollars held by institution-only money market funds.

9. Small time deposits—including retail RPs—are those issued in amounts of less than $100,000. All IRAs and Keogh accounts at commercial banks and thrift institutions are subtracted from small time deposits.

10. Large time deposits are those issued in amounts of $100,000 or more, excluding those booked at international banking facilities.

11. Large time deposits at commercial banks less those held by money market funds, depository institutions, and foreign banks and official institutions.

1.22 BANK DEBITS AND DEPOSIT TURNOVER[1]

Debits are in billions of dollars; turnover is ratio of debits to deposits; monthly data are at annual rates

Bank group, or type of customer	1990[2]	1991[2]	1992[2]	1992					
				July	Aug.	Sept.	Oct.[r]	Nov.[r]	Dec.
DEBITS TO	Seasonally adjusted								
Demand deposits[3]									
1 All insured banks	277,157.5	277,758.0	315,807.0	339,216.4	306,923.0	346,658.3	326,893.0	322,187.1	331,048.7
2 Major New York City banks	131,699.1	137,352.3	165,572.7	177,296.3	157,221.1	184,740.9	176,372.6	173,393.4	176,089.1
3 Other banks	145,458.4	140,405.7	150,234.3	161,920.1	149,702.0	161,917.4	150,520.4	148,793.7	154,959.6
4 Other checkable deposits[4]	3,349.0	3,645.5	3,788.1	4,078.7	3,763.9	3,942.1	3,700.5	3,610.0	3,683.9
5 Savings deposits including MMDAs[5]	3,483.3	3,266.1	3,330.7	3,513.7	3,139.8	3,559.1	3,465.7	3,496.7	3,402.8
DEPOSIT TURNOVER									
Demand deposits[3]									
6 All insured banks	797.8	803.5	832.4	916.6	800.0	892.4	818.9	796.1	830.7
7 Major New York City banks	3,819.8	4,270.8	4,797.9	5,349.6	4,550.9	5,254.5	4,855.5	4,624.0	4,693.3
8 Other banks	464.9	447.9	435.9	480.6	428.8	458.3	414.8	405.2	429.2
9 Other checkable deposits[4]	16.5	16.2	14.4	15.6	14.2	14.7	13.5	12.9	13.1
10 Savings deposits including MMDAs[5]	6.2	5.3	4.7	4.9	4.4	4.9	4.7	4.7	4.6
DEBITS TO	Not seasonally adjusted								
Demand deposits[3]									
11 All insured banks	277,290.5	277,715.4	315,809.1	341,278.3	315,724.4	334,831.5	335,289.0	308,015.6	340,992.3
12 Major New York City banks	131,784.7	137,307.2	165,595.0	178,555.6	162,973.3	178,998.2	182,584.2	167,578.4	179,987.6
13 Other banks	145,505.8	140,408.3	150,214.1	162,722.7	152,751.0	155,833.4	152,704.8	140,437.2	161,004.6
14 Other checkable deposits[4]	3,346.7	3,645.6	3,788.1	3,987.9	3,696.9	3,945.7	3,689.7	3,351.3	3,849.3
15 Savings deposits including MMDAs[5]	3,483.0	3,267.7	3,328.3	3,523.9	3,173.5	3,374.3	3,400.8	3,239.9	3,583.3
DEPOSIT TURNOVER									
Demand deposits[3]									
16 All insured banks	798.2	803.4	832.5	916.2	836.5	864.2	839.2	754.3	815.4
17 Major New York City banks	3,825.9	4,274.3	4,803.5	5,317.6	4,870.2	5,180.1	5,025.6	4,494.4	4,418.1
18 Other banks	465.0	447.9	436.0	480.2	444.1	441.6	420.5	378.5	426.5
19 Other checkable deposits[4]	16.4	16.2	14.4	15.4	14.1	14.9	13.7	12.1	13.5
20 Savings deposits including MMDAs[5]	6.2	5.3	4.7	4.9	4.4	4.6	4.6	4.4	4.8

1. Historical tables containing revised data for earlier periods can be obtained from the Banking and Money Market Statistics Section, Division of Monetary Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551.
Data in this table also appear on the Board's G.6 (406) monthly statistical release. For ordering 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 (NOWs) and accounts authorized for automatic transfer to demand deposits (ATSs).
5. Money market deposit accounts.

1.23 LOANS AND SECURITIES All Commercial Banks[1]

Billions of dollars, averages of Wednesday figures

Item	1992 Mar.	1992 Apr.	1992 May	1992 June	1992 July	1992 Aug.	1992 Sept.[r]	1992 Oct.	1992 Nov.	1992 Dec.	1993 Jan.[r]	1993 Feb.
	Seasonally adjusted											
1 **Total loans and securities[1]**	**2,862.7**	**2,874.3**	**2,875.3**	**2,882.8**	**2,886.9**	**2,902.2**	**2,917.2**	**2,925.6[r]**	**2,932.8**	**2,938.7[r]**	**2,934.9**	**2,940.1**
2 U.S. government securities	579.6	590.8	600.2	610.7	619.2	632.6	640.5	647.3[r]	652.0[r]	658.2[r]	658.2	667.1
3 Other securities	178.5	178.5	176.9	175.8	177.9	178.2	178.4	179.3[r]	177.5[r]	176.1[r]	174.1	175.9
4 Total loans and leases[1]	2,104.5	2,104.9	2,098.2	2,096.2	2,089.8	2,091.4	2,098.3	2,099.0[r]	2,103.3[r]	2,104.4[r]	2,102.7	2,097.1
5 Commercial and industrial	610.8	609.0	607.6	604.6	602.5	601.4	601.0	600.5[r]	600.9	598.6[r]	599.9	598.2
6 Bankers acceptances held[2]	6.8	6.5	6.7	6.3	6.5	6.5	6.3	7.3	7.5	7.1	6.9	8.2
7 Other commercial and industrial	604.0	602.6	600.9	598.4	596.0	594.9	594.7	593.2[r]	593.4	591.5[r]	593.0	590.1
8 U.S. addressees[3]	594.9	593.2	590.8	588.3	585.3	584.3	583.4	582.1	582.1	580.4[r]	581.6	578.5
9 Non-U.S. addressees[3]	9.1	9.4	10.1	10.1	10.7	10.6	11.3	11.1	11.3	11.1	11.4	11.6
10 Real estate	879.1	881.8	883.3	881.8	881.5	883.1	886.7	890.6	892.3[r]	892.1	888.8	887.5
11 Individual	362.3	360.8	359.2	359.0	358.6	357.4	357.0	355.7[r]	355.2[r]	355.2[r]	357.8	360.8
12 Security	60.7	63.4	60.9	63.3	60.5	61.6	64.0	64.7	64.3	64.9	63.2	62.0
13 Nonbank financial institutions	43.6	43.2	43.3	42.4	41.5	42.0	44.0	43.9	44.7[r]	43.7	45.2	45.1
14 Agricultural	34.3	34.3	34.3	34.6	34.9	35.3	35.2	35.1	35.1	34.9	34.4	34.4
15 State and political subdivisions	28.0	27.6	27.3	26.8	26.2	25.9	25.8	25.4[r]	25.1[r]	24.8[r]	24.2	23.8
16 Foreign banks	6.6	6.7	7.0	7.5	7.7	7.2	7.9	7.3	7.0	7.0	6.8	7.6
17 Foreign official institutions	2.1	2.0	2.0	2.0	2.2	2.3	2.5	2.4	2.8	2.9	2.9	3.1
18 Lease-financing receivables	31.4	31.1	30.9	31.0	30.8	30.8	31.0	30.7[r]	30.6[r]	30.6	30.0	30.0
19 All other loans	45.5	45.1	42.4	43.3	43.2	44.3	43.1	42.8	45.3	49.9	49.7	n.a.
	Not seasonally adjusted											
20 **Total loans and securities[1]**	**2,864.9**	**2,875.8**	**2,870.7**	**2,882.9**	**2,876.1**	**2,894.5**	**2,914.7**	**2,924.9**	**2,939.4**	**2,948.5[r]**	**2,937.0**	**2,943.0**
21 U.S. government securities	584.0	592.6	599.4	608.9	615.3	631.3	638.6	645.1[r]	654.6[r]	656.9[r]	658.6	670.7
22 Other securities	178.2	178.0	176.5	175.4	176.8	178.1	178.1	179.7[r]	178.6[r]	176.4[r]	174.7	176.1
23 Total loans and leases[1]	2,102.6	2,105.2	2,094.8	2,098.7	2,084.0	2,085.0	2,098.0	2,100.1[r]	2,106.1[r]	2,115.3[r]	2,103.8	2,096.2
24 Commercial and industrial	614.0	612.1	609.4	606.5	601.5	597.6	597.4	598.2	601.2	601.6[r]	598.3	597.4
25 Bankers acceptances held[2]	6.9	6.3	6.6	6.2	6.3	6.3	6.2	7.2	7.8	7.4	7.1	8.5
26 Other commercial and industrial	607.2	605.8	602.7	600.3	595.2	591.4	591.2	591.0	593.4	594.3[r]	591.3	588.9
27 U.S. addressees[3]	598.2	596.3	592.7	589.5	584.2	580.5	580.1	580.2[r]	582.7	583.3[r]	579.9	577.2
28 Non-U.S. addressees[3]	9.0	9.5	10.0	10.8	11.0	10.8	11.1	10.8	10.7	11.0	11.4	11.7
29 Real estate	876.7	880.7	883.4	882.0	881.6	883.7	887.5	891.4	893.7[r]	893.4	888.5	885.8
30 Individual	359.8	358.1	357.4	357.2	356.4	356.9	358.6	356.1[r]	356.0[r]	359.6[r]	361.9	360.9
31 Security	62.6	66.9	58.4	63.5	58.0	59.4	62.5	64.2	63.6	65.7	64.7	64.9
32 Nonbank financial institutions	43.2	42.6	42.8	42.9	41.3	41.8	43.5	43.5	45.1	45.7	45.4	45.0
33 Agricultural	33.0	33.5	34.0	35.1	35.8	36.5	36.6	36.0[r]	35.1[r]	34.7	33.6	33.0
34 State and political subdivisions	28.0	27.6	27.3	26.8	26.1	25.9	25.9	25.5[r]	25.2[r]	24.8[r]	24.0	23.7
35 Foreign banks	6.4	6.4	6.8	7.3	7.8	7.0	8.0	7.6	7.3	7.4	6.9	7.4
36 Foreign official institutions	2.1	2.0	2.0	2.0	2.2	2.3	2.5	2.4	2.8	2.9	2.9	3.1
37 Lease-financing receivables	31.6	31.2	30.9	31.0	30.6	30.6	30.8	30.6[r]	30.5	30.5	30.3	30.3
38 All other loans	45.2	44.1	42.5	44.4	42.6	43.2	44.5	44.6	45.7	49.1	47.5	n.a.

1. Adjusted to exclude loans to commercial banks in the United States.
2. Includes nonfinancial commercial paper held.
3. United States includes the fifty states and the District of Columbia.

1.24 MAJOR NONDEPOSIT FUNDS OF COMMERCIAL BANKS[1]

Billions of dollars, monthly averages

Source of funds	1992										1993	
	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Seasonally adjusted											
1 Total nondeposit funds[2]	287.2	291.9	292.4	295.9	297.0	302.4	309.4[r]	305.6[r]	310.0[r]	312.9	313.0	312.2
2 Net balances due to related foreign offices[3]	44.8	50.9	53.7	61.2	61.7	61.4	64.0	64.4[r]	68.8[r]	71.1	74.1[r]	73.3
3 Borrowings from other than commercial banks in United States[4]	242.4	241.0	238.7	234.7	235.3	241.1	245.4[r]	241.1	241.2	241.8[r]	238.8	238.9
4 Domestically chartered banks	157.3	154.6	151.8	147.6	147.2	151.5	153.4	154.5	153.7	154.3	155.1	155.9
5 Foreign-related banks	85.0	86.5	86.9	87.2	88.1	89.6	92.1[r]	86.6	87.5	87.4	83.7	82.9
	Not seasonally adjusted											
6 Total nondeposit funds[2]	292.2	288.4	297.1	295.2	291.5	297.5	304.0[r]	307.8[r]	315.2[r]	312.7	311.8	316.5
7 Net balances due to related foreign offices[3]	45.6	47.9	55.9	59.2	58.4	57.6	61.6	65.6[r]	70.5[r]	75.2	76.7	75.1
8 Domestically chartered banks	.2	-4.6	-4.5	-6.3	-7.0	-9.3	-11.0	-12.8	-11.7	-15.1	-15.9	-10.6
9 Foreign-related banks	45.4	52.6	60.4	65.6	65.4	66.9	72.6	78.3[r]	82.1[r]	90.3	92.6	85.7
10 Borrowings from other than commercial banks in United States[4]	246.6	240.5	241.2	236.0	233.1	239.9	242.3[r]	242.3	244.8	237.5	235.1	241.4
11 Domestically chartered banks	160.2	152.7	153.3	147.4	144.1	150.4	152.2	155.7	158.1	153.4	152.1	157.7
12 Federal funds and security RP borrowings[5]	156.9	149.2	149.4	143.3	139.9	146.5	148.4	152.1	154.0	149.4	148.4	154.5
13 Other[6]	3.3	3.4	3.9	4.1	4.2	3.9	3.8	3.6	4.1	4.0	3.6	3.2
14 Foreign-related banks[6]	86.4	87.8	87.9	88.6	89.0	89.5	90.1[r]	86.6	86.6	84.1	83.0	83.7
MEMO												
Gross large time deposits[7]												
15 Seasonally adjusted	407.2	401.5	397.5	393.3	387.7	385.8	383.2	375.7	371.3	366.6	359.9[r]	358.4
16 Not seasonally adjusted	408.1	400.5	399.4	394.9	387.4	387.1	383.6	374.9	371.1	365.5	358.0[r]	357.9
U.S. Treasury demand balances at commercial banks[8]												
17 Seasonally adjusted	21.9	20.8	19.2	24.7	23.1	28.0	24.1	21.5	20.7	20.4	25.6	23.6
18 Not seasonally adjusted	20.1	17.7	21.0	25.2	19.6	22.4	28.6	21.9	16.5	19.5	33.1[r]	29.5

1. Commercial banks are nationally and state-chartered banks in the fifty states and the District of Columbia, 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.

Data in this table also appear in the Board's G.10 (411) release. For ordering address, see inside front cover.

2. Includes federal funds, repurchase agreements (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 International Banking Facilities (IBFs).

4. 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. Figures are based on averages of daily data reported weekly by approximately 120 large banks and quarterly or annual data reported by other banks.

6. Figures are partly averages of daily data 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 BANKS[1] Wednesday figures

Millions of dollars

Account	1992					1993			
	Dec. 2[r]	Dec. 9[r]	Dec. 16[r]	Dec. 23[r]	Dec. 30[r]	Jan. 6	Jan. 13	Jan. 20	Jan. 27
ALL COMMERCIAL BANKING INSTITUTIONS[2]									
Assets									
1 Loans and securities	3,121,974	3,127,535	3,125,019	3,114,488	3,115,506	3,123,753	3,105,158	3,099,118	3,076,522
2 Investment securities	796,035	794,499	793,052	795,473	798,542	797,211	798,865	793,944	792,223
3 U.S. government securities	633,704	632,519	631,237	633,168	635,246	635,703	637,834	633,085	630,995
4 Other	162,331	161,979	161,815	162,304	163,296	161,507	161,031	160,859	161,228
5 Trading account assets	42,665	39,995	38,146	36,014	35,612	35,901	33,519	37,291	36,896
6 U.S. government securities	27,832	25,930	24,576	21,569	21,030	20,619	19,881	23,947	23,233
7 Other securities	2,969	2,949	2,958	3,285	3,029	2,870	2,496	2,596	2,472
8 Other trading account assets	11,864	11,115	10,612	11,160	11,554	12,411	11,141	10,748	11,192
9 Total loans	2,283,274	2,293,042	2,293,821	2,283,001	2,281,352	2,290,642	2,272,774	2,267,883	2,247,403
10 Interbank loans	172,020	179,588	179,598	169,284	160,909	178,271	163,713	163,870	154,468
11 Loans excluding interbank	2,111,254	2,113,455	2,114,224	2,113,717	2,120,444	2,112,371	2,109,061	2,104,013	2,092,935
12 Commercial and industrial	602,531	599,002	601,669	601,941	604,287	599,719	597,593	599,585	600,167
13 Real estate	892,449	894,770	894,630	892,089	891,816	890,071	891,464	887,915	884,632
14 Revolving home equity	73,403	73,448	73,386	73,143	73,246	73,386	73,309	73,305	73,296
15 Other	819,046	821,323	821,244	818,946	818,570	816,685	818,155	814,611	811,335
16 Individual	357,021	357,071	358,059	360,711	361,929	362,679	361,565	361,322	361,345
17 All other	259,253	262,612	259,866	258,975	262,412	259,901	258,439	255,191	246,791
18 Total cash assets	223,842	204,843	219,833	234,179	236,533	226,212	209,488	233,235	197,836
19 Balances with Federal Reserve Banks	28,460	25,614	26,535	35,183	29,199	36,922	26,325	28,090	24,089
20 Cash in vault	33,225	32,613	32,529	31,445	36,439	34,755	34,227	33,376	32,550
21 Demand balances at U.S. depository institutions	31,733	30,289	32,010	34,729	35,730	32,662	30,134	35,307	29,984
22 Cash items	85,881	72,575	87,121	91,864	93,335	82,686	78,784	94,736	69,934
23 Other cash assets	44,643	43,851	41,738	41,058	41,930	39,287	40,104	41,812	41,279
24 Other assets	296,598	295,191	302,200	297,291	300,678	295,722	287,150	288,191	281,492
25 **Total assets**	**3,642,414**	**3,627,570**	**3,647,052**	**3,645,958**	**3,652,717**	**3,645,686**	**3,601,795**	**3,620,545**	**3,555,850**
Liabilities									
26 Total deposits	2,530,396	2,512,986	2,537,670	2,528,716	2,542,338	2,532,159	2,510,487	2,504,461	2,452,864
27 Transaction accounts	768,816	748,012	776,197	780,351	799,456	783,345	759,838	763,116	717,572
28 Demand, U.S. government	3,520	2,922	5,910	5,217	5,926	4,663	3,287	5,582	3,202
29 Demand, depository institutions	41,123	38,467	41,979	43,211	43,530	40,915	38,516	45,833	37,652
30 Other demand and all checkable deposits	724,174	706,622	728,308	731,923	750,001	737,767	718,036	711,700	676,717
31 Savings deposits (excluding checkable)	748,886	753,091	753,416	742,933	742,140	750,756	750,603	741,100	737,741
32 Small time deposits	638,246	637,441	637,619	636,105	634,767	636,765	634,436	635,101	633,294
33 Time deposits over $100,000	374,449	374,442	370,438	369,327	365,975	361,294	365,610	365,145	364,258
34 Borrowings	501,004	506,242	497,161	498,297	495,834	498,810	477,939	506,598	485,812
35 Treasury tax and loan notes	13,481	6,016	23,348	18,020	29,773	14,886	22,771	34,561	34,921
36 Other	487,523	500,226	473,813	480,277	466,061	483,924	455,168	472,037	450,891
37 Other liabilities	342,475	339,156	344,414	351,293	343,378	343,282	341,819	339,151	346,152
38 **Total liabilities**	**3,373,875**	**3,358,384**	**3,379,245**	**3,378,306**	**3,381,549**	**3,374,251**	**3,330,245**	**3,350,211**	**3,284,828**
39 Residual (assets less liabilities)[3]	268,539	269,186	267,807	267,652	271,168	271,436	271,550	270,334	271,022

Footnotes appear on the following page.

1.25 ASSETS AND LIABILITIES OF COMMERCIAL BANKS[1] Wednesday figures—Continued

Millions of dollars

Account	1992					1993			
	Dec. 2[r]	Dec. 9[r]	Dec. 16[r]	Dec. 23[r]	Dec. 30[r]	Jan. 6	Jan. 13	Jan. 20	Jan. 27
DOMESTICALLY CHARTERED COMMERCIAL BANKS[4]									
Assets									
40 Loans and securities	2,763,847	2,762,841	2,762,668	2,745,952	2,749,785	2,754,991	2,739,722	2,736,266	2,717,220
41 Investment securities	731,295	730,287	727,870	730,402	731,627	731,221	732,672	728,036	727,449
42 U.S. government securities	590,850	590,227	587,789	590,205	591,313	592,364	593,701	589,198	587,891
43 Other	140,445	140,059	140,081	140,197	140,314	138,857	138,971	138,838	139,558
44 Trading account assets	42,665	39,995	38,146	36,014	35,612	35,901	33,519	37,291	36,896
45 U.S. government securities	27,832	25,930	24,576	21,569	21,030	20,619	19,881	23,947	23,233
46 Other securities	2,969	2,949	2,958	3,285	3,029	2,870	2,496	2,596	2,472
47 Other trading account assets	11,864	11,115	10,612	11,160	11,554	12,411	11,141	10,748	11,192
48 Total loans	1,989,888	1,992,559	1,996,652	1,979,536	1,982,545	1,987,870	1,973,531	1,970,940	1,952,874
49 Interbank loans	144,237	147,785	151,120	138,961	137,720	148,030	137,989	136,799	130,445
50 Loans excluding interbank	1,845,651	1,844,774	1,845,532	1,840,575	1,844,826	1,839,840	1,835,542	1,834,141	1,822,430
51 Commercial and industrial	440,366	437,044	438,214	437,045	438,683	436,652	433,961	436,562	435,601
52 Real estate	839,661	841,847	841,532	839,030	839,129	838,160	839,238	835,966	832,482
53 Revolving home equity	73,403	73,448	73,386	73,143	73,246	73,386	73,309	73,305	73,296
54 Other	766,258	768,400	768,147	765,887	765,883	764,774	765,928	762,662	759,186
55 Individual	357,021	357,071	358,059	360,711	361,929	362,679	361,565	361,322	361,345
56 All other	208,602	208,812	207,727	203,789	205,085	202,348	200,778	200,291	193,001
57 Total cash assets	196,159	177,948	193,109	207,160	210,163	200,082	182,905	205,660	170,438
58 Balances with Federal Reserve Banks	27,886	24,783	25,973	34,235	28,649	35,944	25,783	27,025	23,574
59 Cash in vault	33,190	32,579	32,490	31,407	36,402	34,717	34,191	33,336	32,514
60 Demand balances at U.S. depository institutions	30,203	28,758	30,382	32,975	34,023	30,989	28,527	33,578	28,319
61 Cash items	83,676	70,430	84,750	89,700	91,131	80,292	75,891	92,193	67,610
62 Other cash assets	21,303	21,498	19,614	18,943	20,058	18,240	18,597	19,614	18,422
63 Other assets	176,534	177,529	180,152	175,738	178,449	182,942	178,496	176,140	171,179
64 **Total assets**	**3,136,540**	**3,118,318**	**3,135,930**	**3,128,850**	**3,138,397**	**3,138,015**	**3,101,122**	**3,118,067**	**3,058,838**
Liabilities									
65 Total deposits	2,370,795	2,351,994	2,376,536	2,367,287	2,381,434	2,375,352	2,352,008	2,345,104	2,294,577
66 Transaction accounts	758,901	738,514	765,699	770,342	789,040	773,036	749,448	752,419	708,083
67 Demand, U.S. government	3,520	2,922	5,900	5,216	5,925	4,662	3,287	5,582	3,202
68 Demand, depository institutions	38,751	36,225	39,635	40,821	41,139	38,483	36,099	43,112	35,394
69 Other demand and all checkable deposits	716,630	699,367	720,164	724,306	741,976	729,891	710,063	703,726	669,487
70 Savings deposits (excluding checkable)	744,149	748,217	748,643	738,352	737,581	746,211	746,062	736,514	733,203
71 Small time deposits	635,748	634,919	635,111	633,618	632,289	634,284	631,958	632,627	630,820
72 Time deposits over $100,000	231,998	230,344	227,082	224,975	222,524	221,821	224,540	223,543	222,472
73 Borrowings	365,810	369,110	363,760	366,232	361,745	365,144	349,393	375,989	365,173
74 Treasury tax and loan notes	13,481	6,016	23,348	18,020	29,773	14,886	22,771	34,561	34,921
75 Other	352,329	363,094	340,412	348,212	331,972	350,258	326,622	341,428	330,252
76 Other liabilities	135,004	131,636	131,435	131,288	127,657	129,692	131,779	130,248	131,673
77 **Total liabilities**	**2,871,609**	**2,852,740**	**2,871,731**	**2,864,807**	**2,870,837**	**2,870,188**	**2,833,180**	**2,851,341**	**2,791,424**
78 Residual (assets less liabilities)[3]	264,931	265,578	264,199	264,044	267,560	267,828	267,942	266,726	267,414

1. Excludes assets and liabilities of International Banking Facilities.
2. Includes insured domestically chartered commercial banks, agencies and branches of foreign banks, Edge Act and Agreement corporations, and New York State foreign investment corporations. Data are estimates for the last Wednesday of the month based on a sample of weekly reporting foreign-related and domestic institutions and quarter-end condition reports.
3. This balancing item is not intended as a measure of equity capital for use in capital adequacy analysis.
4. Includes all member banks and insured nonmember banks. Loans and securities data are estimates for the last Wednesday of the month based on a sample of weekly reporting banks and quarter-end condition reports.

1.26 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS

Millions of dollars, Wednesday figures

Account	1992	1993							
	Dec. 30[r]	Jan. 6	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24
ASSETS									
1 Cash and balances due from depository institutions	126,237	119,096	109,305	124,065	99,378	108,828	97,411	120,597	100,834
2 U.S. Treasury and government securities	266,081	270,738	269,585	269,192	269,307	276,421	274,967	277,181	275,657
3 Trading account	18,471	18,036	17,404	21,290	20,575	21,617	20,504	23,109	20,506
4 Investment account	247,610	252,702	252,181	247,902	248,732	254,804	254,463	254,071	255,151
5 Mortgage-backed securities[1]	80,693	82,515[r]	81,704[r]	77,886[r]	78,949[r]	80,501	80,204	80,371	81,550
All others, by maturity									
6 One year or less	31,017	33,958[r]	35,639[r]	34,999[r]	34,080[r]	36,566	36,852	36,698	37,071
7 One year through five years	74,835	75,817[r]	73,948[r]	74,646[r]	74,788[r]	76,343	75,166	75,459	75,092
8 More than five years	61,066	60,411[r]	60,891[r]	60,370[r]	60,916[r]	61,395	62,241	61,543	61,438
9 Other securities	56,059	55,926	55,209	55,176	55,172	55,707	55,862	56,042	55,908
10 Trading account	2,875	2,720	2,345	2,445	2,321	2,207	2,357	2,009	1,767
11 Investment account	53,184	53,206	52,864	52,731	52,851	53,500	53,505	54,032	54,141
12 State and political subdivisions, by maturity	20,398	20,443	20,344	20,343	20,320	20,226	20,262	20,135	20,124
13 One year or less	3,258	3,249	3,211	3,201	3,253	3,299	3,327	3,250	3,406
14 More than one year	17,139	17,194	17,133	17,142	17,067	16,927	16,935	16,884	16,718
15 Other bonds, corporate stocks, and securities	32,787	32,763	32,520	32,389	32,531	33,274	33,243	33,898	34,016
16 Other trading account assets	11,280	12,166	10,895	10,501	10,935	11,109	10,845	11,839	11,557
17 Federal funds sold[2]	80,050	84,647[r]	82,741[r]	80,000[r]	75,852[r]	89,607	78,600	83,946	75,422
18 To commercial banks in the United States	54,569	58,658[r]	54,208[r]	55,411[r]	52,329[r]	61,918	51,875	57,113	48,697
19 To nonbank brokers and dealers	20,781	21,693	23,487[r]	20,024	19,694	22,634	22,732	22,637	23,229
20 To others[3]	4,701	4,296	5,046	4,566	3,829	5,055	3,993	4,196	3,496
21 Other loans and leases, gross	986,467	990,519[r]	985,657[r]	988,954[r]	980,409[r]	982,808	980,124	981,936	974,476
22 Commercial and industrial	277,878	277,408[r]	274,524[r]	277,013[r]	276,518[r]	278,963	276,956	278,227	276,763
23 Bankers acceptances and commercial paper	2,046	1,885	1,859	2,190	2,372	2,421	3,030	3,029	2,780
24 All other	275,832	275,524[r]	272,665[r]	274,824[r]	274,146[r]	276,542	273,925	275,198	273,983
25 U.S. addressees	274,210	273,892[r]	271,013[r]	273,078[r]	272,467[r]	274,702	272,083	273,379	272,145
26 Non-U.S. addressees	1,623	1,632	1,652	1,745	1,679	1,840	1,842	1,819	1,839
27 Real estate loans	399,152	403,217[r]	404,442[r]	401,720[r]	398,382[r]	398,511	399,358	397,378	394,554
28 Revolving, home equity	42,793	43,384[r]	43,326[r]	43,351[r]	43,308[r]	43,187	43,166	43,150	43,058
29 All other	356,359	359,833[r]	361,116[r]	358,369[r]	355,075[r]	355,325	356,192	354,227	351,496
30 To individuals for personal expenditures	182,603	185,907[r]	185,427[r]	185,144[r]	185,174[r]	185,073	184,680	184,439	183,894
31 To financial institutions	38,679	38,555[r]	36,440[r]	36,954[r]	36,374[r]	35,382	34,643	35,816	33,268
32 Commercial banks in the United States	14,540	14,447[r]	13,884[r]	13,796[r]	14,032[r]	13,637	13,222	13,761	12,845
33 *Banks in foreign countries*	2,159	2,210	1,930	2,225	2,016	1,912	2,082	2,930	2,284
34 Nonbank financial institutions	21,979	21,897[r]	20,627[r]	20,932[r]	20,325[r]	19,833	19,339	19,126	18,139
35 For purchasing and carrying securities	15,607	14,947[r]	15,383[r]	16,606[r]	14,482[r]	15,363	16,023	15,199	17,160
36 To finance agricultural production	5,961	5,875	5,733	5,690	5,661	5,524	5,485	5,513	5,522
37 To states and political subdivisions	14,620	14,522	14,458	14,443	14,402	14,303	14,299	14,229	14,258
38 To foreign governments and official institutions	1,384	1,451	1,353	1,408	1,518	1,508	1,394	1,556	1,486
39 All other loans[4]	26,141	23,844[r]	23,226[r]	25,546[r]	23,629[r]	23,912	22,867	24,934	22,939
40 Lease-financing receivables	24,441	24,793	24,671	24,430	24,270	24,269	24,418	24,645	24,632
41 LESS: Unearned income	2,290	2,289	2,293	2,282	2,272	2,247	2,245	2,271	2,253
42 Loan and lease reserve[5]	36,494	36,462	36,594	36,534	36,323	36,758	36,866	36,780	36,756
43 Other loans and leases, net	947,683	951,768[r]	946,770[r]	950,138[r]	941,814[r]	943,803	941,012	942,885	935,466
44 Other assets	162,310	170,206	166,716	162,553	158,831	163,006	164,630	160,047	158,596
45 **Total assets**	**1,649,701**	**1,664,547**	**1,641,222**	**1,651,626**	**1,611,290**	**1,648,482**	**1,623,327**	**1,652,536**	**1,613,441**

Footnotes appear on the following page.

1.26 ASSETS AND LIABILITIES OF LARGE WEEKLY REPORTING COMMERCIAL BANKS—Continued

Millions of dollars, Wednesday figures

Account	1992	1993							
	Dec. 30[r]	Jan. 6	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24
LIABILITIES									
46 Deposits	1,142,776	1,142,823	1,132,291	1,123,956[r]	1,091,588	1,108,340	1,103,346	1,124,498	1,091,103
47 Demand deposits	299,997	281,350	273,228	276,674[r]	253,220	261,106	256,903	278,322	252,959
48 Individuals, partnerships, and corporations	241,266	227,793[r]	221,337[r]	218,167[r]	203,691[r]	209,964	206,151	221,986	204,906
49 Other holders	58,732	53,557[r]	51,890[r]	58,508[r]	49,529[r]	51,141	50,752	56,335	48,053
50 States and political subdivisions	9,847	10,740	9,138	10,572	9,487	9,728	8,859	9,363	8,936
51 U.S. government	3,817	2,874	2,263	4,307	2,077	2,824	1,945	2,073	2,388
52 Depository institutions in the United States	25,720	23,885	22,404[r]	27,015	22,118	22,325	20,839	26,678	21,349
53 Banks in foreign countries	6,036	5,628	5,348	6,090	5,194	5,377	5,555	6,832	5,243
54 Foreign governments and official institutions	558	495	483	579	765	564	618	524	664
55 Certified and officers' checks	12,754	9,935[r]	12,255[r]	9,944[r]	9,887[r]	10,322	12,936	10,866	9,473
56 Transaction balances other than demand deposits[4]	119,558	125,013[r]	121,019[r]	118,080[r]	113,938[r]	118,995	116,336	116,376	114,435
57 Nontransaction balances	723,221	736,461[r]	738,044[r]	729,202[r]	724,430[r]	728,240	730,106	729,800	723,710
58 Individuals, partnerships, and corporations	699,178	713,179[r]	712,952[r]	704,573[r]	699,644[r]	702,932	703,945	703,604	697,882
59 Other holders	24,043	23,281[r]	25,092[r]	24,629	24,786	25,307	26,161	26,196	25,828
60 States and political subdivisions	20,610	20,499	20,825	20,413	20,394	20,827	21,440	21,502	21,422
61 U.S. government	1,247	690	2,031	1,980	1,989	2,070	2,152	2,129	2,051
62 Depository institutions in the United States	1,873	1,772[r]	1,910[r]	1,908	2,075	2,086	2,243	2,241	2,030
63 Foreign governments, official institutions, and banks	312	320	326	328	327	324	327	323	325
64 Liabilities for borrowed money[5]	272,397	281,775[r]	266,714[r]	286,971[r]	277,738[r]	297,760	277,765	285,886	277,617
65 Borrowings from Federal Reserve Banks	0	40	0	2,100	200	65	0	0	0
66 Treasury tax and loan notes	24,934	12,129[r]	18,783	29,047[r]	29,923	31,934	27,029	18,101	12,932
67 Other liabilities for borrowed money[6]	247,462	269,606[r]	247,931[r]	255,824[r]	247,614[r]	265,761	250,736	267,784	264,685
68 Other liabilities (including subordinated notes and debentures)	97,171	100,011[r]	101,676[r]	100,321[r]	101,403[r]	101,496	100,426	99,531	102,576
69 Total liabilities	**1,512,344**	**1,524,610**	**1,500,682**	**1,511,247**	**1,470,729**	**1,507,596**	**1,481,536**	**1,509,914**	**1,471,295**
70 Residual (total assets less total liabilities)[7]	137,357	139,937	140,540	140,379	140,561	140,886	141,791	142,623	142,145
MEMO									
71 Total loans and leases, gross, adjusted, plus securities[8]	1,330,828	1,340,891	1,335,996[r]	1,334,617	1,325,315	1,340,098	1,335,301	1,340,069	1,331,478
72 Time deposits in amounts of $100,000 or more	113,791	113,972	116,737	115,814[r]	114,532	115,165	114,902	114,874	113,962
73 Loans sold outright to affiliates[9]	954	921	929	926	917	916	922	910	909
74 Commercial and industrial	452	454	454	453	453	452	452	452	452
75 Other	502	467	474	473	464	464	470	458	458
76 Foreign branch credit extended to U.S. residents[10]	24,318	24,534	24,627	24,640	24,327	24,324	23,892	23,807	23,756
77 Net due to related institutions abroad	−17,685	−19,937	−19,467	−16,439	−10,010	−12,273	−14,758	−13,640	−10,309

1. Includes certificates of participation, issued or guaranteed by agencies of the U.S. government, in pools of residential mortgages.
2. Includes securities purchased under agreements to resell.
3. Includes allocated transfer risk reserve.
4. Includes negotiable order of withdrawal accounts (NOWs), automatic transfer service (ATS), and telephone and preauthorized transfers of savings deposits.
5. Includes borrowings only from other than directly related institutions.
6. Includes federal funds purchased and securities sold under agreements to repurchase.
7. This balancing item is not intended as a measure of equity capital for use in capital-adequacy analysis.
8. Excludes loans to and federal funds transactions with commercial banks in the United States.
9. Affiliates include 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.
10. Credit extended by foreign branches of domestically chartered weekly reporting banks to nonbank U.S. residents. Consists mainly of commercial and industrial loans, but includes an unknown amount of credit extended to other than nonfinancial businesses.

NOTE. Data that formerly appeared in table 1.28, Assets and Liabilities of Large Weekly Reporting Commercial Banks in New York City, can be obtained from the Board's H.4.2 (504) weekly statistical release. For ordering address, see inside front cover.

1.30 LARGE WEEKLY REPORTING U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS Assets and Liabilities[1]

Millions of dollars, Wednesday figures

Account	1992	1993							
	Dec. 30[r]	Jan. 6[r]	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24
1 Cash and balances due from depository *institutions*	17,329	17,330	17,586	18,356	18,209	17,543	18,122	17,657	17,493
2 U.S. Treasury and government agency securities	27,064	26,759	27,159	27,121	26,598	27,157	26,206	27,199	28,054
3 Other securities	8,636	8,601	8,322	8,342	8,193	8,246	8,269	8,317	8,365
4 Federal funds sold[1]	22,331	27,446	27,398	24,642	23,692	23,360	22,514	20,171	18,346
5 To commercial banks in the United States	4,940	7,860	6,392	7,046	6,062	4,706	5,264	5,394	3,784
6 To others[2]	17,391	19,586	21,007	17,596	17,630	18,654	17,250	14,777	14,562
7 Other loans and leases, gross	168,912	165,759	163,689[r]	164,832[r]	164,162[r]	163,546	163,674	164,639	163,246
8 Commercial and industrial	100,386	99,178	99,028[r]	99,140[r]	99,818[r]	98,916	97,744	97,737	96,579
9 Bankers acceptances and commercial paper	2,449	2,589	2,367	2,528	2,499[r]	2,571	2,546	2,776	2,768
10 All other	97,937	96,589	96,661[r]	96,612[r]	97,320[r]	96,345	95,197	94,961	93,811
11 U.S. addressees	94,863	93,563	93,487[r]	93,457[r]	93,928[r]	93,254	92,152	91,653	90,507
12 Non-U.S. addressees	3,074	3,026	3,174[r]	3,155[r]	3,392[r]	3,090	3,046	3,307	3,304
13 Loans secured by real estate	34,017	33,562	33,666[r]	33,810[r]	33,876[r]	33,758	33,801	33,778	33,415
14 To financial institutions	26,343	25,524	24,174	25,101	24,070[r]	23,980	25,493	26,449	26,446
15 Commercial banks in the United States	6,164	6,269	5,586	5,502	5,048	5,357	5,582	5,814	5,608
16 Banks in foreign countries	2,119	2,105	1,834	1,959	1,854	1,919	2,004	2,014	1,999
17 Nonbank financial institutions	18,061	17,149	16,754	17,639	17,168[r]	16,704	17,907	18,621	18,840
18 For purchasing and carrying securities	5,299	4,879	4,224[r]	4,198[r]	3,887[r]	4,201	3,902	4,069	4,371
19 To foreign governments and official institutions	364	354	356	360	352	333	407	412	395
20 All other	2,503	2,261	2,242	2,223	2,159	2,358	2,327	2,194	2,040
21 Other assets (claims on nonrelated parties)	31,004	31,352	31,232[r]	30,177	30,716	31,916	31,916	31,117	31,714
22 **Total assets**[3]	**318,301**	**314,509**	**310,047**[r]	**311,122**[r]	**307,625**[r]	**307,487**	**304,749**	**302,625**	**302,014**
23 Deposits or credit balances due to other than directly related institutions	104,948	102,353	103,137[r]	103,617	103,426	102,342	101,909	100,305	103,096
24 Demand deposits[4]	4,044	4,035	3,831[r]	4,224	3,569	4,365	4,551	3,775	3,998
25 Individuals, partnerships, and corporations	3,217	3,214	2,976	3,189	2,792	2,653	2,868	2,888	2,952
26 Other	827	821	855[r]	1,036	777	1,712	1,683	887	1,046
27 Nontransaction accounts	100,904	98,318	99,306	99,393	99,857	97,977	97,357	96,530	99,098
28 Individuals, partnerships, and corporations	71,003	69,679	71,363[r]	71,034[r]	70,915[r]	69,466	68,244	66,900	69,106
29 Other	29,901	28,638	27,942[r]	28,358[r]	28,942[r]	28,511	29,113	29,630	29,992
30 Borrowings from other than directly related institutions	92,318	92,368	88,813	90,684	83,756	87,797	88,234	88,469	83,919
31 Federal funds purchased[5]	49,349	48,858	45,482	50,730	45,776	47,476	45,592	45,320	41,104
32 From commercial banks in the United States	14,736	15,033	12,185	14,764	12,134	14,970	11,836	14,851	10,863
33 From others	34,613	33,825	33,297	35,966	33,642	32,506	33,757	30,469	30,242
34 *Other liabilities for borrowed money*	42,969	43,510	43,331	39,954	37,980	40,321	42,641	43,149	42,815
35 To commercial banks in the United States	10,357	10,054	10,345	9,191	9,319	8,733	9,331	9,458	8,544
36 To others	32,611	33,456	32,986	30,763	28,661	31,588	33,310	33,691	34,271
37 Other liabilities to nonrelated parties	31,769	30,151	30,645[r]	30,533	31,193	31,127	31,938	30,994	31,276
38 **Total liabilities**[6]	**318,301**	**314,509**	**310,047**[r]	**311,122**[r]	**307,625**[r]	**307,487**	**304,749**	**302,625**	**302,014**
MEMO									
39 Total loans (gross) and securities, adjusted[7]	215,839	214,435	214,590[r]	212,388[r]	211,535[r]	212,246	209,817	209,118	208,619
40 Net due to related institutions abroad	46,241	52,374	52,790[r]	48,637[r]	53,195[r]	50,502	48,620	49,332	48,926

1. Includes securities purchased under agreements to resell.
2. Includes transactions with nonbank brokers and dealers in securities.
3. Includes net due from related institutions abroad for U.S. branches and agencies of foreign banks having a net "due from" position.
4. Includes other transaction deposits.
5. Includes securities sold under agreements to repurchase.
6. Includes net to related institutions abroad for U.S. branches and agencies of foreign banks having a net "due to" position.
7. Excludes loans to and federal funds transactions with commercial banks in the United States.

1.32 COMMERCIAL PAPER AND BANKERS DOLLAR ACCEPTANCES OUTSTANDING

Millions of dollars, end of period

Item	Year ending December					1992					1993
	1988	1989	1990	1991	1992	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
	Commercial paper (seasonally adjusted unless noted otherwise)										
1 **All issuers**	**458,464**	**525,831**	**562,656**	**531,724**	**549,433**	**547,234**	**550,727**	**557,915**	**558,414**	**549,433**	**542,438**
Financial companies[1]											
Dealer-placed paper[2]											
2 Total	159,777	183,622	214,706	213,823	228,260	233,045	234,242	231,751	230,966	228,260	215,126
3 Bank-related (not seasonally adjusted)[3]	1,248	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Directly placed paper[4]											
4 Total	194,931	210,930	200,036	183,379	172,813	173,859	178,184	181,388	179,279	172,813	181,264
5 Bank-related (not seasonally adjusted)[3]	43,155	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6 Nonfinancial companies[5]	103,756	131,279	147,914	134,522	148,360	140,330	138,301	144,776	148,169	148,360	146,048
	Bankers dollar acceptances (not seasonally adjusted)[6]										
7 **Total**	**66,631**	**62,972**	**54,771**	**43,770**	**38,194**	**37,090**	**37,814**	**37,599**	**37,651**	**38,194**	**35,945**
Holder											
8 Accepting banks	9,086	9,433	9,017	11,017	10,555	9,372	10,436	10,236	10,301	10,555	8,819
9 Own bills	8,022	8,510	7,930	9,347	9,097	7,927	9,073	8,764	9,156	9,097	7,625
10 Bills bought from other banks	1,064	924	1,087	1,670	1,458	1,446	1,363	1,472	1,145	1,458	1,193
Federal Reserve Banks[7]											
11 Foreign correspondents	1,493	1,066	918	1,739	1,276	1,851	1,803	1,204	1,289	1,276	1,317
12 Others	56,052	52,473	44,836	31,014	26,364	25,866	25,575	26,159	26,061	26,364	25,810
Basis											
13 Imports into United States	14,984	15,651	13,095	12,843	12,209	11,600	12,227	12,116	12,133	12,209	11,146
14 Exports from United States	14,410	13,683	12,703	10,351	8,096	7,861	8,051	7,849	7,673	8,096	7,690
15 All other	37,237	33,638	28,973	20,577	17,890	17,628	17,536	17,633	17,846	17,890	17,109

1. Institutions engaged primarily in commercial, savings, and mortgage banking; sales, personal, and mortgage financing; factoring, finance leasing, and other business lending; insurance underwriting; and other investment activities.
2. Includes all financial-company paper sold by dealers in the open market.
3. Bank-related series were discontinued in January 1989.
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. Data on bankers acceptances are gathered from approximately 100 institutions. The reporting group is revised every January.
7. In 1977 the Federal Reserve discontinued operations in bankers acceptances for its own account.

1.33 PRIME RATE CHARGED BY BANKS on Short-Term Business Loans[1]

Percent per year

Date of change	Rate	Period	Average rate	Period	Average rate	Period	Average rate
1990— Jan. 1	10.50	1990	10.01	1991— Jan.	9.52	1992— Jan.	6.50
Jan. 8	10.00	1991	8.46	Feb.	9.05	Feb.	6.50
		1992	6.25	Mar.	9.00	Mar.	6.50
1991— Jan. 2	9.50			Apr.	9.00	Apr.	6.50
Feb. 4	9.00	1990— Jan.	10.11	May	8.50	May	6.50
May 1	8.50	Feb.	10.00	June	8.50	June	6.50
Sept. 13	8.00	Mar.	10.00	July	8.50	July	6.02
Nov. 6	7.50	Apr.	10.00	Aug.	8.50	Aug.	6.00
Dec. 23	6.50	May	10.00	Sept.	8.20	Sept.	6.00
		June	10.00	Oct.	8.00	Oct.	6.00
1992— July 2	6.00	July	10.00	Nov.	7.58	Nov.	6.00
		Aug.	10.00	Dec.	7.21	Dec.	6.00
		Sept.	10.00				
		Oct.	10.00			1993— Jan.	6.00
		Nov.	10.00			Feb.	6.00
		Dec.	10.00			Mar.	6.00

1. Data in this table also appear in the Board's H.15 (519) weekly and G.13 (415) monthly statistical releases. For ordering address, see inside front cover.

1.35 INTEREST RATES Money and Capital Markets

Averages, percent per year; weekly, monthly, and annual figures are averages of business day data unless otherwise noted

Item	1990	1991	1992	1992		1993		1993, week ending				
				Nov.	Dec.	Jan.	Feb.	Jan. 29	Feb. 5	Feb. 12	Feb. 19	Feb. 26
MONEY MARKET INSTRUMENTS												
1 Federal funds[1,2,3]	8.10	5.69	3.52	3.09	2.92	3.02	3.03	2.94	3.15	2.92	3.06	2.91
2 Discount window borrowing[2,4]	6.98	5.45	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Commercial paper[3,5,6]												
3 1-month	8.15	5.89	3.71	3.25	3.71	3.21	3.14	3.14	3.16	3.14	3.16	3.11
4 3-month	8.06	5.87	3.75	3.66	3.67	3.25	3.18	3.18	3.21	3.18	3.18	3.15
5 6-month	7.95	5.85	3.80	3.67	3.70	3.35	3.27	3.29	3.31	3.27	3.26	3.23
Finance paper, directly placed[3,5,7]												
6 1-month	8.00	5.73	3.62	3.20	3.68	3.25	3.18	3.18	3.20	3.18	3.20	3.17
7 3-month	7.87	5.71	3.65	3.59	3.58	3.32	3.27	3.27	3.29	3.28	3.27	3.26
8 6-month	7.53	5.60	3.63	3.56	3.52	3.29	3.21	3.23	3.22	3.22	3.22	3.20
Bankers acceptances[3,5,8]												
9 3-month	7.93	5.70	3.62	3.51	3.44	3.14	3.06	3.08	3.09	3.06	3.05	3.05
10 6-month	7.80	5.67	3.67	3.51	3.47	3.23	3.15	3.15	3.18	3.17	3.14	3.10
Certificates of deposit, secondary market[3,9]												
11 1-month	8.15	5.82	3.64	3.23	3.57	3.14	3.08	3.08	3.08	3.08	3.08	3.06
12 3-month	8.15	5.83	3.68	3.58	3.48	3.19	3.12	3.13	3.14	3.12	3.11	3.10
13 6-month	8.17	5.91	3.76	3.60	3.55	3.33	3.22	3.26	3.26	3.24	3.21	3.18
14 Eurodollar deposits, 3-month[3,10]	8.16	5.86	3.70	3.67	3.50	3.22	3.12	3.18	3.18	3.13	3.10	3.08
U.S. Treasury bills												
Secondary market[3,5]												
15 3-month	7.50	5.38	3.43	3.13	3.22	3.00	2.93	2.92	2.92	2.93	2.92	2.95
16 6-month	7.46	5.44	3.54	3.34	3.36	3.14	3.07	3.07	3.10	3.10	3.04	3.04
17 1-year	7.35	5.52	3.71	3.52	3.55	3.35	3.25	3.26	3.26	3.32	3.22	3.17
Auction average[3,5,11]												
18 3-month	7.51	5.42	3.45	3.14	3.25	3.06	2.95	2.98	2.97	2.94	2.93	2.96
19 6-month	7.47	5.49	3.57	3.35	3.39	3.17	3.08	3.09	3.10	3.09	3.08	3.06
20 1-year	7.36	5.54	3.75	3.61	3.57	3.52	3.32	n.a.	n.a.	3.32	n.a.	n.a.
U.S. TREASURY NOTES AND BONDS												
Constant maturities[12]												
21 1-year	7.89	5.86	3.89	3.68	3.71	3.50	3.39	3.41	3.41	3.45	3.36	3.31
22 2-year	8.16	6.49	4.77	4.58	4.67	4.39	4.10	4.24	4.19	4.21	4.04	3.95
23 3-year	8.26	6.82	5.30	5.14	5.21	4.93	4.58	4.78	4.70	4.71	4.51	4.38
24 5-year	8.37	7.37	6.19	6.04	6.08	5.83	5.43	5.66	5.55	5.56	5.39	5.21
25 7-year	8.52	7.68	6.63	6.49	6.46	6.26	5.87	6.08	5.98	6.00	5.85	5.64
26 10-year	8.55	7.86	7.01	6.87	6.77	6.60	6.26	6.46	6.40	6.38	6.24	6.02
27 30-year	8.61	8.14	7.67	7.61	7.44	7.34	7.09	7.23	7.21	7.18	7.07	6.89
Composite												
28 More than 10 years (long-term)	8.74	8.16	7.52	7.43	7.30	7.17	6.89	7.03	6.98	6.97	6.90	6.70
STATE AND LOCAL NOTES AND BONDS												
Moody's series[13]												
29 Aaa	6.96	6.56	6.09	6.05	5.91	5.91	5.61	5.89	5.79	5.65	5.51	5.47
30 Baa	7.29	6.99	6.48	6.46	6.27	6.28	5.98	6.28	6.17	6.01	5.88	5.84
31 *Bond Buyer* series[14]	7.27	6.92	6.44	6.36	6.22	6.16	5.87	6.10	6.04	5.97	5.85	5.60
CORPORATE BONDS												
32 Seasoned issues, all industries[15]	9.77	9.23	8.55	8.51	8.35	8.24	8.01	8.14	8.09	8.07	7.99	7.88
Rating group												
33 Aaa	9.32	8.77	8.14	8.10	7.98	7.91	7.71	7.84	7.78	7.75	7.69	7.61
34 Aa	9.56	9.05	8.46	8.40	8.24	8.11	7.90	8.02	7.98	7.97	7.88	7.77
35 A	9.82	9.30	8.62	8.58	8.37	8.26	8.03	8.15	8.11	8.09	8.02	7.90
36 Baa	10.36	9.80	8.98	8.96	8.81	8.67	8.39	8.55	8.50	8.49	8.37	8.22
37 A-rated, recently offered utility bonds[16]	10.01	9.32	8.52	8.51	8.27	8.13	7.80	7.95	7.88	7.85	7.73	7.63
MEMO												
Dividend–price ratio[17]												
38 Preferred stocks	8.96	8.17	7.46	7.43	7.45	7.25	7.37	7.39	7.40	7.37	7.43	7.29
39 Common stocks	3.61	3.25	2.99	2.98	2.90	2.88	2.81	2.83	2.77	2.78	2.86	2.82

1. The daily effective federal funds rate is a weighted average of rates on trades through New York brokers.
2. Weekly figures are averages of seven calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.
3. Annualized using a 360-day year or bank interest.
4. Rate for the Federal Reserve Bank of New York.
5. Quoted on a discount basis.
6. An average of offering rates on commercial paper placed by several leading dealers for firms whose bond rating is AA or the equivalent.
7. An average of offering rates on paper directly placed by finance companies.
8. Representative closing yields for acceptances of the highest-rated money center banks.
9. An average of dealer offering rates on nationally traded certificates of deposit.
10. Bid rates for Eurodollar deposits at 11 a.m. London time. Data are for indication purposes only.
11. Auction date for daily data; weekly and monthly averages computed on an issue-date basis.
12. Yields on actively traded issues adjusted to constant maturities. Source: U.S. Treasury.
13. General obligations based on Thursday figures; Moody's Investors Service.
14. General obligations only, with twenty years to maturity, issued by twenty state and local governmental units of mixed quality. Based on figures for Thursday.
15. Daily figures from Moody's Investors Service. Based on yields to maturity on selected long-term bonds.
16. Compilation of the Federal Reserve. This series is an estimate of the yield on recently offered, A-rated utility bonds with a thirty-year maturity and five years of call protection. Weekly data are based on Friday quotations.
17. 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 ordering address, see inside front cover.

1.36 STOCK MARKET Selected Statistics

Indicator	1990	1991	1992	1992							1993	
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
	Prices and trading volume (averages of daily figures)											
Common stock prices (indexes)												
1 New York Stock Exchange (Dec. 31, 1965 = 50)	183.66	206.35	229.00	224.68	228.17	230.07	230.13	226.97	232.84	239.47	239.75[r]	243.41
2 Industrial	226.06	258.16	284.26	279.54	281.90	284.44	285.76	279.70	287.80	290.77	292.11	294.40
3 Transportation	158.80	173.97	201.02	202.02	198.36	191.31	191.61	192.30	204.63	212.35	221.00	226.96
4 Utility	90.72	92.64	99.48	97.23	101.18	103.41	102.26	101.62	101.13	103.85	105.52	109.45
5 Finance	133.21	150.84	179.29	174.82	180.96	180.47	178.27	181.36	189.27	196.87	203.38	209.93
6 Standard & Poor's Corporation (1941–43 = 10)[1]	335.01	376.20	415.75	408.27	415.05	417.93	418.48	412.50	422.84	435.64	435.40[r]	441.76
7 American Stock Exchange (Aug. 31, 1973 = 50)[2]	338.32	360.32	391.28	385.56	384.07	385.80	382.67	371.27	387.75	392.69	402.75[r]	409.39
Volume of trading (thousands of shares)												
8 New York Stock Exchange	156,359	179,411	202,558	195,089	194,138	174,003	191,774	204,787	208,221	222,736	266,011	288,540
9 American Stock Exchange	13,155	12,486	14,171	11,216	10,722	11,875	11,198	11,966	14,925	16,523	17,184	18,154
	Customer financing (millions of dollars, end-of-period balances)											
10 Margin credit at broker-dealers[3]	**28,210**	**36,660**	**43,990**	**39,690**	**39,640**	**39,940**	**41,250**	**41,590**	**43,630**	**43,990**	**44,020**	**44,290**
Free credit balances at brokers[4]												
11 Margin accounts[5]	8,050	8,290	8,970	7,780	7,920	8,060	8,060	8,355	8,500	8,970	8,980	9,790
12 Cash accounts	19,285	19,255	22,510	19,610	18,775	18,305	19,650	18,700	19,310	22,510	20,360	22,190
	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. On July 5, 1983, the American Stock Exchange rebased its index, effectively cutting previous readings in half.
3. Since July 1983, under the revised Regulation T, margin credit at broker-dealers has included credit extended against stocks, convertible bonds, stocks acquired through the exercise of subscription rights, corporate bonds, and government securities. Separate reporting of data for margin stocks, convertible bonds, and subscription issues was discontinued in April 1984.
4. Free credit balances are amounts in accounts with no unfulfilled commitments to brokers and are subject to withdrawal by customers on demand.
5. New series since June 1984.
6. These requirements, stated in regulations adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit that can be used to purchase and carry "margin securities" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements on securities 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.

Effective June 8, 1988, margins were set to be the price of the option plus 20 percent of the market value of the stock underlying the option (or 15 percent in the case of stock-index options).

1.37 SELECTED FINANCIAL INSTITUTIONS Selected Assets and Liabilities

Millions of dollars, end of period

Account	1990	1991	1992									
			Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	SAIF-insured institutions											
1 **Assets**	**1,084,821**	**919,979**	**883,407**	**872,026**	**870,334**	**861,517**	**856,390**	**856,165**	**847,235**	**846,730**	**840,605**	
2 Mortgages	633,385	551,322	529,158	524,954	521,911	516,654	512,264	512,077	508,815	502,863	496,974	
3 Mortgage-backed securities	155,228	129,461	125,272	124,763	124,225	123,282	122,385	120,438	119,715	120,715	120,292	
4 Contra-assets to mortgage assets[1]	16,897	12,307	10,979	10,959	11,120	11,282	11,044	11,164	11,073	11,207	10,509	
5 Commercial loans	24,125	17,139	15,400	15,075	14,607	14,020	13,929	13,525	13,419	13,630	13,180	
6 Consumer loans	48,753	41,775	38,717	37,999	37,868	37,403	37,230	37,123	36,732	35,938	36,019	
7 Contra-assets to nonmortgage loans[1]	1,939	1,239	−1,008	980	949	944	910	932	982	931	845	n.a.
8 Cash and investment securities	146,644	120,077	119,543	116,462	120,763	119,539	120,220	124,140	120,684	126,719	127,893	
9 Other[2]	95,522	73,751	67,387	64,711	63,030	62,844	62,317	60,958	59,925	59,002	57,600	
10 **Liabilities and net worth**	**1,084,821**	**919,979**	**883,407**	**872,026**	**870,334**	**861,517**	**856,390**	**856,165**	**847,235**	**846,730**	**840,605**	
11 Deposits	835,496	731,937	703,811	689,777	688,199	682,535	676,141	672,354	667,027	660,906	654,047	
12 Borrowed money	197,353	121,923	110,031	111,262	110,126	108,943	109,036	110,109	110,022	114,123	114,354	
13 FHLBB	100,391	65,842	62,628	62,268	61,439	62,760	62,359	62,225	64,105	63,065	64,742	
14 Other	96,962	56,081	47,403	48,994	48,687	46,183	46,677	47,884	45,917	51,058	49,612	
15 Other	21,332	17,560	18,295	18,883	19,626	17,740	18,570	20,523	18,017	19,853	20,406	
16 Net worth	30,640	48,559	51,271	52,103	52,383	52,299	52,642	53,178	52,169	51,846	51,798	

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 assets, 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. Contra-assets to nonmortgage loans include loans in process, unearned discounts and deferred loan fees, and specific reserves and valuation allowances.

2. Includes holding of stock in Federal Home Loan Bank and finance leases plus interest.

NOTE. Components do not sum to totals because of rounding. Data for credit unions and life insurance companies have been deleted from this table. Starting in the December 1991 issue, data for life insurance companies are shown in a special table of quarterly data.

SOURCE. Office of Thrift Supevision (OTS), insured by the Savings Association Insurance Fund (SAIF) and regulated by the OTS.

1.38 FEDERAL FISCAL AND FINANCING OPERATIONS

Millions of dollars

Type of account or operation	Fiscal year			Calendar year					
				1992				1993	
	1990	1991	1992	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
U.S. budget[1]									
1 Receipts, total	1,031,308	1,054,265	1,091,200	118,338	76,832	74,633	113,756	112,809	66,194
2 On-budget	749,654	760,382	788,774	92,807	55,056	51,219	89,660	90,220	41,094
3 Off-budget	281,654	293,883	302,426	25,531	21,776	23,414	24,096	22,589	25,100
4 Outlays, total	1,251,766	1,323,757	1,381,404	112,918	125,620	107,363	152,701	82,996	113,788
5 On-budget	1,026,701	1,082,072	1,129,044	86,703	103,780	83,444	116,640	85,022	89,333
6 Off-budget	225,064	241,685	252,316	26,235	21,841	23,919	36,061	−2,025	24,456
7 Surplus or deficit (−), total	−220,458	−269,492	−290,160	5,400	−48,788	−32,730	−38,945	29,812	−47,594
8 On-budget	−277,047	−321,690	−340,270	6,104	−48,724	−32,225	−26,980	5,198[r]	−48,239
9 Off-budget	56,590	52,198	50,110	−704	−65	−505	−11,965	24,614	644
Source of financing (total)									
10 Borrowing from the public	220,101	276,802	310,918	9,853	−1,552	61,969	21,078	−8,355	30,689
11 Operating cash (decrease, or increase (−))	818	−1,329	−17,305	−22,807	39,420	−7,346	−3,175	−16,436	27,227
12 Other[2]	−461	−5,981	−3,453	7,554	10,920	−21,893	21,042	−5,021	−10,322
MEMO									
13 Treasury operating balance (level, end of period)	40,155	41,484	58,789	58,789	19,369	26,715	29,890	46,326	19,099
14 Federal Reserve Banks	7,638	7,928	24,586	24,586	4,413	6,985	7,492	9,572	5,350
15 Tax and loan accounts	32,517	33,556	34,203	34,203	14,956	19,729	22,399	36,754	13,749

1. In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, all former off-budget entries are now presented on-budget. Federal Financing Bank (FFB) activities are now shown as separate accounts under the agencies that use the FFB to finance their programs. The act also moved two social security trust funds (federal old-age survivors insurance and federal disability insurance) off budget. The Postal Service is included as an off-budget item in the *Monthly Treasury Statement* beginning in 1990.

2. Includes special drawing rights (SDRs); reserve position on the U.S. quota in the International Monetary Fund (IMF); loans to the IMF; other cash and monetary assets; accrued interest payable to the public; allocations of SDRs; deposit funds; miscellaneous liability (including checks outstanding) and asset accounts; seigniorage; increment on gold; net gain or loss for U.S. currency valuation adjustment; net gain or loss for IMF loan-valuation adjustment; and profit on sale of gold.

SOURCES. *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government* (MTS) 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		Calendar year						
	1991	1992	1991		1992		1992	1993	
			H1	H2	H1[r]	H2	Dec.	Jan.	Feb.
RECEIPTS									
1 **All sources**	**1,054,265**	**1,091,200**	**540,504**	**519,293**	**560,647**	**540,849**	**113,756**	**112,809**	**66,194**
2 Individual income taxes, net	467,827	476,465	232,389	234,949	236,888	246,961	51,171	73,704	23,947
3 Withheld	404,152	408,352	193,440	210,552	198,868	215,591	48,189	36,255	33,652
4 Presidential Election Campaign Fund	32	30	31	1	19	10	0	0	4
5 Nonwithheld	142,693	149,342	109,405	33,296	111,855	39,371	3,665	38,452	967
6 Refunds	79,050	81,259	70,487	8,900	73,853	8,011	683	1,003	10,677
Corporation income taxes									
7 Gross receipts	113,599	117,951	58,903	54,016	61,682	58,022	23,721	3,969	2,510
8 Refunds	15,513	17,680	7,904	8,649	9,403	7,219	772	758	1,719
9 Social insurance taxes and contributions, net	396,011	413,689	214,303	186,839	224,569	192,599	31,918	29,416	34,251
10 Employment taxes and contributions[2]	370,526	385,491	199,727	175,802	208,110	180,758	31,252	28,209	31,623
11 Self-employment taxes and contributions[3]	25,457	24,421	22,150	3,306	20,433	3,988	0	−3,032	1,487
12 Unemployment insurance	20,922	23,410	12,296	8,721	14,070	9,397	245	844	2,259
13 Other net receipts[4]	4,563	4,788	2,279	2,317	2,389	2,445	421	363	369
14 Excise taxes	42,430	45,570	20,703	24,429	22,389	23,456	4,014	3,307	3,342
15 Customs deposits	15,921	17,359	7,488	8,694	8,145	9,497	1,539	1,310	1,347
16 Estate and gift taxes	11,138	11,143	5,631	5,507	5,701	5,733	959	888	822
17 Miscellaneous receipts[5]	22,852	27,195	8,991	13,508	10,992	11,815	1,206	971	1,695
OUTLAYS									
18 **All types**	**1,323,757**	**1,381,404**	**632,153**	**694,474**	**704,591**	**723,760**	**152,701**	**82,996**	**113,788**
19 National defense	272,514	298,361	122,089	147,669	147,066	155,501	30,010	19,683	22,903
20 International affairs	16,167	16,106	7,592	7,691	8,538	9,911	1,170	1,161	1,253
21 General science, space, and technology	15,946	16,409	7,496	8,472	7,952	8,521	1,571	1,395	1,325
22 Energy	2,511	4,509	1,235	1,698	1,442	3,109	525	15	399
23 Natural resources and environment	18,708	20,017	8,324	11,130	8,607	11,617	1,540	1,372	1,282
24 Agriculture	14,864	14,997	7,684	7,418	7,527	8,881	3,428	1,206	1,145
25 Commerce and housing credit	75,639	9,514	17,992	36,534	15,566	−7,843	−1,874	−1,832	−3,532
26 Transportation	31,531	33,337	14,748	17,093	15,679	18,477	2,983	2,363	2,093
27 Community and regional development	7,432	7,411	3,552	3,783	3,902	4,540	774	650	690
28 Education, training, employment, and social services	41,479	45,248	21,234	21,114	23,224	20,922	4,393	4,360	4,068
29 Health	71,183	89,570	35,608	41,459	43,864	47,223	8,191	7,828	8,053
30 Social security and medicare	373,495	406,569[r]	190,247	193,098	205,500	232,109	59,837	10,376	35,005
31 Income security	171,618	198,073	88,778	87,805	105,744	99,272	18,689	16,225	21,317
32 Veterans benefits and services	31,344	34,133	14,326	17,425	15,596	18,561	4,148	1,641	2,649
33 Administration of justice	12,295	14,450	6,187	6,574	7,433	7,283	1,236	1,222	1,060
34 General government	11,358	12,939	5,212	6,794	5,052	8,138	2,306	133	994
35 Net interest[6]	195,012	199,429	98,556	99,149	100,444	98,549	16,559	17,858	15,893
36 Undistributed offsetting receipts[7]	−39,356	−39,280	−18,702	−20,436	−18,229	−20,914	−2,783	−2,660	−2,809

1. Functional details do not sum to total outlays for calendar year data because revisions to monthly totals have not been distributed among functions. Fiscal year total for 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. Includes interest received by trust funds.
7. Consists of rents and royalties for 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 1994*.

1.40 FEDERAL DEBT SUBJECT TO STATUTORY LIMITATION

Billions of dollars, end of month

Item	1990	1991				1992			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
1 **Federal debt outstanding**	**3,397**	**3,492**	**3,563**	**3,683**	**3,820**	**3,897**	**4,001**	**4,083**	n.a.
2 Public debt securities	3,365	3,465	3,538	3,665	3,802	3,881	3,985	4,065	4,177
3 Held by public	2,537	2,598	2,643	2,746	2,833	2,918	2,977	3,048	n.a.
4 Held by agencies	828	867	895	920	969	964	1,008	1,016	n.a.
5 Agency securities	33	27	25	18	19	16	16	18	n.a.
6 Held by public	32	26	25	18	19	16	16	18	n.a.
7 Held by agencies	0	0	0	0	0	0	0	0	n.a.
8 **Debt subject to statutory limit**	**3,282**	**3,377**	**3,450**	**3,569**	**3,707**	**3,784**	**3,891**	**3,973**	**4,086**
9 Public debt securities	3,281	3,377	3,450	3,569	3,706	3,783	3,890	3,972	4,085
10 Other debt[1]	0	0	0	0	0	0	0	0	0
MEMO									
11 Statutory debt limit	4,145	4,145	4,145	4,145	4,145	4,145	4,145	4,145	4,145

1. Consists of guaranteed debt of Treasury and other federal agencies, specified participation certificates, notes to international lending organizations, and District of Columbia stadium bonds.

SOURCES. U.S. Treasury Department, *Monthly Statement of the Public Debt of the United States* and *Treasury Bulletin*.

1.41 GROSS PUBLIC DEBT OF U.S. TREASURY Types and Ownership

Billions of dollars, end of period

Type and holder	1989	1990	1991	1992	1992			
					Q1	Q2	Q3	Q4
1 **Total gross public debt**	**2,953.0**	**3,364.8**	**3,801.7**	**4,177.0**	**3,881.3**	**3,984.7**	**4,064.6**	**4,177.0**
By type								
2 Interest-bearing	2,931.8	3,362.0	3,798.9	4,173.9	3,878.5	3,981.8	4,061.8	4,173.9
3 Marketable	1,945.4	2,195.8	2,471.6	2,754.1	2,552.3	2,605.1	2,677.5	2,754.1
4 Bills	430.6	527.4	590.4	657.7	615.8	618.2	634.3	657.7
5 Notes	1,151.5	1,265.2	1,430.8	1,608.9	1,477.7	1,517.6	1,566.4	1,608.9
6 Bonds	348.2	388.2	435.5	472.5	443.8	454.3	461.8	472.5
7 Nonmarketable[1]	986.4	1,166.2	1,327.2	1,419.8	1,326.2	1,376.7	1,384.3	1,419.8
8 State and local government series	163.3	160.8	159.7	153.5	157.8	161.9	157.6	153.5
9 Foreign issues[2]	6.8	43.5	41.9	37.4	42.0	38.7	37.0	37.4
10 Government	6.8	43.5	41.9	37.4	42.0	38.7	37.0	37.4
11 Public	.0	.0	.0	.0	.0	.0	.0	.0
12 Savings bonds and notes	115.7	124.1	135.9	155.0	139.9	143.2	148.3	155.0
13 Government account series[3]	695.6	813.8	959.2	1,043.5	956.1	1,002.5	1,011.0	1,043.5
14 Non-interest-bearing	21.2	2.8	2.8	3.1	2.8	2.9	2.8	3.1
By holder[4]								
15 U.S. Treasury and other federal agencies and trust funds	707.8	828.3	968.7		963.7	1,007.9	1,016.3	
16 Federal Reserve Banks	228.4	259.8	281.8		267.6	276.9	296.4	
17 Private investors	2,015.8	2,288.3	2,563.2		2,664.0	2,712.4	2,765.5	
18 Commercial banks	164.9	171.5	233.4		256.6	267.2	270.0	
19 Money market funds	14.9	45.4	80.0		84.0	79.4	79.4	
20 Insurance companies	125.1	142.0	168.7	n.a.	176.9	181.3	185.0	n.a.
21 Other companies	93.4	108.9	150.8		166.0	175.0	180.8	
22 State and local treasuries	487.5	490.4	520.3		521.8	528.5	530.0	
Individuals								
23 Savings bonds	117.7	126.2	138.1		142.0	145.4	150.3	
24 Other securities	98.7	107.6	125.8		126.1	129.7	130.9	
25 Foreign and international[5]	392.9	421.7	455.0		471.2	492.9	499.0	
26 Other miscellaneous investors[6]	520.7	674.5	691.1		719.5	713.1	740.0	

1. Includes (not shown separately) securities issued to the Rural Electrification Administration, depository bonds, retirement plan bonds, and individual retirement bonds.
2. Nonmarketable series denominated in dollars, and series denominated in foreign currency held by foreigners.
3. Held almost entirely by U.S. Treasury and other federal agencies and trust funds.
4. Data for Federal Reserve Banks and U.S. government agencies and trust funds are actual holdings; data for other groups are Treasury estimates.
5. Consists of investments of foreign balances and international accounts in the United States.
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. U.S. Treasury Department, data by type of security, *Monthly Statement of the Public Debt of the United States*; data by holder, the *Treasury Bulletin*.

1.42 U.S. GOVERNMENT SECURITIES DEALERS Transactions[1]

Millions of dollars, daily averages

Item	1992		1993	1992, week ending	1993, week ending							
	Nov.	Dec.	Jan.	Dec. 30	Jan. 6	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17	Feb. 24
IMMEDIATE TRANSACTIONS[2]												
By type of security												
U.S. Treasury securities												
1 Bills	233	239	240	38,654	48,188	52,807	50,836	42,636	42,512	46,358	43,801	45,439
Coupon securities, by maturity												
2 Less than 3.5 years	288	291	292	21,267	32,120	45,550	51,024	58,100	50,106	58,885	55,363	63,656
3 3.5 to 7.5 years	205	212	221	15,626	29,778	49,463	45,958	56,318	46,365	44,155	42,127	60,642
4 7.5 to 15 years	101	104	106	7,503	13,123	19,853	20,257	21,395	21,061	30,741	27,176	33,253
5 15 years or more	189	197	203	8,143	11,132	15,387	19,152	18,220	16,349	18,095	26,574	25,249
Federal agency securities												
Debt, by maturity												
6 Less than 3.5 years	423r	436	435r	5,229	5,820r	6,883	5,018	6,526	7,082	7,228	6,727	6,213
7 3.5 to 7.5 years	388r	393r	403r	345	696r	888	792	873	877	955	715	880
8 7.5 years or more	208,221	222,736	266,011r	932	1,252	1,034	1,224	1,230	1,046	1,350	1,157	1,186
Mortgage-backed												
9 Pass-throughs	14,925	16,523	17,184	8,435	14,506	26,941	22,744	16,675	15,083	29,594	24,153	20,093
10 All others[3]	43,630	43,990	44,020	3,007	2,201	3,150	4,680	4,211	4,909	3,406	3,413	5,772
By type of counterparty												
Primary dealers and brokers												
11 U.S. Treasury securities	8,500	8,970	8,980	54,359	78,175	115,030	115,525	122,359	108,449	124,847	119,783	141,507
Federal agency securities												
12 Debt	19,310r	22,510r	20,360r	805	1,830r	1,795	1,523	1,869	2,051	2,052	1,957	1,787
13 Mortgage-backed	9,765	7,917	10,457	4,532	7,809	13,082	12,034	9,111	8,613	15,762	12,384	10,043
Customers												
14 U.S. Treasury securities	61,832	50,898	68,131	36,833	56,166	68,028	71,701	74,310	67,945	73,387	75,258	86,733
Federal agency securities												
15 Debt	5,482r	5,737r	6,384r	5,700	5,938r	7,011	5,510	6,760	6,954	7,481	6,642	6,493
16 Mortgage-backed	11,040	9,413	13,296	6,910	8,898	17,009	15,390	11,775	11,379	17,238	15,182	15,821
FUTURES AND FORWARD TRANSACTIONS[4]												
By type of deliverable security												
U.S. Treasury securities												
17 Bills	3,242	2,464	2,584	1,087	3,189	2,856	2,345	1,860	3,106	2,280	1,800	3,029
Coupon securities, by maturity												
18 Less than 3.5 years	2,221	1,637	2,155	1,219	1,290	2,036	2,600	2,540	2,104	2,560	2,420	3,230
19 3.5 to 7.5 years	1,969	1,179	1,486	480	903	1,475	1,758	1,614	1,675	1,396	1,562	2,624
20 7.5 to 15 years	3,548	2,336	2,668	1,028	1,369	3,060	2,745	3,059	3,114	3,985	3,900	3,803
21 15 years or more	8,782	6,427	9,140	3,928	5,653	9,391	11,224	9,673	8,940	10,777	13,241	13,161
Federal agency securities												
Debt, by maturity												
22 Less than 3.5 years	161	97	45	86	20	15	109	28	53	63	73	108
23 3.5 to 7.5 years	117	48	114	n.a	5	160	138	91	216	196	46	46
24 7.5 years or more	16	18	78r	7	12	58	192	62	16	92	45	19
Mortgage-backed												
25 Pass-throughs	15,801	11,895	16,656	3,811	15,297	18,847	17,297	15,700	14,680	20,912	18,287	13,656
26 Others[3]	1,132	829	1,276	365	562	638	1,767	2,181	810	987	2,173	1,734
OPTIONS TRANSACTIONS[5]												
By type of underlying security												
U.S. Treasury, coupon securities, by maturity												
27 Less than 3.5 years	1,663	1,401	1,537	478	1,058	1,735	1,628	1,817	1,077	1,300	2,218	2,025
28 3.5 to 7.5 years	824	378	782	72	1,194	732	836	545	538	318	339	712
29 7.5 to 15 years	817	341	573	227	672	676	441	596	385	586	431	1,020
30 15 years or more	1,607	820	1,233	253	876	846	1,431	1,890	775	1,217	1,236	1,881
Federal agency, mortgage-backed securities												
31 Pass-throughs	344	338	563	173	617	472	577	644	448	472	580	781

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 are based on the number of trading days in the period. Immediate, forward, and futures transactions are reported at principal value, which does not include accrued interest; options transactions are reported at the face value of the underlying securities.

Dealers report cumulative transactions for each week ending Wednesday.

2. Transactions for immediate delivery include purchases or sales of securities (other than mortgage-backed agency securities) for which delivery is scheduled in five business days or less and "when-issued" securities that settle on the issue date of offering. Transactions for immediate delivery of mortgage-backed agency securities include purchases and sales for which delivery is scheduled in thirty days or less. Stripped securities are reported at market value by maturity of coupon or corpus.

3. Includes such securities as collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), interest-only securities (IOs), and principal-only securities (POs).

4. Futures transactions are standardized agreements arranged on an exchange. Forward transactions are agreements made in the over-the-counter market that specify delayed delivery. All futures transactions are included regardless of time to delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty days.

5. Options transactions are purchases or sales of put-and-call options, whether arranged on an organized exchange or in the over-the-counter market, and include options on futures contracts on U.S. Treasury and federal agency securities.

NOTE. In tables 1.42 and 1.43, "n.a." indicates that data are not published because of insufficient activity.

Data for several types of options transactions—U.S. Treasury securities, bills; Federal agency securities, debt; and mortgage-backed securities, other than pass-throughs—are no longer available because activity is insufficient.

1.43 U.S. GOVERNMENT SECURITIES DEALERS Positions and Financing[1]

Millions of dollars

Item	1992		1993	1992, week ending	1993, week ending						
	Nov.	Dec.	Jan.	Dec. 30	Jan. 6	Jan. 13	Jan. 20	Jan. 27	Feb. 3	Feb. 10	Feb. 17
	Positions[2]										
NET IMMEDIATE POSITIONS[3]											
By type of security											
U.S. Treasury securities											
1 Bills	233	239	240	5,897	9,069	12,746	7,028	253	1	3,812	6,383
Coupon securities, by maturity											
2 Less than 3.5 years	288	291	292	−2,284	−2,385	−4,343	−9,699	−3,252	−1,172	1,001	−3,186
3 3.5 to 7.5 years	205	212	221	−5,630	−7,193	−8,986	−8,902	−6,680	−7,477	−11,500	−14,471
4 7.5 to 15 years	101	104	106	−10,760	−12,355	−14,007	−14,080	−14,357	−12,296	−7,470	−9,376
5 15 years or more	189	197	203	7,390	7,216	5,863	8,024	7,567	6,194	6,230	8,957
Federal agency securities											
Debt, by maturity											
6 Less than 3.5 years	423	436[r]	435[r]	3,078[r]	4,750	3,210	6,191	5,217	8,112	7,881	7,125
7 3.5 to 7.5 years	388	393	403[r]	3,166	2,924	2,779	2,538	2,515	2,188	2,545	2,169
8 7.5 years or more	208,221	222,736	266,011[r]	3,682	3,681	3,803	3,701	4,034	3,750	3,440	3,424
Mortgage-backed											
9 Pass-throughs	14,925	16,523	17,184	17,272	23,951	39,588	39,619	37,368	32,976	40,227	35,792
10 All others[4]	43,630	43,990	44,020	25,783	24,367	24,215	25,127	24,844	23,742	23,289	24,701
Other money market instruments											
11 Certificates of deposit	8,500	8,970	8,980	3,249	2,563	2,372	2,978	3,258	3,623	3,035	3,463
12 Commercial paper	19,310	22,510	20,360	6,459	8,198	5,310	6,836	6,960	8,109	7,338	7,348
13 Bankers acceptances	864	758	672	921	766	505	638	710	814	811	1,222
FUTURES AND FORWARD POSITIONS[5]											
By type of deliverable security											
U.S. Treasury securities											
14 Bills	2,797	−1,820	−4,355	−1,060	−2,120	−4,844	−5,943	−4,156	−4,422	−4,800	−5,672
Coupon securities, by maturity											
15 Less than 3.5 years	2,105	612	1,488	509	630	1,998	1,109	2,089	1,495	1,558	1,455
16 3.5 to 7.5 years	1,206	609	2,352	1,953	2,593	3,153	2,394	2,165	844	2,467	3,008
17 7.5 to 15 years	2,614	2,138	3,002	3,217	3,700	4,124	2,503	1,891	2,811	1,747	1,428
18 15 years or more	−5,164	−7,258	−6,174	−6,180	−6,670	−4,733	−7,642	−6,312	−5,142	−3,844	−5,207
Federal agency securities											
Debt, by maturity											
19 Less than 3.5 years	1	−123	−37	−378	−18	−1	−85	−62	−1	38	46
20 3.5 to 7.5 years	91	−115	−11	−177	−42	31	109	−93	−108	2	29
21 7.5 years or more	−6	−16	20[r]	−51	−42	−60	113	103	−55	117	−24
Mortgage-backed											
22 Pass-throughs	−7,047	−1,280	−12,104	6,223	−909	−14,631	−16,701	−14,887	−11,557	−20,522	−14,965
23 All others[4]	1,911	366	1,450	37	257	1,025	1,964	2,124	1,908	2,810	4,003
24 Certificates of deposit	−125,734	−71,895	−66,597	−59,719	−60,181	−66,521	−65,954	−70,855	−70,026	−99,094	−112,864
	Financing[6]										
Reverse repurchase agreements											
25 Overnight and continuing	211,724[r]	208,607[r]	230,268[r]	208,723[r]	233,609	225,894	232,086	228,676	232,519	219,987	247,572
26 Term	335,267[r]	332,244[r]	345,609[r]	321,229[r]	300,889	346,233	340,499	372,269	373,888	398,647	339,373
Repurchase agreements											
27 Overnight and continuing	361,802[r]	357,335[r]	387,462[r]	336,394[r]	379,844	373,483	399,987	389,140	398,496	393,011	413,785
28 Term	329,223[r]	326,258[r]	328,043[r]	311,581[r]	281,026	321,951	325,068	363,563	352,277	382,749	335,085
Securities borrowed											
29 Overnight and continuing	104,281	99,894[r]	102,170[r]	92,681[r]	97,859	98,375	101,843	106,205	108,787	108,642	112,995
30 Term	44,258[r]	46,975[r]	52,374[r]	47,883[r]	49,658	52,757	51,219	55,641	52,082	56,900	52,575
Securities loaned											
31 Overnight and continuing	4,103[r]	3,999[r]	3,724[r]	3,937[r]	3,721	3,418	4,725	3,071	3,654	3,312	4,105
32 Term	314	601[r]	351	1,677[r]	211	200	359	495	560	226	221
Collateralized loans											
33 Overnight and continuing	15,142	16,800	16,882	15,998	17,896	16,345	17,015	0	0	0	0
MEMO: Matched book[7]											
Reverse repurchase agreements											
34 Overnight and continuing	153,286[r]	157,110[r]	167,088[r]	154,174[r]	173,326	163,717	167,152	163,818	169,239	154,952	171,838
35 Term	286,925[r]	289,659[r]	304,231[r]	279,545[r]	269,132	306,055	297,762	326,507	326,022	349,876	294,472
Repurchase agreements											
36 Overnight and continuing	188,547[r]	191,958[r]	218,787[r]	189,412[r]	211,401	217,569	225,937	214,644	226,737	224,321	222,536
37 Term	244,395[r]	243,209[r]	253,776[r]	232,348[r]	214,045	248,412	247,377	285,202	278,965	300,353	256,312

1. Data for positions and financing are obtained from reports submitted to the Federal Reserve Bank of New York by the U.S. government securities dealers on its published list of primary dealers. Weekly figures are close-of-business Wednesday data; monthly figures are averages of weekly data.
2. Securities positions are reported at market value.
3. Net immediate positions include securities purchased or sold (other than mortgage-backed agency securities) that have been delivered or are scheduled to be delivered in five business days or less and "when-issued" securities that settle on the issue date of offering. Net immediate positions of mortgage-backed agency securities include securities purchased or sold that have been delivered or are scheduled to be delivered in thirty days or less.
4. Includes such securities as collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), interest-only securities (IOs), and principal-only securities (POs).
5. Futures positions reflect standardized agreements arranged on an exchange. Forward positions reflect agreements made in the over-the-counter market that specify delayed delivery. All futures positions are included regardless of time to delivery. Forward contracts for U.S. Treasury securities and federal agency debt securities are included when the time to delivery is more than five business days. Forward contracts for mortgage-backed agency securities are included when the time to delivery is more than thirty days.
6. Overnight financing refers to agreements made on one business day that mature on the next business day; continuing contracts are agreements that remain in effect for more than one business day but have no specific maturity and can be terminated without advance notice by either party; term agreements have a fixed maturity of more than one business day.
7. Matched-book data reflect financial intermediation activity in which the borrowing and lending transactions are matched. Matched-book data are included in the financing breakdowns given above. The reverse repurchase and repurchase numbers are not always equal because of the "matching" of securities of different values or different types of collateralization.

NOTE. Data for futures and forward commercial paper and bankers acceptances and for term financing of collateralized loans are no longer available because of insufficient activity.

1.44 FEDERAL AND FEDERALLY SPONSORED CREDIT AGENCIES Debt Outstanding

Millions of dollars, end of period

Agency	1988	1989	1990	1991	1992				
					Aug.	Sept.	Oct.	Nov.	Dec.
1 **Federal and federally sponsored agencies**	**381,498**	**411,805**	**434,668**	**442,772**	**464,773**	**475,606**	**479,978**	**481,050**	**483,970**
2 Federal agencies	35,668	35,668	42,159	41,035	40,034	41,319	41,470	42,081	41,829
3 Defense Department[1]	8	8	7	7	7	7	7	7	7
4 Export-Import Bank[2,3]	11,033	10,985	11,376	9,809	8,156	7,698	7,698	7,698	7,208
5 Federal Housing Administration[4]	150	328	393	397	229	301	309	344	374
6 Government National Mortgage Association certificates of participation[5]	0	0	0	0	0	0	0	0	0
7 Postal Service[6]	6,142	6,445	6,948	8,421	10,123	10,123	10,123	10,660	10,660
8 Tennessee Valley Authority	18,335	17,899	23,435	22,401	21,519	23,190	23,333	23,372	23,580
9 United States Railway Association[6]	0	0	0	0	0	0	0	0	0
10 Federally sponsored agencies[7]	345,832	375,428	392,509	401,737	424,739	434,287	438,508	438,969	442,141
11 Federal Home Loan Banks	135,836	136,108	117,895	107,543	108,564	110,830	112,436	114,364	114,733
12 Federal Home Loan Mortgage Corporation	22,797	26,148	30,941	30,262	34,295	36,750	34,108	30,914	29,631
13 Federal National Mortgage Association	105,459	116,064	123,403	133,937	150,280	155,232	159,764	161,308	166,300
14 Farm Credit Banks[8]	53,127	54,864	53,590	52,199	52,137	52,734	52,510	52,728	51,910
15 Student Loan Marketing Association[9]	22,073	28,705	34,194	38,319	39,552	38,830	39,766	39,737	39,650
16 Financing Corporation[10]	5,850	8,170	8,170	8,170	8,170	8,170	8,170	8,170	8,170
17 Farm Credit Financial Assistance Corporation[11]	690	847	1,261	1,261	1,261	1,261	1,261	1,261	1,261
18 Resolution Funding Corporation[12]	0	4,522	23,055	29,996	29,996	29,996	29,996	29,996	29,996
MEMO									
19 **Federal Financing Bank debt**[13]	**142,850**	**134,873**	**179,083**	**185,576**	**174,003**	**164,422**	**159,899**	**156,579**	**154,994**
Lending to federal and federally sponsored agencies									
20 Export-Import Bank[3]	11,027	10,979	11,370	9,803	8,150	7,692	7,692	7,692	7,202
21 Postal Service[6]	5,892	6,195	6,698	8,201	9,903	9,903	9,903	10,440	10,440
22 Student Loan Marketing Association	4,910	4,880	4,850	4,820	4,820	4,820	4,790	4,790	4,790
23 Tennessee Valley Authority	16,955	14,055	10,725	7,275	7,175	7,175	6,975	6,975	
24 United States Railway Association[6]	0	0	0	0	0	0	0	0	0
Other lending[14]									
25 Farmers Home Administration	58,496	53,311	52,324	48,534	43,009	42,979	42,979	42,979	42,979
26 Rural Electrification Administration	19,246	19,265	18,890	18,562	18,238	18,143	18,172	18,172	18,172
27 Other	26,324	23,724	70,896	84,931	82,608	73,710	69,188	65,531	64,436

1. Consists of mortgages assumed by the Defense Department between 1957 and 1963 under family housing and homeowners assistance programs.
2. Includes participation certificates reclassified as debt beginning Oct. 1, 1976.
3. On-budget since Sept. 30, 1976.
4. Consists of debentures issued in payment of Federal Housing Administration insurance claims. Once issued, these securities may be sold privately on the securities market.
5. Certificates of participation issued before fiscal year 1969 by the Government National Mortgage Association acting as trustee for the Farmers Home Administration, the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Small Business Administration, and the Veterans' Administration.
6. Off-budget.
7. Includes outstanding noncontingent liabilities: notes, bonds, and debentures. Some data are estimated.
8. Excludes borrowing by the Farm Credit Financial Assistance Corporation, shown on line 17.
9. Before late 1982, the Association obtained financing through the Federal Financing Bank (FFB). Borrowing excludes that obtained from the FFB, which is shown on line 22.
10. The Financing Corporation, established in August 1987 to recapitalize the Federal Savings and Loan Insurance Corporation, undertook its first borrowing in October 1987.
11. The Farm Credit Financial Assistance Corporation, established in January 1988 to provide assistance to the Farm Credit System, undertook its first borrowing in July 1988.
12. The Resolution Funding Corporation, established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, undertook its first borrowing in October 1989.
13. The FFB, which began operations in 1974, is authorized to purchase or sell obligations issued, sold, or guaranteed by other federal agencies. Because FFB incurs debt solely for the purpose of lending to other agencies, its debt is not included in the main portion of the table in order to avoid double counting.
14. Includes FFB purchases of agency assets and guaranteed loans; the latter are loans guaranteed by numerous agencies, with the amounts guaranteed by any one agency generally being small. The Farmers Home Administration entry consists exclusively of agency assets, while the Rural Electrification Administration entry consists of both agency assets and guaranteed loans.

1.45 NEW SECURITY ISSUES Tax-Exempt State and Local Governments

Millions of dollars

Type of issue or issuer, or use	1990	1991	1992	1992						1993	
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
1 **All issues, new and refunding**[1]	**120,339**	**154,402**	**215,191**	**17,386**	**19,774**	**18,698**	**21,092**	**14,133**	**19,577**	**17,580**[r]	**16,125**
By type of issue											
2 General obligation	39,610	55,100	78,611	7,136	7,005	7,461	7,733	5,203	6,024	4,650[r]	↑
3 Revenue	81,295	99,302	136,580	10,250	12,769	11,237	13,359	8,930	13,553	12,930[r]	
By type of issuer											
4 State	15,149	24,939	25,295	2,836	2,933	1,710	2,742	1,688	2,339	1,339	n.a.
5 Special district or statutory authority[2]	72,661	80,614	127,618	10,040	11,203	11,054	13,113	8,197	11,159	12,556	
6 Municipality, county, or township	32,510	48,849	60,210	4,510	5,638	5,934	5,237	4,248	6,079	3,685	↓
7 ***Issues for new capital***	***103,235***	***116,953***	***120,272***	***7,565***	***11,993***	***10,496***	***13,760***	***8,028***	***8,010***	***4,878***	***4,878***
By use of proceeds											
8 Education	17,042	21,121	22,071	1,747	1,737	1,237	2,083	1,800	1,658	1,005[r]	↑
9 Transportation	11,650	13,395	17,334	571	2,130	1,977	1,364	531	831	848[r]	
10 Utilities and conservation	11,739	21,039	20,058	629	2,604	2,265	3,340	960	1,258	891[r]	n.a.
11 Social welfare	23,099	25,648	21,796	887	767	1,869	2,365	1,070	1,121	540	
12 Industrial aid	6,117	8,376	5,424	91	503	1,176	367	581	339	178	
13 Other purposes	34,607	30,275	33,589	3,640	4,252	1,972	4,241	3,086	2,803	1,416	↓

1. Par amounts of long-term issues based on date of sale.
2. Includes school districts.

SOURCES. Securities Data Company beginning January 1993. *Investment Dealer's Digest* for earlier data.

1.46 NEW SECURITY ISSUES U.S. Corporations

Millions of dollars

Type of issue, offering, or issuer	1990	1991	1992	1992							1993
				June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1 **All issues**[1]	**340,049**	**465,483**	n.a.	**48,136**	**46,235**	**37,091**	**42,849**	**39,123**	**35,679**	**39,272**	**46,042**
2 **Bonds**[2]	**299,884**	**390,018**	**404,992**	**39,113**	**39,758**	**31,815**	**37,539**	**32,157**	**31,180**	**33,223**	**40,808**
By type of offering											
3 Public, domestic	188,848	287,125	377,453	36,085	37,833	28,561	36,185	30,249	28,771[r]	31,683	37,879
4 Private placement, domestic[3]	86,982	74,930	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5 Sold abroad	23,054	27,962	27,539	3,027	1,924	3,254	1,355	1,909	2,409	1,540	2,929
By industry group											
6 Manufacturing	51,779	86,628	69,538	7,338	5,509	4,720	5,974	7,975	3,467	4,219	8,850
7 Commercial and miscellaneous	40,733	36,666	30,049	1,665	3,488	2,159	2,374	2,813	2,393	2,226	2,690
8 Transportation	12,776	13,598	6,497	899	766	393	677	290	0	611	316
9 Public utility	17,621	23,945	44,643	4,266	6,902	4,509	5,230	3,700	1,289	2,867	3,421
10 Communication	6,687	9,431	13,073	1,028	2,081	1,053	1,191	427	374	516	2,915
11 Real estate and financial	170,288	219,750	241,192	23,916	21,011	18,982	22,093	16,953	23,656	22,785	22,616
12 **Stocks**[2]	**40,165**	**75,467**	n.a.	**9,023**	**6,477**	**5,276**	**5,310**	**6,966**	**4,499**	**6,049**	**5,234**
By type of offering											
13 Public preferred	n.a.	17,408	21,332	2,933	2,413	1,148	1,233	2,901	1,540	1,608	1,112
14 Common	n.a.	47,860	57,099	6,090	4,064	4,129	4,077	4,065	2,958	4,441	4,122
15 Private placement[3]	16,736	10,109	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
By industry group											
16 Manufacturing	5,649	24,154	n.a.	3,000	857	713	307	1,779	288	1,468	722
17 Commercial and miscellaneous	10,171	19,418	n.a.	1,079	1,599	1,315	602	940	1,366	2,226	1,688
18 Transportation	369	2,439	n.a.	1,064	n.a.	n.a.	59	53	304	118	65
19 Public utility	416	3,474	n.a.	610	564	921	595	359	150	92	310
20 Communication	3,822	475	n.a.	n.a.	n.a.	n.a.	1,051	99	22	126	0
21 Real estate and financial	19,738	25,507	n.a.	3,271	3,457	2,327	2,695	3,735	2,369	2,019	2,438

1. Figures represent gross proceeds of issues maturing in more than one year; they are the principal amount or number of units calculated by multiplying by the offering price. Figures exclude secondary offerings, employee stock plans, investment companies other than closed-end, intracorporate transactions, equities sold abroad, and Yankee bonds. Stock data include ownership securities issued by limited partnerships.
2. Monthly data cover only public offerings.
3. Monthly data are not available.

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 Assets

Millions of dollars

Item[1]	1991[r]	1992	1992							1993
			June	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.
1 **Sales of own shares[2]**	**463,645**	**647,055**	**51,457**	**54,915**	**50,627**	**50,039**	**52,214**	**52,019**	**70,618**	**71,607**
2 Redemptions of own shares	342,547	447,140	37,457	34,384	35,223	37,862	37,134	34,126	51,993	46,545
3 Net sales[3]	121,098	199,915	14,000	20,703	15,404	12,177	15,080	17,893	18,625	25,062
4 **Assets[4]**	**808,582**	**1,056,310**	**911,218**	**951,806**	**957,145**	**978,507**	**983,151**	**1,019,618**	**1,056,310**	**1,082,653**
5 Cash[5]	60,292	73,999	69,508	72,732	77,245	76,498	75,808	80,247	73,999	76,764
6 Other	748,290	982,311	841,710	879,074	879,900	902,009	907,343	939,371	982,311	1,005,889

1. Data on sales and redemptions exclude money market mutual funds but include limited-maturity municipal bond funds. Data on assets exclude both money market mutual funds and limited-maturity municipal bond funds.
2. Includes reinvestment of dividends. Excludes reinvestment of capital gains distributions.
3. Excludes sales and redemptions resulting from transfers of shares into or out of money market mutual funds within the same fund family.
4. Market value at end of period, less current liabilities.
5. Includes all U.S. Treasury securities and other short-term debt securities.

SOURCE. Investment Company Institute. Data based on reports of membership, which comprises substantially all open-end investment companies registered with the Securities and Exchange Commission. Data reflect underwritings of new companies.

1.48 CORPORATE PROFITS AND THEIR DISTRIBUTION

Billions of dollars; quarterly data at seasonally adjusted annual rates

Account	1990	1991	1992	1991				1992			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1 *Profits with inventory valuation and capital consumption adjustment*	361.7	346.3	394.5	349.6	347.3	341.2	347.1	384.0	388.4	374.1	431.3
2 Profits before taxes	355.4	334.7	372.3	337.6	332.3	336.7	332.3	366.1	376.8	354.1	392.2
3 Profits tax liability	136.7	124.0	140.5	121.3	122.9	127.0	125.0	136.4	144.1	131.8	149.7
4 Profits after taxes	218.7	210.7	231.8	216.3	209.4	209.6	207.4	229.7	232.7	222.2	242.6
5 Dividends	149.3	146.5	149.3[r]	150.6	146.2	145.1	143.9	143.6	146.6	151.1	155.9[r]
6 Undistributed profits	69.4	64.2	82.5	65.7	63.2	64.5	63.4	86.2	86.1	71.1	86.6
7 Inventory valuation	−14.2	3.1	−7.4[r]	6.7	9.9	−4.8	.7	−5.4	−15.5	−9.7	1.0[r]
8 Capital consumption adjustment	20.5	8.4	29.5[r]	5.3	5.1	9.3	14.1	23.3	27.0	29.7	38.1[r]

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

1.50 NONFARM BUSINESS EXPENDITURES on New Plant and Equipment

Billions of dollars; quarterly data at seasonally adjusted annual rates

Industry	1991	1992	1993[1]	1991			1992				1993[1]
				Q2	Q3	Q4	Q1	Q2	Q3	Q4[1]	Q1[1]
1 **Total nonfarm business**	**528.39**	**547.39**	**576.55**	**525.02**	**526.59**	**529.87**	**535.72**	**540.91**	**547.53**	**565.40**	**576.07**
Manufacturing											
2 Durable goods industries	77.64	74.07	76.08	79.31	74.94	76.40	74.19	74.26	71.84	75.98	77.30
3 Nondurable goods industries	105.17	99.41	106.49	107.20	102.55	102.66	99.79	97.52	100.39	99.95	106.63
Nonmanufacturing											
4 Mining	10.02	9.25	9.97	10.08	10.09	9.99	8.87	9.18	9.09	9.87	10.97
Transportation											
5 Railroad	5.95	6.91	7.43	6.25	6.32	5.44	6.65	6.50	6.87	7.64	6.71
6 Air	10.17	9.69	8.63	9.95	9.61	10.41	8.86	9.75	10.13	10.00	8.80
7 Other	6.54	7.06	7.69	6.67	6.63	6.45	6.37	7.27	7.69	6.90	7.96
Public utilities											
8 Electric	43.76	48.10	54.23	43.09	43.27	44.75	46.06	48.45	47.73	50.15	52.96
9 Gas and other	22.82	24.09	25.59	22.00	23.25	22.67	22.75	24.19	23.92	25.51	24.74
10 Commercial and other[2]	246.32	268.81	280.43	240.46	249.94	251.11	262.17	263.80	269.86	279.42	280.00

1. Figures are amounts anticipated by business.
2. "Other" consists of construction, wholesale and retail trade, finance and insurance, personal and business services, and communication.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

1.51 DOMESTIC FINANCE COMPANIES Assets and Liabilities[1]

Billions of dollars, end of period; not seasonally adjusted

Account	1989	1990	1991	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3
ASSETS										
1 Accounts receivable, gross[2]	462.9	492.9	480.3	482.9	488.5	484.7	480.3	475.7	476.8[r]	475.8
2 Consumer	138.9	133.9	121.9	127.1	127.5	125.3	121.9	118.4	116.7	116.6
3 Business	270.2	293.5	292.6	291.7	295.2	293.2	292.6	291.6	293.7[r]	291.1
4 Real estate	53.8	65.5	65.8	64.1	65.7	66.2	65.8	65.8	66.4	68.1
5 LESS: Reserves for unearned income	54.7	57.6	55.1	57.2	58.0	57.6	55.1	53.6	51.2	50.8
6 Reserves for losses	8.4	9.6	12.9	10.7	11.1	13.1	12.9	13.0	12.3	12.0
7 Accounts receivable, net	399.8	425.7	412.3	415.0	419.3	414.1	412.3	409.1	413.3[r]	412.9
8 All other	102.6	113.9	149.0	118.7	122.8	136.4	149.0	145.5	139.4	146.5
9 **Total assets**	**502.4**	**539.6**	**561.2**	**533.7**	**542.1**	**550.5**	**561.2**	**554.6**	**552.7[r]**	**559.4**
LIABILITIES AND CAPITAL										
10 Bank loans	27.0	31.0	42.3	35.6	36.9	39.6	42.3	38.0	37.8	38.1
11 Commercial paper	160.7	165.3	159.5	155.5	156.1	156.8	159.5	154.4	147.7	153.2
Debt										
12 Other short-term	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13 Long-term	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
14 Owed to parent	35.2	37.5	34.5	32.4	34.2	36.5	34.5	34.5	34.8	34.9
15 Not elsewhere classified	162.7	178.2	191.3	182.4	184.5	185.0	191.3	189.8	191.9	191.4
16 All other liabilities	61.5	63.9	69.0	64.3	67.1	68.8	69.0	72.0	73.4	73.7
17 Capital, surplus, and undivided profits	55.2	63.7	64.8	63.4	63.3	63.8	64.8	66.0	67.1	68.1
18 **Total liabilities and capital**	**502.4**	**539.6**	**561.2**	**533.7**	**542.1**	**550.5**	**561.2**	**554.6**	**552.7[r]**	**559.4**

1. Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data are amounts carried on the balance sheets of finance companies; securitized pools are not shown since they are not on the books.
2. Before deduction for unearned income and losses.

1.52 DOMESTIC FINANCE COMPANIES[1]

Millions of dollars, amounts outstanding, end of period

Type of credit	1990	1991	1992[r]	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.[r]	1993 Jan.
	Seasonally adjusted								
1 **Total**	**2,203[r]**	**2,476[r]**	**2,748**	**579[r]**	**580[r]**	**574[r]**	**594[r]**	**607**	**619**
2 Consumer	2,712[r]	3,098[r]	3,412	154,729	155,618	154,501	156,593	157,707	155,641
3 Real estate[2]	1,906[r]	2,088[r]	2,413	67,753	67,717	68,035	67,838	68,011	68,450
4 Business	1,088[r]	1,112[r]	1,193	305,634	304,523	304,787	304,801	306,146	300,554
	Not seasonally adjusted								
5 **Total**	**1,600[r]**	**1,810[r]**	**2,151**	**26,783[r]**	**28,128[r]**	**27,468[r]**	**28,233[r]**	**31,916**	**29,775**
6 Consumer	4,018[r]	4,514[r]	4,989	155,529	156,416	155,505	157,005	158,631	155,521
7 Motor vehicles	4,064[r]	4,323[r]	4,697	60,393	59,806	59,290	58,286	57,605	57,133
8 Other consumer[3]	1,874,065[r]	2,159,510[r]	2,430,988	56,782	56,808	57,013	58,128	59,522	58,794
9 Securitized motor vehicles[4]	157,446[r]	160,958[r]	170,200	26,852	28,204	27,823	28,964	29,775	28,480
10 Securitized other consumer[4]	366,060[r]	378,060[r]	482,010	11,503	11,598	11,379	11,626	11,729	11,114
11 Real estate[2]	82,430[r]	85,640[r]	96,960	68,104	68,064	68,477	68,016	68,410	68,397
12 Business	198,645[r]	216,120[r]	231,620	299,815	300,519	302,892	303,875	308,118	300,321
13 Motor vehicles	92,072	90,319	87,456	85,745	85,261	86,747	85,621	87,456	86,493
14 Retail[5]	26,401	22,507	19,303	20,743	20,407	20,763	19,708	19,303	19,126
15 Wholesale[6]	33,573	31,216	27,158	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
16 Leasing	32,098	36,596	38,191	39,889	39,506	39,536	39,020	38,191	38,640
17 Equipment	137,654	141,399	151,607	145,790	147,319	147,146	148,202	151,607	146,820
18 Retail	31,968	30,962	32,212	32,250	31,571	31,475	31,427	32,212	32,458
19 Wholesale[6]	11,101	9,671	8,669	9,084	8,994	8,928	8,824	8,669	8,582
20 Leasing	94,585	100,766	110,726	104,455	106,754	106,743	107,952	110,726	105,780
21 Other business[7]	63,774	60,887	57,464	59,013	58,493	58,898	59,269	57,464	55,551
22 Securitized business assets[4]	5,467	8,807	11,590	9,268	9,447	10,101	10,782	11,590	11,457
23 Retail	667	576	1,118	158	152	634	607	1,118	1,036
24 Wholesale	3,281	5,285	5,756	5,193	5,378	5,593	5,813	5,756	5,582
25 Leasing	1,519	2,946	4,716	3,917	3,917	3,874	4,362	4,716	4,839

1. Includes finance company subsidiaries of bank holding companies but not of retailers and banks. Data are before deductions for unearned income and losses. Data in this table also appear in the Board's G.20 (422) monthly statistical release. For ordering address, see inside front cover.
2. Includes all loans secured by liens on any type of real estate, for example, first and junior mortgages and home equity loans.
3. Includes personal cash loans, mobile home loans, and loans to purchase other types of consumer goods such as appliances, apparel, general merchandise, and recreation vehicles.
4. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.
5. Passenger car fleets and commercial land vehicles for which licenses are required.
6. Credit arising from transactions between manufacturers and dealers, that is, floor plan financing.
7. Includes loans on commercial accounts receivable, factored commercial accounts, and receivable dealer capital; small loans used primarily for business or farm purposes; and wholesale and lease paper for mobile homes, campers, and travel trailers.

1.53 MORTGAGE MARKETS Conventional Mortgages on New Homes

Millions of dollars except as noted

Item	1990	1991	1992	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.	1993 Jan.	1993 Feb.
	Terms and yields in primary and secondary markets									
PRIMARY MARKETS										
Terms[1]										
1 Purchase price (thousands of dollars)	153.2	155.0	158.1	148.4	146.0	159.2	165.4	154.0	158.6	159.7
2 Amount of loan (thousands of dollars)	112.4	114.0	118.1	113.6	109.3	119.7	117.3	117.7	119.5	114.5
3 Loan-price ratio (percent)	74.8	75.0	76.6	78.7	77.0	77.3	75.3	77.7	76.8	75.4
4 Maturity (years)	27.3	26.8	25.6	24.8	25.7	25.2	24.9	26.1	25.7	23.8
5 Fees and charges (percent of loan amount)[2]	1.93	1.71	1.60	1.62	1.52	1.42	1.54	1.31	1.49	1.43
6 Contract rate (percent per year)	9.68	9.02	7.98	7.72	7.68	7.65	7.81	7.65	7.57	7.52
Yield (percent per year)										
7 OTS series[3]	10.01	9.30	8.25	8.00	7.93	7.90	8.07	7.88	7.82	7.77
8 HUD series[4]	10.08	9.20	8.43	8.01	7.95	8.29	8.38	8.19	7.93	7.63
SECONDARY MARKETS										
Yield (percent per year)										
9 FHA mortgages (HUD series)[5]	10.17	9.25	8.46	8.08	8.06	8.29	8.54	8.12	8.04	7.55
10 GNMA securities[6]	9.51	8.59	7.77	7.28	7.31	7.53	7.90	7.57	7.39	7.02
	Activity in secondary markets									
FEDERAL NATIONAL MORTGAGE ASSOCIATION										
Mortgage holdings (end of period)										
11 Total	113,329	122,837	142,833	142,246	144,904	149,133	153,306	158,119	159,204	159,766
12 FHA/VA-insured	21,028	21,702	22,168	22,199	22,275	22,399	22,372	22,593	22,640	22,573
13 Conventional	92,302	101,135	120,664	120,047	122,629	126,734	130,934	135,526	136,564	137,193
Mortgage transactions (during period)										
14 Purchases	23,959	37,202	75,905	3,651	6,779	8,380	7,980	8,832	4,993	4,118
Mortgage commitments (during period)[7]										
15 Issued[8]	23,689	40,010	74,970	6,053	8,880	8,195	6,084	6,185	4,189	4,177
16 To sell[9]	5,270	7,608	10,493	10	148	0	237	1,811	1,159	221
FEDERAL HOME LOAN MORTGAGE CORPORATION										
Mortgage holdings (end of period)[9]										
17 Total	20,419	24,131	29,959	29,367	31,629	32,995	32,703	33,665	n.a.	n.a.
18 FHA/VA-insured	547	484	408	376	371	365	359	352	n.a.	n.a.
19 Conventional	19,871	23,283	29,552	28,990	31,259	32,630	32,343	33,313	n.a.	n.a.
Mortgage transactions (during period)										
20 Purchases	75,517	97,727	191,125	13,562	16,391	20,199	19,607	20,792	n.a.	n.a.
21 Sales	73,817	92,478	179,208	12,314	14,267	18,771	19,154	19,602	16,536	12,107
Mortgage commitments (during period)[10]										
22 Contracted	102,401	114,031	261,637	14,212	17,132	27,380	29,717	32,453	n.a.	n.a.

1. Weighted averages based on sample surveys of mortgages originated by major institutional lender groups; compiled by the Federal Housing Finance Board in cooperation with the Federal Deposit Insurance Corporation.
2. Includes all fees, commissions, discounts, and "points" paid (by the borrower or the seller) to obtain a loan.
3. Average effective interest rates on loans closed, assuming prepayment at the end of ten years; from Office of Thrift Supervision (OTS).
4. Average contract rates on new commitments for conventional first mortgages; from U.S. Department of Housing and Urban Development (HUD).
5. Average gross yields on thirty-year, minimum-downpayment, first mortgages insured by the Federal Housing Administration (FHA) for immediate delivery in the private secondary market. Based on transactions on first day of subsequent month. Large monthly movements of average yields may reflect market adjustments to changes in maximum permissible contract rates.
6. Average net yields to investors on fully modified pass-through securities backed by mortgages and guaranteed by the Government National Mortgage Association (GNMA), assuming prepayment in twelve years on pools of thirty-year mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs 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 one- to four-family loan commitments accepted in the Federal National Mortgage Association's (FNMA's) free market auction system, and through the FNMA-GNMA tandem plans.
8. Does not include standby commitments issued, but includes standby commitments converted.
9. Includes participation loans as well as whole loans.
10. Includes conventional and government-underwritten loans. The Federal Home Loan Mortgage Corporation's mortgage commitments and mortgage transactions include activity under mortgage securities swap programs, 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 property	1989	1990	1991	1991	1992			
				Q4	Q1	Q2	Q3	Q4[p]
1 **All holders**	**3,570,906[r]**	**3,795,210[r]**	**3,915,871[r]**	**3,915,871[r]**	**3,938,198[r]**	**3,976,483[r]**	**4,012,983[r]**	**4,057,012**
By type of property								
2 One- to four-family residences	2,424,258[r]	2,635,428[r]	2,764,447[r]	2,764,447[r]	2,790,734[r]	2,838,732[r]	2,890,842[r]	2,942,958
3 Multifamily residences	307,672[r]	311,113[r]	310,427[r]	310,427[r]	310,499[r]	306,038[r]	305,379[r]	302,211
4 Commercial	754,952[r]	764,953[r]	758,063[r]	758,063[r]	754,290[r]	748,496[r]	733,083[r]	728,404
5 Farm	84,025	83,716[r]	82,934[r]	82,934[r]	82,674[r]	83,218[r]	83,679[r]	83,439
By type of holder								
6 Major financial institutions	1,931,537	1,914,315	1,846,910	1,846,910	1,825,983	1,803,488[r]	1,793,505[r]	1,771,502
7 Commercial banks[2]	767,069	844,826	876,284	876,284	880,377	884,598	891,484[r]	893,793
8 One- to four-family	389,632	455,931	486,572	486,572	492,910	496,518	506,658[r]	511,306
9 Multifamily	38,876	37,015	37,424	37,424	37,710	38,314	38,985[r]	38,013
10 Commercial	321,906	334,648	333,852	333,852	330,837	330,229	325,934[r]	324,596
11 Farm	16,656	17,231	18,436	18,436	18,919	19,538	19,906[r]	19,878
12 Savings institutions[3]	910,254	801,628	705,367	705,367	682,338	659,624	648,178[r]	627,531
13 One- to four-family	669,220	600,154	538,358	538,358	524,536	508,545	501,604[r]	489,217
14 Multifamily	106,014	91,806	79,881	79,881	77,166	74,788	73,723[r]	69,788
15 Commercial	134,370	109,168	86,741	86,741	80,278	75,947	72,517[r]	68,202
16 Farm	650	500	388	388	358	345	334	324
17 Life insurance companies	254,214	267,861	265,258	265,258	263,269	259,266[r]	253,843[r]	250,178
18 One- to four-family	12,231	13,005	11,547	11,547	11,214	10,676[r]	10,451[r]	10,110
19 Multifamily	26,907	28,979	29,562	29,562	29,693	29,425[r]	28,804[r]	28,558
20 Commercial	205,472	215,121	214,105	214,105	212,865	210,139[r]	205,709[r]	202,989
21 Farm	9,604	10,756	10,044	10,044	9,497	9,026[r]	8,878[r]	8,522
22 Federal and related agencies	197,778[r]	239,003[r]	266,156[r]	266,156[r]	278,396[r]	278,131[r]	277,485[r]	286,428
23 Government National Mortgage Association	23	20	19	19	19	23	27	31
24 One- to four-family	23	20	19	19	19	23	27	31
25 Multifamily	0	0	0	0	0	0	0	0
26 Farmers Home Administration[4]	41,176	41,439	41,713	41,713	41,791	41,628	41,671	41,695
27 One- to four-family	18,422	18,527	18,496	18,496	18,488	17,718	17,292	16,912
28 Multifamily	9,054	9,640	10,141	10,141	10,270	10,356	10,468	10,575
29 Commercial	4,443	4,690	4,905	4,905	4,961	4,998	5,072	5,158
30 Farm	9,257	8,582	8,171	8,171	8,072	8,557	8,839	9,050
31 Federal Housing and Veterans' Administrations	6,087	8,801	10,733	10,733	11,332	11,480	11,768	12,581
32 One- to four-family	2,875	3,593	4,036	4,036	4,254	4,403	4,531	5,153
33 Multifamily	3,212	5,208	6,697	6,697	7,078	7,077	7,236	7,428
34 Resolution Trust Corporation	0	32,600	45,822	45,822	49,345	44,624	37,099	32,045
35 One- to four-family	0	15,800	14,535	14,535	15,458	15,032	12,614	9,658
36 Multifamily	0	8,064	15,018	15,018	16,266	13,316	11,130	11,038
37 Commercial	0	8,736	16,269	16,269	17,621	16,276	13,356	11,350
38 Farm	0	0	0	0	0	0	0	0
39 Federal National Mortgage Association	99,001[r]	104,870[r]	112,283[r]	112,283[r]	118,238[r]	122,979[r]	126,476[r]	137,584
40 One- to four-family	90,575[r]	94,323[r]	100,387[r]	100,387[r]	105,869[r]	110,223[r]	113,407[r]	124,016
41 Multifamily	8,426	10,547	11,896	11,896	12,369	12,756	13,069	13,568
42 Federal Land Banks	29,640	29,416	28,777	28,777	28,776	28,775	28,815[r]	28,827
43 One- to four-family	1,210	1,838	1,693	1,693	1,693	1,693	1,695[r]	1,696
44 Farm	28,430	27,577	27,084	27,084	27,083	27,082	27,119[r]	27,131
45 Federal Home Loan Mortgage Corporation	21,851	21,857	26,809	26,809	28,895	28,621	31,629	33,665
46 One- to four-family	18,248	19,185	24,125	24,125	26,182	26,001	29,039	31,032
47 Multifamily	3,603	2,672	2,684	2,684	2,713	2,620	2,591	2,633
48 Mortgage pools or trusts[5]	951,740[r]	1,116,452[r]	1,270,862[r]	1,270,862[r]	1,288,823[r]	1,341,338[r]	1,385,460[r]	1,425,546
49 Government National Mortgage Association	368,367	403,613	425,295	425,295	421,977	422,922	422,255	419,516
50 One- to four-family	358,142	391,505	415,767	415,767	412,574	413,828	413,063	410,675
51 Multifamily	10,225	12,108	9,528	9,528	9,404	9,094	9,192	8,841
52 Federal Home Loan Mortgage Corporation	272,870	316,359	359,163	359,163	367,878	382,797	391,762	407,514
53 One- to four-family	266,060	308,369	351,906	351,906	360,887	376,177	385,400	401,525
54 Multifamily	6,810	7,990	7,257	7,257	6,991	6,620	6,362	5,989
55 Federal National Mortgage Association	228,232	299,833	371,984	371,984	389,853	413,226	429,935	444,979
56 One- to four-family	219,577	291,194	362,667	362,667	380,617	403,940	420,835	435,979
57 Multifamily	8,655	8,639	9,317	9,317	9,236	9,286	9,100	9,000
58 Farmers Home Administration[4]	80	66	47	47	43	43	41	38
59 One- to four-family	21	17	11	11	10	9	9	8
60 Multifamily	0	0	0	0	0	0	0	0
61 Commercial	26	24	19	19	18	18	18	17
62 Farm	33	26	17	17	16	15	14	13
63 Private mortgage conduits	82,191[r]	96,581[r]	114,373[r]	114,373[r]	109,071[r]	122,350[r]	141,468[r]	153,499
64 One- to four-family	77,217	90,684	104,196	104,196	95,600[r]	105,700[r]	123,000[r]	132,000
65 Multifamily	462[r]	731[r]	3,698[r]	3,698[r]	4,686[r]	5,796[r]	5,796[r]	6,305
66 Commercial	4,512[r]	5,166[r]	6,479[r]	6,479[r]	8,784[r]	10,855[r]	12,673[r]	15,194
67 Farm	0	0	0	0	0	0	0	0
68 Individuals and others[6]	489,851[r]	525,440[r]	531,943[r]	531,943[r]	544,996[r]	553,526[r]	556,532[r]	573,535
69 One- to four-family	300,805[r]	331,282[r]	330,131[r]	330,131[r]	340,424[r]	348,245[r]	351,217[r]	363,641
70 Multifamily	85,427[r]	87,713[r]	87,324[r]	87,324[r]	86,917[r]	86,591[r]	88,922[r]	90,475
71 Commercial	84,224[r]	87,400[r]	95,693[r]	95,693[r]	98,925[r]	100,035[r]	97,805[r]	100,898
72 Farm	19,395	19,045[r]	18,795[r]	18,795[r]	18,730[r]	18,656[r]	18,588	18,522

1. Based on data from various institutional and governmental sources; figures for 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 loans held by bank trust departments.
3. Includes savings banks and savings and loan associations.
4. FmHA-guaranteed securities sold to the Federal Financing Bank were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:4 because of accounting changes by the Farmers Home Administration.
5. Outstanding principal balances of mortgage-backed securities insured or guaranteed by the agency indicated.
6. Other holders include mortgage companies, real estate investment trusts, state and local credit agencies, state and local retirement funds, noninsured pension funds, credit unions, and finance companies.

1.55 CONSUMER INSTALLMENT CREDIT[1]

Millions of dollars, amounts outstanding, end of period

Holder and type of credit	1990	1991	1992r	1992 Aug.	Sept.	Oct.	Nov.	Dec.r	1993 Jan.
	Seasonally adjusted								
1 **Total**	**735,338**	**727,799**	**726,653**	**720,664**	**722,104**	**722,372**	**723,448**	**726,653**	**727,557**
2 Automobile	284,993	263,003	260,097	256,944	257,384	256,846	257,740	260,097	259,554
3 Revolving	222,950	242,785	251,258	248,043	250,017	250,454	250,620	251,258	253,233
4 Other	227,395	222,012	215,298	215,677	214,703	215,071	215,088	215,298	214,769
	Not seasonally adjusted								
5 **Total**	**748,524**	**742,058**	**741,381**	**721,985**	**724,198**	**722,760**	**725,178**	**741,381**	**732,408**
By major holder									
6 Commercial banks	347,087	339,565	329,603	323,866	324,046	324,697	324,529	329,603	327,035
7 Finance companies	133,863	121,901	117,086	117,175	116,650	116,304	116,414	117,086	113,676
8 Credit unions	93,057	92,254	92,648	92,270	92,698	92,228	91,838	92,648	92,859
9 Retailers	44,822	44,030	44,952	38,791	38,778	39,299	39,539	44,952	42,585
10 Savings institutions	46,969	40,315	33,861	35,378	35,069	34,148	34,171	33,861	33,902
11 Gasoline companies	4,822	4,362	4,365	4,542	4,499	4,452	4,365	4,365	4,366
12 Pools of securitized assets[2]	77,904	99,631	118,866	109,963	112,458	111,632	114,322	118,866	117,985
By major type of credit[3]									
13 Automobile	285,050	263,108	260,227	259,128	260,395	259,055	258,539	260,227	258,308
14 Commercial banks	124,913	111,912	108,581	107,978	108,355	108,068	107,675	108,581	108,417
15 Finance companies	75,045	63,413	57,604	60,393	59,806	59,290	58,286	57,604	54,973
16 Pools of securitized assets[2]	24,428	28,057	33,593	30,826	31,971	31,757	32,672	33,593	34,164
17 Revolving	235,056	255,895	264,801	247,051	248,692	248,526	251,422	264,801	258,450
18 Commercial banks	133,385	137,968	132,921	126,922	127,234	127,257	128,164	132,921	129,541
19 Retailers	40,003	39,352	40,064	34,167	34,148	34,654	34,857	40,064	37,719
20 Gasoline companies	4,822	4,362	4,365	4,542	4,499	4,452	4,365	4,365	4,366
21 Pools of securitized assets[2]	44,335	60,139	72,695	66,985	68,252	67,699	69,415	72,695	71,872
22 Other	228,418	223,055	216,353	215,806	215,111	215,179	215,217	216,353	215,650
23 Commercial banks	88,789	89,685	88,101	88,966	88,457	89,372	88,690	88,101	89,077
24 Finance companies	58,818	58,488	59,482	56,782	56,844	57,014	58,128	59,482	58,703
25 Retailers	4,819	4,678	4,888	4,624	4,630	4,645	4,682	4,888	4,866
26 Pools of securitized assets[2]	9,141	11,435	12,578	12,152	12,235	12,176	12,235	12,578	11,949

1. The Board's series on amounts of credit covers 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.
Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.
2. Outstanding balances of pools upon which securities have been issued; these balances are no longer carried on the balance sheets of the loan originator.
3. Totals include estimates for certain holders for which only consumer credit totals are available.

1.56 TERMS OF CONSUMER INSTALLMENT CREDIT[1]

Percent per year except as noted

Item	1990r	1991r	1992r	1992 July	Aug.	Sept.	Oct.	Nov.	Dec.	1993 Jan.
INTEREST RATES										
Commercial banks[2]										
1 48-month new car	11.78	11.14	9.29	n.a.	9.15	n.a.	n.a.	8.60	n.a.	n.a.
2 24-month personal	15.46	15.18	14.04	n.a.	13.94	n.a.	n.a.	13.55	n.a.	n.a.
3 120-month mobile home	14.02	13.70	12.67	n.a.	12.57	n.a.	n.a.	12.36	n.a.	n.a.
4 Credit card	18.17	18.23	17.78	n.a.	17.66	n.a.	n.a.	17.38	n.a.	n.a.
Auto finance companies										
5 New car	12.54	12.41	9.93	9.94	8.88	8.65	9.51	9.65	9.65	10.08
6 Used car	15.99	15.60	13.79	13.67	13.49	13.44	13.37	13.37	13.66r	13.72
OTHER TERMS[3]										
Maturity (months)										
7 New car	54.6	55.1	54.0	54.4	53.6	53.3	54.1	54.1	53.6	53.9
8 Used car	46.0	47.2	48.0	48.0	47.9	47.7	47.9	47.8	47.7r	49.2
Loan-to-value ratio										
9 New car	87	88	89	89	90	90	89	89	90	90
10 Used car	95	96	97	97	97	97	97	97	97	97
Amount financed (dollars)										
11 New car	12,071	12,494	13,592	13,570	13,745	13,889	13,885	14,043	14,315r	13,975
12 Used car	8,289	8,884	9,121	9,293	9,238	8,402	9,373	9,475	9,464r	9,472

1. Data in this table also appear in the Board's G.19 (421) monthly statistical release. For ordering address, see inside front cover.
2. Data are available for only the second month of each quarter.
3. At auto finance companies.

1.57 FUNDS RAISED IN U.S. CREDIT MARKETS[1]

Billions of dollars; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1988	1989	1990	1991	1992	1991			1992			
						Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Nonfinancial sectors											
1 Total net borrowing by domestic nonfinancial sectors	**775.8**	**740.8**	**665.0**	**442.7[r]**	**587.4**	**534.4[r]**	**401.4[r]**	**371.1[r]**	**687.5[r]**	**583.0**	**476.0**	**603.2**
By sector and instrument												
2 U.S. government	155.1	146.4	246.9	278.2	304.0	276.7	288.4	320.4	368.9	351.9	193.4	301.7
3 Treasury securities	137.7	144.7	238.7	292.0	303.8	282.9	317.2	316.6	380.1	351.5	184.4	299.1
4 Agency issues and mortgages	17.4	1.6	8.2	−13.8	.2	−6.2	−28.8	3.8	−11.2	.4	9.0	2.7
5 Private	620.7	594.4	418.2	164.4[r]	283.5	257.7[r]	113.0[r]	50.7[r]	318.6[r]	231.1	282.6	301.5
By instrument												
6 Debt capital instruments	474.1	441.8	342.3	244.7[r]	280.4	321.0[r]	177.8[r]	175.4[r]	333.0[r]	267.1	253.7	267.9
7 Tax-exempt obligations	53.7	65.0	51.2	45.8	53.3	48.5	53.5	45.5	52.0	73.0	52.3	35.9
8 Corporate bonds	103.1	73.8	47.1	78.8	66.3	96.5	81.6[r]	60.2[r]	76.3	77.5	61.3	50.3
9 Mortgages	317.3	303.0	244.0	120.1[r]	160.8	175.9[r]	42.6[r]	69.7[r]	204.8[r]	116.6	140.1	181.7
10 Home mortgages	241.8	245.3	219.4	129.0[r]	198.5	147.3[r]	118.6[r]	93.0[r]	221.5[r]	155.5	202.8	214.2
11 Multifamily residential	16.7	16.4	3.7	−.9[r]	−8.3	12.7[r]	−31.0[r]	8.0[r]	.0[r]	−17.9	−2.7	−12.7
12 Commercial	60.8	42.7	21.0	−7.3[r]	−29.9	16.6[r]	−42.6[r]	−31.4[r]	−15.7[r]	−23.2	−61.8	−18.8
13 Farm	−2.1	−1.5	−.1	−.8	.5	−.6[r]	−2.4[r]	.0	−1.0[r]	2.2	1.8	−1.0
14 Other debt instruments	146.6	152.6	75.8	−80.2	3.0	−63.3	−64.8	−124.7	−14.4	−36.0	28.8	33.6
15 Consumer credit	50.1	41.7	17.5	−12.5	2.4	−7.8	−24.0	−8.0	3.1	−12.4	.4	18.8
16 Bank loans n.e.c.	41.0	40.2	4.4	−33.4	−16.8	−34.5	−18.2	−66.1	−26.9	−21.5	−3.2	−15.4
17 Open market paper	11.9	21.4	9.7	−18.4	9.8	−15.9	−36.3	−7.0	12.6	−3.4	1.7	28.4
18 Other	43.6	49.3	44.2	−15.8	7.5	−5.2	13.7	−43.6	−3.2	1.3	30.0	1.9
By borrowing sector												
19 State and local government	48.9	63.2	48.3	38.5	48.1	38.6	37.6	41.9	46.1	63.4	50.0	32.9
20 Household	318.6	305.6	254.2	144.9[r]	215.1	178.0[r]	132.3[r]	104.2[r]	229.0[r]	177.2	220.7	233.7
21 Nonfinancial business	253.1	225.6	115.6	−18.9[r]	20.2	41.1[r]	−56.9[r]	−95.4[r]	43.6[r]	−9.4	11.9	34.9
22 Farm	−7.5	1.6	2.5	.9	.9	2.2[r]	−.2[r]	−2.2	−1.6	6.6	1.0	−2.3
23 Nonfarm noncorporate	61.8	50.4	26.7	−23.6	−34.2	9.8	−65.9	−51.5	−20.7	−50.6	−40.3	−25.2
24 Corporate	198.8	173.6	86.4	3.7[r]	53.5	29.1[r]	9.2[r]	−41.7[r]	65.9[r]	34.7	51.1	62.4
25 Foreign net borrowing in United States	6.4	10.2	23.9	14.1	24.1	−63.2	15.6	41.0	9.9	55.2	30.6	.8
26 Bonds	6.9	4.9	21.4	14.9	18.5	10.6	15.5	22.3	4.9	21.9	22.3	25.1
27 Bank loans n.e.c.	−1.8	−.1	−2.9	3.1	1.6	−3.5	1.4	6.5	1.5	14.1	3.9	−13.2
28 Open market paper	8.7	13.1	12.3	6.4	5.2	−51.9	16.0	14.9	−7.8	27.7	12.8	−11.9
29 U.S. government loans	−7.5	−7.6	−6.9	−10.2	−1.2	−18.3	−17.2	−2.7	11.4	−8.5	−8.4	.7
30 Total domestic plus foreign	**782.2**	**750.9**	**688.9**	**456.8[r]**	**611.6**	**471.2[r]**	**417.0[r]**	**412.1[r]**	**697.4[r]**	**638.2**	**506.6**	**604.0**
	Financial sectors											
31 Total net borrowing by financial sectors	**211.4**	**220.1**	**187.1**	**131.5[r]**	**223.3**	**106.0[r]**	**143.8[r]**	**165.6[r]**	**159.5[r]**	**241.6**	**265.2**	**227.0**
By instrument												
32 U.S. government-related	119.8	151.0	167.4	150.0[r]	167.1	129.4[r]	156.0[r]	158.5[r]	137.4[r]	222.8	165.6	142.7
33 Sponsored-credit-agency securities	44.9	25.2	17.1	9.2	40.2	−29.7	20.6	32.6	11.5	48.3	67.7	33.5
34 Mortgage pool securities	74.9	125.8	150.3	140.9[r]	126.9	159.0[r]	135.5[r]	125.9[r]	125.9[r]	174.4	97.9	109.2
35 Loans from U.S. government	.0	.0	−.1	.0	.0	.0	.0	−.1	.0	.0	.0	.0
36 Private	91.7	69.1	19.7	−18.6[r]	56.2	−23.4	−12.3[r]	7.1[r]	22.1[r]	18.9	99.6	84.3
37 Corporate bonds	16.2	46.8	34.4	47.7[r]	50.0	72.4	29.5	47.5[r]	14.9[r]	25.5	59.8	99.9
38 Mortgages	.3	.0	.3	.6	.3	.9	.4[r]	.8[r]	.9	.1	.3	.1
39 Bank loans n.e.c.	.6	1.9	1.2	3.2	7.2	−2.9	10.2	4.5	8.2	3.9	5.4	11.1
40 Open market paper	54.8	31.3	8.6	−32.0	−2.1	−46.0	−16.7	−12.7	7.6	−16.3	12.8	−12.6
41 Loans from Federal Home Loan Banks	19.7	−11.0	−24.7	−38.0	.8	−47.7	−35.7	−33.0	−9.5	5.7	21.3	−14.2
By borrowing sector												
42 Sponsored credit agencies	44.9	25.2	17.0	9.1	40.2	−29.7	20.6	32.5	11.5	48.3	67.7	33.5
43 Mortgage pools	74.9	125.8	150.3	140.9[r]	126.9	159.0[r]	135.5[r]	125.9[r]	125.9[r]	174.4	97.9	109.2
44 Private	91.7	69.1	19.7	−18.6[r]	56.2	−23.4	−12.3[r]	7.1[r]	22.1[r]	18.9	99.6	84.3
45 Commercial banks	−3.0	−1.4	−1.1	−13.3	4.5	−11.7	−9.2	−14.1	7.2	.8	1.6	8.2
46 Bank affiliates	5.2	6.2	−27.7	−2.5	1.1	−3.5	−6.8	9.6	2.7	−8.2	10.5	−.4
47 Savings and loan associations	19.9	−14.1	−29.9	−39.5	−4.6	−48.7	−41.1	−25.1	−20.3	2.7	10.0	−10.6
48 Mutual savings banks	1.9	−1.4	−.5	−3.5	1.7	−1.7	−5.5	−8.7	4.3	.3	8.3	−6.2
49 Finance companies	31.5	59.7	35.6	4.5[r]	14.3	3.4	12.2	12.9[r]	1.0[r]	−20.9	28.9	48.0
50 Real estate investment trusts (REITs)	3.6	−1.9	−1.9	.0	1.8	.1	−.3[r]	.1[r]	4.6	.9	1.3	.5
51 Securitized credit obligation (SCO) issuers	32.5	22.0	45.2	35.6	37.4	38.7	38.5	32.3	22.5	43.2	39.1	44.8

1.57—Continued

Transaction category or sector	1988	1989	1990	1991	1992	1991			1992			
						Q2	Q3	Q4	Q1	Q2	Q3	Q4
	All sectors											
52 **Total net borrowing, all sectors**	**993.6**	**971.0**	**876.0**	**588.3[r]**	**834.9**	**577.2[r]**	**560.8[r]**	**577.7[r]**	**856.9[r]**	**879.8**	**771.8**	**831.0**
53 U.S. government securities	274.9	297.3	414.4	428.3[r]	471.1	406.1[r]	444.4[r]	479.0[r]	506.3[r]	574.7	359.0	444.4
54 State and local obligations	53.7	65.0	51.2	45.8	53.3	48.5	53.5	45.5	52.0	73.0	52.3	35.9
55 Corporate and foreign bonds	126.3	125.5	102.9	141.3[r]	134.9	179.5	126.7[r]	130.0[r]	96.0[r]	124.9	143.4	175.3
56 Mortgages	317.5	303.0	244.3	120.7[r]	161.1	176.9[r]	43.0[r]	70.5[r]	205.7[r]	116.7	140.3	181.8
57 Consumer credit	50.1	41.7	17.5	−12.5	2.4	−7.8	−24.0	−8.0	3.1	−12.4	.4	18.8
58 Bank loans n.e.c.	39.9	41.9	2.8	−27.1	−8.0	−40.9	−6.7	−55.1	−17.2	−3.5	6.1	−17.5
59 Open market paper	75.4	65.9	30.7	−44.0	12.9	−113.8	−37.0	−4.9	12.4	8.1	27.3	3.9
60 Other loans	55.8	30.6	12.4	−64.2	7.1	−71.2	−39.1	−79.3	−1.3	−1.6	43.0	−11.6
	External corporate equity funds raised in United States											
61 **Total net share issues**	**−118.4**	**−65.7**	**22.1**	**198.8**	**272.1**	**182.3**	**232.5[r]**	**268.2[r]**	**230.3[r]**	**291.7**	**288.6**	**277.7**
62 Mutual funds	6.1	38.5	67.9	150.5	206.4	125.6	182.5	195.9	148.4[r]	236.3	233.3	207.5
63 All other	−124.5	−104.2	−45.8	48.3	65.7	56.7	50.0[r]	72.3[r]	81.9	55.4	55.3	70.2
64 Nonfinancial corporations	−129.5	−124.2	−63.0	18.3	26.8	12.0	19.0	48.0	46.0	36.0	11.0	14.0
65 Financial corporations	4.1	2.7	9.8	−.1	7.4	8.1	−3.2[r]	1.4[r]	6.0	8.4	8.1	7.3
66 Foreign shares purchased in United States	.9	17.2	7.4	30.2	31.5	36.6	34.1	22.9	29.9	11.0	36.2	48.9

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.2 through F.5. For ordering address, see inside front cover.

1.58 SUMMARY OF FINANCIAL TRANSACTIONS[1]

Billions of dollars except as noted; quarterly data at seasonally adjusted annual rates

Transaction category or sector	1988	1989	1990	1991	1992	1991			1992			
						Q2	Q3	Q4	Q1[r]	Q2[r]	Q3[r]	Q4
NET LENDING IN CREDIT MARKETS[2]												
1 **Total net lending in credit markets**	**993.6**	**971.0**	**876.0**	**588.3[r]**	**834.9**	**577.2[r]**	**560.8[r]**	**577.7[r]**	**856.9**	**879.8**	**771.8**	**831.0**
2 Private domestic nonfinancial sectors	226.2	209.6	203.8	10.5[r]	60.6	187.7[r]	-143.2[r]	-59.7[r]	206.5	120.6	-162.8	78.0
3 Households	198.9	179.5	172.3	-24.8[r]	65.8	171.3[r]	-185.8[r]	-105.9[r]	227.2	111.3	-160.3	84.9
4 Nonfarm noncorporate business	3.1	-.8	-1.4	-1.9	-2.1	-2.0	-1.6	-2.1	-1.9	-2.5	-1.9	-1.9
5 Nonfinancial corporate business	5.7	12.9	6.6	20.9	8.4	29.0	32.2	30.1	-2.7	8.4	15.4	12.5
6 State and local governments	18.6	17.9	26.2	16.3	-11.5	-10.6	12.1	18.2	-16.1	3.4	-15.9	-17.6
7 U.S. government	-10.6	-3.1	33.7	10.0	-12.4	24.8	-2.1	-17.9	13.9	-24.9	-26.8	-12.0
8 Foreign	96.3	74.1	58.4	42.6[r]	97.6	51.4	37.3	71.0	88.4	138.4	64.2	99.6
9 Financial sectors	681.8	690.4	580.2	525.1[r]	689.1	313.3[r]	668.7[r]	584.3[r]	548.0	645.6	897.2	665.5
10 Sponsored credit agencies	37.1	-.5	16.4	14.2	62.7	-25.2[r]	35.8[r]	18.6[r]	93.0	40.0	76.4	41.6
11 Mortgage pools	74.9	125.8	150.3	140.9[r]	126.9	159.0[r]	135.5[r]	125.9[r]	125.9	174.4	97.9	109.2
12 Monetary authority	10.5	-7.3	8.1	31.1	27.9	-4.0	48.1	22.3	33.2	9.8	10.8	57.8
13 Commercial banking	157.1	176.8	125.4	84.0	90.7	34.7	82.4	104.3	98.9	58.4	157.4	48.1
14 U.S. commercial banks	127.1	145.7	95.2	38.9	69.2	6.4	26.5	45.6	91.9	.5	132.0	52.4
15 Foreign banking offices	29.4	26.7	28.4	48.5	14.5	33.7	56.7	61.3	.6	58.6	6.5	-7.6
16 Bank affiliates	-.1	2.8	-2.8	-1.5	6.7	-2.6	2.4	-1.1	6.4	-.6	18.5	2.5
17 Banks in U.S. possession	.7	1.6	4.5	-1.9	.3	-2.8	-3.3	-1.5	.0	-.1	.4	.8
18 Private nonbank finance	402.2	395.7	279.9	255.0[r]	380.9	148.8[r]	367.0[r]	313.1[r]	197.0	362.9	554.7	408.8
19 Thrift institutions	119.0	-91.0	-151.9	-144.9	-63.8	-164.8	-176.8	-49.7	-113.3	-81.6	-41.9	-18.5
20 Savings and loan associations	87.4	-93.9	-143.9	-140.9	-77.0	-144.0	-156.3	-83.3	-137.9	-92.4	-38.5	-39.1
21 Mutual savings banks	15.3	-4.8	-16.5	-15.5	-2.8	-31.1	-30.8	11.5	7.6	-7.4	-13.0	1.5
22 Credit unions	16.3	7.7	8.5	11.5	16.0	10.2	10.3	22.2	17.0	18.3	9.6	19.0
23 Insurance	186.2	207.7	188.5	218.7[r]	184.9	216.3[r]	257.1[r]	156.5[r]	114.2	183.6	227.8	213.9
24 Life insurance companies	103.8	93.1	94.4	83.2	94.9	132.8	73.8	13.2	80.6	81.9	96.5	120.4
25 Other insurance companies	29.2	29.7	26.5	34.7	17.3	37.0	36.8	32.1	33.1	22.2	2.5	11.2
26 Private pension funds	18.1	36.2	16.6	63.9[r]	37.8	-2.5[r]	113.1[r]	94.2[r]	-28.7	49.5	90.5	39.7
27 State and local government retirement funds	35.1	48.7	51.0	37.0	35.0	49.0	33.4	17.0	29.2	30.0	38.2	42.6
28 Finance n.e.c.	96.9	278.9	243.3	181.3[r]	259.8	97.4	286.7[r]	206.3[r]	196.1	260.9	368.9	213.4
29 Finance companies	49.2	69.3	41.6	-23.1[r]	20.8	-14.5	-5.2	-54.1[r]	40.8	-23.0	14.2	51.2
30 Mutual funds	11.9	23.8	41.4	90.3	123.6	75.3	117.1	124.8	64.0	169.1	150.7	110.4
31 Money market funds	10.7	67.1	80.9	30.1	2.5	-68.9	1.1	53.8[r]	61.9	-20.9	-16.3	-14.7
32 Real estate investment trusts (REITs)	.9	.5	-.7	-.7	1.5	-.1	-.6[r]	-.9	-.7	2.6	-2.8	7.0
33 Brokers and dealers	-8.2	96.3	34.9	49.0	74.0	66.8	135.8	50.5	7.5	89.8	184.0	14.7
34 Securitized credit obligation (SCOs) issuers	32.5	22.0	45.2	35.6	37.4	38.7	38.5	32.3	22.5	43.2	39.1	44.8
RELATION OF LIABILITIES TO FINANCIAL ASSETS												
35 **Net flows through credit markets**	**993.6**	**971.0**	**876.0**	**588.3[r]**	**834.9**	**577.2[r]**	**560.8[r]**	**577.7[r]**	**856.9**	**879.8**	**771.8**	**831.0**
Other financial sources												
36 Official foreign exchange	4.0	24.8	2.0	-5.9	-3.5	-4.8	-15.5	-5.0	3.5	-6.5	-8.5	-2.4
37 Treasury currency and special drawing rights	.5	4.1	2.5	.0	-1.8	.4	.4	.5	.1	.3	.2	-7.7
38 Life insurance reserves	25.3	28.8	25.7	24.5[r]	32.0	31.4	19.4	19.2[r]	30.5	28.7	32.5	36.4
39 Pension fund reserves	193.6	221.4	186.8	267.7[r]	227.3	194.7[r]	342.2[r]	241.5[r]	129.0	178.6	305.3	296.2
40 Interbank claims	2.9	-16.5	34.2	-3.7[r]	46.4	-79.6[r]	99.9[r]	-32.5[r]	56.1	20.8	119.4	-10.7
41 Deposits at financial institutions	259.9	290.0	96.8	61.1	50.8	-75.4	27.3	47.8	74.7	-55.2	223.9	-40.3
42 Checkable deposits and currency	43.2	6.1	44.2	75.8	122.1	7.9	104.5	114.4	88.6	92.8	202.7	104.1
43 Small time and savings deposits	120.8	96.7	59.9	16.7	-62.8	-1.1	-42.4	13.0	-29.9	-89.3	-79.0	-52.9
44 Large time deposits	53.6	17.6	-66.7	-60.9	-79.1	-63.0	-78.1	-117.4	-78.8	-104.9	-54.8	-77.8
45 Money market fund shares	21.9	90.1	70.3	41.2[r]	8.3	-58.7	4.0	26.8	106.2	-38.3	-13.0	-21.7
46 Security repurchase agreements	23.5	78.3	-23.5	-16.4	71.8	43.1	36.3	16.0	15.5	136.9	128.7	6.1
47 Foreign deposits	-3.1	1.1	12.6	4.6	-9.5	-3.6	3.0	-5.0	-26.9	-52.5	39.3	2.0
48 Mutual fund shares	6.1	38.5	67.9	150.5	206.4	125.6	182.5	195.9	148.4	236.3	233.3	207.5
49 Corporate equities	-124.5	-104.2	-45.8	48.3	65.7	56.7	50.0[r]	72.3[r]	81.9	55.4	55.3	70.2
50 Security credit	3.0	15.6	3.5	51.4	11.1	20.1	82.4	120.7	-70.0	-4.3	76.4	42.5
51 Trade debt	89.2	60.0	44.1	10.4[r]	51.2	41.2[r]	47.6[r]	-7.3[r]	75.2	36.0	51.8	41.8
52 Taxes payable	5.3	2.0	-.5	-9.0[r]	4.7	-11.4[r]	13.1[r]	-3.2[r]	-2.3	10.7	7.1	3.4
53 Noncorporate proprietors' equity	-31.2	-32.5	-39.3	-.8[r]	-10.6	-33.6[r]	45.6[r]	5.2[r]	-19.0	11.6	-16.2	-18.9
54 Miscellaneous	222.3	269.9	120.5	140.1[r]	201.8	89.0[r]	38.7[r]	205.1[r]	194.7	275.8	214.8	121.9
55 **Total financial sources**	**1,650.2**	**1,772.7**	**1,374.3**	**1,323.0[r]**	**1,716.4**	**931.6[r]**	**1,494.5[r]**	**1,438.0[r]**	**1,559.8**	**1,668.1**	**2,066.9**	**1,571.0**
Floats not included in assets (−)												
56 U.S. government checking deposits	1.6	8.4	3.3	-13.1	.1	15.6	23.9	-73.1	4.4	-11.7	-5.3	13.0
57 Other checkable deposits	.8	-3.2	2.5	2.0	1.6	3.0	-2.1	-6.1	16.7	2.5	-13.9	1.1
58 Trade credit	-.9	.6	21.5	18.4[r]	-4.5	40.7[r]	27.2[r]	-3.7[r]	6.7	-29.1	24.3	-19.8
Liabilities not identified as assets (−)												
59 Treasury currency	-.1	-.2	.2	-.6	-.2	-.3	-.2	-.1	-.4	-.1	-.3	-.1
60 Interbank claims	-3.0	-4.4	1.6	26.2	-6.3	20.8	28.4	.2	13.4	-15.1	-2.6	-20.8
61 Security repurchase agreements	-29.8	23.9	-34.8	10.4	41.5	76.2	36.9	44.0	-41.1	104.2	76.4	26.6
62 Taxes payable	6.3	2.3	6.5	5.6[r]	9.8	2.0	23.4	11.4[r]	-11.3	25.7	23.0	1.8
63 Miscellaneous	4.4	-95.6	-13.8	-30.6[r]	-19.2	6.4[r]	-191.8[r]	182.3[r]	-71.0	-76.1	3.6	66.8
64 **Totals identified to sectors as assets**	**1,670.7**	**1,841.0**	**1,387.5**	**1,304.7[r]**	**1,693.6**	**767.1[r]**	**1,548.9[r]**	**1,283.1[r]**	**1,642.4**	**1,667.8**	**1,961.6**	**1,502.5**

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables F.6 and F.7. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

1.59 SUMMARY OF CREDIT MARKET DEBT OUTSTANDING[1]

Billions of dollars, end of period

Transaction category or sector	1989	1990	1991	1992	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3r	1992 Q4
					Nonfinancial sectors						
1 **Total credit market debt owed by domestic nonfinancial sectors**	**10,087.1**	**10,760.8**	**11,200.9r**	**11,788.3**	**10,960.1r**	**11,081.3r**	**11,200.9r**	**11,331.8r**	**11,471.8r**	**11,615.3**	**11,788.3**
By lending sector and instrument											
2 U.S. government	2,251.2	2,498.1	2,776.4	3,080.3	2,591.9	2,687.2	2,776.4	2,859.7	2,923.3	2,998.9	3,080.3
3 Treasury securities	2,227.0	2,465.8	2,757.8	3,061.6	2,567.1	2,669.6	2,757.8	2,844.0	2,907.4	2,980.7	3,061.6
4 Agency issues and mortgages	24.2	32.4	18.6	18.8	24.8	17.6	18.6	15.8	15.9	18.1	18.8
5 Private	7,835.9	8,262.6	8,424.5r	8,708.0	8,368.2r	8,394.1r	8,424.5r	8,472.0r	8,548.5r	8,616.4	8,708.0
By instrument											
6 Debt capital instruments	5,577.9	5,936.0	6,180.6r	6,461.1	6,087.4r	6,137.2r	6,180.6r	6,252.0r	6,326.7r	6,395.4	6,461.1
7 Tax-exempt obligations	1,004.4	1,055.6	1,101.4	1,154.7	1,072.5	1,089.3	1,101.4	1,111.5	1,128.6	1,145.6	1,154.7
8 Corporate bonds	926.1	973.2	1,051.9r	1,118.3	1,016.5	1,036.9	1,051.9r	1,071.0	1,090.4	1,105.7	1,118.3
9 Mortgages	3,647.5	3,907.3	4,027.3r	4,188.1	3,998.5r	4,011.1r	4,027.3r	4,069.4r	4,107.7r	4,144.1	4,188.1
10 Home mortgages	2,515.1	2,760.0	2,889.0r	3,087.5	2,835.3r	2,866.9r	2,889.0r	2,935.3r	2,983.3r	3,035.4	3,087.5
11 Multifamily residential	304.4	305.8	304.9r	296.6	310.6r	302.9r	304.9r	304.9r	300.4r	299.7	296.6
12 Commercial	742.6	757.6	750.3r	720.4	768.8r	758.1r	750.3r	746.4r	740.6r	725.1	720.4
13 Farm	85.3	84.0	83.2	83.7	83.8	83.2r	83.2	82.9	83.5r	83.9	83.7
14 Other debt instruments	2,258.0	2,326.7	2,243.9	2,246.9	2,280.8	2,256.9	2,243.9	2,220.0	2,221.9r	2,221.0	2,246.9
15 Consumer credit	791.8	809.3	796.7	799.2	786.7	785.9	796.7	775.7	775.8	781.1	799.2
16 Bank loans n.e.c.	760.7	758.0	724.6	707.8	742.0	734.1	724.6	712.5	709.4	705.2	707.8
17 Open market paper	107.1	116.9	98.5	108.3	119.4	107.0	98.5	110.3	111.7	108.3	108.3
18 Other	598.4	642.6	624.1	631.6	632.6	629.8	624.1	621.6	624.9r	626.4	631.6
By borrowing sector											
19 State and local government	815.7	864.0	902.5	950.6	878.5	891.4	902.5	911.3	925.9	942.3	950.6
20 Household	3,508.2	3,780.6	3,925.5r	4,140.6	3,846.7r	3,886.0r	3,925.5r	3,950.6r	4,008.1r	4,068.6	4,140.6
21 Nonfinancial business	3,512.0	3,618.0	3,596.5r	3,616.7	3,643.0r	3,616.7r	3,596.5r	3,610.1r	3,614.5r	3,605.5	3,616.7
22 Farm	139.2	140.5	138.8	139.7	139.6	140.4	138.8	136.4r	140.1r	141.2	139.7
23 Nonfarm noncorporate	1,177.5	1,204.2	1,180.6	1,146.4	1,210.8	1,191.0	1,180.6	1,174.9	1,163.7r	1,150.6	1,146.4
24 Corporate	2,195.3	2,273.4	2,277.1r	2,330.6	2,292.7r	2,285.3r	2,277.1r	2,298.9r	2,310.7r	2,313.7	2,330.6
25 **Foreign credit market debt held in United States**	**254.8**	**278.6**	**292.7**	**307.6**	**277.6**	**282.2**	**292.7**	**282.4**	**298.4r**	**306.9**	**307.6**
26 Bonds	88.0	109.4	124.2	142.7	114.8	118.6	124.2	125.4	130.9r	136.5	142.7
27 Bank loans n.e.c.	21.4	18.5	21.6	23.2	19.7	20.0	21.6	22.0	25.5	26.5	23.2
28 Open market paper	63.0	75.3	81.8	77.7	74.0	78.0	81.8	70.5	77.5	80.7	77.7
29 U.S. government loans	82.4	75.4	65.2	64.0	69.1	65.6	65.2	64.4	64.5r	63.4	64.0
30 **Total credit market debt owed by nonfinancial sectors, domestic and foreign**	**10,341.9**	**11,039.4**	**11,493.6r**	**12,095.9**	**11,237.7r**	**11,363.5r**	**11,493.6r**	**11,614.1r**	**11,770.2r**	**11,922.2**	**12,095.9**
					Financial sectors						
31 **Total credit market debt owed by financial sectors**	**2,333.0**	**2,524.2**	**2,665.9r**	**2,890.1**	**2,578.2r**	**2,615.1r**	**2,665.9r**	**2,697.7r**	**2,756.6r**	**2,824.0**	**2,890.1**
By instrument											
32 U.S. government-related	1,249.3	1,418.4	1,574.3r	1,741.5	1,489.6r	1,531.1r	1,574.3r	1,603.8r	1,658.3r	1,702.0	1,741.5
33 Sponsored credit-agency securities	373.3	393.7	402.9	443.1	389.6	394.7	402.9	405.7	417.8	434.7	443.1
34 Mortgage pool securities	871.0	1,019.9	1,166.7r	1,293.5	1,095.2r	1,131.5r	1,166.7r	1,193.2r	1,235.6r	1,262.5	1,293.5
35 Loans from U.S. government	5.0	4.9	4.8	4.8	4.9	4.9	4.8	4.8	4.8	4.8	4.8
36 Private	1,083.7	1,105.8	1,091.6r	1,148.6	1,088.6	1,084.0r	1,091.6r	1,094.0	1,098.3	1,122.0	1,148.6
37 Corporate bonds	491.9	528.2	580.2r	621.8	562.2	569.5	580.2r	578.2	583.2	598.4	621.8
38 Mortgages	3.4	4.2	4.8	5.1	4.5	4.6r	4.8	5.0	5.0	5.1	5.1
39 Bank loans n.e.c.	37.5	38.6	41.8	49.0	37.0	39.0	41.8	41.6	43.7	44.5	49.0
40 Open market paper	409.1	417.7	385.7	392.8	390.1	387.0	385.7	392.9	389.5	393.9	392.8
41 Loans from Federal Home Loan Banks	141.8	117.1	79.1	79.9	94.7	83.9	79.1	76.3	76.9	80.2	79.9
By borrowing sector											
42 Sponsored credit agencies	378.3	398.5	407.7	447.9	394.4	399.5	407.7	410.5	422.6	439.5	447.9
43 Mortgage pools	871.0	1,019.9	1,166.7r	1,293.5	1,095.2r	1,131.5r	1,166.7r	1,193.2r	1,235.6r	1,262.5	1,293.5
44 Private financial sectors	1,083.7	1,105.8	1,091.6r	1,148.6	1,088.6	1,084.0r	1,091.6r	1,094.0	1,098.3	1,122.0	1,148.6
45 Commercial banks	77.4	76.3	63.0	67.4	65.9	64.6	63.0	60.8	61.7	63.3	67.4
46 Bank affiliates	142.5	114.8	112.3	113.4	113.3	110.6	112.3	115.0	112.7	114.4	113.4
47 Savings and loan associations	145.2	115.3	75.9	71.3	91.0	79.0	75.9	71.2	70.3	70.9	71.3
48 Mutual savings banks	17.2	16.7	13.2	14.9	16.6	15.2	13.2	13.5	14.3	16.2	14.9
49 Finance companies	504.2	539.8	547.9r	562.2	540.4	543.7	547.9r	547.1	541.8	549.4	562.2
50 Real estate investment trusts (REITs)	10.1	10.6	11.4	14.0	11.0	11.2r	11.4	12.7	13.2	13.7	14.0
51 Securitized credit obligation (SCO) issuers	187.1	232.3	268.0	305.4	250.3	259.9	268.0	273.6	284.4	294.2	305.4
					All sectors						
52 **Total credit market debt, domestic and foreign**	**12,674.9**	**13,563.6**	**14,159.6r**	**14,985.9**	**13,815.9r**	**13,978.7r**	**14,159.6r**	**14,311.9r**	**14,526.8r**	**14,746.2**	**14,985.9**
53 U.S. government securities	3,495.6	3,911.7	4,345.9r	4,817.0	4,076.6r	4,213.5r	4,345.9r	4,458.7r	4,576.8r	4,696.0	4,817.0
54 State and local obligations	1,004.4	1,055.6	1,101.4	1,154.7	1,072.5	1,089.3	1,101.4	1,111.5	1,128.6	1,145.6	1,154.7
55 Corporate and foreign bonds	1,506.0	1,610.7	1,756.4r	1,882.8	1,693.5	1,725.0	1,756.4r	1,774.6	1,804.5r	1,840.5	1,882.8
56 Mortgages	3,650.9	3,911.5	4,032.1r	4,193.3	4,003.0r	4,015.6r	4,032.1r	4,074.5r	4,112.7r	4,149.2	4,193.3
57 Consumer credit	791.8	809.3	796.7	799.2	786.7	785.9	796.7	775.7	775.8	781.1	799.2
58 Bank loans n.e.c.	819.6	815.1	788.0	780.0	798.7	793.2	788.0	776.1	778.7	776.1	780.0
59 Open market paper	579.2	609.9	565.9	578.8	583.6	572.0	565.9	573.7	578.7	582.9	578.8
60 Other loans	827.5	839.9	773.2	780.3	801.4	784.2	773.2	767.1	771.1r	774.8	780.3

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.2 through L.4. For ordering address, see inside front cover.

1.60 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES[1]

Billions of dollars except as noted, end of period

Transaction category or sector	1989	1990	1991	1992	1991			1992			
					Q2	Q3	Q4	Q1	Q2[r]	Q3[r]	Q4
CREDIT MARKET DEBT OUTSTANDING[2]											
1 **Total credit market assets**	**12,674.9**	**13,563.6**	**14,159.6[r]**	**14,985.9**	**13,815.9[r]**	**13,978.7[r]**	**14,159.6[r]**	**14,311.9[r]**	**14,526.8**	**14,746.2**	**14,985.9**
2 Private domestic nonfinancial sectors	2,440.5	2,644.2	2,531.9[r]	2,584.0	2,661.3[r]	2,653.8[r]	2,531.9[r]	2,546.1[r]	2,548.9	2,539.7	2,584.0
3 Households	1,710.1	1,882.3	1,734.7[r]	1,791.9	1,889.5[r]	1,881.0[r]	1,734.7[r]	1,766.5[r]	1,756.8	1,759.2	1,791.9
4 Nonfarm noncorporate business	56.4	55.0	53.1	51.1	53.3	52.9	53.1	51.9	51.3	50.8	51.1
5 Nonfinancial corporate business	180.3	186.9	207.9	216.3	189.7	189.9	207.9	196.2	207.5	202.1	216.3
6 State and local governments	493.7	519.9	536.2	524.7	528.8	530.0	536.2	531.4	533.3	527.6	524.7
7 U.S. government	205.1	238.7	246.2	233.7	252.9	252.0	246.2	250.2	245.3	238.1	233.7
8 Foreign	734.2	792.4	835.1[r]	932.8	807.9[r]	817.2[r]	835.1[r]	857.2[r]	891.8	907.9	932.8
9 Financial sectors	9,295.1	9,888.3	10,546.4[r]	11,235.5	10,093.8[r]	10,255.6[r]	10,546.4[r]	10,658.4[r]	10,840.9	11,060.5	11,235.5
10 Sponsored credit agencies	367.2	383.6	397.7	460.5	382.0[r]	389.3[r]	397.7	419.9	429.0	446.3	460.5
11 Mortgage pools	871.0	1,019.9	1,166.7[r]	1,293.5	1,095.2[r]	1,131.5[r]	1,166.7[r]	1,193.2[r]	1,235.6	1,262.5	1,293.5
12 Monetary authority	233.3	241.4	272.5	300.4	253.7	264.7	272.5	271.8	282.6	285.2	300.4
13 Commercial banking	2,643.9	2,769.3	2,853.3	2,944.0	2,796.6	2,817.8	2,853.3	2,860.6	2,882.9	2,922.9	2,944.0
14 U.S. commercial banks	2,368.4	2,463.6	2,502.5	2,571.7	2,480.0	2,488.7	2,502.5	2,514.0	2,521.9	2,556.7	2,571.7
15 Foreign banking offices	242.3	270.8	319.2	333.8	284.4	297.5	319.2	313.3	328.2	328.9	333.8
16 Bank affiliates	16.2	13.4	11.9	18.6	11.3	11.6	11.9	13.6	13.1	17.5	18.6
17 Banks in U.S. possession	17.1	21.6	19.7	20.0	20.9	20.0	19.7	19.7	19.7	19.8	20.0
18 Private nonbank finance	5,179.7	5,474.1	5,856.2[r]	6,237.1	5,566.4[r]	5,652.2[r]	5,856.2[r]	5,913.0[r]	6,010.7	6,143.6	6,237.1
19 Thrift institutions	1,484.9	1,335.5	1,190.6	1,126.8	1,248.4	1,205.1	1,190.6	1,161.8	1,143.0	1,133.2	1,126.8
20 Savings and loan associations	1,088.9	945.1	804.2	727.2	866.3	826.1	804.2	771.1	748.8	737.9	727.2
21 Mutual savings banks	241.1	227.1	211.5	208.7	216.4	208.7	211.5	213.4	211.6	208.3	208.7
22 Credit unions	154.9	163.4	174.9	190.9	165.7	170.2	174.9	177.2	182.6	187.0	190.9
23 Insurance	2,140.3	2,329.1	2,674.9[r]	2,859.8	2,443.9[r]	2,507.4[r]	2,674.9[r]	2,708.0[r]	2,756.2	2,812.2	2,859.8
24 Life insurance companies	1,013.1	1,116.5	1,199.6	1,294.5	1,183.7	1,201.4	1,199.6	1,224.3	1,247.1	1,270.3	1,294.5
25 Other insurance companies	317.5	344.0	378.7	396.0	361.4	370.7	378.7	387.0	392.5	393.1	396.0
26 Private pension funds	394.7	431.3	622.2[r]	660.0	437.1[r]	465.4[r]	622.2[r]	615.1[r]	627.4	650.1	660.0
27 State and local government retirement funds	414.9	437.4	474.3	509.3	461.7	470.1	474.3	481.6	489.1	498.7	509.3
28 Finance n.e.c.	1,554.5	1,809.4	1,990.7[r]	2,250.5	1,874.1[r]	1,939.7	1,990.7[r]	2,043.3[r]	2,111.5	2,198.2	2,250.5
29 Finance companies	617.1	658.7	635.6[r]	656.4	651.7	647.4	635.6[r]	641.0	641.6	642.5	656.4
30 Mutual funds	307.2	360.2	450.5	574.0	394.4	421.4	450.5	470.0[r]	513.3	548.7	574.0
31 Money market funds	291.8	372.7	402.7[r]	405.2	389.9	389.5	402.7[r]	423.1	413.5	408.8	405.2
32 Real estate investment trusts (REITs)	8.4	7.7	7.0	8.5	7.4[r]	7.2	7.0	6.8	7.5	6.8	8.5
33 Brokers and dealers	142.9	177.9	226.9	300.9	180.4	214.3	226.9	228.8	251.2	297.3	300.9
34 Securitized credit obligation (SCOs) issuers	187.1	232.3	268.0	305.4	250.3	259.9	268.0	273.6	284.4	294.2	305.4
RELATION OF LIABILITIES TO FINANCIAL ASSETS											
35 **Total credit market debt**	**12,674.9**	**13,563.6**	**14,159.6[r]**	**14,985.9**	**13,815.9[r]**	**13,978.7[r]**	**14,159.6[r]**	**14,311.9[r]**	**14,526.8**	**14,746.2**	**14,985.9**
Other liabilities											
36 Official foreign exchange	53.6	61.3	55.4	51.8	53.6	52.9	55.4	52.7	54.4	55.4	51.8
37 Treasury currency and special drawing rights certificates	23.8	26.3	26.3	24.5	26.1	26.2	26.3	26.3	26.4	26.5	24.5
38 Life insurance reserves	354.3	380.0	402.0	434.0	392.3	397.2	402.0	409.6[r]	416.8	424.9	434.0
39 Pension fund reserves	3,210.5	3,303.0	4,223.4[r]	4,585.8	3,550.9[r]	3,716.5[r]	4,223.4[r]	4,242.1[r]	4,294.2	4,429.1	4,585.8
40 Interbank claims	32.4	64.0	65.2[r]	111.4	35.9[r]	60.9[r]	65.2[r]	67.4[r]	70.7	101.8	111.4
41 Deposits at financial institutions	4,644.6	4,741.4	4,802.5	4,853.3	4,765.7	4,769.5	4,802.5	4,796.7[r]	4,790.9	4,843.1	4,853.3
42 Checkable deposits and currency	888.6	932.8	1,008.5	1,130.3	933.1	948.3	1,008.5	984.3[r]	1,032.3	1,071.6	1,130.3
43 Small time and savings deposits	2,265.4	2,325.3	2,342.0	2,279.3	2,351.5	2,339.7	2,342.0	2,340.9[r]	2,314.7	2,294.3	2,279.3
44 Large time deposits	615.4	548.7	487.9	409.0	532.6	517.1	487.9	469.7[r]	438.7	428.8	409.0
45 Money market fund shares	428.1	498.4	539.6	547.9	532.8	533.1	539.6	571.0	557.2	553.2	547.9
46 Security repurchase agreements	403.2	379.7	363.4	435.2	354.0	368.9	363.4	376.4	406.8	444.1	435.2
47 Foreign deposits	43.9	56.6	61.2	51.6	61.7	62.4	61.2	54.4[r]	41.3	51.1	51.6
48 Mutual fund shares	566.2	602.1	813.9[r]	1,056.5	683.7	744.2	813.9[r]	857.7[r]	935.5	977.4	1,056.5
49 Security credit	133.9	137.4	188.9	224.3	137.5	158.1	188.9	195.1	194.1	213.1	224.3
50 Trade debt	903.9	938.0	940.9[r]	992.1	909.4	935.3	940.9[r]	940.9[r]	945.3	974.6	992.1
51 Taxes payable	81.8	81.4	72.3[r]	77.1	65.8	71.9[r]	72.3[r]	74.2[r]	69.8	74.8	77.1
52 Miscellaneous	2,508.3	2,678.8	2,811.7[r]	2,921.0	2,699.2[r]	2,733.4[r]	2,811.7[r]	2,828.8[r]	2,875.3	2,915.2	2,921.0
53 **Total liabilities**	**25,188.3**	**26,577.2**	**28,562.1[r]**	**30,317.6**	**27,136.1[r]**	**27,644.8[r]**	**28,562.1[r]**	**28,803.3[r]**	**29,200.2**	**29,782.1**	**30,317.6**
Financial assets not included in liabilities (+)											
54 Gold and special drawing rights	21.0[r]	22.0[r]	22.3[r]	19.6	21.4[r]	21.8[r]	22.3[r]	22.0[r]	22.1	23.2	19.6
55 Corporate equities	3,819.7	3,506.6	4,630.0	5,127.7	4,104.7	4,338.5	4,630.0	4,739.7	4,678.1	4,860.5	5,127.7
56 Household equity in noncorporate business	2,524.9	2,449.4	2,367.8[r]	2,263.6	2,511.8[r]	2,495.2[r]	2,367.8[r]	2,373.5[r]	2,354.7	2,330.9	2,263.6
Floats not included in assets (−)											
57 U.S. government checking deposits	6.1	15.0	3.8	6.8	8.3	19.8	3.8	.9	1.4	4.0	6.8
58 Other checkable deposits	26.5	28.9	30.9	32.5	29.9	23.6	30.9	29.5[r]	32.6	23.3	32.5
59 Trade credit	−159.7	−148.0	−134.0[r]	−138.5	−157.7	−154.2	−134.0[r]	−135.2[r]	−154.7	−152.7	−138.5
Liabilities not identified as assets (−)											
60 Treasury currency	−4.3	−4.1	−4.8	−5.0	−4.7	−4.7	−4.8	−4.9	−4.9	−5.0	−5.0
61 Interbank claims	−31.0	−32.0	−4.2	−10.7	−9.9	−4.7	−4.2	−1.8	−4.0	−5.9	−10.7
62 Security repurchase agreements	11.5	−23.3	−12.9	27.1	−25.8	−10.6	−12.9	−10.1	11.6	36.5	27.1
63 Taxes payable	20.6	21.8	18.9[r]	28.9	11.8[r]	17.6[r]	18.9[r]	11.5[r]	18.0	24.4	28.9
64 Miscellaneous	−251.1[r]	−247.3[r]	−452.3[r]	−549.3	−242.3[r]	−300.8[r]	−452.3[r]	−443.0[r]	−455.7	−510.1	−549.3
65 **Totals identified to sectors as assets**	**31,935.2[r]**	**32,944.3[r]**	**36,136.8[r]**	**38,336.6**	**34,164.3[r]**	**34,914.2[r]**	**36,136.8[r]**	**36,491.8[r]**	**36,810.8**	**37,582.0**	**38,336.6**

1. Data in this table also appear in the Board's Z.1 (780) quarterly statistical release, tables L.6 through L.7. For ordering address, see inside front cover.

2. Excludes corporate equities and mutual fund shares.

2.10 NONFINANCIAL BUSINESS ACTIVITY Selected Measures

Monthly data seasonally adjusted, 1987=100 except as noted

Measure	1990	1991	1992	1992							1993	
				June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	Jan.	Feb.
1 **Industrial production**[1]	**109.2**	**107.1**	**108.7**	**108.5**	**109.4**	**109.1**	**108.9**	**109.7**	**110.4**	**110.8**	**111.3**[r]	**111.8**
Market groupings												
2 Products, total	110.1	108.1	109.5	109.0	109.6	109.8	109.6	110.7	111.3	112.1	112.5	112.9
3 Final, total	110.9	109.6	111.1	110.5	111.0	111.5	111.2	112.4	113.1	113.9	114.6	114.9
4 Consumer goods	107.3	107.5	110.5[r]	109.6	110.4	110.8	110.7	111.9	112.6	113.5	113.9[r]	114.6
5 Equipment	115.5	112.2	111.9	111.6	111.8	112.5	111.9	113.0	113.7	114.5	115.4[r]	115.2
6 Intermediate	107.7	103.4	104.6	104.4	105.1	104.4	104.5	105.5	105.7	106.1	106.1[r]	106.7
7 Materials	107.8	105.5	107.4	107.6	109.0	108.1	107.9	108.2	109.0	108.9	109.5[r]	110.0
Industry groupings												
8 Manufacturing	109.9	107.4	109.6[r]	109.6	110.2	110.1	109.8	110.6	111.3	111.6	112.5[r]	112.8
9 Capacity utilization, manufacturing (percent)[2]	82.3	78.2	77.8	77.8	78.1	77.9	77.5	77.9	78.3	78.4	78.8[r]	78.9
10 Construction contracts[3]	95.3	89.7	92.8	90.0	89.0	90.0	89.0	104.0	92.0	90.0	100.0	95.0
11 Nonagricultural employment, total[4]	107.4	106.0	106.1	106.1	106.3	106.2	106.2	106.2	106.3	106.4	106.5	106.8
12 Goods-producing, total	101.0	96.4	94.8	95.0	94.9	94.6	94.3	94.2	94.2	94.2	94.2[r]	94.5
13 Manufacturing, total	100.5	97.0	95.6	95.9	95.9	95.4	95.2	94.9	95.0	94.9	95.1	95.1
14 Manufacturing, production worker	100.1	96.1	95.2	95.4	95.5	94.9	94.6	94.3	94.6	94.7	95.1	95.1
15 Service-producing	109.5	109.0	109.7	109.6	109.9	109.9	110.0	110.1	110.2	110.3	110.4[r]	110.7
16 Personal income, total	122.7	127.0	133.0	132.5	132.8	133.0	133.6	135.3[r]	135.3	136.6	137.2	n.a.
17 Wages and salary disbursements	121.3	124.4	129.0	128.5	128.7	129.6	129.5	130.5	131.2	132.2	133.0	n.a.
18 Manufacturing	113.5	113.6	115.4	115.1	115.5	115.3	115.3	116.5	116.0	117.5	117.0	n.a.
19 Disposable personal income[5]	122.9	128.0	134.7	134.4	134.5	134.6	135.2	137.0[r]	136.8	138.2	138.6	n.a.
20 Retail sales[6]	120.2[r]	121.3[r]	127.1[r]	125.7[r]	126.6[r]	127.3[r]	128.1[r]	130.7[r]	130.5	131.9	132.1[r]	132.4
Prices[7]												
21 Consumer (1982–84=100)	130.7	136.2	140.3	140.2	140.5	140.9	141.3	141.8	142.0	141.9	142.6	143.1
22 Producer finished goods (1982=100)	119.2	121.7	123.2	123.9	123.7	123.6	123.3	124.3	123.9	123.8	124.0	124.3

1. A major revision of the industrial production index and the capacity utilization rates was released in April 1990. See "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.
2. Ratio of index of production to index of capacity. Based on data from the Federal Reserve, DRI McGraw-Hill, U.S. Department of Commerce, and other sources.
3. Index of dollar value of total construction contracts, including residential, nonresidential, and heavy engineering, from McGraw-Hill Information Systems Co., F.W. Dodge Division.
4. Based on data from U.S. Department of Labor, *Employment and Earnings*. Series covers employees only, excluding personnel in the armed forces.
5. Based on data from U.S. Department of Commerce, *Survey of Current Business*.
6. Based on data from U.S. Bureau of the Census, *Survey of Current Business*.
7. Based on data not seasonally adjusted. Seasonally adjusted data for changes in the price indexes can be obtained from the Bureau of Labor Statistics, U.S. Department of Labor, *Monthly Labor Review*.

NOTE. Basic data (not indexes) for series mentioned in notes 4, 5,and 6, and indexes for series mentioned in notes 3 and 7 can also be found in the *Survey of Current Business*.

Figures for industrial production for the latest month are preliminary, and many figures for the three months preceding the latest month have been revised. See "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pp. 411–35.

2.11 LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Thousands of persons; monthly data seasonally adjusted except as noted

Category	1990	1991	1992	1992						1993	
				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.[r]	Feb.
HOUSEHOLD SURVEY DATA											
1 **Noninstitutional population**[1]	**190,216**	**191,883**	**193,542**	**193,588**	**193,749**	**193,893**	**194,051**	**194,210**	**194,379**	**194,514**	**194,641**
2 Labor force (including Armed Forces)[1]	126,954	127,421	128,948	129,316	129,363	129,220	128,986	129,259	129,461	128,953	129,182
3 Civilian labor force	124,787	125,303	126,982	127,350	127,404	127,274	127,066	127,365	127,591	127,083	127,327
Employment											
4 Nonagricultural industries[2]	114,728	114,644	114,391	114,515	114,562	114,503	114,518	114,855	115,049	114,879	115,335
5 Agriculture	3,186	3,233	3,207	3,207	3,218	3,221	3,169	3,209	3,262	3,191	3,116
Unemployment											
6 Number	6,874	8,426	9,384	9,628	9,624	9,550	9,379	9,301	9,280	9,013	8,876
7 Rate (percent of civilian labor force)	5.5	6.7	7.4	7.6	7.6	7.5	7.4	7.3	7.3	7.1	7.0
8 Not in labor force	63,262	64,462	64,594	64,272	64,386	64,673	65,065	64,951	64,918	65,561	65,459
ESTABLISHMENT SURVEY DATA											
9 **Nonagricultural payroll employment**[3]	**109,782**	**108,310**	**108,434**	**108,594**	**108,485**	**108,497**	**108,571**	**108,646**	**108,752[r]**	**108,796**	**109,161**
10 Manufacturing	19,117	18,455	18,192	18,242	18,145	18,102	18,046	18,068	18,062[r]	18,091	18,101
11 Mining	710	691	635	633	626	620	623	622	619	617	605
12 Contract construction	5,133	4,685	4,594	4,584	4,591	4,574	4,601	4,590	4,582[r]	4,558	4,654
13 Transportation and public utilities	5,808	5,772	5,741	5,742	5,729	5,738	5,731	5,732	5,742[r]	5,761	5,766
14 Trade	25,877	25,328	25,120	25,156	25,070	25,079	25,115	25,092	25,132[r]	25,210	25,348
15 Finance	6,729	6,678	6,672	6,660	6,661	6,669	6,680	6,669	6,677	6,684	6,680
16 Service	28,130	28,323	28,903	28,971	28,981	29,065	29,152	29,188	29,253[r]	29,230	29,361
17 Government	18,304	18,380	18,578	18,606	18,682	18,650	18,623	18,685	18,685[r]	18,645	18,646

1. Persons sixteen years of age and older. Monthly figures are based on sample data collected during the calendar week that contains the twelfth day; annual data are averages of monthly figures. By definition, seasonality does not exist in population figures.
2. Includes self-employed, unpaid family, and domestic service workers.
3. Includes all full- and part-time employees who worked during, or received pay for, the pay period that includes the twelfth day of the month; excludes proprietors, self-employed persons, household and unpaid family workers, and members of the armed forces. Data are adjusted to the March 1984 benchmark, and only seasonally adjusted data are available at this time.

SOURCE. Based on data from U.S. Department of Labor, *Employment and Earnings*.

2.12 OUTPUT, CAPACITY, AND CAPACITY UTILIZATION[1]

Seasonally adjusted

Series	1992				1992				1992			
	Q1	Q2	Q3	Q4[r]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4[r]
	Output (1987=100)				Capacity (percent of 1987 output)				Capacity utilization rate (percent)			
1 **Total industry**	**107.1**	**108.5**	**109.1**	**110.3**	**137.0**	**137.7**	**138.4**	**139.1**	**78.2**	**78.8**	**78.8**	**79.3**
2 Manufacturing	108.0	109.5	110.0	111.2	139.7	140.6	141.4	142.2	77.3	77.9	77.8	78.2
3 Primary processing	104.0	105.4	106.4	107.1	129.3	129.6	129.9	130.3	80.5	81.3	81.9	82.2
4 Advanced processing	109.9	111.4	111.7	113.1	144.6	145.6	146.7	147.7	76.0	76.5	76.2	76.6
5 Durable goods	106.6	108.4	108.8	110.2	143.7	144.4	145.2	146.0	74.2	75.0	74.9	75.5
6 Lumber and products	98.5	96.7	98.5	101.2	125.9	126.1	126.3	126.5	78.2	76.7	78.0	80.0
7 Primary metals	102.2	101.7	104.0	104.6	129.1	128.3	127.5	126.7	79.2	79.2	81.5	82.5
8 Iron and steel	103.8	101.6	104.6	106.7	134.1	132.7	131.2	129.8	77.4	76.6	79.7	82.2
9 Nonferrous	100.0	101.7	103.0	101.6	122.1	122.2	122.3	122.4	81.9	83.3	84.3	83.0
10 Nonelectrical machinery	122.1	125.7	128.8	132.0	164.3	165.9	167.4	168.9	74.3	75.8	76.9	78.1
11 Electrical machinery	110.5	111.8	112.6	113.6	147.9	149.1	150.4	151.6	74.7	75.0	74.9	74.9
12 Motor vehicles and parts	91.7	100.5	98.1	103.7	136.2	136.7	137.2	137.7	67.3	73.5	71.5	75.3
13 Aerospace and miscellaneous transportation equipment	99.3	96.8	94.9	93.2	140.4	140.9	141.5	142.1	70.8	68.7	67.1	65.6
14 Nondurable goods	109.8	110.9	111.6	112.5	134.8	135.6	136.5	137.4	81.5	81.7	81.8	81.9
15 Textile mill products	104.3	106.2	106.6	107.1	118.8	119.2	119.7	120.2	87.9	89.0	89.1	89.1
16 Paper and products	105.8	106.7	108.2	107.5	119.3	119.9	120.5	121.1	88.7	89.0	89.8	88.8
17 Chemicals and products	113.6	116.8	118.0	119.2	143.4	144.3	145.1	146.0	79.2	81.0	81.3	81.6
18 Plastics materials	124.4	129.7	132.4	126.3	148.7	150.5	152.2	154.0	83.7	86.2	87.0	82.0
19 Petroleum products	107.7	109.2	106.9	110.4	121.4	121.5	121.6	121.7	88.7	89.9	87.9	90.8
20 Mining	97.9	98.9	99.2	99.0	114.7	114.7	114.8	114.8	85.3	86.2	86.5	86.2
21 Utilities	107.0	107.4	109.4	112.4	129.5	129.8	130.1	130.4	82.6	82.7	84.1	86.2
22 Electric	109.7	110.3	113.2	115.5	125.6	126.0	126.4	126.8	87.3	87.6	89.5	91.1

Series	Previous cycle[2]		Latest cycle[3]		1992	1992						1993	
	High	Low	High	Low	Feb.	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	Jan.[r]	Feb.[p]
	Capacity utilization rate (percent)												
1 **Total industry**	**89.2**	**72.6**	**87.3**	**71.8**	**78.3**	**79.1**	**78.8**	**78.6**	**79.0**	**79.4**	**79.5**	**79.7**	**79.9**
2 Manufacturing	88.9	70.8	87.3	70.0	77.4	78.1	77.9	77.5	77.9	78.3	78.4	78.8	78.9
3 Primary processing	92.2	68.9	89.7	66.8	80.4	82.7	81.7	81.3	81.9	82.5	82.2	82.8	83.0
4 Advanced processing	87.5	72.0	86.3	71.4	76.1	76.2	76.3	76.0	76.3	76.6	76.8	77.2	77.2
5 Durable goods	88.8	68.5	86.9	65.0	74.5	75.2	75.2	74.4	75.1	75.5	75.8	76.4	76.6
6 Lumber and products	90.1	62.2	87.6	60.9	78.5	79.1	78.3	76.6	79.7	80.9	79.3	81.5	80.8
7 Primary metals	100.6	66.2	102.4	46.8	79.5	82.6	81.8	80.1	82.0	83.1	82.5	85.5	85.3
8 Iron and steel	105.8	66.6	110.4	38.3	77.4	80.8	79.5	78.8	81.6	82.6	82.3	85.9	85.8
9 Nonferrous	92.9	61.3	90.5	62.2	82.9	85.4	85.2	82.2	82.7	83.8	82.7	84.8	84.5
10 Nonelectrical machinery	96.4	74.5	92.1	64.9	74.2	76.6	77.3	76.9	77.4	78.0	79.0	79.6	80.1
11 Electrical machinery	87.8	63.8	89.4	71.1	74.8	75.1	75.1	74.3	74.5	75.6	74.6	75.3	76.1
12 Motor vehicles and parts	93.4	51.1	93.0	44.5	68.9	71.3	72.5	70.8	73.6	74.3	77.9	81.4	80.3
13 Aerospace and miscellaneous transportation equipment	77.0	66.6	81.1	66.9	70.9	67.7	67.0	66.4	66.3	65.5	65.0	64.0	63.3
14 Nondurable goods	87.9	71.8	87.0	76.9	81.3	82.0	81.6	81.7	81.7	82.0	81.9	82.0	82.0
15 Textile mill products	92.0	60.4	91.7	73.8	88.2	89.6	88.7	88.9	88.4	89.4	89.5	91.0	90.9
16 Paper and products	96.9	69.0	94.2	82.0	87.6	91.1	88.2	90.0	87.8	88.9	89.6	89.1	88.4
17 Chemicals and products	87.9	69.9	85.1	70.1	79.1	81.5	81.1	81.4	81.4	82.1	81.3	81.5	81.9
18 Plastics materials	102.0	50.6	90.9	63.4	83.0	89.8	86.0	85.1	82.8	84.1	79.1	...	...
19 Petroleum products	96.7	81.1	89.5	68.2	88.1	89.8	85.8	88.3	91.5	91.0	89.7	91.2	92.4
20 Mining	94.4	88.4	96.6	80.6	85.7	87.6	86.1	85.6	86.1	86.6	85.9	85.7	83.9
21 Utilities	95.6	82.5	88.3	76.2	82.2	84.1	83.6	84.6	85.0	86.2	87.5	85.9	88.9
22 Electric	99.0	82.7	88.3	78.7	86.8	89.5	89.2	89.9	89.8	91.0	92.5	90.7	94.1

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For ordering address, see inside front cover. For a detailed description of the series, see "Recent Developments in Industrial Capacity and Utilization," *Federal Reserve Bulletin*, vol. 76 (June 1990), pp. 411–35.

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 seasonally adjusted

Group	1987 proportion	1992 avg.	1992 Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	1993 Jan.[r]	Feb.[p]
			Index (1987 = 100)												
MAJOR MARKETS															
1 **Total index**	**100.0**	**108.7**	**107.2**	**107.6**	**108.1**	**108.9**	**108.5**	**109.4**	**109.1**	**108.9**	**109.7**	**110.4**	**110.8**	**111.3**	**111.8**
2 Products	60.8	109.5	108.1	108.5	109.0	109.7	109.0	109.6	109.8	109.6	110.7	111.3	112.1	112.5	112.9
3 Final products	46.0	111.1	109.4	109.8	110.6	111.4	110.5	111.0	111.5	111.2	112.4	113.1	113.9	114.6	114.9
4 Consumer goods, total	26.0	110.5	108.8	109.3	110.1	110.8	109.6	110.4	110.8	110.7	111.9	112.6	113.5	113.9	114.6
5 Durable consumer goods	5.6	107.9	105.3	106.2	107.9	111.1	109.2	108.6	109.2	106.9	108.1	108.9	111.6	113.9	114.5
6 Automotive products	2.5	106.6	101.6	103.6	106.5	110.6	108.0	106.6	106.8	104.5	108.8	110.2	114.8	120.1	118.4
7 Autos and trucks	1.5	102.0	94.3	95.7	102.5	107.8	104.0	100.5	100.6	98.2	105.9	107.2	116.5	123.9	120.3
8 Autos, consumer	.9	90.0	84.8	81.9	93.1	98.6	97.6	92.3	87.2	88.1	88.5	89.4	97.7	102.3	101.8
9 Trucks, consumer	.6	122.1	110.2	118.8	118.3	123.3	114.8	114.3	123.1	115.1	135.1	137.1	148.1	160.3	151.4
10 Auto parts and allied goods	1.0	113.7	112.6	115.5	112.5	114.8	114.0	115.7	116.2	114.0	113.3	114.7	112.3	114.4	115.5
11 Other	3.1	109.0	108.3	108.3	109.1	111.5	110.2	110.3	111.1	108.9	107.6	107.8	109.0	109.0	111.5
12 Appliances, A/C, and TV	.8	104.7	102.9	103.5	103.4	107.4	106.2	102.3	110.6	108.5	103.8	103.8	104.2	103.6	109.4
13 Carpeting and furniture	.9	102.7	102.4	102.5	104.4	105.9	103.2	103.8	103.6	100.9	100.5	101.4	104.4	104.7	104.8
14 Miscellaneous home goods	1.4	115.3	115.0	114.7	115.2	117.3	116.9	118.8	116.1	114.2	114.3	114.1	114.7	114.9	116.9
15 Nondurable consumer goods	20.4	111.2	109.8	110.2	110.7	110.7	109.7	110.8	111.2	111.7	112.9	113.7	114.0	113.9	114.7
16 Foods and tobacco	9.1	108.5	107.4	107.8	107.6	107.7	107.2	108.6	110.1	108.9	109.8	110.1	109.9	110.2	110.7
17 Clothing	2.6	95.2	95.2	95.1	95.3	96.4	95.5	96.8	95.0	95.5	94.9	95.4	95.8	95.6	95.1
18 Chemical products	3.5	122.6	118.3	119.4	120.8	121.4	121.6	121.5	122.0	124.1	126.8	128.3	128.7	129.1	129.5
19 Paper products	2.5	124.2	124.7	124.6	125.1	124.3	121.7	121.9	121.8	124.2	124.1	126.1	126.4	125.6	125.9
20 Energy	2.7	108.1	106.4	107.0	108.9	107.2	104.8	107.4	106.2	108.1	111.5	112.2	114.0	113.1	116.6
21 Fuels	.7	104.7	103.5	103.7	105.1	104.0	104.4	105.3	99.0	103.5	110.3	108.0	105.7	107.6	109.6
22 Residential utilities	2.0	109.4	107.5	108.2	110.3	108.4	105.0	108.2	108.9	109.7	112.0	113.7	117.1	115.2	119.2
23 Equipment	20.0	111.9	110.2	110.4	111.3	112.3	111.6	111.8	112.5	111.9	113.0	113.7	114.5	115.4	115.2
24 Business equipment	13.9	124.4	121.0	121.5	123.0	124.5	124.1	124.4	125.9	125.4	126.8	127.8	128.9	130.5	130.9
25 Information processing and related	5.6	141.0	134.6	136.0	137.9	139.2	140.4	141.9	143.5	143.5	145.7	146.8	148.1	150.8	152.0
26 Office and computing	1.9	176.5	162.4	164.9	168.2	170.5	174.0	178.0	182.0	184.0	187.0	189.0	194.7	200.1	...
27 Industrial	4.0	102.1	101.3	101.3	101.7	103.4	102.9	103.4	102.7	101.6	102.0	103.1	102.8	103.2	103.5
28 Transit	2.5	131.2	129.2	128.9	131.7	133.3	131.8	128.7	132.6	130.4	133.0	134.1	136.7	139.8	138.3
29 Autos and trucks	1.2	101.2	94.7	95.0	101.3	105.6	101.7	98.1	101.3	99.1	105.2	107.7	114.4	121.4	119.8
30 Other	1.9	114.1	112.2	112.2	113.2	115.0	111.5	112.2	114.4	115.8	115.5	115.9	117.7	116.8	117.7
31 Defense and space equipment	5.4	82.9	86.2	85.6	84.7	84.2	83.6	82.7	81.8	81.1	80.5	79.7	79.2	78.3	77.6
32 Oil and gas well drilling	.6	78.3	73.9	76.2	79.2	79.2	74.6	78.6	75.0	74.4	80.2	85.2	88.5	84.7	76.6
33 Manufactured homes	.2	108.8	99.7	98.7	100.7	100.3	97.1	112.0	106.1	111.2	119.9	127.1	138.0	143.0	...
34 Intermediate products, total	14.7	104.6	104.0	104.4	103.9	104.4	104.4	105.1	104.4	104.5	105.5	105.7	106.1	106.1	106.7
35 Construction supplies	6.0	97.4	96.0	96.7	96.5	97.8	97.2	98.6	98.5	97.1	98.5	98.8	98.0	98.3	99.0
36 Business supplies	8.7	109.6	109.6	109.7	109.0	109.0	109.4	109.7	108.5	109.6	110.4	110.5	111.8	111.5	112.1
37 Materials	39.2	107.4	105.8	106.1	106.8	107.7	107.6	109.0	108.1	107.9	108.2	109.0	108.9	109.5	110.0
38 Durable goods materials	19.4	109.9	108.1	108.3	108.7	110.4	110.2	111.2	111.1	109.9	110.9	112.0	112.1	113.6	114.1
39 Durable consumer parts	4.2	101.0	97.1	97.9	99.3	102.5	102.9	101.8	103.9	102.3	103.5	103.8	103.8	105.9	106.4
40 Equipment parts	7.3	116.2	115.2	115.1	114.7	116.2	116.2	117.5	117.0	116.4	117.2	118.7	118.9	120.3	121.2
41 Other	7.9	108.8	107.5	107.5	108.1	109.2	108.7	110.2	109.5	108.1	109.1	110.2	110.2	111.6	111.6
42 Basic metal materials	2.8	108.3	107.3	106.3	106.3	108.3	107.7	111.5	110.9	108.1	108.5	111.3	108.9	111.5	111.3
43 Nondurable goods materials	9.0	109.7	107.1	108.9	109.4	109.7	110.4	111.7	110.3	110.5	109.7	110.6	109.9	110.4	111.0
44 Textile materials	1.2	102.6	101.5	102.0	103.2	102.9	102.3	103.9	102.9	103.9	103.3	103.8	102.7	105.0	105.3
45 Pulp and paper materials	1.9	109.8	106.8	107.8	109.2	107.8	110.8	111.8	108.9	112.7	109.6	111.0	113.2	110.7	110.4
46 Chemical materials	3.8	110.2	106.6	109.3	109.9	111.2	110.9	113.4	111.9	110.9	110.2	111.1	108.6	109.5	110.7
47 Other	2.1	112.4	111.2	112.7	112.2	112.4	113.4	112.8	112.6	111.5	112.6	112.9	113.5	115.0	115.1
48 Energy materials	10.9	101.2	100.5	100.1	101.3	101.3	100.6	102.9	100.9	102.0	102.0	102.4	102.3	101.3	102.0
49 Primary energy	7.2	100.3	100.6	98.2	99.8	99.7	99.6	102.3	101.4	101.8	102.1	102.3	101.9	101.1	100.6
50 Converted fuel materials	3.7	103.0	100.4	103.8	104.1	104.3	102.6	104.1	100.0	102.5	101.7	102.4	103.2	101.7	104.9
SPECIAL AGGREGATES															
51 Total excluding autos and trucks	97.3	108.9	107.6	107.9	108.3	109.0	108.6	109.6	109.3	109.2	109.8	110.5	110.7	111.0	111.6
52 Total excluding motor vehicles and parts	95.3	109.2	107.8	108.2	108.6	109.2	108.8	109.9	109.6	109.5	110.1	110.8	111.0	111.3	111.8
53 Total excluding office and computing machines	97.5	107.0	105.8	106.1	106.6	107.4	106.8	107.6	107.3	107.0	107.8	108.4	108.7	109.1	109.5
54 Consumer goods excluding autos and trucks	24.5	111.0	109.7	110.2	110.6	110.9	109.9	111.0	111.4	111.4	112.2	113.0	113.3	113.3	114.3
55 Consumer goods excluding energy	23.3	110.8	109.1	109.6	110.3	111.2	110.1	110.7	111.3	111.0	111.9	112.7	113.4	114.0	114.4
56 Business equipment excluding autos and trucks	12.7	126.7	123.6	124.1	125.2	126.4	126.3	127.0	128.3	127.9	128.9	129.7	130.3	131.4	132.0
57 Business equipment excluding office and computing equipment	12.0	116.0	114.3	114.5	115.7	117.1	116.1	115.8	116.8	115.9	117.0	117.9	118.3	119.3	119.1
58 Materials excluding energy	28.4	109.8	107.8	108.5	108.9	110.2	110.3	111.3	110.8	110.1	110.5	111.6	111.4	112.6	113.1

2.13—Continued

Group	SIC code	1987 proportion	1992 avg.	1992 Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	1993 Jan.[r]	Feb.[p]
				Index (1987 = 100)												
MAJOR INDUSTRIES																
1 **Total index**	...	**100.0**	**108.7**	**107.2**	**107.6**	**108.1**	**108.9**	**108.5**	**109.4**	**109.1**	**108.9**	**109.7**	**110.4**	**110.8**	**111.3**	**111.8**
2 Manufacturing	...	84.4	109.6	108.1	108.5	109.0	109.9	109.6	110.2	110.1	109.8	110.6	111.3	111.6	112.5	112.8
3 Primary processing	...	26.7	105.7	103.9	104.5	105.0	105.6	105.6	107.3	106.2	105.7	106.6	107.4	107.2	108.0	108.5
4 Advanced processing	...	57.7	111.4	110.0	110.3	110.8	111.9	111.4	111.6	112.0	111.7	112.5	113.1	113.7	114.6	114.9
5 Durable goods	...	47.3	108.4	107.0	107.0	107.6	109.1	108.5	109.0	109.2	108.2	109.5	110.2	110.8	112.0	112.4
6 Lumber and products	24	2.0	98.6	98.8	99.2	97.2	97.4	95.4	99.8	98.9	96.7	100.8	102.3	100.4	103.2	102.3
7 Furniture and fixtures	25	1.4	100.3	98.1	98.6	101.1	103.3	100.3	101.0	101.7	100.5	99.6	99.5	101.3	100.7	101.7
8 Clay, glass, and stone products	32	2.5	96.3	94.6	95.0	95.6	96.7	96.6	97.1	96.4	96.1	97.7	97.8	98.8	97.7	99.5
9 Primary metals	33	3.3	103.0	102.7	101.4	100.9	102.0	102.1	105.6	104.3	102.0	104.2	105.3	104.3	107.9	107.5
10 Iron and steel	331,2	1.9	104.1	103.7	102.5	100.9	102.2	101.8	106.4	104.4	103.0	106.3	107.2	106.5	110.7	110.3
11 Raw steel	...	.1	101.2	102.7	98.8	99.9	98.5	101.5	105.3	101.9	99.8	101.7	101.5	100.4	106.6	...
12 Nonferrous	333–6,9	1.4	101.6	101.2	99.9	100.9	101.8	102.5	104.4	104.2	100.5	101.2	102.6	101.2	103.9	103.5
13 Fabricated metal products	34	5.4	101.7	100.5	100.0	100.6	102.2	102.2	102.6	102.5	101.3	102.9	103.4	103.5	103.6	104.2
14 Nonelectrical machinery	35	8.6	127.2	121.9	122.9	124.1	126.7	126.4	127.8	129.3	129.1	130.4	131.7	133.8	135.4	136.7
15 Office and computing machines	357	2.5	176.5	162.4	164.9	168.2	170.5	174.0	178.0	182.0	184.0	187.0	189.0	194.7	200.1	204.1
16 Electrical machinery	36	8.6	111.8	110.7	110.9	111.0	112.3	112.2	112.6	113.0	112.1	112.7	114.6	113.5	114.8	116.5
17 Transportation equipment	37	9.8	97.2	96.8	96.5	98.0	99.6	98.2	96.7	97.0	95.6	97.5	97.5	99.5	101.2	100.1
18 Motor vehicles and parts	371	4.7	98.7	93.8	94.2	98.5	102.7	100.4	97.7	99.4	97.2	101.2	102.4	107.4	112.4	111.0
19 Autos and light trucks	...	2.3	100.2	92.9	93.7	101.1	106.5	103.0	99.3	98.6	96.7	103.1	104.6	113.7	120.7	117.6
20 Aerospace and miscellaneous transportation equipment	372–6,9	5.1	96.0	99.6	98.6	97.4	96.8	96.3	95.7	94.9	94.1	94.1	93.0	92.5	91.2	90.3
21 Instruments	38	3.3	118.1	118.6	118.6	119.0	119.8	118.5	118.5	118.2	118.1	117.8	116.8	116.7	117.2	116.6
22 Miscellaneous	39	1.2	119.5	120.0	120.0	118.9	118.4	117.8	120.4	118.2	118.6	119.7	120.0	120.3	120.6	121.0
23 Nondurable goods	...	37.2	111.2	109.6	110.4	110.7	110.9	111.0	111.7	111.3	111.8	112.0	112.7	112.7	113.2	113.4
24 Foods	20	8.8	110.1	109.6	110.2	109.6	109.3	109.0	109.8	110.6	110.2	111.2	111.5	111.0	112.0	112.1
25 Tobacco products	21	1.0	105.3	99.4	101.3	101.0	102.5	103.6	106.6	115.9	110.5	107.6	107.7	108.2	108.4	107.5
26 Textile mill products	22	1.8	106.0	104.7	105.3	106.3	106.8	105.3	107.1	106.1	106.6	106.1	107.4	107.8	109.6	109.7
27 Apparel products	23	2.4	97.7	97.7	97.8	98.0	99.0	98.1	99.4	97.6	97.6	97.2	97.8	97.9	97.7	97.4
28 Paper and products	26	3.6	107.1	104.6	105.8	107.0	105.8	107.3	109.6	106.3	108.6	106.2	107.6	108.7	108.3	107.6
29 Printing and publishing	27	6.4	113.3	114.4	113.8	113.7	113.4	113.0	112.3	111.4	113.2	113.4	113.6	114.9	114.5	114.7
30 Chemicals and products	28	8.6	117.1	113.4	114.8	115.8	117.0	117.5	118.0	117.6	118.3	118.7	119.9	119.0	119.5	120.3
31 Petroleum products	29	1.3	108.6	106.9	109.7	110.3	108.5	108.9	109.1	104.3	107.4	111.3	110.7	109.2	111.0	112.4
32 Rubber and plastic products	30	3.0	117.3	114.0	115.4	116.5	117.1	117.3	118.5	119.0	117.3	118.3	119.3	120.5	121.1	121.5
33 Leather and products	31	.3	85.2	81.4	82.9	84.1	86.2	86.2	87.1	84.8	86.4	87.0	86.0	85.3	85.7	87.0
34 Mining	...	7.9	98.8	98.4	97.5	99.1	99.7	98.0	100.6	98.8	98.3	98.8	99.4	98.7	98.4	96.4
35 Metal	10	.3	158.0	152.9	155.8	154.2	166.4	154.0	163.7	165.6	158.6	155.7	167.1	159.7	160.9	161.5
36 Coal	11,12	1.2	105.5	107.9	103.0	104.0	107.6	98.6	112.0	107.5	103.7	103.9	106.8	106.7	110.7	106.1
37 Oil and gas extraction	13	5.7	93.2	92.7	91.9	94.2	93.4	93.9	94.0	92.4	93.0	93.9	93.4	92.6	91.4	89.5
38 Stone and earth minerals	14	.7	105.9	103.5	107.4	105.9	108.0	105.6	106.2	106.4	105.2	104.9	105.5	106.6	106.4	106.4
39 Utilities	...	7.6	108.6	106.4	107.7	108.2	107.3	106.7	109.3	108.8	110.2	110.7	112.4	114.2	112.2	116.3
40 Electric	491,3PT	6.0	111.6	109.0	110.7	111.0	110.2	109.7	113.0	112.7	113.8	113.7	115.3	117.4	115.2	119.6
41 Gas	492,3PT	1.6	97.6	96.9	96.7	97.7	96.6	95.3	95.4	94.1	97.0	99.6	101.3	102.5	100.7	104.0
SPECIAL AGGREGATES																
42 Manufacturing excluding motor vehicles and parts	...	79.8	110.3	108.9	109.3	109.6	110.3	110.1	110.9	110.7	110.5	111.1	111.8	111.9	112.5	112.9
43 Manufacturing excluding office and computing machines	...	82.0	107.6	106.5	106.8	107.2	108.1	107.6	108.2	108.0	107.6	108.3	109.0	109.1	109.9	110.1
		Gross value (billions of 1982 dollars, annual rates)														
MAJOR MARKETS																
44 **Products, total**	...	**1,734.8**	**1,932.0**	**1,889.7**	**1,902.8**	**1,918.7**	**1,935.5**	**1,920.1**	**1,936.2**	**1,935.9**	**1,937.0**	**1,969.8**	**1,981.4**	**1,996.0**	**2,020.0**	**2,027.5**
45 Final	...	1,350.9	1,529.4	1,490.8	1,501.5	1,518.2	1,532.1	1,519.1	1,530.4	1,532.8	1,534.6	1,563.8	1,572.2	1,587.9	1,609.9	1,615.3
46 Consumer goods	...	833.4	908.0	890.2	896.2	905.6	912.4	901.3	909.3	905.3	907.1	928.2	931.3	935.9	948.3	952.0
47 Equipment	...	517.5	621.4	600.6	605.3	612.7	619.7	617.8	621.0	627.5	627.5	635.6	640.9	652.0	661.5	663.4
48 Intermediate	...	384.0	402.7	398.9	401.2	400.5	403.4	401.1	405.8	403.1	402.4	406.0	409.1	408.2	410.1	412.2

1. Data in this table also appear in the Board's G.17 (419) monthly statistical release. For ordering address, see inside front cover.

A major revision of the industrial production index and the capacity utilization rates was released in April 1990. See "Industrial Production: 1989 Developments and Historical Revision," *Federal Reserve Bulletin*, vol. 76 (April 1990), pp. 187–204.

2. Standard industrial classification.

2.14 HOUSING AND CONSTRUCTION

Monthly figures at seasonally adjusted annual rates except as noted

Item	1990	1991	1992[r]	1992 Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	1993 Jan.
	Private residential real estate activity (thousands of units except as noted)												
NEW UNITS													
1 Permits authorized	1,111	949	1,097	1,058	1,054	1,032	1,080	1,076	1,125	1,139	1,126	1,201	1,180
2 One-family	794	754	913	873	879	872	879	877	913	959	955	1,044	997
3 Two-or-more-family	317	195	184	185	175	160	201	199	212	180	171	157	183
4 Started	1,193	1,014	1,200	1,095	1,197	1,141	1,106	1,229	1,218	1,226	1,226	1,286	1,178
5 One-family	895	840	1,030	939	1,019	994	961	1,038	1,045	1,079	1,089	1,133	1,061
6 Two-or-more-family	298	174	169	156	178	147	145	191	173	147	137	153	117
7 Under construction at end of period[1]	711	606	611	654[r]	650[r]	641[r]	628	633	637[r]	644	641	644	645
8 One-family	449	434	474	483[r]	483[r]	481[r]	474[r]	479[r]	485[r]	493	498	503	510
9 Two-or-more-family	262	173	137	171	167[r]	160	154[r]	154[r]	152	151	143	141	135
10 Completed	1,308	1,091	1,157	1,079[r]	1,194[r]	1,181[r]	1,234[r]	1,133[r]	1,128[r]	1,137[r]	1,229	1,218	1,128
11 One-family	966	838	964	899[r]	1,002[r]	979[r]	1,026[r]	945[r]	942[r]	964[r]	1,002	1,012	965
12 Two-or-more-family	342	253	194	180[r]	192[r]	202	208[r]	188[r]	186[r]	173[r]	227	206	163
13 Mobile homes shipped	188	171	210	193	194	194	210	202	217	228	244	266	267
Merchant builder activity in one-family units													
14 Number sold	535	507	609	552[r]	552[r]	584[r]	622[r]	625[r]	672[r]	637[r]	615	652	569
15 Number for sale at end of period[1]	321	284[r]	265	274	273[r]	273[r]	271	270[r]	267[r]	264[r]	262	265	267
Price of units sold (thousands of dollars)[2]													
16 Median	122.3	120.0	121.2	120.0	113.0	124.5	118.0	123.5	119.5	125.0[r]	128.9	125.0	118.0
17 Average	149.0	147.0	144.7	145.0	146.0	146.6	137.7	145.3	142.2	148.4[r]	147.2	144.0	139.9
EXISTING UNITS (one-family)													
18 Number sold	3,211	3,219	3,520	3,490	3,450[r]	3,320[r]	3,380[r]	3,340[r]	3,380[r]	3,710[r]	3,860	4,040	3,780
Price of units sold (thousands of dollars)[2]													
19 Median	95.2	99.7	103.6	103.5[r]	103.1[r]	105.5[r]	102.8[r]	105.0[r]	103.5[r]	103.4	102.7	104.2	103.1
20 Average	118.3	127.4	130.8	130.7[r]	131.0[r]	133.9[r]	132.2	132.4[r]	131.0	129.3[r]	128.8	131.0	129.4
	Value of new construction (millions of dollars)[3]												
CONSTRUCTION													
21 Total put in place	**442,066**	**400,955**	**426,002**	**427,585**	**427,980**	**426,730**	**425,700**	**419,598**	**429,291**	**430,494**	**432,811**	**436,395**	**430,777**
22 Private	334,153	290,707	307,375	309,832	306,999	312,182	305,848	301,984	308,813	312,177	314,156	316,469	316,767
23 Residential	182,856	157,837	183,208	182,644	182,892	184,630	181,162	184,201	186,343	188,675	191,459	194,765	196,914
24 Nonresidential, total	151,297	132,870	124,167	127,188	124,107	127,552	124,686	117,783	122,470	123,502	122,697	121,704	119,853
25 Industrial buildings	23,849	22,281	20,173	21,335	21,008	20,285	20,594	17,862	19,019	18,594	19,008	18,578	17,720
26 Commercial buildings	62,866	48,482	40,417	40,712	39,643	43,310	39,988	37,010	39,333	40,003	40,371	38,216	38,057
27 Other buildings	21,591	20,797	21,514	21,409	21,993	21,991	22,228	21,518	22,068	21,648	21,527	21,278	21,356
28 Public utilities and other	42,991	41,310	42,063	43,732	41,463	41,966	41,876	41,393	42,050	43,257	41,791	43,632	42,720
29 Public	107,909	110,247	118,624	117,753	120,981	114,548	119,853	117,614	120,478	118,317	118,655	119,926	114,010
30 Military	2,664	1,837	2,490	2,329	2,668	2,503	2,372	2,438	3,172	2,299	2,705	2,609	2,503
31 Highway	31,154	29,918	32,759	31,447	32,633	31,496	32,682	33,451	34,651	32,200	34,374	31,076	29,247
32 Conservation and development	4,607	4,958	6,079	5,818	5,767	5,889	5,772	5,382	6,364	6,698	6,462	8,281	6,843
33 Other	69,484	73,534	77,296	78,159	79,913	74,660	79,027	76,343	76,291	77,120	75,114	77,960	75,417

1. Not at annual rates.
2. Not seasonally adjusted.
3. Recent data on value of new construction may not be strictly comparable with data for previous periods because of changes by the Census Bureau in its estimating techniques. For a description of these changes, see *Construction Reports* (C-30-76-5), issued by the Census Bureau in July 1976.

SOURCE. *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 17,000 jurisdictions beginning in 1984.

2.15 CONSUMER AND PRODUCER PRICES

Percentage changes based on seasonally adjusted data except as noted

Item	Change from 12 months earlier		Change from 3 months earlier (annual rate)				Change from 1 month earlier					Index level, Feb. 1993[1]
	1992 Feb.	1993 Feb.	1992				1992			1993[1]		
			Mar.	June	Sept.	Dec.	Oct.	Nov.	Dec.	Jan.	Feb.	
CONSUMER PRICES[2] (1982–84=100)												
1 **All items**	**2.8**	**3.2**	**3.5**	**2.6**	**2.6**	**3.2**	**.4**	**.2**	**.1**	**.5**	**.3**	**143.1**
2 Food	1.5	1.7	2.4	−1.2	3.2	1.4	.0	.1	.3	.4	.1	139.9
3 Energy items	−3.7	3.2	−3.9	8.6	1.2	1.9	.5	.2	−.2	.5	−.4	102.2
4 All items less food and energy	3.8	3.6	4.5	2.8	2.5	3.8	.5	.3	.2	.5	.5	150.8
5 Commodities	2.9	2.8	4.1	2.5	1.8	1.5	.3	.1	−.1	.5	.5	134.7
6 Services	4.1	4.0	4.5	3.1	2.9	4.7	.5	.4	.3	.4	.4	160.1
PRODUCER PRICES (1982=100)												
7 Finished goods	.6	1.8	2.0	3.3	1.3	−.3	.0r	−.2r	.1	.2	.4	124.3
8 Consumer foods	−1.0	.5	−.3	−.6	4.3	2.9	−.1	−.5	1.3	−.9	−.1	124.0
9 Consumer energy	−5.2	3.5	−1.0	16.6	−3.5	−9.8	1.0r	−1.3r	−2.3	.9	1.7	76.9
10 Other consumer goods	2.8	2.2	3.6	2.4	1.5	.9	−.1	.1r	.1	.4	.3	139.4
11 Capital equipment	2.1	1.7	3.5	.9	1.2	.3	−.2	.0r	.2	.3	.5	130.9
Intermediate materials												
12 Excluding foods and feeds	−1.8	2.0	1.1	5.0	.7	−1.4	−.3r	.0r	−.1	.3	.5	115.9
13 Excluding energy	−.7	1.7	2.0	1.7	1.3	−.3	−.2	−.1	.2	.3	.5	123.5
Crude materials												
14 Foods	−1.2	−.4	8.4	2.7	−4.8	4.3	.8r	−.7r	1.0	.3	.1	105.6
15 Energy	−9.1	2.3	−26.6	51.5	19.8	−20.2	−1.1r	.5r	−4.9	.0	−2.5	77.2
16 Other	−6.1	9.7	15.8	4.8	2.2	1.5	−1.2	−.6r	2.3	3.1	2.2	137.3

1. Not seasonally adjusted.
2. Figures for consumer prices are for all urban consumers and reflect a rental-equivalence measure of homeownership.

SOURCE. Bureau of Labor Statistics.

2.16 GROSS DOMESTIC PRODUCT AND INCOME

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1990	1991	1992[r]	1991	1992			
				Q4	Q1	Q2	Q3	Q4[r]
GROSS DOMESTIC PRODUCT								
1 **Total**	**5,522.2**	**5,677.5**	**5,950.7**	**5,753.3**	**5,840.2**	**5,902.2**	**5,978.5**	**6,082.1**
By source								
2 Personal consumption expenditures	3,748.4	3,887.7	4,094.9	3,942.9	4,022.8	4,057.1	4,108.7	4,190.9
3 Durable goods	464.3	446.1	480.3	450.4	469.4	470.6	482.5	498.7
4 Nondurable goods	1,224.5	1,251.5	1,290.5	1,251.4	1,274.1	1,277.5	1,292.8	1,317.7
5 Services	2,059.7	2,190.1	2,324.0	2,241.1	2,279.3	2,309.0	2,333.3	2,374.5
6 Gross private domestic investment	799.5	721.1	770.9	736.1	722.4	773.2	781.6	806.4
7 Fixed investment	793.2	731.3	766.2	726.9	738.2	765.1	766.6	794.8
8 Nonresidential	577.6	541.1	548.3	528.7	531.0	550.3	549.6	562.4
9 Structures	201.1	180.1	168.5	169.7	170.1	170.3	166.1	167.4
10 Producers' durable equipment	376.5	360.9	379.8	358.9	360.8	380.0	383.5	395.0
11 Residential structures	215.6	190.3	217.8	198.2	207.2	214.8	217.0	232.4
12 Change in business inventories	6.3	−10.2	4.7	9.2	−15.8	8.1	15.0	11.6
13 Nonfarm	3.3	−10.3	2.6	14.5	−13.3	6.4	9.7	7.5
14 Net exports of goods and services	−68.9	−21.8	−30.2	−16.0	−8.1	−37.1	−36.0	−39.6
15 Exports	557.0	598.2	636.6	622.9	628.1	625.4	639.0	654.1
16 Imports	625.9	620.0	666.9	638.9	636.2	662.5	675.0	693.7
17 Government purchases of goods and services	1,043.2	1,090.5	1,115.2	1,090.3	1,103.1	1,109.1	1,124.2	1,124.3
18 Federal	426.4	447.3	449.2	440.8	445.0	444.8	455.2	451.8
19 State and local	616.8	643.2	666.0	649.5	658.0	664.3	669.0	672.5
By major type of product								
20 Final sales, total	5,515.9	5,687.7	5,946.0	5,744.2	5,855.9	5,894.1	5,963.5	6,070.5
21 Goods	2,160.1	2,192.8	2,260.1	2,188.4	2,233.6	2,233.2	2,258.4	2,315.1
22 Durable	920.6	907.6	944.1	905.7	923.6	932.3	943.8	976.5
23 Nondurable	1,239.5	1,285.1	1,316.0	1,282.7	1,310.0	1,300.8	1,314.6	1,338.6
24 Services	2,846.4	3,030.3	3,196.6	3,090.3	3,142.2	3,173.4	3,217.8	3,253.1
25 Structures	509.4	464.7	489.3	465.5	480.1	487.6	487.3	502.3
26 Change in business inventories	6.3	−10.2	4.7	9.2	−15.8	8.1	15.0	11.6
27 Durable goods	−.9	−19.3	−3.4	−8.1	−19.3	9.5	2.7	−6.5
28 Nondurable goods	7.2	9.0	8.2	17.3	3.5	−1.4	12.3	18.2
MEMO								
29 **Total GDP in 1987 dollars**	**4,877.5**	**4,821.0**	**4,922.8**	**4,838.5**	**4,873.7**	**4,892.4**	**4,933.7**	**4,991.5**
NATIONAL INCOME								
30 **Total**	**4,468.3**	**4,544.2**	n.a.	**4,599.1**	**4,679.4**	**4,716.5**	**4,719.6**	n.a.
31 Compensation of employees	3,291.2	3,390.8	3,524.9	3,433.8	3,476.3	3,506.3	3,534.3	3,582.8
32 Wages and salaries	2,742.9	2,812.2	2,916.4	2,845.0	2,877.6	2,901.3	2,923.5	2,963.3
33 Government and government enterprises	514.8	543.5	562.5	546.4	554.6	561.4	564.3	569.6
34 Other	2,228.0	2,268.7	2,353.9	2,298.6	2,323.0	2,339.9	2,359.1	2,393.7
35 Supplement to wages and salaries	548.4	578.7	608.5	588.7	598.7	605.0	610.8	619.5
36 Employer contributions for social insurance	277.4	290.4	302.8	293.7	299.4	301.5	302.9	307.2
37 Other labor income	271.0	288.3	305.7	295.0	299.2	303.6	307.9	312.2
38 Proprietors' income[1]	366.9	368.0	404.6	377.9	393.6	398.4	397.4	428.9
39 Business and professional[1]	325.2	332.2	365.0	340.0	353.6	359.9	365.9	380.8
40 Farm[1]	41.7	35.8	39.6	37.9	40.1	38.5	31.5	48.1
41 Rental income of persons[2]	−12.3	−10.4	4.8	−6.6	−4.5	3.3	6.4	13.8
42 Corporate profits[1]	361.7	346.3	n.a.	347.1	384.0	388.4	374.1	n.a.
43 Profits before tax[3]	355.4	334.7	n.a.	332.3	366.1	376.8	354.1	n.a.
44 Inventory valuation adjustment	−14.2	3.1	−8.0	.7	−5.4	−15.5	−9.7	−1.6
45 Capital consumption adjustment	20.5	8.4	29.5	14.1	23.3	27.0	29.7	37.9
46 Net interest	460.7	449.5	n.a.	446.9	430.0	420.0	407.3	n.a.

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.
3. For after-tax profits, dividends, and the like, see table 1.48.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

2.17 PERSONAL INCOME AND SAVING

Billions of current dollars except as noted; quarterly data at seasonally adjusted annual rates

Account	1990	1991	1992[r]	1991	1992			
				Q4	Q1	Q2	Q3	Q4[r]
PERSONAL INCOME AND SAVING								
1 **Total personal income**	**4,664.2**	**4,828.3**	**5,058.0**	**4,907.2**	**4,980.5**	**5,028.9**	**5,062.0**	**5,160.6**
2 Wage and salary disbursements	2,742.8	2,812.2	2,917.9	2,845.0	2,877.6	2,901.3	2,923.5	2,969.3
3 Commodity-producing industries	745.6	737.4	743.0	741.5	736.8	743.1	742.4	749.7
4 Manufacturing	556.1	556.9	565.5	563.9	559.9	564.7	565.5	571.9
5 Distributive industries	634.6	647.4	666.9	652.9	660.9	662.9	667.7	676.1
6 Service industries	847.8	883.9	945.6	904.3	925.3	933.9	949.1	973.9
7 Government and government enterprises	514.8	543.6	562.5	546.4	554.6	561.4	564.3	569.6
8 Other labor income	271.0	288.3	305.7	295.0	299.2	303.6	307.9	312.2
9 Proprietors' income[1]	366.9	368.0	404.6	377.9	393.6	398.4	397.4	428.9
10 Business and professional[1]	325.2	332.2	365.0	340.0	353.6	359.9	365.9	380.8
11 Farm[1]	41.7	35.8	39.6	37.9	40.1	38.5	31.5	48.1
12 Rental income of persons[2]	−12.3	−10.4	4.8	−6.6	−4.5	3.3	6.4	13.8
13 Dividends	140.3	137.0	139.3	134.3	133.9	136.6	141.0	145.8
14 Personal interest income	694.5	700.6	670.2	703.3	684.8	675.2	663.2	657.7
15 Transfer payments	685.8	771.1	866.0	799.8	842.7	859.7	874.1	887.7
16 Old-age survivors, disability, and health insurance benefits	352.0	382.0	414.1	390.6	405.7	412.1	417.1	421.5
17 LESS: Personal contributions for social insurance	224.8	238.4	250.6	241.5	246.8	249.3	251.5	254.8
18 EQUALS: Personal income	4,664.2	4,828.3	5,058.0	4,907.2	4,980.5	5,028.9	5,062.0	5,160.6
19 LESS: Personal tax and nontax payments	621.3	618.7	627.2	622.3	619.6	617.1	628.8	643.5
20 EQUALS: Disposable personal income	4,042.9	4,209.6	4,430.7	4,284.9	4,360.9	4,411.8	4,433.2	4,517.0
21 LESS: Personal outlays	3,867.3	4,009.9	4,217.1	4,065.5	4,146.3	4,179.5	4,229.9	4,312.8
22 EQUALS: Personal saving	175.6	199.6	213.6	219.4	214.6	232.3	203.3	204.2
MEMO								
Per capita (1987 dollars)								
23 Gross domestic product	19,513.0	19,077.1	19,272.2	19,066.0	19,158.5	19,181.8	19,288.4	19,459.1
24 Personal consumption expenditures	13,043.6	12,824.1	12,972.0	12,802.6	12,930.2	12,893.3	12,973.3	13,089.8
25 Disposable personal income	14,068.0	13,886.0	14,036.0	13,913.0	14,017.0	14,021.0	13,998.0	14,108.0
26 Saving rate (percent)	4.3	4.7	4.8	5.1	4.9	5.3	4.6	4.5
GROSS SAVING								
27 **Gross saving**	**718.0**	**708.2**	n.a.	**698.2**	**677.5**	**682.9**	**696.9**	n.a.
28 Gross private saving	854.1	901.5	n.a.	934.8	950.1	968.1	992.1	n.a.
29 Personal saving	175.6	199.6	213.6	219.4	214.6	232.3	203.3	204.2
30 Undistributed corporate profits[1]	75.7	75.8	n.a.	78.3	104.0	97.7	91.2	n.a.
31 Corporate inventory valuation adjustment	−14.2	3.1	−8.0	.7	−5.4	−15.5	−9.7	−1.6
Capital consumption allowances								
32 Corporate	368.3	383.0	394.9	386.3	386.1	391.2	407.2	394.9
33 Noncorporate	234.6	243.1	258.5	250.7	245.3	247.0	290.4	251.2
34 Government surplus, or deficit (−), national income and product accounts	−136.1	−193.3	−279.8	−236.6	−272.6	−285.2	−295.2	n.a.
35 Federal	−166.2	−210.4	−295.2	−258.7	−289.2	−302.9	−304.4	n.a.
36 State and local	30.1	17.1	15.4	22.0	16.6	17.7	9.2	n.a.
37 **Gross investment**	**723.4**	**730.1**	**724.7**	**714.6**	**706.5**	**713.8**	**732.0**	**746.6**
38 Gross private domestic	799.5	721.1	770.9	736.1	722.4	773.2	781.6	806.4
39 Net foreign	−76.1	9.0	n.a.	−21.5	−16.0	−59.4	−49.6	n.a.
40 **Statistical discrepancy**	**5.4**	**21.9**	n.a.	**16.4**	**29.0**	**30.9**	**35.1**	n.a.

1. With inventory valuation and capital consumption adjustments.
2. With capital consumption adjustment.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

3.10 U.S. INTERNATIONAL TRANSACTIONS Summary

Millions of dollars; quarterly data seasonally adjusted except as noted[1]

Item	1990	1991	1992	1991	1992			
				Q4	Q1	Q2	Q3[r]	Q4[p]
1 Balance on current account	-90,428	-3,682	-62,448	-7,218	-6,374[r]	-18,279[r]	-15,771	-22,020
2 Merchandise trade balance[2]	-108,853	-73,436	-96,275	-18,539	-17,663[r]	-25,004[r]	-27,634	-25,974
3 Merchandise exports	388,705	415,962	439,272	107,851	107,634[r]	107,148[r]	110,119	114,371
4 Merchandise imports	-497,558	-489,398	-535,547	-126,390	-125,297[r]	-132,152[r]	-137,753	-140,345
5 Military transactions, net	-7,818	-5,524	-2,503	-540	-624	-623	-579	-677
6 Other service transactions, net	39,873	50,821	57,628	13,676	14,450[r]	13,242[r]	16,315	13,625
7 Investment income, net	19,287	16,429	10,062	2,458	4,394[r]	1,851[r]	2,977	839
8 U.S. government grants	-17,597	24,487	-13,832	78	-2,620	-3,085	-2,521	-5,605
9 U.S. government pensions and other transfers	-2,945	-3,462	-3,736	-1,080	-830[r]	-1,119[r]	-941	-846
10 Private remittances and other transfers	-12,374	-12,996	-13,793	-3,271	-3,481[r]	-3,541[r]	-3,388	-3,382
11 Change in U.S. government assets other than official reserve assets, net (increase, −)	2,304	3,397	-959	-437	-38	-277	-301	-344
12 Change in U.S. official reserve assets (increase, −)	-2,158	5,763	3,901	1,225	-1,057	1,464	1,952	1,542
13 Gold	0	0	0	0	0	0	0	0
14 Special drawing rights (SDRs)	-192	-177	2,316	-23	-172	-168	-173	2,829
15 Reserve position in International Monetary Fund	731	-367	-2,692	17	111	1	-118	-2,685
16 Foreign currencies	-2,697	6,307	4,277	1,232	-996	1,631	2,243	1,398
17 Change in U.S. private assets abroad (increase, −)	-56,467	-71,379	-47,843	-44,947	-3,614[r]	-1,610[r]	-22,892	-19,726
18 Bank-reported claims[3]	7,469	-4,753	32,372	-23,219	15,859	10,943	-1,274	6,844
19 Nonbank-reported claims	-2,477	5,526	3,742	1,269	4,764	3,137	-4,159	...
20 U.S. purchases of foreign securities, net	-28,765	-45,017	-48,646	-11,305	-8,703	-8,221	-13,934	-17,788
21 U.S. direct investments abroad, net	-32,694	-27,135	-35,311	-11,692	-15,534[r]	-7,469[r]	-3,525	-8,782
22 Change in foreign official assets in United States (increase, +)	33,908	18,407	40,307	12,819	21,192	20,895	-7,269	5,489
23 U.S. Treasury securities	29,576	15,815	18,333	12,619	14,909	11,126	-323	-7,379
24 Other U.S. government obligations	667	1,301	4,025	1,075	540	1,699	912	874
25 Other U.S. government liabilities[4]	1,866	1,600	2,469	-344	96	598	929	846
26 Other U.S. liabilities reported by U.S. banks[3]	3,385	-1,668	16,168	-914	5,534	7,547	-7,787	10,874
27 Other foreign official assets[5]	-1,586	1,359	-688	383	113	-75	-1,000	274
28 Change in foreign private assets in United States (increase, +)	65,471	48,573	80,093	36,110	-2,577[r]	26,571[r]	29,246	26,854
29 U.S. bank-reported liabilities[3]	16,370	-13,678	14,667	23,465	-4,474	-551	22,905	-3,213
30 U.S. nonbank-reported liabilities	4,906	-405	4,413	725	1,942	1,141	1,330	...
31 Foreign private purchases of U.S. Treasury securities, net	-2,534	16,241	35,077	1,408	-828	10,286	4,870	20,749
32 Foreign purchases of other U.S. securities, net	1,592	34,918	29,884	4,832	4,551	10,333	2,693	12,307
33 Foreign direct investments in United States, net	45,137	11,498	-3,948	5,680	-3,768[r]	5,362[r]	-2,552	-2,989
34 Allocation of special drawing rights	0	0	0	0	0	0	0	0
35 Discrepancy	47,370	-1,078	-13,052	2,447	-7,532[r]	-28,764[r]	15,035	8,205
36 Due to seasonal adjustment	...	...	...	613	4,901[r]	1,296[r]	-6,640	439
37 Before seasonal adjustment	47,370	-1,078	-13,051	1,835	-12,433	-30,060	21,675	7,767
MEMO *Changes in official assets*								
38 U.S. official reserve assets (increase, −)	-2,158	5,763	3,901	1,225	-1,057	1,464	1,952	1,542
39 Foreign official assets in United States, excluding line 25 (increase, +)	32,042	16,807	37,838	13,163	21,096	20,297	-8,198	4,643
40 Change in Organization of Petroleum Exporting Countries official assets in United States (part of line 22)	1,707	-5,604	5,402	1,023	2,459	-2,125	3,062	2,006

1. Seasonal factors not calculated for lines 12–16, 18–20, 22–34, and 38–40.
2. Data are on an international accounts basis. The data differ from the Census basis data, shown in table 3.11, for reasons of coverage and timing. Military exports are excluded from merchandise trade data and are included in line 6.
3. Reporting banks include all types of depository institution as well as some brokers and dealers.
4. Associated primarily with military sales contracts and other transactions arranged with or through foreign official agencies.
5. Consists of investments in U.S. corporate stocks and in debt securities of private corporations and state and local governments.

SOURCE. U.S. Department of Commerce, *Survey of Current Business*.

3.11 U.S. FOREIGN TRADE[1]

Millions of dollars; monthly data seasonally adjusted

Item	1990	1991	1992	1992						1993
				July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.[p]
1 Exports of domestic and foreign merchandise, excluding grant-aid shipments	393,592	421,730	448,115	37,806	35,799	37,882	39,072	38,187	39,671	37,008
2 General imports including merchandise for immediate consumption plus entries into bonded warehouses	495,311	487,129	532,380	45,170	44,974	46,551	46,324	45,535	46,562	44,311
3 **Trade balance**	**−101,718**	**−65,399**	**−84,265**	**−7,364**	**−9,174**	**−8,669**	**−7,252**	**−7,348**	**−6,891**	**−7,303**

1. Government and nongovernment shipments of merchandise between foreign countries and the fifty states, including the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and U.S. Foreign Trade Zones. Data exclude (1) shipments among the United States, Puerto Rico, the U.S. Virgin Islands, and other U.S. affiliated insular areas, (2) shipments to U.S. Armed Forces and diplomatic missions abroad for their own use, (3) U.S. goods returned to the United States by its Armed Forces, (4) personal and household effects of travelers, and (5) in-transit shipments. Data reflect the total arrival of merchandise from foreign countries that immediately entered consumption channels, warehouses, or U.S. Foreign Trade Zones (general imports). Import data are Customs value; export data are F.A.S. value. Beginning in 1990, data for U.S. exports to Canada are derived from import data compiled by Canada; similarly, in Canadian statistics, Canadian exports to the United States are derived from import data compiled by the United States. Since Jan. 1, 1987, merchandise trade data have been released forty-five days after the end of the month; the previous month is revised to reflect late documents.

Data in this table differ from figures for merchandise trade shown in the U.S. balance of payments accounts (table 3.10, lines 2 to 4) primarily for reasons of coverage. For both exports and imports a large part of the difference is the treatment of military sales and purchases. The military sales to foreigners (exports) and purchases from foreigners (imports) that are included in this table as merchandise trade are shifted, in the balance of payments accounts, from "merchandise trade" into the broader category "military transactions."

SOURCE. FT900, *U.S. Merchandise Trade*, (U.S. Department of Commerce, Bureau of the Census).

3.12 U.S. RESERVE ASSETS

Millions of dollars, end of period

Asset	1989	1990	1991	1992					1993	
				Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.	Feb.[p]
1 **Total**	**74,609**	**83,316**	**77,719**	**78,474**	**78,527**	**74,207**	**72,231**	**71,323**	**71,962**	**72,847**
2 Gold stock, including Exchange Stabilization Fund[1]	11,059	11,058	11,057	11,059	11,059	11,060	11,059	11,056	11,055	11,055
3 Special drawing rights[2,3]	9,951	10,989	11,240	12,193	12,111	11,561	11,495	8,503	8,546	8,651
4 Reserve position in International Monetary Fund[2]	9,048	9,076	9,488	9,762	9,778	9,261	8,781	11,759	12,079	12,021
5 Foreign currencies[4]	44,551	52,193	45,934	45,460	45,579	42,325	40,896	40,005	40,282	41,120

1. Gold held "under earmark" at Federal Reserve Banks for foreign and international accounts is not included in the gold stock of the United States; see table 3.13, line 3. Gold stock is valued at $42.22 per fine troy ounce.

2. Special drawing rights (SDRs) are valued according to a technique adopted by the International Monetary Fund (IMF) in July 1974. Values are based on a weighted average of exchange rates for the currencies of member countries. From July 1974 through December 1980, 16 currencies were used; since January 1981, 5 currencies have been used. U.S. SDR holdings and reserve positions in the IMF also have been valued on this basis since July 1974.

3. Includes allocations of SDRs by the International Monetary Fund on Jan. 1 of the year indicated, as follows: 1970—$867 million; 1971—$717 million; 1972—$710 million; 1979—$1,139 million; 1980—$1,152 million; 1981—$1,093 million; plus net transactions in SDRs.

4. Valued at current market exchange rates.

3.13 FOREIGN OFFICIAL ASSETS HELD AT FEDERAL RESERVE BANKS[1]

Millions of dollars, end of period

Asset	1989	1990	1991	1992					1993	
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.[p]
1 Deposits	589	369	968	297	546	415	229	205	325	296
Held in custody										
2 U.S. Treasury securities[2]	224,911	278,499	281,107	318,328	306,971	311,538	308,959	314,481	324,356	329,183
3 Earmarked gold[3]	13,456	13,387	13,303	13,261	13,241	13,201	13,192	13,686	13,077	13,074

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 at face value in dollars or foreign currencies.

3. Held for foreign and international accounts and valued at $42.22 per fine troy ounce; 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

Account	1989	1990	1991	1992						1993
				July	Aug.[r]	Sept.[r]	Oct.[r]	Nov.	Dec.	Jan.
ASSETS	All foreign countries									
1 **Total payable in any currency**	**545,366**	**556,925**	**548,901**	**537,690[r]**	**544,887**	**545,388**	**554,253**	**566,721[r]**	**542,206[r]**	**543,760**
2 Claims on United States	198,835	188,496	176,301	171,977[r]	163,103	167,419	174,986	177,443[r]	166,752[r]	169,278
3 Parent bank	157,092	148,837	137,509	136,287	128,267	134,119	138,940	141,542[r]	132,229[r]	134,217
4 Other banks in United States	17,042	13,296	12,884	9,576	9,181	8,083	10,683	10,019[r]	9,703[r]	9,571
5 Nonbanks	24,701	26,363	25,908	26,114[r]	25,655	25,217	25,363	25,882	24,820[r]	25,490
6 Claims on foreigners	300,575	312,449	303,934	311,746[r]	321,707	320,111	319,139	328,592[r]	318,074[r]	314,737
7 Other branches of parent bank	113,810	135,003	111,729	112,177	116,604	118,952	115,521	125,143	123,253[r]	116,325
8 Banks	90,703	72,602	81,970	85,142[r]	87,347	83,756	86,560	86,086[r]	82,199[r]	81,811
9 Public borrowers	16,456	17,555	18,652	19,670[r]	20,450	20,511	20,809	20,378	20,727	19,984
10 Nonbank foreigners	79,606	87,289	91,583	94,757[r]	97,306	96,892	96,249	96,985	91,895	96,617
11 Other assets	45,956	55,980	68,666	53,967[r]	60,077	57,858	60,128	60,686[r]	57,380[r]	59,745
12 **Total payable in U.S. dollars**	**382,498**	**379,479**	**363,941**	**349,330[r]**	**341,109**	**347,181**	**364,080**	**374,398[r]**	**365,764[r]**	**353,564**
13 Claims on United States	191,184	180,174	169,662	166,573[r]	157,469	161,463	169,290	171,938[r]	162,079[r]	164,681
14 Parent bank	152,294	142,962	133,476	133,120	124,737	130,446	136,156	138,424[r]	129,283[r]	131,553
15 Other banks in United States	16,386	12,513	12,025	9,135	8,876	7,476	9,360	9,291[r]	9,266[r]	9,214
16 Nonbanks	22,504	24,699	24,161	24,318[r]	23,856	23,541	23,774	24,223	23,530[r]	23,914
17 Claims on foreigners	169,690	174,451	167,010	163,008[r]	161,663	166,762	173,457	182,347[r]	183,565[r]	171,041
18 Other branches of parent bank	82,949	95,298	78,114	72,250	70,689	72,348	76,098	83,902	83,128[r]	77,606
19 Banks	48,396	36,440	41,635	41,718	40,350	42,274	45,436	45,931[r]	47,250[r]	41,450
20 Public borrowers	10,961	12,298	13,685	13,343[r]	13,686	13,990	13,966	13,995	14,313	13,883
21 Nonbank foreigners	27,384	30,415	33,576	35,697[r]	36,938	38,150	37,957	38,519	38,874	38,102
22 Other assets	21,624	24,854	27,269	19,749[r]	21,977	18,956	21,333	20,113[r]	20,120[r]	17,842
	United Kingdom									
23 **Total payable in any currency**	**161,947**	**184,818**	**175,599**	**159,241[r]**	**165,754**	**161,966**	**168,063**	**168,333**	**165,591**	**164,360**
24 Claims on United States	39,212	45,560	35,257	38,763	37,511	35,891	39,558	38,358	36,403	37,609
25 Parent bank	35,847	42,413	31,931	35,542	34,593	32,929	36,413	35,027	33,460[r]	34,290
26 Other banks in United States	1,058	792	1,267	1,065	744	1,067	1,400	925	1,298[r]	886
27 Nonbanks	2,307	2,355	2,059	2,156	2,174	1,895	1,745	2,406	1,645	2,433
28 Claims on foreigners	107,657	115,536	109,692	105,990	108,895	107,675	109,919	113,193	111,623	108,362
29 Other branches of parent bank	37,728	46,367	35,735	35,359	37,732	38,894	40,594	45,092	46,165	42,894
30 Banks	36,159	31,604	36,394	36,777	37,711	36,039	36,701	34,559	33,399	33,513
31 Public borrowers	3,293	3,860	3,306	3,128	3,046	3,371	3,692	3,370	3,329	3,059
32 Nonbank foreigners	30,477	33,705	34,257	30,726	30,406	29,371	28,932	30,172	28,730	28,896
33 Other assets	15,078	23,722	30,650	14,488[r]	19,348	18,400	18,586	16,782	17,565	18,389
34 **Total payable in U.S. dollars**	**103,208**	**116,762**	**105,974**	**98,779[r]**	**99,661**	**100,664**	**107,342**	**109,479**	**109,449**	**101,209**
35 Claims on United States	36,404	41,259	32,418	36,133	34,948	33,618	37,359	35,956	34,508	35,481
36 Parent bank	34,329	39,609	30,370	33,936	32,786	31,578	35,299	33,765	32,186[r]	33,070
37 Other banks in United States	843	334	822	785	625	711	769	438	1,022[r]	684
38 Nonbanks	1,232	1,316	1,226	1,412	1,537	1,329	1,291	1,753	1,300	1,727
39 Claims on foreigners	59,062	63,701	58,791	56,264	55,812	59,338	61,658	65,164	66,335	59,339
40 Other branches of parent bank	29,872	37,142	28,667	26,751	26,825	28,225	30,217	34,434	34,124	30,823
41 Banks	16,579	13,135	15,219	15,930	15,565	16,800	17,269	16,848	17,089	14,150
42 Public borrowers	2,371	3,143	2,853	2,653	2,353	2,604	2,515	2,501	2,349	2,154
43 Nonbank foreigners	10,240	10,281	12,052	10,930	11,069	11,709	11,657	11,381	12,773	12,212
44 Other assets	7,742	11,802	14,765	6,382[r]	8,901	7,708	8,325	8,359	8,606	6,389
	Bahamas and Cayman Islands									
45 **Total payable in any currency**	**176,006**	**162,316**	**168,326**	**153,928[r]**	**144,327**	**145,786**	**154,293**	**156,176[r]**	**147,422[r]**	**144,894**
46 Claims on United States	124,205	112,989	115,244	102,916[r]	94,659	96,911	102,726	104,245[r]	96,280[r]	96,976
47 Parent bank	87,882	77,873	81,520	72,107	64,454	68,309	72,207	73,856[r]	66,608[r]	67,219
48 Other banks in United States	15,071	11,869	10,907	8,045	8,060	6,562	8,199	8,282[r]	7,828[r]	7,962
49 Nonbanks	21,252	23,247	22,817	22,764[r]	22,145	22,040	22,320	22,107	21,844	21,795
50 Claims on foreigners	44,168	41,356	45,229	42,054[r]	41,486	41,884	42,844	44,156[r]	44,509[r]	41,185
51 Other branches of parent bank	11,309	13,416	11,098	8,678	8,596	7,753	7,287	8,238	7,293	7,041
52 Banks	22,611	16,310	20,174	18,838[r]	17,570	18,412	19,840	20,122[r]	21,212[r]	18,464
53 Public borrowers	5,217	5,807	7,161	6,753[r]	7,152	7,128	7,146	7,209	7,786	7,564
54 Nonbank foreigners	5,031	5,823	6,796	7,785[r]	8,168	8,591	8,571	8,587	8,218	8,116
55 Other assets	7,633	7,971	7,853	8,958[r]	8,182	6,991	8,723	7,775[r]	6,633[r]	6,733
56 **Total payable in U.S. dollars**	**170,780**	**158,390**	**163,771**	**148,139[r]**	**138,584**	**140,104**	**149,304**	**151,436[r]**	**142,861[r]**	**140,332**

1. Since June 1984, 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 FOREIGN BRANCHES OF U.S. BANKS Balance Sheet Data[1]—Continued

Account	1989	1990	1991	1992						1993
				July	Aug.[r]	Sept.[r]	Oct.[r]	Nov.	Dec.	Jan.
LIABILITIES	All foreign countries									
57 **Total payable in any currency**	**545,366**	**556,925**	**548,901**	**537,690[r]**	**544,887**	**545,388**	**554,253**	**566,721[r]**	**542,206[r]**	**543,760**
58 Negotiable certificates of deposit (CDs)	23,500	18,060	16,284	12,758	14,246	12,389	12,056	12,342	10,032	12,320
59 To United States	197,239	189,412	198,121	192,319[r]	179,476	185,380	188,979	188,004[r]	189,263[r]	176,112
60 Parent bank	138,412	138,748	136,431	133,212[r]	126,976	127,573	132,999	131,806[r]	134,158[r]	122,512
61 Other banks in United States	11,704	7,463	13,260	11,833	10,971	12,408	12,281	13,392[r]	12,182[r]	12,829
62 Nonbanks	47,123	43,201	48,430	47,274[r]	41,529	45,399	43,699	42,806[r]	42,923[r]	40,771
63 To foreigners	296,850	311,668	288,254	301,948[r]	314,823	312,390	315,400	330,314	309,496[r]	321,052
64 Other branches of parent bank	119,591	139,113	112,033	114,226	120,509	120,714	118,001	126,018	125,144	119,903
65 Banks	76,452	58,986	63,097	65,422[r]	68,522	68,493	70,439	74,536	62,185[r]	68,118
66 Official institutions	16,750	14,791	15,596	18,058	18,237	16,720	20,572	20,645	19,730	23,655
67 Nonbank foreigners	84,057	98,778	97,528	104,242[r]	107,555	106,463	106,388	109,115	102,437	109,376
68 Other liabilities	27,777	37,785	46,242	30,665[r]	36,342	35,229	37,818	36,061	33,415	34,276
69 **Total payable in U.S. dollars**	**396,613**	**383,522**	**370,561**	**354,497[r]**	**346,223**	**346,581**	**364,969**	**372,320[r]**	**368,212[r]**	**353,450**
70 Negotiable CDs	19,619	14,094	11,909	8,531	8,755	7,628	6,710	7,503	6,238	7,102
71 To United States	187,286	175,654	185,286	179,627[r]	166,609	171,086	176,013	175,857[r]	178,562[r]	164,595
72 Parent bank	132,563	130,510	129,669	125,808[r]	119,521	119,714	125,491	124,658[r]	127,836[r]	115,894
73 Other banks in United States	10,519	6,052	11,707	10,816	9,866	11,117	11,409	12,246[r]	11,512[r]	11,710
74 Nonbanks	44,204	39,092	43,910	43,003[r]	37,222	40,255	39,113	38,953[r]	39,214[r]	36,991
75 To foreigners	176,460	179,002	158,993	155,355[r]	157,482	155,266	165,960	175,293	171,624	169,077
76 Other branches of parent bank	87,636	98,128	76,601	73,699	74,060	73,208	77,197	82,957	83,700	78,869
77 Banks	30,537	20,251	24,156	22,956[r]	22,973	22,822	25,210	28,404	26,118	23,556
78 Official institutions	9,873	7,921	10,304	11,543	10,713	9,939	12,097	12,342	12,430	14,094
79 Nonbank foreigners	48,414	52,702	47,932	47,157[r]	49,736	49,297	51,456	51,590	49,376	52,558
80 Other liabilities	13,248	14,772	14,373	10,984[r]	13,377	12,601	16,286	13,667	11,788	12,676
	United Kingdom									
81 **Total payable in any currency**	**161,947**	**184,818**	**175,599**	**159,241[r]**	**165,754**	**161,966**	**168,063**	**168,333**	**165,591**	**164,360**
82 Negotiable CDs	20,056	14,256	11,333	7,731	8,083	7,266	6,064	5,636	4,517	5,774
83 To United States	36,036	39,928	37,720	37,164	35,527	35,885	35,399	34,532	39,174[r]	33,028
84 Parent bank	29,726	31,806	29,834	29,104	27,695	27,528	27,427	26,471	31,100[r]	25,098
85 Other banks in United States	1,256	1,505	1,438	1,315	1,632	1,670	1,341	1,689	1,065	1,742
86 Nonbanks	5,054	6,617	6,448	6,745	6,200	6,687	6,631	6,372	7,009[r]	6,188
87 To foreigners	92,307	108,531	98,167	100,738	104,892	101,999	109,358	113,395	107,176[r]	111,103
88 Other branches of parent bank	27,397	36,709	30,054	30,205	31,234	30,756	33,696	35,560	35,983	35,376
89 Banks	29,780	25,126	25,541	25,155	26,435	25,823	28,792	30,609	25,231[r]	25,965
90 Official institutions	8,551	8,361	9,670	11,091	10,699	9,131	11,687	11,438	12,090	14,188
91 Nonbank foreigners	26,579	38,335	32,902	34,287	36,524	36,289	35,183	35,788	33,872	35,574
92 Other liabilities	13,548	22,103	28,379	13,608[r]	17,252	16,816	17,242	14,770	14,724	14,455
93 **Total payable in U.S. dollars**	**108,178**	**116,094**	**108,755**	**97,161[r]**	**98,698**	**95,652**	**104,521**	**105,699**	**108,170[r]**	**100,731**
94 Negotiable CDs	18,143	12,710	10,076	6,139	5,890	5,689	4,213	4,494	3,894	4,770
95 To United States	33,056	34,697	33,003	32,178	30,357	30,330	31,266	30,204	35,417[r]	28,619
96 Parent bank	28,812	29,955	28,260	27,351	25,873	25,700	26,021	25,160	29,957[r]	23,766
97 Other banks in United States	1,065	1,156	1,177	857	1,088	992	866	906	709	1,063
98 Nonbanks	3,179	3,586	3,566	3,970	3,396	3,638	4,379	4,138	4,751[r]	3,790
99 To foreigners	50,517	60,014	56,626	52,894	54,381	51,916	59,938	62,899	62,048	60,033
100 Other branches of parent bank	18,384	25,957	20,800	18,634	18,983	17,986	22,080	22,896	22,026	20,807
101 Banks	12,244	9,488	11,069	9,399	9,289	9,112	10,956	13,050	12,540	9,740
102 Official institutions	5,454	4,692	7,156	7,808	6,956	6,156	8,142	8,459	8,847	10,114
103 Nonbank foreigners	14,435	19,877	17,601	17,053	19,153	18,662	18,760	18,494	18,635	19,372
104 Other liabilities	6,462	8,673	9,050	5,950[r]	8,070	7,717	9,104	8,102	6,811	7,309
	Bahamas and Cayman Islands									
105 **Total payable in any currency**	**176,006**	**162,316**	**168,326**	**153,928[r]**	**144,327**	**145,786**	**154,293**	**156,176[r]**	**147,422[r]**	**144,894**
106 Negotiable CDs	678	646	1,173	1,330	1,814	872	1,394	1,939	1,350	1,355
107 To United States	124,859	114,738	129,872	115,821[r]	106,049	109,296	114,327	116,587[r]	111,749[r]	108,037
108 Parent bank	75,188	74,941	79,394	67,517[r]	64,190	63,057	69,537	71,269[r]	67,235[r]	65,009
109 Other banks in United States	8,883	4,526	10,231	9,641	8,522	9,801	10,303	10,944[r]	10,445[r]	10,265
110 Nonbanks	40,788	35,271	40,247	38,663[r]	33,337	36,438	34,487	34,374[r]	34,069[r]	32,763
111 To foreigners	47,382	44,444	35,200	35,141[r]	34,883	34,060	34,896	35,411	32,556	33,766
112 Other branches of parent bank	23,414	24,715	17,388	17,668	17,315	16,071	15,441	16,287	15,169	15,411
113 Banks	8,823	5,588	5,662	6,393[r]	6,244	6,788	6,988	7,574	6,422	6,350
114 Official institutions	1,097	622	572	862	935	984	1,058	932	805	932
115 Nonbank foreigners	14,048	13,519	11,578	10,218[r]	10,389	10,217	11,409	10,618	10,160	11,073
116 Other liabilities	3,087	2,488	2,081	1,636	1,581	1,558	3,676	2,239	1,767	1,736
117 **Total payable in U.S. dollars**	**171,250**	**157,132**	**163,603**	**148,979[r]**	**139,100**	**140,298**	**149,320**	**151,527[r]**	**143,150[r]**	**140,734**

3.15 SELECTED U.S. LIABILITIES TO FOREIGN OFFICIAL INSTITUTIONS

Millions of dollars, end of period

Item	1990	1991	1992						1993
			July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.[p]
1 **Total**[1]	**344,529**	**360,530**	**404,162**	**406,671**	**393,758**	**405,385**	**394,940[r]**	**398,340**	**411,617**
By type									
2 Liabilities reported by banks in the United States[2]	39,880	38,396	48,879	52,078	43,675	60,853	54,102[r]	54,493	63,603
3 U.S. Treasury bills and certificates[3]	79,424	92,692	114,781	113,307	113,634	104,286	100,702	104,598	111,540
U.S. Treasury bonds and notes									
4 Marketable	202,487	203,677	212,710	213,407	208,924	211,875	211,272	210,549	207,578
5 Nonmarketable[4]	4,491	4,858	4,582	4,476	4,505	4,473	4,503	4,532	4,562
6 U.S. securities other than U.S. Treasury securities[5]	18,247	20,907	23,210	23,403	23,020	23,898	24,361	24,168	24,334
By area									
7 Western Europe[1]	167,191	168,365	194,465	196,061	186,434	194,611	184,307[r]	188,684	196,107
8 Canada	8,671	7,460	9,876	9,990	7,027	8,111	6,381	7,870	8,361
9 Latin America and Caribbean	21,184	33,554	39,146	38,356	37,703	38,538	38,945[r]	39,770	41,371
10 Asia	138,096	139,465	150,043	151,785	151,667	153,555	154,493	152,148	156,211
11 Africa	1,434	2,092	3,218	2,860	3,360	3,481	3,779	3,565	3,705
12 Other countries[6]	7,955	9,592	7,412	7,617	7,565	7,087	7,033	6,301	5,860

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; zero coupon bonds are included at current value.
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.

SOURCE. 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 and on the 1984 benchmark survey of foreign portfolio investment in the United States.

3.16 LIABILITIES TO, AND CLAIMS ON, FOREIGNERS Reported by Banks in the United States[1] Payable in Foreign Currencies

Millions of dollars, end of period

Item	1989	1990	1991	1992			
				Mar.	June	Sept.	Dec.
1 Banks' liabilities	67,835	70,477	75,129	68,071	70,842	85,723[r]	73,047
2 Banks' claims	65,127	66,796	73,195	60,435	58,262	73,174	62,654
3 Deposits	20,491	29,672	26,192	23,270	23,462	29,412	24,048
4 Other claims	44,636	37,124	47,003	37,165	34,800	43,762	38,606
5 Claims of banks' domestic customers[2]	3,507	6,309	3,398	2,962	4,375	3,908	4,432

1. Data on claims exclude foreign currencies held by U.S. monetary authorities.
2. Assets owned by customers of the reporting bank located in the United States that represent claims on foreigners held by reporting banks for the accounts of the domestic customers.

3.17 LIABILITIES TO FOREIGNERS Reported by Banks in the United States[1]
Payable in U.S. dollars

Millions of dollars, end of period

Item	1990	1991	1992[r]	1992						1993
				July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.[p]
HOLDER AND TYPE OF LIABILITY										
1 **Total, all foreigners**	**759,634**	**756,066**	**806,498**	**777,058**	**768,819**	**793,159**	**793,149**	**799,455[r]**	**806,498**	**800,972**
2 Banks' own liabilities	577,229	575,374	602,780	571,516	564,071	585,806	590,768	601,022[r]	602,780	591,590
3 Demand deposits	21,723	20,321	21,627	19,739	21,698	22,474	21,288	21,918[r]	21,627	21,105
4 Time deposits[2]	168,017	159,649	160,756	148,254	144,119	143,768	158,180	157,418[r]	160,756	151,010
5 Other[3]	65,822	66,305	93,463	82,953	86,611	82,484	91,673	95,659[r]	93,463	102,714
6 Own foreign offices[4]	321,667	329,099	326,934	320,570	311,643	337,080	319,627	326,027[r]	326,934	316,761
7 Banks' custodial liabilities[5]	182,405	180,692	203,718	205,542	204,748	207,353	202,381	198,433	203,718	209,382
8 U.S. Treasury bills and certificates[6]	96,796	110,734	127,652	135,579	135,744	134,894	127,993	122,480	127,652	133,842
9 Other negotiable and readily transferable instruments[7]	17,578	18,664	21,974	19,339	18,541	19,341	19,954	21,699	21,974	22,924
10 Other	68,031	51,294	54,092	50,624	50,463	53,118	54,434	54,254	54,092	52,616
11 Nonmonetary international and regional organizations[8]	5,918	8,981	9,354	11,321	12,874	10,810	10,736	9,754[r]	9,354	10,730
12 Banks' own liabilities	4,540	6,827	6,955	8,192	9,767	8,173	7,010	6,821[r]	6,955	7,468
13 Demand deposits	36	43	46	24	21	24	73	58	46	39
14 Time deposits[2]	1,050	2,714	3,328	3,008	2,630	2,527	1,908	2,570	3,328	2,631
15 Other[3]	3,455	4,070	3,581	5,160	7,116	5,622	5,029	4,193[r]	3,581	4,798
16 Banks' custodial liabilities[5]	1,378	2,154	2,399	3,129	3,107	2,637	3,726	2,933	2,399	3,262
17 U.S. Treasury bills and certificates[6]	364	1,730	1,908	2,602	2,654	1,991	3,085	2,371	1,908	2,774
18 Other negotiable and readily transferable instruments[7]	1,014	424	486	527	453	646	641	561	486	488
19 Other	0	0	5	0	0	0	0	1	5	0
20 Official institutions[9]	119,303	131,088	159,091	163,660	165,385	157,309	165,139	154,804[r]	159,091	175,143
21 Banks' own liabilities	34,910	34,411	50,728	45,334	48,526	40,524	57,145	50,122[r]	50,728	59,388
22 Demand deposits	1,924	2,626	1,274	1,372	1,676	1,761	1,723	1,492	1,274	1,396
23 Time deposits[2]	14,359	16,504	17,528	18,129	18,098	16,238	19,703	17,934[r]	17,528	18,726
24 Other[3]	18,628	15,281	31,926	25,833	28,752	22,525	35,719	30,696[r]	31,926	39,266
25 Banks' custodial liabilities[5]	84,393	96,677	108,363	118,326	116,859	116,785	107,994	104,682	108,363	115,755
26 U.S. Treasury bills and certificates[6]	79,424	92,692	104,598	114,781	113,307	113,634	104,286	100,702	104,598	111,540
27 Other negotiable and readily transferable instruments[7]	4,766	3,879	3,726	3,459	3,466	2,922	3,595	3,784	3,726	4,054
28 Other	203	106	39	86	86	229	113	196	39	161
29 Banks[10]	540,805	522,265	543,338	514,526	501,804	536,759	525,448	544,396[r]	543,338	521,815
30 Banks' own liabilities	458,470	459,335	472,221	448,210	435,147	466,796	454,496	473,449[r]	472,221	453,133
31 Unaffiliated foreign banks	136,802	130,236	145,287	127,640	123,504	129,716	134,869	147,422[r]	145,287	136,372
32 Demand deposits	10,053	8,648	10,033	8,442	9,851	10,443	9,741	10,088	10,033	9,920
33 Time deposits[2]	88,541	82,857	90,780	77,229	73,175	74,447	86,312	88,187	90,780	81,373
34 Other[3]	38,208	38,731	44,474	41,969	40,478	44,826	38,816	49,147[r]	44,474	45,079
35 Own foreign offices[4]	321,667	329,099	326,934	320,570	311,643	337,080	319,627	326,027[r]	326,934	316,761
36 Banks' custodial liabilities[5]	82,335	62,930	71,117	66,316	66,657	69,963	70,952	70,947	71,117	68,682
37 U.S. Treasury bills and certificates[6]	10,669	7,471	11,087	9,444	10,429	10,905	10,481	10,444	11,087	9,641
38 Other negotiable and readily transferable instruments[7]	5,341	5,694	7,561	7,129	6,920	7,373	7,276	7,516	7,561	7,661
39 Other	66,325	49,765	52,469	49,743	49,308	51,685	53,195	52,987	52,469	51,380
40 Other foreigners	93,608	93,732	94,715	87,551	88,756	88,281	91,826	90,501[r]	94,715	93,284
41 Banks' own liabilities	79,309	74,801	72,876	69,780	70,631	70,313	72,117	70,630[r]	72,876	71,601
42 Demand deposits	9,711	9,004	10,274	9,901	10,150	10,246	9,751	10,280[r]	10,274	9,750
43 Time deposits[2]	64,067	57,574	49,120	49,888	50,216	50,556	50,257	48,727[r]	49,120	48,280
44 Other[3]	5,530	8,223	13,482	9,991	10,265	9,511	12,109	11,623[r]	13,482	13,571
45 Banks' custodial liabilities[5]	14,299	18,931	21,839	17,771	18,125	17,968	19,709	19,871	21,839	21,683
46 U.S. Treasury bills and certificates[6]	6,339	8,841	10,059	8,752	9,354	8,364	10,141	8,963	10,059	9,887
47 Other negotiable and readily transferable instruments[7]	6,457	8,667	10,201	8,224	7,702	8,400	8,442	9,838	10,201	10,721
48 Other	1,503	1,423	1,579	795	1,069	1,204	1,126	1,070	1,579	1,075
MEMO										
49 Negotiable time certificates of deposit in custody for foreigners	7,073	7,456	9,114	6,976	7,279	7,452	7,672	7,716	9,114	9,724

1. Reporting banks include all types of depository institution, 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. For U.S. banks, includes amounts due to own foreign branches and foreign subsidiaries consolidated in Consolidated Report of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of 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, the Inter-American Development Bank, and the Asian Development Bank. Excludes "holdings of dollars" of the International Monetary Fund.
9. Foreign central banks, foreign central governments, and the Bank for International Settlements.
10. Excludes central banks, which are included in "Official institutions."

3.17—Continued

Item	1990	1991	1992[r]	1992 July	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.[r]	1993 Jan.[p]
AREA										
1 **Total, all foreigners**	**759,634**	**756,066**	**806,498**	**777,058**	**768,819**	**793,159**	**793,149**	**799,455[r]**	**806,498**	**800,972**
2 **Foreign countries**	**753,716**	**747,085**	**797,144**	**765,737**	**755,945**	**782,349**	**782,413**	**789,701[r]**	**797,144**	**790,242**
3 Europe	254,452	249,097	308,400	283,144	289,388	290,344	306,499	311,864[r]	308,400	303,723
4 Austria	1,229	1,193	1,614	1,445	1,427	1,456	1,584	1,358	1,614	1,158
5 Belgium and Luxembourg	12,382	13,337	20,578	16,797	18,449	17,942	21,177	19,662[r]	20,578	21,255
6 Denmark	1,399	937	3,059	1,348	1,329	1,760	1,788	1,481	3,059	1,885
7 Finland	602	1,341	1,300	720	976	685	949	1,144	1,300	1,862
8 France	30,946	31,808	41,452	28,900	29,456	32,153	34,876	39,963	41,452	34,285
9 Germany	7,485	8,619	18,618	8,967	11,032	14,739	13,810	15,401	18,618	20,764
10 Greece	934	765	910	998	934	1,069	872	749	910	815
11 Italy	17,735	13,541	10,038	10,164	10,992	12,236	11,104	12,494	10,038	8,750
12 Netherlands	5,350	7,161	7,375	9,653	10,422	10,397	9,334	8,411	7,375	8,731
13 Norway	2,357	1,866	3,319	1,421	1,341	1,851	1,577	2,014	3,319	3,550
14 Portugal	2,958	2,184	2,465	2,659	2,664	2,245	2,258	2,255	2,465	2,518
15 Spain	7,544	11,391	9,790	15,313	14,904	15,589	14,602	10,383	9,790	14,864
16 Sweden	1,837	2,222	3,043	3,710	4,162	3,194	5,313	4,485	3,043	2,962
17 Switzerland	36,690	37,238	39,456	39,568	40,569	39,314	37,867	40,791	39,456	41,505
18 Turkey	1,169	1,598	2,666	1,789	2,021	2,087	2,524	2,360	2,666	2,533
19 United Kingdom	109,555	100,292	112,380	111,913	111,521	115,747	114,668	117,347[r]	112,380	106,688
20 Yugoslavia[11]	928	622	504	547	554	567	577	575	504	506
21 Others in Western Europe[12]	11,689	9,274	25,831	22,743	21,872	12,867	27,228	26,691	25,831	25,939
22 Russia	119	241	581	609	525	499	450	601	581	436
23 Other Eastern Europe[13]	1,545	3,467	3,421	3,880	4,238	3,947	3,941	3,699	3,421	2,717
24 Canada	20,349	21,605	22,313	22,350	20,410	22,668	21,378	22,052	22,313	21,512
25 Latin America and Caribbean	332,997	345,529	313,242	325,397	310,989	315,512	309,963	309,794[r]	313,242	313,017
26 Argentina	7,365	7,753	9,475	10,041	9,397	9,065	9,387	8,715	9,475	10,790
27 Bahamas	107,386	100,622	82,285	92,546	82,571	76,295	85,899	86,376[r]	82,285	84,682
28 Bermuda	2,822	3,178	7,079	4,848	4,782	4,275	5,889	6,355[r]	7,079	6,319
29 Brazil	5,834	5,704	5,580	5,311	5,283	5,393	5,828	5,235	5,580	5,321
30 British West Indies	147,321	163,620	149,078	151,591	148,164	159,703	143,240	143,084[r]	149,078	146,659
31 Chile	3,145	3,283	3,030	3,605	3,393	3,440	3,253	2,925	3,030	3,638
32 Colombia	4,492	4,661	4,579	4,686	4,711	4,792	4,767	4,677	4,579	4,438
33 Cuba	11	2	3	12	9	33	10	11	3	2
34 Ecuador	1,379	1,232	987	1,074	1,214	1,073	1,026	1,016	987	945
35 Guatemala	1,541	1,594	1,375	1,420	1,432	1,416	1,376	1,323	1,375	1,311
36 Jamaica	257	231	371	271	272	309	274	271	371	294
37 Mexico	16,650	19,957	19,430	19,642	20,046	19,650	19,226	19,543	19,430	20,088
38 Netherlands Antilles	7,357	5,592	5,209	5,085	4,825	4,751	4,708	6,101	5,209	4,352
39 Panama	4,574	4,695	4,189	4,457	4,302	4,595	4,115	3,975	4,189	4,013
40 Peru	1,294	1,249	1,056	1,131	1,123	1,143	1,124	1,026	1,056	1,034
41 Uruguay	2,520	2,096	1,955	2,163	2,182	2,019	2,087	2,092	1,955	1,887
42 Venezuela	12,271	13,181	11,370	11,080	10,802	11,101	11,504	11,003	11,370	11,107
43 Other	6,779	6,879	6,191	6,434	6,481	6,459	6,250	6,066[r]	6,191	6,137
44 Asia	136,844	120,462	143,165	124,905	125,215	144,145	134,327	136,104[r]	143,165	141,478
China										
45 People's Republic of China	2,421	2,626	4,327	2,292	2,508	2,480	2,582	2,559[r]	4,327	4,103
46 Republic of China (Taiwan)	11,246	11,491	7,221	10,277	10,362	9,430	8,617	8,751[r]	7,221	7,940
47 Hong Kong	12,754	14,269	18,415	16,840	17,775	17,991	17,513	16,294[r]	18,415	17,495
48 India	1,233	2,418	1,369	1,567	1,480	1,372	1,234	1,210[r]	1,369	1,323
49 Indonesia	1,238	1,463	1,465	1,256	958	1,507	1,249	1,232	1,465	1,392
50 Israel	2,767	2,015	3,746	2,850	2,620	2,613	2,208	3,691	3,746	3,389
51 Japan	67,076	47,069	58,303	45,826	45,683	64,651	56,070	55,374	58,303	55,985
52 Korea (South)	2,287	2,587	3,336	3,288	3,644	3,672	3,531	3,685	3,336	3,415
53 Philippines	1,585	2,449	2,266	1,994	1,920	2,028	2,275	2,223[r]	2,266	2,350
54 Thailand	1,443	2,252	5,565	4,017	4,624	4,517	5,082	5,797	5,565	5,722
55 Middle Eastern oil-exporting countries[14]	15,829	15,752	21,446	19,828	18,938	19,977	19,040	20,266	21,446	19,877
56 Other	16,965	16,071	15,706	14,870	14,703	13,907	14,926	15,022	15,706	18,487
57 Africa	4,630	4,825	5,855	5,516	5,314	5,592	5,843	6,062	5,855	5,913
58 Egypt	1,425	1,621	2,472	2,324	2,143	2,243	2,598	2,601	2,472	2,756
59 Morocco	104	79	76	85	93	100	98	93	76	88
60 South Africa	228	228	189	269	275	190	240	214	189	158
61 Zaire	53	31	19	17	24	14	24	23	19	32
62 Oil-exporting countries[15]	1,110	1,082	1,346	1,211	1,090	1,339	1,201	1,402	1,346	1,125
63 Other	1,710	1,784	1,753	1,610	1,689	1,706	1,682	1,729	1,753	1,754
64 Other	4,444	5,567	4,169	4,425	4,629	4,088	4,403	3,825	4,169	4,599
65 Australia	3,807	4,464	3,047	3,066	3,322	2,927	2,987	2,654	3,047	3,502
66 Other	637	1,103	1,122	1,359	1,307	1,161	1,416	1,171	1,122	1,097
67 Nonmonetary international and regional organizations	5,918	8,981	9,354	11,321	12,874	10,810	10,736	9,754[r]	9,354	10,730
68 International[16]	4,390	6,485	7,434	7,402	9,651	7,714	7,689	6,594[r]	7,434	7,496
69 Latin American regional[17]	1,048	1,181	1,419	2,699	2,319	2,289	2,139	2,257	1,419	2,326
70 Other regional[18]	479	1,315	501	1,220	904	807	908	903	501	908

11. Beginning December 1992, excludes Bosnia, Croatia, and Slovenia.
12. Includes the Bank for International Settlements and Eastern European countries not listed in line 23. Beginning December 1992, includes, in addition, all former parts of the U.S.S.R. (except Russia), and Bosnia, Hercegovina, Croatia, and Slovenia.
13. Comprises Bulgaria, Czechoslovakia, Hungary, Poland, and Romania.
14. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).
15. Comprises Algeria, Gabon, Libya, and Nigeria.
16. Principally the International Bank for Reconstruction and Development. Excludes "holdings of dollars" of the International Monetary Fund.
17. Principally the Inter-American Development Bank.
18. 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	1990	1991	1992r	1992 July	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.r	1993 Jan.p
1 **Total, all foreigners**	**511,543**	**514,339**	**495,983**	**502,941**	**479,705**	**485,349**	**493,411**	**490,588r**	**495,983**	**483,637**
2 **Foreign countries**	**506,750**	**508,056**	**490,901**	**499,520**	**475,316**	**481,178**	**490,939**	**487,707r**	**490,901**	**480,640**
3 Europe	113,093	114,310	124,058	124,453	119,126	117,235	126,109	122,048r	124,058	117,176
4 Austria	362	327	340	647	606	341	373	437r	340	365
5 Belgium and Luxembourg	5,473	6,158	6,384	6,475	6,344	7,524	6,971	6,423r	6,384	6,473
6 Denmark	497	686	707	951	901	1,007	825	1,056	707	705
7 Finland	1,047	1,907	1,414	1,269	1,081	1,299	817	1,230	1,414	1,275
8 France	14,468	15,112	14,847	14,154	13,011	15,004	16,081	15,698	14,847	14,012
9 Germany	3,343	3,371	4,229	3,870	4,707	4,074	5,628	5,327	4,229	5,543
10 Greece	727	553	718	590	619	606	601	598	718	669
11 Italy	6,052	8,242	9,048	10,508	9,876	9,487	9,754	9,443	9,048	8,716
12 Netherlands	1,761	2,546	2,492	2,042	2,075	1,980	2,334	3,006	2,492	2,927
13 Norway	782	669	356	731	707	639	666	435	356	649
14 Portugal	292	344	325	382	387	383	327	330	325	390
15 Spain	2,668	1,881	2,792	3,730	2,590	3,304	4,630	3,504	2,792	2,613
16 Sweden	2,094	2,335	4,981	5,967	6,567	5,494	6,698	5,786	4,981	5,340
17 Switzerland	4,202	4,540	4,671	3,683	3,934	3,112	3,698	3,590	4,671	4,437
18 Turkey	1,405	1,063	962	1,174	1,002	986	1,177	950	962	1,071
19 United Kingdom	65,151	60,395	63,916	62,800	58,861	56,456	60,191	58,921	63,916	56,168
20 Yugoslavia[2]	1,142	825	573	693	678	674	668	661	573	575
21 Others in Western Europe[3]	597	789	1,703	1,227	1,356	1,216	964	1,019	1,703	1,603
22 Russia	530	1,970	3,148	3,153	3,280	3,199	3,190	3,174	3,148	3,154
23 Other Eastern Europe[4]	499	597	452	407	544	450	516	460r	452	491
24 Canada	16,091	15,113	14,166	17,429	15,151	15,902	16,826	15,830	14,166	16,471
25 Latin America and Caribbean	231,506	246,137	213,764	234,066	217,582	210,329	213,340	217,035r	213,764	218,452
26 Argentina	6,967	5,869	4,882	5,614	4,789	4,560	4,568	4,605r	4,882	4,804
27 Bahamas	76,525	87,138	59,507	74,806	62,615	58,502	64,848	65,139r	59,507	62,817
28 Bermuda	4,056	2,270	5,934	6,099	6,302	3,567	2,798	6,035r	5,934	6,797
29 Brazil	17,995	11,894	10,883	12,186	12,286	11,308	11,558	11,583	10,883	10,926
30 British West Indies	88,565	107,846	98,587	104,133	99,775	99,294	96,741	96,320r	98,587	100,934
31 Chile	3,271	2,805	3,397	3,118	3,220	3,320	3,340	3,309r	3,397	3,689
32 Colombia	2,587	2,425	2,748	2,398	2,322	2,475	2,595	2,698	2,748	2,752
33 Cuba	0	0	0	0	0	0	5	0	0	0
34 Ecuador	1,387	1,053	888	950	949	920	936	926	888	853
35 Guatemala	191	228	262	167	189	237	277	255	262	240
36 Jamaica	238	158	167	151	150	160	147	162	167	170
37 Mexico	14,851	16,567	15,049	16,341	16,564	17,313	16,666	16,495r	15,049	15,262
38 Netherlands Antilles	7,998	1,207	1,379	941	966	1,045	1,080	1,529	1,379	1,735
39 Panama	1,471	1,560	4,473	2,025	2,053	1,945	1,988	2,080r	4,473	1,980
40 Peru	663	739	730	708	708	732	721	723	730	779
41 Uruguay	786	599	936	749	799	921	882	877	936	895
42 Venezuela	2,571	2,516	2,527	2,360	2,585	2,654	2,702	2,880	2,527	2,429
43 Other	1,384	1,263	1,415	1,320	1,310	1,376	1,488	1,419r	1,415	1,390
44 Asia	138,722	125,262	131,650	115,933	116,509	130,614	127,228	126,114	131,650	121,656
China										
45 People's Republic of China	620	747	1,409	642	696	636	978	624	1,409	774
46 Republic of China (Taiwan)	1,952	2,087	2,046	1,965	1,983	2,054	1,848	1,653	2,046	1,683
47 Hong Kong	10,648	9,617	9,646	9,103	8,015	10,087	9,127	9,268	9,646	9,125
48 India	655	441	529	512	528	499	500	539	529	529
49 Indonesia	933	952	1,189	1,090	1,108	1,089	1,112	1,135	1,189	1,326
50 Israel	774	860	820	901	920	800	826	937	820	877
51 Japan	90,699	84,807	78,530	71,120	71,469	83,201	80,091	77,666	78,530	74,556
52 Korea (South)	5,766	6,048	6,175	6,063	6,201	6,247	6,113	6,288	6,175	6,062
53 Philippines	1,247	1,910	2,145	1,635	1,775	1,852	2,181	2,034	2,145	1,871
54 Thailand	1,573	1,713	1,867	1,716	1,691	1,795	1,764	1,873	1,867	1,796
55 Middle Eastern oil-exporting countries[5]	10,749	8,284	18,559	14,323	14,783	14,613	15,488	16,858	18,559	17,200
56 Other	13,106	7,796	8,735	6,863	7,340	7,741	7,200	7,239	8,735	5,857
57 Africa	5,445	4,928	4,287	4,452	4,455	4,333	4,303	4,233	4,287	4,262
58 Egypt	380	294	194	261	243	256	229	214	194	171
59 Morocco	513	575	441	496	483	467	452	443	441	421
60 South Africa	1,525	1,235	1,041	1,047	1,066	1,055	1,036	1,063	1,041	1,058
61 Zaire	16	4	4	4	4	4	4	4	4	3
62 Oil-exporting countries[6]	1,486	1,298	1,004	1,157	1,130	1,067	1,056	1,029	1,004	1,078
63 Other	1,525	1,522	1,603	1,487	1,529	1,484	1,526	1,480	1,603	1,531
64 Other	1,892	2,306	2,976	3,187	2,493	2,765	3,133	2,447	2,976	2,623
65 Australia	1,413	1,665	2,263	1,937	1,463	1,765	1,951	1,601	2,263	1,896
66 Other	479	641	713	1,250	1,030	1,000	1,182	846	713	727
67 Nonmonetary international and regional organizations[7]	4,793	6,283	5,082	3,421	4,389	4,171	2,472	2,881	5,082	2,997

1. Reporting banks include all types of depository institutions, as well as some brokers and dealers.
2. Beginning December 1992, excludes Bosnia, Croatia, and Slovenia.
3. Includes the Bank for International Settlements and Eastern European countries not listed in line 23. Beginning December 1992, includes, in addition, all former parts of the U.S.S.R. (except Russia), and Bosnia, Hercegovina, Croatia, and Slovenia.
4. Comprises Bulgaria, Czechoslovakia, Hungary, Poland, and Romania.
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

Claim	1990	1991	1992[r]	1992						
				July	Aug.	Sept.	Oct.	Nov.[r]	Dec.[r]	Jan.[p]
1 **Total**	**579,044**	**579,683**	**555,947**	...	...	**552,135**	...	...	**555,947**	...
2 Banks' claims	511,543	514,339	495,983	502,941	479,705	485,349	493,411	490,588	495,983	483,637
3 Foreign public borrowers	41,900	37,126	31,366	32,940	32,263	31,426	32,062	30,846	31,366	33,057
4 *Own foreign offices*[2]	304,315	318,800	299,542	302,061	287,523	297,590	297,682	290,945	299,542	290,902
5 Unaffiliated foreign banks	117,272	116,602	110,475	113,963	105,987	105,796	112,508	113,856	110,475	102,012
6 Deposits	65,253	69,018	61,133	62,897	56,294	54,316	60,876	62,114	61,133	53,615
7 Other	52,019	47,584	49,342	51,066	49,693	51,480	51,632	51,742	49,342	48,397
8 *All other foreigners*	48,056	41,811	54,600	53,977	53,932	50,537	51,159	54,941	54,600	57,666
9 Claims of banks' domestic customers[3]	67,501	65,344	59,964	...	...	66,786	...	...	59,964	...
10 Deposits	14,375	15,280	15,287	...	...	15,348	...	...	15,287	...
11 *Negotiable and readily transferable instruments*[4]	41,333	37,125	31,548	...	...	38,258	...	...	31,548	...
12 Outstanding collections and other claims	11,792	12,939	13,129	...	...	13,180	...	...	13,129	...
MEMO										
13 Customer liability on acceptances	13,628	8,974	8,682	...	...	8,505	...	...	8,682	...
14 Dollar deposits in banks abroad, reported by nonbanking business enterprises in the United States[5]	44,638	39,111	33,562	34,712	33,223	34,091	34,522[r]	33,708	33,562	n.a.

1. For banks' claims, data are monthly; for claims of banks' domestic customers, data are quarterly.
Reporting banks include all types of depository institution, as well as some brokers and dealers.
2. For U.S. banks, includes amounts due from own foreign branches and foreign subsidiaries consolidated in Consolidated Report of Condition filed with bank regulatory agencies. For agencies, branches, and majority-owned subsidiaries of foreign banks, consists principally of 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 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 *Federal Reserve Bulletin*, vol. 65 (July 1979), 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	1989	1990	1991	1992			
				Mar.	June	Sept.	Dec.[p]
1 **Total**	**238,123**	**206,903**	**195,302**	**194,455**	**196,874**	**187,422**	**196,085**
By borrower							
2 Maturity of one year or less[2]	178,346	165,985	162,573	161,456	162,402	155,135	164,575
3 Foreign public borrowers	23,916	19,305	21,050	20,231	20,492	17,837	17,867
4 All other foreigners	154,430	146,680	141,523	141,225	141,910	137,298	146,708
5 Maturity of more than one year[2]	59,776	40,918	32,729	32,999	34,472	32,287	31,510
6 Foreign public borrowers	36,014	22,269	15,859	16,189	15,147	13,303	13,219
7 All other foreigners	23,762	18,649	16,870	16,810	19,325	18,984	18,291
By area							
Maturity of one year or less[2]							
8 Europe	53,913	49,184	51,835	52,790	54,955	55,842	53,967
9 Canada	5,910	5,450	6,444	6,907	7,935	5,973	6,118
10 Latin America and Caribbean	53,003	49,782	43,597	48,582	49,138	45,300	50,279
11 Asia	57,755	53,258	51,059	43,645	41,412	40,754	46,358
12 Africa	3,225	3,040	2,549	2,486	2,142	2,195	1,810
13 All other[3]	4,541	5,272	7,089	7,046	6,820	5,071	6,043
Maturity of more than one year[2]							
14 Europe	4,121	3,859	3,878	4,360	6,793	6,663	5,339
15 Canada	2,353	3,290	3,595	3,284	3,153	3,243	3,280
16 Latin America and Caribbean	45,816	25,774	18,277	18,196	16,915	15,160	15,149
17 Asia	4,172	5,165	4,459	4,729	5,007	4,848	4,977
18 Africa	2,630	2,374	2,335	2,191	2,341	2,095	2,363
19 All other[3]	684	456	185	239	263	278	402

1. Reporting banks include all kinds of depository institutions besides commercial banks, as well as some brokers and dealers.
2. Maturity is time remaining 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]

Billions of dollars, end of period

Area or country	1988	1989	1990	1991				1992			
			Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.p
1 **Total**	**346.3r**	**338.8**	**317.8**	**325.3**	**320.4**	**335.7**	**341.5**	**347.5r**	**357.3r**	**344.0r**	**345.7**
2 G-10 countries and Switzerland	152.7	152.9	132.1	129.9	129.8	134.0	137.2	130.5	135.6	137.1r	133.2
3 Belgium and Luxembourg	9.0	6.3	5.9	6.2	6.1	5.8	6.0	5.3	6.2	6.2	5.6
4 France	10.5	11.7	10.4	9.7	10.5	11.1	11.0	10.0	11.9	15.4	15.3
5 Germany	10.3	10.5	10.6	8.8	8.3	9.7	8.3	8.4	8.8r	10.9	9.3
6 Italy	6.8	7.4	5.0	4.0	3.6	4.5	5.6	5.4	8.0	6.4	6.5
7 Netherlands	2.7	3.1	3.0	3.3	3.3	3.0	4.7	4.3	3.3	3.7	2.8
8 Sweden	1.8	2.0	2.2	2.0	2.5	2.1	1.9	2.0	1.9	2.2	2.3
9 Switzerland	5.4	7.1	4.4	3.7	3.3	3.9	3.4	3.2	4.6	5.2r	4.7
10 United Kingdom	66.2	67.2	60.8	62.3	59.5	64.9	68.5	64.8	65.8r	62.2r	61.3
11 Canada	5.0	5.4	5.9	6.8	8.2	5.8	5.8	6.5	6.7	6.7	6.5
12 Japan	34.9	32.2	23.9	23.2	24.6	23.2	22.2	20.7	18.3	18.3	18.8
13 Other industrialized countries	21.3r	21.0r	22.9r	23.5r	21.3r	22.1r	22.8r	21.4r	25.5	25.1r	24.1
14 Austria	1.5	1.5	1.4	1.4	1.1	1.0	.6	.8	.8	.7	1.2
15 Denmark	1.1	1.1	1.1	.9	1.2	.9	.9	.8	1.3	1.5	.9
16 Finland	1.1	1.0	.7	1.0	.8	.6	.7	.8	.8	1.0	.7
17 Greece	1.8	2.5	2.7	2.5	2.4	2.3	2.6	2.3	2.8	3.0	3.0
18 Norway	1.8	1.4	1.6	1.5	1.5	1.4	1.4	1.5	1.7	1.6	1.2
19 Portugal	.4	.4	.6	.6	.6	.5	.6	.5	.5	.5	.4
20 Spain	6.2	7.1	8.3	9.0	7.1	8.3	8.3	7.7	10.1	9.8	9.0
21 Turkey	1.5	1.2	1.7	1.7	1.9	1.6	1.4	1.2	1.5	1.5	1.3
22 Other Western Europe	1.7r	1.0r	1.2r	1.2r	1.1r	1.3r	1.8r	1.5r	2.0r	1.5r	1.7
23 South Africa	2.4	2.0	1.8	1.8	1.8	1.6	1.9	1.8	1.7	1.7	1.7
24 Australia	1.8	1.6	1.8	1.9	2.0	2.4	2.7	2.3	2.3	2.3	2.9
25 OPEC[2]	16.6	17.1	12.8	17.1	14.0	15.6	14.6	15.8	16.2	15.9	16.1
26 Ecuador	1.7	1.3	1.0	.9	.9	.8	.7	.7	.7	.7	.6
27 Venezuela	7.9	7.0	5.0	5.1	5.3	5.6	5.4	5.4	5.3	5.4	5.2
28 Indonesia	1.7	2.0	2.7	2.8	2.6	2.8	2.8	3.0	3.0	3.0	3.0
29 Middle East countries	3.4	5.0	2.5	6.6	3.7	5.0	4.2	5.3	5.9	5.4	6.2
30 African countries	1.9	1.7	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.1
31 Non-OPEC developing countries	85.3	77.5	65.4	66.4	65.0	65.0	64.3	70.6	68.6r	73.2	73.2
Latin America											
32 Argentina	9.0	6.3	5.0	4.7	4.6	4.5	4.8	5.0	5.1	6.2	6.6
33 Brazil	22.4	19.0	14.4	13.9	11.6	10.5	9.6	10.8	10.6	10.8	10.8
34 Chile	5.6	4.6	3.5	3.6	3.6	3.7	3.6	3.9	4.0	4.2	4.4
35 Colombia	2.1	1.8	1.8	1.7	1.6	1.6	1.7	1.6	1.6	1.7	1.8
36 Mexico	18.8	17.7	13.0	13.7	14.3	16.2	15.5	18.2	16.3r	17.1	16.0
37 Peru	.8	.6	.5	.5	.5	.4	.4	.4	.4	.5	.5
38 Other	2.6	2.8	2.3	2.2	2.0	1.9	2.1	2.2	2.2	2.5	2.6
Asia											
China											
39 Peoples Republic of China	.3	.3	.2	.4	.6	.4	.3	.3	.3	.3	1.2
40 Republic of China (Taiwan)	3.7	4.5	3.5	3.6	4.1	4.1	4.1	4.8	4.6	5.0	5.2
41 India	2.1	3.1	3.3	3.5	3.0	2.8	3.0	3.6	3.8	3.6	3.2
42 Israel	1.2	.7	.5	.5	.5	.5	.5	.4	.4	.4	.4
43 Korea (South)	6.1	5.9	6.2	6.8	6.9	6.5	6.8	6.9	6.9	7.4	6.6
44 Malaysia	1.6	1.7	1.9	2.0	2.1	2.3	2.3	2.5	2.7	3.0	3.1
45 Philippines	4.5	4.1	3.8	3.7	3.7	3.6	3.7	3.6	3.1r	3.3	3.6
46 Thailand	1.1	1.3	1.5	1.6	1.7	1.9	1.7	1.7	1.9	2.2	2.2
47 Other Asia[3]	.9	1.0	1.7	2.1	2.3	2.3	2.4	2.7	3.0r	3.3	3.1
Africa											
48 Egypt	.4	.4	.4	.4	.4	.4	.4	.3	.5	.3	.2
49 Morocco	.9	.9	.8	.8	.7	.7	.7	.7	.7	.6	.6
50 Zaire	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
51 Other Africa[3]	1.1	1.0	1.0	.8	.8	.8	.7	.7	.6	.9	1.0
52 Eastern Europe	3.6	3.5	2.3	2.1	2.1	1.8	2.4	2.9	3.0	3.1	3.1
53 Russia	.7	.7	.2	.3	.4	.4	.9	1.4	1.7	1.8	1.9
54 Yugoslavia	1.8	1.6	1.2	1.0	1.0	.8	.9	.8	.7	.7	.6
55 Other	1.1	1.3	.9	.8	.7	.7	.7	.6	.6	.7	.6
56 Offshore banking centers	44.2	36.6	42.5	50.0	48.3	52.7	52.0	58.3r	59.3r	52.3r	55.0
57 Bahamas	11.0	5.5	2.8	8.3	6.8	6.7	11.9	14.0	12.3r	8.1	5.7
58 Bermuda	.9	1.7	4.4	4.4	4.2	7.1	2.3	3.9	5.1	3.8	6.2
59 Cayman Islands and other British West Indies	12.9	9.0	11.5	14.1	14.9	13.8	15.8	17.2r	17.9r	15.4r	19.9
60 Netherlands Antilles	1.0	2.3	7.9	1.1	1.4	3.9	1.2	1.0	.8	.7r	1.1
61 Panama[4]	2.5	1.4	1.4	1.5	1.3	1.3	1.3	1.3	1.7r	1.8r	1.7
62 Lebanon	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1	.1
63 Hong Kong	9.6	9.7	7.7	11.6	12.4	12.1	12.2	12.2	15.0r	15.2	13.8
64 Singapore	6.1	7.0	6.6	8.9	7.2	7.7	7.1	8.5	6.4	7.1r	6.5
65 Other[5]	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
66 Miscellaneous and unallocated[6]	22.6	30.3	39.8	36.4	39.9	44.6	48.2	48.0	48.8r	36.9r	40.7

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).

Since June 1984, reported claims held by foreign branches have been reduced by an increase in the reporting threshold for "shell" branches from $50 million to $150 million equivalent in total assets, the threshold now applicable to all reporting branches.

2. Organization of Petroleum Exporting Countries, shown individually; other members of OPEC (Algeria, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates); and Bahrain and Oman (not formally members of OPEC).

3. Excludes Liberia.

4. Includes Canal Zone beginning December 1979.

5. Foreign branch claims only.

6. Includes New Zealand, Liberia, and international and regional organizations.

3.22 LIABILITIES TO UNAFFILIATED FOREIGNERS Reported by Nonbanking Business Enterprises in the United States[1]

Millions of dollars, end of period

Type and area or country	1988	1989	1990	1991			1992		
				June	Sept.	Dec.	Mar.	June	Sept.
1 **Total**	**32,952**	**38,764**	**46,169**	**41,774**	**43,256**	**43,244**	**44,170**	**44,231**	**45,096**
2 Payable in dollars	27,335	33,973	40,912	37,258	38,520	37,852	38,719	37,536	36,606
3 Payable in foreign currencies	5,617	4,791	5,257	4,516	4,736	5,392	5,451	6,695	8,490
By type									
4 Financial liabilities	14,507	17,879	21,192	19,562	21,690	21,981	22,339	22,043	23,336
5 Payable in dollars	10,608	14,035	17,105	16,202	17,985	17,869	18,111	16,799	16,500
6 Payable in foreign currencies	3,900	3,844	4,087	3,360	3,705	4,112	4,228	5,244	6,836
7 Commercial liabilities	18,445	20,885	24,977	22,212	21,566	21,263	21,831	22,188	21,760
8 Trade payables	6,505	8,070	10,683	8,569	8,313	8,310	8,914	9,516	9,419
9 Advance receipts and other liabilities	11,940	12,815	14,294	13,644	13,253	12,953	12,917	12,672	12,341
10 Payable in dollars	16,727	19,938	23,807	21,056	20,535	19,983	20,608	20,737	20,106
11 Payable in foreign currencies	1,717	947	1,170	1,157	1,031	1,280	1,223	1,451	1,654
By area or country									
Financial liabilities									
12 Europe	9,962	11,660	11,086	10,503	12,343	12,002	12,539	13,091	14,083
13 Belgium and Luxembourg	289	340	394	355	397	217	174	194	256
14 France	359	258	975	937	2,164	2,106	1,997	2,324	2,830
15 Germany	699	464	621	658	682	682	666	836	956
16 Netherlands	880	941	1,081	1,026	1,050	1,056	1,025	979	951
17 Switzerland	1,033	541	545	513	497	408	355	490	525
18 United Kingdom	6,533	8,818	6,455	6,018	6,610	6,513	7,415	7,392	7,723
19 Canada	388	610	229	293	305	267	283	337	320
20 Latin America and Caribbean	839	1,357	4,153	3,808	3,883	4,307	4,047	3,308	3,257
21 Bahamas	184	157	371	375	314	537	396	343	192
22 Bermuda	0	17	0	12	0	114	114	114	115
23 Brazil	0	0	0	0	6	6	8	10	18
24 British West Indies	645	724	3,160	2,816	2,961	3,047	2,915	2,167	2,231
25 Mexico	1	6	5	6	6	7	7	8	12
26 Venezuela	0	0	4	4	4	4	4	4	5
27 Asia	3,312	4,151	5,313	4,947	5,155	5,347	5,375	5,218	5,586
28 Japan	2,563	3,299	4,077	3,771	4,006	4,108	4,113	4,122	4,553
29 Middle East oil-exporting countries[2]	3	2	5	4	19	13	13	10	17
30 Africa	2	2	2	9	3	6	7	0	5
31 Oil-exporting countries[3]	0	0	0	7	2	4	6	0	0
32 All other[4]	4	100	409	2	1	52	88	89	85
Commercial liabilities									
33 Europe	7,319	9,071	10,310	8,607	8,084	7,808	7,491	7,144	6,723
34 Belgium and Luxembourg	158	175	275	245	225	248	256	240	173
35 France	455	877	1,218	1,185	992	830	671	659	696
36 Germany	1,699	1,392	1,270	1,040	911	944	878	702	744
37 Netherlands	587	710	844	729	751	709	574	605	601
38 Switzerland	417	693	775	580	492	488	482	400	369
39 United Kingdom	2,079	2,620	2,792	2,289	2,217	2,310	2,444	2,404	2,263
40 Canada	1,217	1,124	1,261	1,208	1,011	990	1,094	1,077	1,085
41 Latin America and Caribbean	1,090	1,224	1,672	1,619	1,512	1,352	1,701	1,803	1,518
42 Bahamas	49	41	12	5	14	3	13	8	3
43 Bermuda	286	308	538	504	450	310	493	409	338
44 Brazil	95	100	145	180	211	219	230	212	115
45 British West Indies	34	27	30	49	46	107	108	73	85
46 Mexico	217	323	475	358	291	304	375	475	322
47 Venezuela	114	164	130	119	102	94	168	279	147
48 Asia	6,915	7,550	9,483	8,752	8,855	9,330	9,889	10,439	10,997
49 Japan	3,094	2,914	3,651	3,411	3,363	3,720	3,548	3,537	3,900
50 Middle Eastern oil-exporting countries[2,5]	1,385	1,632	2,016	1,657	1,780	1,498	1,591	1,778	1,813
51 Africa	576	886	844	596	836	713	644	775	675
52 Oil-exporting countries[3]	202	339	422	226	357	327	253	389	337
53 Other[4]	1,328	1,030	1,406	1,431	1,268	1,070	1,012	950	762

1. For a description of the changes in the international statistics tables, see *Federal Reserve Bulletin*, vol. 65, (July 1979), 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	1988	1989	1990	1991			1992		
				June	Sept.	Dec.	Mar.	June	Sept.
1 **Total**	**33,805**	**33,173**	**35,348**	**37,101**	**38,315**	**42,635**	**42,203**	**41,884**	**38,662**
2 Payable in dollars	31,425	30,773	32,760	35,014	35,952	40,068	39,563	38,915	35,741
3 Payable in foreign currencies	2,381	2,400	2,589	2,087	2,363	2,567	2,640	2,969	2,921
By type									
4 Financial claims	21,640	19,297	19,874	20,881	22,536	25,463	25,355	24,640	21,367
5 Deposits	15,643	12,353	13,577	12,544	16,188	17,218	16,964	15,116	12,547
6 Payable in dollars	14,544	11,364	12,552	11,758	15,182	16,343	15,803	13,829	11,489
7 Payable in foreign currencies	1,099	989	1,025	786	1,006	875	1,161	1,287	1,058
8 Other financial claims	5,997	6,944	6,297	8,337	6,348	8,245	8,391	9,524	8,820
9 Payable in dollars	5,220	6,190	5,280	7,632	5,611	7,365	7,644	8,799	7,788
10 Payable in foreign currencies	777	754	1,017	704	737	880	747	725	1,032
11 Commercial claims	12,166	13,876	15,475	16,220	15,779	17,172	16,848	17,244	17,295
12 Trade receivables	11,091	12,253	13,657	14,120	13,429	14,447	14,243	14,743	14,555
13 Advance payments and other claims	1,075	1,624	1,817	2,100	2,350	2,725	2,605	2,501	2,740
14 Payable in dollars	11,660	13,219	14,927	15,623	15,159	16,360	16,116	16,287	16,464
15 Payable in foreign currencies	505	657	548	597	620	812	732	957	831
By area or country									
Financial claims									
16 Europe	10,278	8,463	9,645	11,873	13,129	13,546	14,207	13,207	11,249
17 Belgium and Luxembourg	18	28	76	74	76	13	12	25	16
18 France	203	153	371	271	255	312	277	786	809
19 Germany	120	152	367	298	434	342	290	381	321
20 Netherlands	348	238	265	429	420	385	727	732	766
21 Switzerland	217	153	357	433	580	591	682	779	602
22 United Kingdom	9,039	7,496	7,971	10,222	10,997	11,251	11,631	8,773	7,727
23 Canada	2,325	1,904	2,934	2,015	2,163	2,679	2,755	2,534	2,256
24 Latin America and Caribbean	8,160	8,020	6,201	5,926	6,289	7,932	7,070	7,260	6,523
25 Bahamas	1,846	1,890	1,090	457	652	758	415	523	1,099
26 Bermuda	19	7	3	4	19	8	12	12	65
27 Brazil	47	224	68	127	137	192	191	181	135
28 British West Indies	5,763	5,486	4,635	4,957	5,106	6,384	5,912	6,018	4,792
29 Mexico	151	94	177	161	176	321	318	343	222
30 Venezuela	21	20	25	29	32	40	34	32	26
31 Asia	623	590	860	742	614	957	966	1,280	995
32 Japan	354	213	523	398	277	385	380	712	481
33 Middle East oil-exporting countries[2]	5	8	8	4	3	5	3	4	4
34 Africa	106	140	37	64	61	57	60	57	66
35 Oil-exporting countries[3]	10	12	0	1	1	1	0	0	1
36 All other[4]	148	180	195	261	280	292	297	302	278
Commercial claims									
37 Europe	5,181	6,209	7,044	7,464	6,884	7,950	7,894	8,137	7,790
38 Belgium and Luxembourg	189	242	212	220	190	192	181	255	170
39 France	672	964	1,240	1,402	1,330	1,544	1,562	1,563	1,739
40 Germany	669	696	807	958	858	943	936	908	885
41 Netherlands	212	479	555	707	641	643	646	666	588
42 Switzerland	344	313	301	296	258	295	328	399	294
43 United Kingdom	1,324	1,575	1,775	1,817	1,807	2,088	2,086	2,173	1,977
44 Canada	983	1,091	1,074	1,241	1,232	1,174	1,176	1,131	1,172
45 Latin America and Caribbean	2,241	2,184	2,375	2,433	2,494	2,591	2,572	2,672	3,141
46 Bahamas	36	58	14	16	8	11	11	9	7
47 Bermuda	230	323	246	247	255	263	272	291	245
48 Brazil	299	297	326	309	385	418	364	438	395
49 British West Indies	22	36	40	43	37	41	45	32	43
50 Mexico	461	508	661	710	741	829	892	847	968
51 Venezuela	227	147	192	195	196	202	206	251	302
52 Asia	2,993	3,570	4,127	4,201	4,282	4,563	4,351	4,462	4,313
53 Japan	946	1,199	1,460	1,645	1,808	1,869	1,780	1,786	1,798
54 Middle Eastern oil-exporting countries[2]	453	518	460	501	496	621	635	609	512
55 Africa	435	429	488	428	431	418	418	422	430
56 Oil-exporting countries[3]	122	108	67	63	80	95	75	73	66
57 Other[4]	333	393	367	454	456	476	437	420	449

1. For a description of the changes in the international statistics tables, see *Federal Reserve Bulletin*, vol. 65, (July 1979), 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

Transaction and area or country	1991	1992[r]	1993 Jan.–Jan.	1992 July	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.[r]	1993 Jan.[p]
	U.S. corporate securities									
STOCKS										
1 Foreign purchases	211,207	221,360	19,109	18,547	13,174	13,884	18,830	17,885	22,725	19,109
2 Foreign sales	200,116	226,499	19,306	18,769	14,841	17,034	18,179	16,598	20,382	19,306
3 **Net purchases or sales (−)**	**11,091**	**−5,139**	**−197**	**−222**	**−1,667**	**−3,150**	**651**	**1,287**	**2,343**	**−197**
4 **Foreign countries**	**10,522**	**−5,172**	**−192**	**−239**	**−1,622**	**−3,059**	**654**	**1,284**	**2,319**	**−192**
5 Europe	53	−4,934	38	−965	−1,089	−1,683	75	371	1,505	38
6 France	9	−1,331	−27	10	−46	−234	−92	−50	−154	−27
7 Germany	−63	−64	89	−14	−26	−112	−52	47	162	89
8 Netherlands	−227	−280	62	−14	−54	−107	−24	−4	190	62
9 Switzerland	−131	143	196	−55	−150	−189	−124	−40	221	196
10 United Kingdom	−352	−3,294	−347	−742	−652	−869	362	361	705	−347
11 Canada	3,845	1,405	−340	130	−59	−278	−227	43	176	−340
12 Latin America and Caribbean	2,177	2,210	304	−24	−24	−90	236	649	422	304
13 Middle East[1]	−134	−88	−92	4	−14	136	−57	−219	70	−92
14 Other Asia	4,255	−3,944	−123	370	−442	−1,064	767	373	122	−123
15 Japan	1,179	−3,598	28	172	−301	−97	184	220	215	28
16 Africa	153	10	4	−7	−1	14	−21	−18	−7	4
17 Other countries	174	169	17	253	7	−94	−119	85	31	17
18 **Nonmonetary international and regional organizations**	**568**	**33**	**−5**	**17**	**−45**	**−91**	**−3**	**3**	**24**	**−5**
BONDS[2]										
19 Foreign purchases	153,096	214,801	17,415	18,343	19,785	17,160	19,315	18,082	19,264	17,415
20 Foreign sales	125,637	175,273	15,432	16,311	16,620	14,452	15,224	16,317	15,513	15,432
21 **Net purchases or sales (−)**	**27,459**	**39,528**	**1,983**	**2,032**	**3,165**	**2,708**	**4,091**	**1,765**	**3,751**	**1,983**
22 **Foreign countries**	**27,590**	**38,412**	**2,079**	**2,153**	**3,150**	**2,573**	**4,045**	**1,600**	**3,206**	**2,079**
23 Europe	13,112	18,117	1,307	1,029	1,516	1,818	1,993	−492[r]	1,996	1,307
24 France	847	1,221	101	161	−5	155	−4	−7	217	101
25 Germany	1,577	2,503	91	−37	−13	387	−34	−113	857	91
26 Netherlands	482	531	−119	177	22	58	133	144	48	−119
27 Switzerland	656	−513	122	−13	−94	−51	−23	−260	105	122
28 United Kingdom	8,931	13,032	354	760	1,447	1,319	1,568	−312	962	354
29 Canada	1,623	236	−437	67	−100	48	198	281	−38	−437
30 Latin America and Caribbean	2,672	8,833	419	676	878	548	842	540	513	419
31 Middle East[1]	1,787	3,461	300	239	284	−5	273	515	655	300
32 Other Asia	8,459	7,779	305	231	593	171	790	692	119	305
33 Japan	5,767	−216	190	−710	−1,229	−590	467	266	9	190
34 Africa	52	59	168	22	1	−7	−50	−4[r]	7	168
35 Other countries	−116	−73	17	−111	−22	0	−1	68	−46	17
36 **Nonmonetary international and regional organizations**	**−131**	**1,116**	**−96**	**−121**	**15**	**135**	**46**	**165**	**545**	**−96**
	Foreign securities									
37 Stocks, net purchases or sales (−)[3]	−31,967	−32,099	−2,319	−3,244	−2,959	−2,854	−4,269	−3,625[r]	−4,349	−2,319
38 Foreign purchases	120,598	149,841	12,700	13,496	9,759	13,580	12,420	11,672[r]	12,780	12,700
39 Foreign sales[3]	152,565	181,940	15,019	16,740	12,718	16,434	16,689	15,297[r]	17,129	15,019
40 Bonds, net purchases or sales (−)	−14,828	−18,614	−3,685	−4,280	275	−1,561	−2,352	−791[r]	−2,674	−3,685
41 Foreign purchases	330,311	484,590	38,326	43,301	45,938	45,747	49,108	52,066[r]	39,607	38,326
42 Foreign sales	345,139	503,204	42,011	47,581	45,663	47,308	51,460	52,857[r]	42,281	42,011
43 **Net purchases or sales (−), of stocks and bonds**	**−46,795**	**−50,713**	**−6,004**	**−7,524**	**−2,684**	**−4,415**	**−6,621**	**−4,416[r]**	**−7,023**	**−6,004**
44 **Foreign countries**	**−46,711**	**−54,249**	**−4,997**	**−8,383**	**−2,771**	**−4,436**	**−6,648**	**−4,489[r]**	**−7,177**	**−4,997**
45 Europe	−34,452	−38,203	−5,130	−5,333	−1,244	−3,282	−6,862	−4,990[r]	−4,497	−5,130
46 Canada	−7,004	−6,574	−103	−2,212	207	−136	−1,014	571[r]	−1,167	−103
47 Latin America and Caribbean	759	−1,830	222	1,631	−430	308	1,091	−1,671	512	222
48 Asia	−7,350	−6,537	−381	−2,461	−1,376	−1,667	727	1,567[r]	−1,670	−381
49 Africa	−9	−57	−7	14	11	−14	−2	42	−11	−7
50 Other countries	1,345	−1,048	402	−22	61	355	−588	−8	−344	402
51 **Nonmonetary international and regional organizations**	**−84**	**3,536**	**−1,007**	**859**	**87**	**21**	**27**	**73[r]**	**154**	**−1,007**

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. In a July 1989 merger, the former stockholders of a U.S. company received $5,453 million in shares of the new combined U.K. company. This transaction is not reflected in the data.

3.25 MARKETABLE U.S. TREASURY BONDS AND NOTES Foreign Transactions

Millions of dollars

Country or area	1991	1992	1993	1992						1993
			Jan.–Jan.	July	Aug.	Sept.	Oct.	Nov.	Dec.[r]	Jan.[p]
	Transactions, net purchases or sales (–) during period[1]									
1 **Estimated total**	**19,865**	**39,349[r]**	**447**	**–1,862**	**6,458**	**–5,995**	**3,576**	**17,648[r]**	**8**	**447**
2 Foreign countries	19,687	37,996[r]	–134	–2,286	6,785	–6,204	4,381	17,661[r]	–194	–134
3 Europe	8,663	19,677[r]	–590	–2,445	3,450	–4,655	4,701	7,284[r]	3,163	–590
4 Belgium and Luxembourg	523	1,981	–59	331	80	–25	232	370	–32	–59
5 Germany	–4,725	2,076	692	–829	255	900	–8	–1,584	898	692
6 Netherlands	–3,735	–2,923	–1,238	–1,046	367	–239	–40	1,827	–804	–1,238
7 Sweden	–663	–804	–54	–26	–1,289	–843	202	668	–344	–54
8 Switzerland	1,007	481	–199	–703	–87	292	769	1,334	213	–199
9 United Kingdom	6,218	24,214[r]	2,025	212	3,681	16	4,098	7,209[r]	2,833	2,025
10 Other Western Europe	10,024	–6,002[r]	–1,759	–581	428	–4,761	–551	–2,758	395	–1,759
11 Eastern Europe	13	654	2	197	15	5	–1	218	4	2
12 Canada	–3,019	562[r]	3,302	2,520	900	–4,281	458	–1,087	–99	3,302
13 Latin America and Caribbean	10,285	–3,223	–1,495	–2,869	–1,563	–1,479	–1,915	7,270	–4,519	–1,495
14 Venezuela	10	539	–175	216	60	31	155	27	11	–175
15 Other Latin America and Caribbean	4,179	–1,957	–3,309	–589	–758	–2,537	–3,233	2,385	415	–3,309
16 Netherlands Antilles	6,097	–1,805	1,989	–2,496	–865	1,027	1,163	4,858	–4,945	1,989
17 Asia	3,367	23,526[r]	–1,136	1,783	4,112	4,004	1,416	4,000	1,188	–1,136
18 Japan	–4,081	9,817[r]	–743	2,221	1,887	2,448	–339	3,383	2,201	–743
19 Africa	689	1,103	–33	149	56	59	–37	119	0	–33
20 Other	–298	–3,649	–182	–1,424	–170	148	–242	75	73	–182
21 Nonmonetary international and regional organizations	178	1,353	581	424	–327	209	–805	–13	202	581
22 International	–358	1,018	226	365	–133	–31	–903	–38	76	226
23 Latin American regional	–72	533	270	–68	–75	201	219	–31	97	270
MEMO										
24 Foreign countries	19,687	37,996[r]	–134	–2,286	6,785	–6,204	4,381	17,661[r]	–194	–134
25 Official institutions	1,190	6,872[r]	–2,971	–767	697	–4,483	2,951	–603	–723	–2,971
26 Other foreign[2]	18,496	31,124[r]	2,837	–1,519	6,088	–1,721	1,430	18,264[r]	529	2,837
Oil-exporting countries										
27 Middle East[2]	–6,822	4,323	–238	856	1,093	750	–271	407	511	–238
28 Africa[3]	239	11	8	0	0	4	0	0	0	8

1. Official and private transactions in marketable U.S. Treasury securities having an original maturity of more than one year. Data are based on monthly transactions reports. Excludes nonmarketable U.S. Treasury bonds and notes held by official institutions of foreign countries.

2. Comprises Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Trucial States).

3. Comprises Algeria, Gabon, Libya, and Nigeria.

3.26 DISCOUNT RATES OF FOREIGN CENTRAL BANKS[1]

Percent per year

Country	Rate on Mar. 31, 1993		Country	Rate on Mar. 31, 1993		Country	Rate on Mar. 31, 1993	
	Percent	Month effective		Percent	Month effective		Percent	Month effective
Austria	7.0	Mar. 1993	Germany	7.5	Mar. 1993	Norway	17.0	Nov. 1992
Belgium	7.0	Mar. 1993	Italy	11.5	Dec. 1992	Switzerland	5.0	Mar. 1993
Canada	5.36	Mar. 1993	Japan	2.5	July 1992	United Kingdom	12.0	Sept. 1992
Denmark	10.5	Mar. 1993	Netherlands	7.0	Mar. 1993			
France[2]	9.1	Dec. 1992						

1. Rates shown are mainly those at which the central bank either discounts or makes advances against eligible commercial paper or government securities for commercial banks or brokers. For countries with more than one rate applicable to such discounts or advances, the rate shown is the one at which it is understood that the central bank transacts the largest proportion of its credit operations.

2. Since Feb. 1981, the rate has been that at which the Bank of France discounts Treasury bills for seven to ten days.

3.27 FOREIGN SHORT-TERM INTEREST RATES[1]

Averages of daily figures, percent per year

Type or country	1990	1991	1992	1992				1993		
				Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Eurodollars	8.16	5.86	3.70	3.15	3.30	3.67	3.50	3.22	3.12	3.11
2 United Kingdom	14.73	11.47	9.56	9.86	8.23	7.16	7.11	6.88	6.10	5.91
3 Canada	13.00	9.07	6.76	5.33	7.57	7.63	7.93	7.03	6.38	5.59
4 Germany	8.41	9.15	9.42	9.37	8.85	8.84	8.93	8.50	8.29	7.85
5 Switzerland	8.71	8.01	7.67	7.20	6.28	6.44	6.13	5.52	5.34	5.05
6 Netherlands	8.57	9.19	9.25	9.23	8.63	8.66	8.55	8.00	7.98	7.47
7 France	10.20	9.49	10.14	10.51	10.82	9.58	10.75	11.69	11.70	10.89
8 Italy	12.11	12.04	13.91	17.54	15.52	14.38	13.60	12.56	11.43	11.26
9 Belgium	9.70	9.30	9.31	9.44	8.70	8.64	8.65	8.19	8.75	8.27
10 Japan	7.75	7.33	4.39	3.89	3.85	3.77	3.76	3.70	3.27	3.26

1. Rates are for three-month interbank loans, with the following exceptions: Canada, finance company paper; Belgium, three-month Treasury bills; and Japan, CD rate.

3.28 FOREIGN EXCHANGE RATES[1]

Currency units per dollar except as noted

Country/currency unit	1990	1991	1992	1992			1993		
				Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1 Australia/dollar[2]	78.069	77.872	73.521	71.481	68.984	68.974	67.297	68.294	70.775
2 Austria/schilling	11.331	11.686	10.992	10.436	11.168	11.130	11.368	11.556	11.586
3 Belgium/franc	33.424	34.195	32.148	30.581	32.661	32.545	33.239	33.841	33.919
4 Canada/dollar	1.1668	1.1460	1.2085	1.2453	1.2674	1.2725	1.2779	1.2602	1.2471
5 China, P.R./yuan	4.7921	5.3337	5.5206	5.5486	5.6134	5.8106	5.7796	5.7874	5.7455
6 Denmark/krone	6.1899	6.4038	6.0372	5.7278	6.1166	6.1206	6.2319	6.3019	6.3242
7 Finland/markka	3.8300	4.0521	4.4865	4.7096	5.0615	5.1444	5.4242	5.8534	5.9767
8 France/franc	5.4467	5.6468	5.2935	5.0370	5.3706	5.3974	5.4751	5.5594	5.5944
9 Germany/deutsche mark	1.6166	1.6610	1.5618	1.4851	1.5875	1.5822	1.6144	1.6414	1.6466
10 Greece/drachma	158.59	182.63	190.81	192.50	206.48	209.48	215.97	220.60	223.57
11 Hong Kong/dollar	7.7899	7.7712	7.7402	7.7298	7.7348	7.7416	7.7376	7.7335	7.7332
12 India/rupee	17.492	22.712	28.156	28.477	28.474	28.979	29.043	30.042	31.939
13 Ireland/pound[2]	165.76	161.39	170.42	177.19	166.17	166.71	163.37	148.11	147.58
14 Italy/lira	1,198.27	1,241.28	1,232.17	1,309.64	1,364.45	1,412.38	1,491.07	1,550.43	1,591.35
15 Japan/yen	145.00	134.59	126.78	121.17	123.88	124.04	124.99	120.76	117.02
16 Malaysia/ringgit	2.7057	2.7503	2.5463	2.5044	2.5227	2.5710	2.5985	2.6295	2.6051
17 Netherlands/guilder	1.8215	1.8720	1.7587	1.6717	1.7862	1.7788	1.8155	1.8473	1.8507
18 New Zealand/dollar[2]	59.619	57.832	53.792	53.943	51.996	51.570	51.270	51.603	53.026
19 Norway/krone	6.2541	6.4912	6.2142	6.0562	6.4714	6.6804	6.8721	6.9779	6.9989
20 Portugal/escudo	142.70	144.77	135.07	132.33	141.71	142.05	145.36	149.89	152.17
21 Singapore/dollar	1.8134	1.7283	1.6294	1.6081	1.6338	1.6397	1.6527	1.6463	1.6446
22 South Africa/rand	2.5885	2.7633	2.8524	2.8923	2.9959	3.0140	3.0713	3.1313	3.1790
23 South Korea/won	710.64	736.73	784.58	786.79	787.09	791.75	794.87	799.25	796.42
24 Spain/peseta	101.96	104.01	102.38	105.74	113.83	112.95	114.62	117.51	117.71
25 Sri Lanka/rupee	40.078	41.200	44.013	44.276	44.404	45.046	46.307	46.351	47.069
26 Sweden/krona	5.9231	6.0521	5.8258	5.6006	6.2528	6.8903	7.2536	7.5566	7.7362
27 Switzerland/franc	1.3901	1.4356	1.4064	1.3176	1.4291	1.4219	1.4774	1.5178	1.5206
28 Taiwan/dollar	26.918	26.759	25.160	25.278	25.405	25.452	25.452	25.837	26.026
29 Thailand/baht	25.609	25.528	25.411	25.253	25.462	25.488	25.523	25.508	25.425
30 United Kingdom/pound[2]	178.41	176.74	176.63	165.29	152.68	155.10	153.25	143.95	146.17
MEMO									
31 *United States/dollar*[3]	89.09	89.84	86.61	85.03	90.04	90.50	92.36	93.82	93.65

1. Averages of certified noon buying rates in New York for cable transfers. Data in this table also appear in the Board's G.5 (405) monthly statistical release. For ordering address, see inside front cover.
2. Value in U.S. cents.
3. Index of weighted-average exchange value of U.S. dollar against the currencies of ten industrial countries. The weight for each of the ten countries is the 1972–76 average world trade of that country divided by the average world trade of all ten countries combined. Series revised as of August 1978 (see *Federal Reserve Bulletin*, vol. 64, August 1978, p. 700).

Guide to Statistical Releases and Special Tables

STATISTICAL RELEASES—List Published Semiannually, with Latest BULLETIN *Reference*

	Issue	*Page*
Anticipated schedule of release dates for periodic releases	December 1992	A78

SPECIAL TABLES—Quarterly Data Published Irregularly, with Latest BULLETIN *Reference*

Title and Date	*Issue*	*Page*
Assets and liabilities of commercial banks		
March 31, 1992	August 1992	A70
June 30, 1992	November 1992	A70
September 30, 1992	February 1993	A70
December 31, 1992	May 1993	A70
Terms of lending at commercial banks		
May 1992	September 1992	A78
August 1992	November 1992	A76
November 1992	February 1993	A76
February 1993	May 1993	A76
Assets and liabilities of U.S. branches and agencies of foreign banks		
March 31, 1992	September 1992	A82
June 30, 1992	November 1992	A80
September 30, 1992	February 1993	A80
December 31, 1992	May 1993	A80
Pro forma balance sheet and income statements for priced service operations		
June 30, 1991	November 1991	A80
September 30, 1991	January 1992	A70
March 30, 1992	August 1992	A80
June 30, 1992	October 1992	A70
Assets and liabilities of life insurance companies		
June 30, 1991	December 1991	A79
September 30, 1991	May 1992	A81
December 31, 1991	August 1992	A83
September 30, 1992	March 1993	A71

4.20 DOMESTIC AND FOREIGN OFFICES Insured Commercial Bank Assets and Liabilities[1] Consolidated Report of Condition, December 31, 1992

Millions of dollars except as noted

Item	Total	Banks with foreign offices[2]			Banks with domestic offices only[3]	
		Total	Foreign	Domestic	Over 100	Under 100
1 **Total assets[4]**	**3,482,114**	**1,911,690**	**419,929**	**1,578,868**	**1,206,116**	**364,309**
2 Cash and balances due from depository institutions	297,063	201,162	83,833	117,329	73,351	22,550
3 Cash items in process of collection, unposted debits, and currency and coin	↑	85,256	1,668	83,588	39,038	↑
4 Cash items in process of collection and unposted debits	↑	n.a.	n.a.	66,343	27,446	↑
5 Currency and coin	↑	n.a.	n.a.	17,246	11,592	↑
6 Balances due from depository institutions in the United States	n.a.	31,584	19,098	12,486	19,392	n.a.
7 Balances due from banks in foreign countries and foreign central banks	↓	66,985	62,948	4,037	2,692	↓
8 Balances due from Federal Reserve Banks	↓	17,337	119	17,218	12,230	↓
MEMO						
9 Non-interest-bearing balances due from commercial banks in the United States (included in balances due from depository institutions in the United States)	n.a.	n.a.	n.a.	7,674	15,160	9,989
10 **Total securities, loans and lease financing receivables, net**	**2,887,499**	**1,486,673**	n.a.	n.a.	**1,073,144**	**327,682**
11 Total securities, book value	765,160	318,545	30,825	287,719	323,177	123,438
12 U.S. Treasury securities and U.S. government agency and corporation obligations	601,488	240,767	5,864	234,903	261,228	99,494
13 U.S. Treasury securities	n.a.	89,762	3,647	86,115	112,559	n.a.
14 U.S. government agency and corporation obligations	n.a.	151,005	2,218	148,787	148,669	n.a.
15 All holdings of U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages	157,244	77,080	1,815	75,265	60,219	19,945
16 All other	n.a.	73,925	402	73,522	88,450	n.a.
17 Securities issued by states and political subdivisions in the United States	71,204	20,394	562	19,832	34,301	16,508
18 Other domestic debt securities	n.a.	27,004	228	26,776	22,433	n.a.
19 All holdings of private certificates of participation in pools of residential mortgages	3,798	2,276	0	2,276	1,404	118
20 All other domestic debt securities	51,627	24,727	228	24,499	21,029	5,871
21 Foreign debt securities	n.a.	24,132	22,702	1,430	328	n.a.
22 Equity securities	12,582	6,248	1,469	4,779	4,887	1,447
23 Marketable	5,608	1,938	363	1,575	2,668	1,002
24 Investments in mutual funds	3,351	793	30	762	1,684	875
25 Other	2,320	1,149	334	815	1,013	157
26 LESS: Net unrealized loss	63	3	1	2	30	30
27 Other equity securities	6,974	4,310	1,106	3,203	2,219	445
28 Federal funds sold and securities purchased under agreements to resell	157,539	74,987	401	74,586	62,428	20,124
29 Federal funds sold	130,613	54,554	n.a.	n.a.	56,162	19,897
30 Securities purchased under agreements to resell	26,926	20,432	n.a.	n.a.	6,267	227
31 Total loans and lease financing receivables, gross	2,027,493	1,131,613	198,957	932,656	707,130	188,750
32 LESS: Unearned income on loans	8,407	3,068	981	2,087	3,970	1,369
33 Total loans and leases (net of unearned income)	2,019,086	1,128,545	197,976	930,568	703,160	187,381
34 LESS: Allowance for loan and lease losses	53,942	35,060	n.a.	n.a.	15,621	3,261
35 LESS: Allocated transfer risk reserves	343	343	n.a.	n.a.	0	0
36 EQUALS: Total loans and leases, net	1,964,801	1,093,142	n.a.	n.a.	687,539	184,120
Total loans, gross, by category						
37 Loans secured by real estate	861,661	399,154	21,343	377,812	359,161	103,345
38 Construction and land development	↑	↑	↑	44,451	27,558	6,026
39 Farmland	↑	↑	↑	2,137	7,206	10,526
40 One- to four-family residential properties	↑	↑	↑	209,277	193,733	56,876
41 Revolving, open-end loans, extended under lines of credit	n.a.	n.a.	n.a.	39,725	30,336	3,091
42 All other loans	↓	↓	↓	169,552	163,397	53,786
43 Multifamily (five or more) residential properties	↓	↓	↓	12,449	12,314	2,180
44 Nonfarm nonresidential properties	↓	↓	↓	109,498	118,351	27,737
45 Loans to depository institutions	37,900	29,585	15,545	14,040	8,126	189
46 Commercial banks in the United States	n.a.	12,050	466	11,584	7,478	n.a.
47 Other depository institutions in the United States	n.a.	657	108	549	304	n.a.
48 Banks in foreign countries	n.a.	16,878	14,971	1,907	344	n.a.
49 Loans to finance agricultural production and other loans to farmers	34,887	5,217	225	4,992	10,865	18,806
50 Commercial and industrial loans	533,273	375,217	93,728	281,489	126,474	31,582
51 U.S. addressees (domicile)	n.a.	300,684	21,776	278,908	125,956	n.a.
52 Non-U.S. addressees (domicile)	n.a.	74,533	71,952	2,581	518	n.a.
53 Acceptances of other banks	1,938	1,226	696	530	400	312
54 U.S. banks	n.a.	387	6	382	n.a.	n.a.
55 Foreign banks	n.a.	839	690	149	n.a.	n.a.
56 Loans to individuals for household, family, and other personal expenditures (includes purchased paper)	382,753	174,704	20,233	154,471	176,507	31,542
57 Credit cards and related plans	135,768	69,990	n.a.	n.a.	63,907	1,871
58 Other (includes single payment and installment)	246,985	104,714	n.a.	n.a.	112,600	29,672
59 Obligations (other than securities) of states and political subdivisions in the United States (includes nonrated industrial development obligations)	24,980	13,499	270	13,229	10,220	1,261
60 Taxable	1,802	1,249	147	1,102	510	44
61 Tax-exempt	23,177	12,251	124	12,127	9,710	1,217
62 All other loans	115,349	104,847	43,381	61,466	9,258	1,245
63 Loans to foreign governments and official institutions	n.a.	24,151	22,763	1,388	83	n.a.
64 Other loans	n.a.	80,696	20,618	60,078	9,174	n.a.
65 Loans for purchasing and carrying securities	n.a.	n.a.	n.a.	14,964	1,797	n.a.
66 All other loans	n.a.	n.a.	n.a.	45,114	7,378	n.a.
67 Lease financing receivables	34,752	28,164	3,538	24,626	6,120	468
68 Assets held in trading accounts	80,508	78,936	47,922	30,907	1,388	184
69 Premises and fixed assets (including capitalized leases)	52,636	28,262	↑	n.a.	18,461	5,913
70 Other real estate owned	26,177	16,550	↑	n.a.	7,807	1,820
71 Investments in unconsolidated subsidiaries and associated companies	3,168	2,690	↑	n.a.	418	60
72 Customers' liability on acceptances outstanding	16,041	15,594	n.a.	n.a.	424	22
73 Net due from own foreign offices, Edge and agreement subsidiaries, and IBFs	n.a.	n.a.	↓	63,509	n.a.	n.a.
74 Intangible assets	15,369	9,390	↓	n.a.	5,552	427
75 Other assets	103,653	72,432	↓	n.a.	25,571	5,651

4.20—Continued

Item	Total	Banks with foreign offices[2]			Banks with domestic offices only[3]	
		Total	Foreign	Domestic	Over 100	Under 100
76 **Total liabilities, limited-life preferred stock and equity capital**	**3,482,114**	**1,911,690**	n.a.	n.a.	**1,206,116**	**364,309**
77 **Total liabilities**[5]	**3,220,322**	**1,781,078**	**419,926**	**1,448,259**	**1,108,872**	**330,372**
78 *Limited-life preferred stock*	2	0	n.a.	n.a.	0	2
79 Total deposits	2,678,587	1,358,817	286,737	1,072,079	996,977	322,794
80 Individuals, partnerships, and corporations			175,468	991,468	929,560	297,131
81 U.S. government				5,228	3,069	696
82 States and political subdivisions in the United States				31,965	43,149	20,091
83 Commercial banks in the United States	n.a.	n.a.	n.a.	21,801	9,170	1,259
84 Other depository institutions in the United States				3,637	4,494	1,255
85 Banks in foreign countries				6,260	114	n.a.
86 Foreign governments and official institutions	n.a.	22,172	21,180	991	62	n.a.
87 Certified and official checks	21,271	11,583	854	10,730	7,360	2,327
88 All other[6]	n.a.	n.a.	89,235	n.a.	n.a.	34
89 Total transaction accounts				398,412	309,739	96,598
90 Individuals, partnerships, and corporations				339,294	274,755	85,380
91 U.S. government				4,732	2,815	581
92 States and political subdivisions in the United States				14,028	16,506	7,484
93 Commercial banks in the United States				20,034	6,753	638
94 Other depository institutions in the United States				2,911	1,434	172
95 Banks in foreign countries				5,933	107	n.a.
96 Foreign governments and official institutions				751	10	n.a.
97 Certified and official checks				10,730	7,360	2,327
98 All other				n.a.	n.a.	17
99 Demand deposits (included in total transaction accounts)				286,037	174,935	46,994
100 Individuals, partnerships, and corporations				231,679	150,324	41,425
101 U.S. government				4,674	2,735	557
102 States and political subdivisions in the United States				9,329	6,261	1,867
103 Commercial banks in the United States				20,034	6,724	633
104 Other depository institutions in the United States	n.a.	n.a.	n.a.	2,911	1,414	168
105 Banks in foreign countries				5,931	107	n.a.
106 Foreign governments and official institutions				750	10	n.a.
107 Certified and official checks				10,730	7,360	2,327
108 All other				n.a.	n.a.	17
109 Total nontransaction accounts				673,667	687,238	226,195
110 Individuals, partnerships, and corporations				652,173	654,805	211,751
111 U.S. government				497	253	115
112 States and political subdivisions in the United States				17,937	26,643	12,606
113 Commercial banks in the United States				1,767	2,417	622
114 U.S. branches and agencies of foreign banks				109	132	n.a.
115 Other commercial banks in the United States				1,658	2,285	n.a.
116 Other depository institutions in the United States				726	3,060	1,083
117 Banks in foreign countries				327	7	n.a.
118 Foreign branches of other U.S. banks				3	4	n.a.
119 Other banks in foreign countries				324	3	n.a.
120 Foreign governments and official institutions				240	52	n.a.
121 All other				n.a.	n.a.	18
122 Federal funds purchased and securities sold under agreements to repurchase	250,940	184,458	378	184,080	63,368	3,114
123 Federal funds purchased	164,053	127,144	n.a.	n.a.	35,720	1,189
124 Securities sold under agreements to repurchase	86,887	57,314	n.a.	n.a.	27,648	1,925
125 Demand notes issued to the U.S. Treasury	n.a.	n.a.	n.a.	17,563	4,494	360
126 Other borrowed money	130,112	103,411	37,393	66,019	25,619	1,082
127 Banks' liability on acceptances executed and outstanding	16,199	15,752	3,447	12,306	424	22
128 Notes and debentures subordinated to deposits	33,513	31,572	n.a.	n.a.	1,852	88
129 Net due to own foreign offices, Edge and agreement subsidiaries, and IBFs	n.a.	n.a.	n.a.	23,598	n.a.	n.a.
130 All other liabilities	88,555	69,505	n.a.	n.a.	16,138	2,912
131 Total equity capital[7]	261,790	130,612	n.a.	n.a.	97,243	33,935
MEMO						
132 Holdings of commercial paper included in total loans, gross		1,257	282	975	1,333	n.a.
133 Total individual retirement accounts (IRA) and Keogh plan accounts				64,496	65,096	18,336
134 Total brokered deposits				29,110	15,581	569
135 Total brokered retail deposits				20,387	13,158	543
136 Issued in denominations of $100,000 or less				1,148	1,959	480
137 Issued in denominations greater than $100,000 and participated out by the broker in shares of $100,000 or less				19,239	11,199	63
138 Money market deposit accounts (savings deposits; MMDAs)				238,452	174,333	40,888
139 Other savings deposits (excluding MMDAs)				122,617	126,363	38,854
140 Total time deposits of less than $100,000				206,297	300	118,175
141 Time certificates of deposit of $100,000 or more				89,911	83,764	27,265
142 Open-account time deposits of $100,000 or more				16,390	2,980	1,014
143 All negotiable order of withdrawal (NOW) accounts (including Super NOWs)	110,873	132,180	48,240			
144 Total time and savings deposits	n.a.	n.a.	n.a.	786,042	822,042	275,799
Quarterly averages						
145 Total loans				903,116	697,055	185,985
146 Obligations (other than securities) of states and political subdivisions in the United States				13,822	10,356	n.a.
147 Transaction accounts in domestic offices (NOW accounts, automated transfer service (ATS) accounts, and telephone and preauthorized transfer accounts)				102,356	126,510	47,288
Nontransaction accounts in domestic offices						
148 Money market deposit accounts				240,067	175,851	40,603
149 Other savings deposits				120,676	123,728	37,827
150 Time certificates of deposit of $100,000 or more				96,328	85,592	27,242
151 All other time deposits				230,813	309,039	120,751
152 Number of banks	11,419	214	n.a.	n.a.	2,793	8,412

Footnotes appear at the end of table 4.22

4.21 DOMESTIC OFFICES, Insured Commercial Banks with Assets of $100 Million or more or with foreign offices[1]
Consolidated Report of Condition, December 31, 1992

Millions of dollars except as noted

Item	Total	Members			Non-members
		Total	National	State	
1 **Total assets**[4]	**2,784,984**	**2,172,390**	**1,696,253**	**476,136**	**612,594**
2 Cash and balances due from depository institutions	190,680	156,956	122,920	34,035	33,725
3 Cash items in process of collection and unposted debits	93,789	83,061	66,057	17,004	10,727
4 Currency and coin	28,838	23,813	19,536	4,277	5,025
5 Balances due from depository institutions in the United States	31,878	20,593	16,689	3,904	11,285
6 Balances due from banks in foreign countries and foreign central banks	6,729	5,537	4,421	1,116	1,191
7 Balances due from Federal Reserve Banks	29,448	23,952	16,218	7,734	5,497
8 **Total securities, loans, and lease financing receivables, (net of unearned income)**	**2,381,638**	**1,831,768**	**1,447,797**	**383,970**	**549,870**
9 Total securities, book value	610,896	463,972	350,401	113,571	146,924
10 U.S. Treasury securities	198,675	145,581	113,446	32,135	53,093
11 U.S. government agency and corporation obligations	297,456	233,794	176,222	57,572	63,662
12 All holdings of U.S. government-issued or guaranteed certificates of participation in pools of residential mortgages	135,484	110,661	85,457	25,204	24,823
13 All other	161,972	123,133	90,765	32,368	38,839
14 Securities issued by states and political subdivisions in the United States	54,133	38,329	27,133	11,196	15,804
15 Other domestic debt securities	49,208	38,268	26,850	11,418	10,940
16 All holdings of private certificates of participation in pools of residential mortgages	3,680	3,137	2,811	326	543
17 All other	45,528	35,132	24,040	11,092	10,397
18 Foreign debt securities	1,759	1,198	1,114	84	561
19 Equity securities	9,666	6,802	5,636	1,166	2,864
20 Marketable	4,243	2,080	1,810	270	2,164
21 Investments in mutual funds	2,447	1,174	1,032	142	1,272
22 Other	1,828	919	789	130	910
23 LESS: Net unrealized loss	32	13	11	3	19
24 Other equity securities	5,423	4,722	3,825	896	701
25 Federal funds sold and securities purchased under agreements to resell[8]	137,014	110,034	87,028	23,006	26,980
26 Federal funds sold	56,162	37,449	32,996	4,454	18,712
27 Securities purchased under agreements to resell	6,267	4,399	3,361	1,039	1,867
28 Total loans and lease financing receivables, gross	1,639,786	1,261,835	1,013,169	248,666	377,951
29 LESS: Unearned income on loans	6,058	4,073	2,800	1,273	1,985
30 Total loans and leases (net of unearned income)	1,633,728	1,257,762	1,010,369	247,393	375,966
Total loans, gross, by category					
31 Loans secured by real estate	736,973	549,706	450,156	99,550	187,267
32 Construction and land development	72,009	54,793	45,298	9,494	17,216
33 Farmland	9,343	5,608	4,778	830	3,735
34 One- to four-family residential properties	403,010	306,962	251,696	55,266	96,048
35 Revolving, open-end and extended under lines of credit	70,061	53,683	43,807	9,876	16,378
36 All other loans	332,949	253,279	207,888	45,391	79,670
37 Multifamily (five or more) residential properties	24,763	17,674	14,219	3,455	7,088
38 Nonfarm nonresidential properties	227,849	164,669	134,165	30,504	63,179
39 Commercial banks in the United States	19,062	14,322	10,433	3,889	4,739
40 Other depository institutions in the United States	853	616	528	87	238
41 Banks in foreign countries	2,251	1,915	1,040	876	336
42 Finance agricultural production and other loans to farmers	15,856	10,814	9,429	1,385	5,043
43 Commercial and industrial loans	407,963	329,823	260,439	69,384	78,140
44 U.S. addressees (domicile)	404,864	327,115	258,302	68,813	77,750
45 Non-U.S. addressees (domicile)	3,099	2,709	2,137	572	390
46 Acceptances of other banks[9]	930	645	470	175	285
47 U.S. banks	536	361	211	151	175
48 Foreign banks	202	194	190	3	8
49 Loans to individuals for household, family, and other personal expenditures (includes purchased paper)	330,978	243,591	200,725	42,866	87,387
50 Credit cards and related plans	63,907	44,258	40,855	3,403	19,649
51 Other (includes single payment and installment)	112,600	68,383	55,292	13,091	44,217
52 Loans to foreign governments and official institutions	1,472	1,442	848	594	29
53 Obligations (other than securities) of states and political subdivisions in the United States (includes nonrated industrial development obligations)	23,449	19,039	13,747	5,293	4,410
54 Taxable	1,612	1,361	963	398	251
55 Tax-exempt	21,837	17,679	12,784	4,895	4,158
56 Other loans	69,252	64,382	44,705	19,677	4,870
57 Loans for purchasing and carrying securities	16,761	15,832	8,442	7,391	928
58 All other loans	52,491	48,550	36,264	12,286	3,942
59 Lease financing receivables	30,746	25,539	20,648	4,891	5,207
60 Customers' liability on acceptances outstanding	12,524	11,790	8,695	3,095	734
61 Net due from own foreign offices, Edge and agreement subsidiaries, and IBFs	63,509	57,221	31,018	26,203	6,287
62 Remaining assets	200,141	171,876	116,840	55,036	28,265

4.21—Continued

Item	Total	Members			Nonmembers
		Total	National	State	
63 **Total liabilities and equity capital**	**2,784,984**	**2,172,390**	**1,696,253**	**476,136**	**612,594**
64 **Total liabilities**[5]	**2,557,131**	**1,996,978**	**1,561,188**	**435,789**	**560,153**
65 Total deposits	2,069,056	1,595,886	1,273,976	321,910	473,170
66 Individuals, partnerships, and corporations	1,921,028	1,478,915	1,182,224	296,691	442,113
67 U.S. government	8,297	6,992	5,702	1,290	1,305
68 States and political subdivisions in the United States	75,114	55,116	44,354	10,762	19,998
69 Commercial banks in the United States	30,970	27,854	21,881	5,974	3,116
70 Other depository institutions in the United States	8,131	5,569	4,387	1,183	2,561
71 Banks in foreign countries	6,374	5,964	3,977	1,987	410
72 Foreign governments and official institutions	1,053	956	561	395	98
73 Certified and official checks	18,089	14,520	10,890	3,630	3,570
74 Total transaction accounts	708,151	567,054	449,580	117,474	141,098
75 Individuals, partnerships, and corporations	614,049	487,012	387,438	99,574	127,037
76 U.S. government	7,547	6,312	5,199	1,113	1,235
77 States and political subdivisions in the United States	30,533	23,828	19,086	4,742	6,705
78 Commercial banks in the United States	26,786	25,315	20,043	5,272	1,472
79 Other depository institutions in the United States	4,344	3,609	2,684	925	735
80 Banks in foreign countries	6,040	5,759	3,869	1,890	281
81 Foreign governments and official institutions	762	698	370	328	63
82 Certified and official checks	18,089	14,520	10,890	3,630	3,570
83 Demand deposits (included in total transaction accounts)	460,972	377,420	294,375	83,045	83,552
84 Individuals, partnerships, and corporations	382,004	308,210	241,105	67,104	73,794
85 U.S. government	7,408	6,185	5,085	1,100	1,223
86 States and political subdivisions in the United States	15,590	13,140	10,344	2,797	2,449
87 Commercial banks in the United States	26,757	25,315	20,043	5,272	1,443
88 Other depository institutions in the United States	4,325	3,595	2,669	925	731
89 Banks in foreign countries	6,038	5,758	3,869	1,888	280
90 Foreign governments and official institutions	760	698	370	328	63
91 Certified and official checks	18,089	14,520	10,890	3,630	3,570
92 Total nontransaction accounts	1,360,905	1,028,832	824,396	204,436	332,073
93 Individuals, partnerships, and corporations	1,306,979	991,903	794,786	197,117	315,075
94 U.S. government	750	679	503	177	70
95 States and political subdivisions in the United States	44,581	31,288	25,268	6,020	13,293
96 Commercial banks in the United States	4,184	2,539	1,838	702	1,645
97 U.S. branches and agencies of foreign banks	241	105	90	16	136
98 Other commercial banks in the United States	3,943	2,434	1,748	686	1,508
99 Other depository institutions in the United States	3,786	1,960	1,703	257	1,826
100 Banks in foreign countries	334	205	108	97	129
101 Foreign branches of other U.S. banks	7	7	4	3	0
102 Other banks in foreign countries	327	198	104	94	129
103 Foreign governments and official institutions	292	258	191	66	34
104 Federal funds purchased and securities sold under agreements to repurchase[10]	247,448	210,303	151,711	58,592	37,145
105 Federal funds purchased	35,720	28,726	23,251	5,475	6,995
106 Securities sold under agreements to repurchase	27,648	17,579	15,306	2,273	10,069
107 Demand notes issued to the U.S. Treasury	22,057	20,000	13,482	6,518	2,057
108 Other borrowed money	91,638	64,729	45,765	18,964	26,909
109 Banks liability on acceptances executed and outstanding	12,730	11,995	8,878	3,117	735
110 Notes and debentures subordinated to deposits	1,852	1,364	1,135	229	489
111 Net due to own foreign offices, Edge and agreement subsidiaries, and IBFs	23,598	14,248	12,320	1,928	9,350
112 Remaining liabilities	112,351	92,702	66,241	26,460	19,649
113 **Total equity capital**[7]	**227,853**	**175,412**	**135,065**	**40,347**	**52,441**
MEMO					
114 Holdings of commercial paper included in total loans, gross	2,308	912	891	21	1,396
115 Total individual retirement (IRA) and Keogh plan accounts	129,592	99,985	80,964	19,021	29,607
116 Total brokered deposits	44,690	32,067	26,745	5,322	12,623
117 Total brokered retail deposits	33,545	24,091	20,230	3,861	9,454
118 Issued in denominations of $100,000 or less	3,107	1,787	1,695	92	1,320
119 Issued in denominations greater than $100,000 and participated out by the broker in shares of $100,000 or less	30,438	22,304	18,535	3,769	8,133
120 Money market deposit accounts (savings deposits; MMDAs)	412,785	326,688	261,507	65,182	86,097
121 Other savings accounts	248,980	188,062	139,730	48,332	60,918
122 Total time deposits of less than $100,000	506,094	375,255	309,691	65,564	130,839
123 Time certificates of deposit of $100,000 or more	173,675	123,473	104,122	19,351	50,202
124 Open-account time deposits of $100,000 or more	19,371	15,354	9,347	6,007	4,016
125 All negotiable order of withdrawal (NOW) accounts (including Super NOWs)	243,053	187,090	153,023	34,066	55,963
126 Total time and savings deposits	1,608,084	1,218,466	979,601	238,865	389,618
Quarterly averages					
127 Total loans	1,600,171	1,228,719	987,362	241,357	371,452
128 Obligations (other than securities) of states and political subdivisions in the United States	24,178	19,708	14,249	5,459	4,470
129 Transaction accounts (NOW accounts, automated transfer service (ATS) accounts, and telephone preauthorized transfer accounts)	228,866	174,864	143,213	31,651	54,002
Nontransaction accounts					
130 Money market deposit accounts	415,918	329,162	261,704	67,457	86,756
131 Other savings deposits	244,404	184,406	136,894	47,512	59,998
132 Time certificates of deposits of $100,000 or more	181,919	130,126	109,744	20,381	51,794
133 All other time deposits	539,852	402,075	326,909	75,167	137,776
134 Number of banks	3,007	1,625	1,350	275	1,382

Footnotes appear at the end of table 4.22

4.22 DOMESTIC OFFICES, Insured Commercial Bank Assets and Liabilities[1]
Consolidated Report of Condition, December 31, 1992

Millions of dollars except as noted

Item	Total	Members			Non-members
		Total	National	State	
1 **Total assets**[4]	**3,149,292**	**2,312,519**	**1,804,319**	**508,200**	**836,773**
2 Cash and balances due from depository institutions	213,230	165,769	129,807	35,962	47,461
3 Currency and coin	31,913	25,009	20,472	4,537	6,904
4 Non-interest-bearing balances due from commercial banks	32,823	18,660	14,390	4,270	14,162
5 Other	148,494	122,100	94,944	27,155	26,395
6 **Total securities, loans, and lease financing receivables (net of unearned income)**	**2,712,581**	**1,958,865**	**1,545,644**	**413,221**	**753,716**
7 Total securities, book value	734,334	512,294	388,718	123,576	222,040
8 U.S. Treasury securities and U.S. government agency and corporation obligations	595,624	419,031	321,309	97,722	176,593
9 Securities issued by states and political subdivisions in the United States	70,641	44,168	31,608	12,560	26,474
10 Other debt securities	56,956	41,642	29,654	11,988	15,314
11 All holdings of private certificates of participation in pools of residential mortgages	3,798	3,181	2,846	335	617
12 All other	53,158	38,461	26,808	11,653	14,697
13 Equity securities	11,113	7,454	6,147	1,307	3,659
14 Marketable	5,245	2,446	2,111	335	2,799
15 Investments in mutual funds	3,321	1,522	1,316	206	1,799
16 Other	1,986	948	815	133	1,038
17 LESS: Net unrealized loss	62	24	20	4	38
18 Other equity securities	5,868	5,008	4,036	972	860
19 Federal funds sold and securities purchased under agreements to resell[6]	157,138	118,268	93,319	24,949	38,870
20 Federal funds sold	76,059	45,600	39,236	6,364	30,459
21 Securities purchased under agreements to resell	6,493	4,483	3,412	1,072	2,010
22 Total loans and lease financing receivables, gross	1,828,536	1,332,921	1,066,826	266,094	495,615
23 LESS: Unearned income on loans	7,426	4,618	3,220	1,398	2,809
24 Total loans and leases (net of unearned income)	1,821,109	1,328,303	1,063,606	264,697	492,806
Total loans, gross, by category					
25 Loans secured by real estate	840,318	588,443	479,219	109,224	251,875
26 Construction and land development	78,035	57,213	47,071	10,142	20,823
27 Farmland	19,868	8,895	7,386	1,509	10,973
28 One- to four-family residential properties	459,886	328,566	267,725	60,841	131,320
29 Revolving, open-end loans, and extended under lines of credit	73,151	55,015	44,718	10,297	18,137
30 All other loans	386,735	273,551	223,007	50,544	113,183
31 Multifamily (five or more) residential properties	26,943	18,498	14,839	3,659	8,445
32 Nonfarm nonresidential properties	255,586	175,271	142,199	33,072	80,314
33 Loans to depository institutions	22,355	16,927	12,055	4,872	5,428
34 Loans to finance agricultural production and other loans to farmers	34,663	17,160	14,460	2,700	17,503
35 Commercial and industrial loans	439,545	342,579	269,846	72,733	96,966
36 Acceptances of other banks	1,242	745	547	198	498
37 Loans to individuals for household, family, and other personal expenditures (includes purchased paper)	362,520	255,576	209,919	45,657	106,944
38 Credit cards and related plans	65,778	44,894	41,364	3,530	20,884
39 Other (includes single payment installment)	142,272	79,733	63,977	15,756	62,539
40 Obligations (other than securities) of states and political subdivisions in the United States	24,710	19,475	14,095	5,379	5,235
41 Taxable	1,656	1,377	975	401	279
42 Tax-exempt	23,054	18,098	13,120	4,978	4,956
43 All other loans	71,968	66,306	45,890	20,416	5,663
44 Lease financing receivables	31,214	25,710	20,795	4,916	5,504
45 Customers' liability on acceptances outstanding	12,547	11,809	8,711	3,098	738
46 Net due from own foreign offices, Edge and agreement subsidiaries, and IBFs	63,509	57,221	31,018	26,203	6,287
47 Remaining assets	210,934	176,077	120,158	55,919	34,857
48 **Total liabilities and equity capital**	**3,149,292**	**2,312,519**	**1,804,319**	**508,200**	**836,773**
49 **Total liabilities**[5]	**2,887,503**	**2,124,295**	**1,659,390**	**464,905**	**763,208**
50 Total deposits	2,391,850	1,720,185	1,369,947	350,238	671,665
51 Individuals, partnerships, and corporations	2,218,159	1,593,604	1,270,911	322,693	624,555
52 U.S. government	8,993	7,304	5,948	1,356	1,689
53 States and political subdivisions in the United States	95,205	62,247	50,045	12,202	32,957
54 Commercial banks in the United States	32,230	28,632	22,179	6,453	3,598
55 Other depository institutions in the United States	9,385	5,989	4,695	1,294	3,396
56 Certified and official checks	20,417	15,478	11,625	3,853	4,939
57 All other	7,461	6,931	4,545	2,386	530
58 Total transaction accounts	804,750	605,584	479,630	125,953	199,166
59 *Individuals, partnerships, and corporations*	*699,429*	*521,029*	*414,174*	*106,855*	*178,400*
60 U.S. government	8,128	6,572	5,404	1,168	1,556
61 States and political subdivisions in the United States	38,018	26,459	21,245	5,214	11,559
62 Commercial banks in the United States	27,424	25,893	20,191	5,702	1,531
63 Other depository institutions in the United States	4,516	3,685	2,747	938	832
64 Certified and official checks	20,417	15,478	11,625	3,853	4,939
65 All other	6,818	6,469	4,245	2,223	349
66 Demand deposits (included in total transaction accounts)	507,966	396,771	309,143	87,628	111,194
67 Individuals, partnerships, and corporations	423,428	325,056	254,195	70,861	98,372
68 U.S. government	7,965	6,440	5,285	1,155	1,525
69 States and political subdivisions in the United States	17,457	13,769	10,872	2,897	3,688
70 Commercial banks in the United States	27,390	25,892	20,190	5,702	1,498
71 Other depository institutions in the United States	4,494	3,669	2,731	938	824
72 Certified and official checks	20,417	15,478	11,625	3,853	4,939
73 All other	6,815	6,467	4,245	2,222	348
74 Total nontransaction accounts	1,587,100	1,114,601	890,317	224,284	472,499
75 Individuals, partnerships, and corporations	1,518,730	1,072,575	856,737	215,838	446,155
76 U.S. government	865	732	544	188	133
77 States and political subdivisions in the United States	57,187	35,788	28,800	6,988	21,399
78 Commercial banks in the United States	4,806	2,739	1,988	751	2,067
79 Other depository institutions in the United States	4,869	2,304	1,948	356	2,565
80 All other	643	462	299	163	181

4.22—Continued

Item	Total	Members			Non-members
		Total	National	State	
81 Federal funds purchased and securities sold under agreements to repurchase[10]	250,562	211,658	152,636	59,022	38,904
82 Federal funds purchased	36,909	29,286	23,577	5,709	7,623
83 Securities sold under agreements to repurchase	29,573	18,373	15,904	2,469	11,200
84 Demand notes issued to the U.S. Treasury	22,417	20,122	13,577	6,546	2,294
85 Other borrowed money	92,720	65,100	46,054	19,046	27,620
86 Banks liability on acceptances executed and outstanding	12,752	12,014	8,894	3,120	738
87 Notes and debentures subordinated to deposits	1,940	1,381	1,143	237	560
88 Net due to own foreign offices, Edge and agreement subsidiaries, and IBFs	23,598	14,248	12,320	1,928	9,350
89 Remaining liabilities	115,262	93,836	67,138	26,697	21,427
90 Total equity capital[7]	**261,789**	**188,224**	**144,929**	**43,295**	**73,565**
MEMO					
91 Assets held in trading accounts[11]	32,478	30,938	19,359	11,579	1,541
92 U.S. Treasury securities	14,776	14,643	8,646	5,997	132
93 U.S. government agency corporation obligations	3,436	3,019	2,410	608	417
94 Securities issued by states and political subdivisions in the United States	1,525	1,435	871	565	90
95 Other bonds, notes, and debentures	1,794	1,737	1,593	144	57
96 Certificates of deposit	1,080	930	667	263	150
97 Commercial paper	29	29	29	0	0
98 Bankers acceptances	2,314	2,159	1,429	730	155
99 Other	6,700	6,619	3,369	3,250	81
100 Total individual retirement (IRA) and Keogh plan accounts	147,928	106,746	86,208	20,537	41,182
101 Total brokered deposits	45,259	32,287	26,897	5,390	12,972
102 Total brokered retail deposits	34,088	24,301	20,374	3,927	9,787
103 Issued in denominations of $100,000 or less	3,587	1,964	1,819	144	1,623
104 Issued in denominations greater than $100,000 and participated out by the broker in shares of $100,000 or less	30,501	22,337	18,555	3,782	8,164
Savings deposits					
105 Money market deposit accounts (savings deposits; MMDAs)	453,673	343,459	274,451	69,008	110,214
106 Other savings deposits	287,834	203,527	151,318	52,209	84,306
107 Total time deposits of less than $100,000	624,269	417,886	342,628	75,258	206,384
108 Time certificates of deposit of $100,000 or more	200,940	134,029	112,302	21,728	66,910
109 Open-account time deposits of $100,000 or more	20,384	15,700	9,618	6,081	4,685
110 All negotiable order of withdrawal (NOW) accounts (including Super NOWs)	291,292	205,812	167,964	37,848	85,480
111 Total time and savings deposits	1,883,884	1,323,413	1,060,804	262,609	560,471
Quarterly averages					
112 Total loans	1,786,156	1,298,640	1,040,192	258,448	487,517
113 Transaction accounts (NOW accounts, automated transfer service (ATS) accounts, and telephone and preauthorized transfer accounts)	276,154	193,152	157,784	35,369	83,002
Nontransaction accounts					
114 Money market deposit accounts	456,521	345,871	274,610	71,261	110,650
115 Other savings deposits	282,230	199,468	148,212	51,256	82,762
116 Time certificates of deposit of $100,000 or more	209,162	140,673	117,901	22,771	68,489
117 All other time deposits	660,602	445,647	360,522	85,125	214,955
118 Number of banks	11,419	4,547	3,594	953	6,872

1. Effective Mar. 31, 1984, the report of condition was substantially revised for commercial banks. Some of the changes are as follows: (1) Previously, banks with international banking facilities (IBFs) that had no other foreign offices were considered domestic reporters. Beginning with the March 31, 1984, Call Report these banks are considered foreign and domestic reporters and must file the foreign and domestic report of condition; (2) banks with assets of more than $1 billion report additional items; (3) the domestic offices of banks with foreign offices report far less detail; and (4) banks with assets of less than $25 million have been excused from reporting certain detail items.

The "n.a." for some of the items is used to indicate the lesser detail available from banks without foreign offices, the inapplicability of certain items to banks that have only domestic offices or the absence of detail on a fully consolidated basis for banks with foreign offices.

All transactions between domestic and foreign offices of a bank are reported in "net due from" and "net due to." All other lines represent transactions with parties other than the domestic and foreign offices of each bank. Because these intraoffice transactions are nullified by consolidation, total assets and total liabilities for the entire bank may not equal the sum of assets and liabilities respectively of the domestic and foreign offices.

2. Foreign offices include branches in foreign countries, Puerto Rico, and U.S. territories and possessions; subsidiaries in foreign countries; all offices of Edge Act and Agreement corporations wherever located and IBFs.

3. The "over 100" refers to banks whose assets, on June 30 of the preceding calendar year, were $100 million or more. (These banks file the FFIEC 032 or FFIEC 033 Call Report.) "Under 100" refers to banks whose assets, on June 30 of the preceding calendar year, were less than $100 million. (These banks filed the FFIEC 034 Call Report.)

4. Because the domestic portion of allowances for loan and lease losses and allocated transfer risk reserve are not reported for banks with foreign offices, the components of total assets (domestic) do not sum to the actual total (domestic).

5. Because the foreign portion of demand notes issued to the U.S. Treasury is not reported for banks with foreign offices, the components of total liabilities (foreign) will not sum to the actual total (foreign).

6. The definition of "all other" varies by report form and therefore by column in this table.

7. Equity capital is not allocated between the domestic and foreign offices of banks with foreign offices.

8. Only the domestic portion of federal funds sold and securities purchased under agreements to resell are reported here; therefore, the components do not sum to totals.

9. "Acceptances of other banks" is not reported by domestic banks having less than $300 million in total assets; therefore the components do not sum to totals.

10. Only the domestic portion of federal funds purchased and securities sold are reported here; therefore the components do not sum to totals.

11. Components are reported only for banks with total assets of $1 billion or more; therefore the components do not sum to totals.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, February 1-5, 1993[1]

A. Commercial and Industrial Loans

Characteristic	Amount of loans ($1,000)	Average size ($1,000)	Weighted average maturity[2]	Loan rate (percent)		Loans secured by collateral (percent)	Loans made under commitment (percent)	Participation loans (percent)	Most common base pricing rate[5]
			Days	Weighted average effective[3]	Standard error[4]				
ALL BANKS									
1 Overnight[6]	7,333,668	6,404	*	3.94	.24	7.1	62.3	6.5	Other
2 One month and under (excluding overnight)	7,208,296	963	17	4.20	.20	27.0	73.3	7.7	Other
3 Fixed rate	5,748,921	1,911	17	4.08	.26	20.7	71.5	7.1	Other
4 Floating rate	1,459,376	326	17	4.66	.28	52.1	80.3	10.0	Prime
5 Over one month and under a year	7,705,951	134	150	5.54	.18	55.1	83.1	5.4	Prime
6 Fixed rate	3,063,944	141	115	4.83	.26	42.6	76.3	1.6	Foreign
7 Floating rate	4,642,006	130	172	6.02	.22	63.3	87.6	7.8	Prime
8 Demand[7]	14,812,621	288	*	5.45	.18	63.2	66.9	3.2	Prime
9 Fixed rate	4,065,279	894	*	4.17	.31	23.9	67.8	3.5	Domestic
10 Floating rate	10,747,342	230	*	5.93	.16	78.0	66.5	3.1	Prime
11 Total short term	**37,060,536**	**315**	**58**	**4.92**	**.17**	**43.4**	**70.6**	**5.2**	**Prime**
12 Fixed rate (thousands of dollars)	20,211,700	663	28	4.16	.27	19.7	68.1	5.3	Other
13 1-99	339,729	13	178	8.43	.24	72.6	36.0	1.0	Other
14 100-499	332,759	190	87	6.34	.12	58.1	62.2	6.6	Other
15 500-999	380,367	645	61	4.97	.11	47.8	70.6	8.7	Other
16 1,000-4,999	3,661,256	2,312	31	4.40	.05	24.9	75.3	7.1	Other
17 5,000-9,999	3,952,280	6,895	27	4.16	.08	16.4	70.5	6.6	Domestic
18 10,000 and over	11,545,310	18,611	21	3.86	.12	15.6	66.1	4.3	Other
19 Floating rate (thousands of dollars)	16,848,836	194	135	5.85	.18	71.7	73.5	5.0	Prime
20 1-99	1,636,952	24	159	7.42	.06	83.7	83.4	1.7	Prime
21 100-499	2,908,572	196	160	6.89	.06	75.5	89.1	6.5	Prime
22 500-999	1,477,933	676	140	6.77	.14	73.4	89.7	7.6	Prime
23 1,000-4,999	3,941,534	1,973	154	6.09	.18	60.1	88.0	6.1	Prime
24 5,000-9,999	1,598,714	6,715	128	5.20	.38	52.5	74.2	6.4	Prime
25 10,000 and over	5,285,131	22,473	84	4.54	.44	79.9	46.4	3.3	Fed funds
			Months						
26 Total long term	**5,082,959**	**193**	**44**	**6.39**	**.19**	**64.4**	**71.9**	**8.2**	**Prime**
27 Fixed rate (thousands of dollars)	1,534,899	126	47	6.43	.33	66.9	62.8	3.5	Other
28 1-99	202,898	19	37	8.98	.07	93.6	19.1	.1	Other
29 100-499	185,710	168	50	8.11	.28	93.6	33.0	3.2	Prime
30 500-999	71,990	661	61	7.07	.56	75.8	49.0	5.9	Other
31 1,000 and over	1,074,302	4,138	47	5.62	.74	56.7	77.1	4.0	Other
32 Floating rate (thousands of dollars)	3,548,060	252	43	6.38	.18	63.3	75.8	10.3	Prime
33 1-99	243,261	25	43	8.13	.11	88.6	53.4	2.5	Prime
34 100-499	649,014	203	40	7.30	.18	75.6	69.3	7.5	Prime
35 500-999	423,420	655	61	6.88	.21	78.8	72.7	7.6	Prime
36 1,000 and over	2,232,365	3,811	41	5.82	.19	54.0	80.7	12.4	Prime
			Days	Loan rate (percent) Effective[3]	Nominal[8]				Prime rate[9]
LOANS MADE BELOW PRIME[10]									
37 Overnight[6]	7,183,113	7,338	*	3.89	3.87	5.7	61.5	6.6	6.00
38 One month and under (excluding overnight)	6,668,363	3,693	16	3.97	3.96	23.0	73.3	7.3	6.00
39 Over one month and under a year	4,259,811	626	127	4.28	4.25	37.6	86.2	4.8	6.09
40 Demand[7]	7,425,035	3,142	*	3.93	3.90	50.0	46.0	2.3	6.01
41 Total short term	**25,536,322**	**2,137**	**36**	**3.99**	**3.96**	**28.4**	**64.2**	**5.3**	**6.02**
42 Fixed rate	19,077,810	2,839	26	3.98	3.96	17.0	68.3	5.5	6.01
43 Floating rate	6,458,512	1,235	97	4.00	3.96	62.2	52.1	4.5	6.04
			Months						
44 Total long term	**1,751,431**	**566**	**47**	**4.59**	**4.53**	**42.9**	**81.9**	**4.9**	**6.18**
45 Fixed rate	709,950	464	42	4.36	4.32	34.9	75.5	6.5	6.14
46 Floating rate	1,041,480	667	51	4.74	4.68	48.4	86.3	3.8	6.20

For notes see end of table.

4.23—Continued

Characteristic	Amount of loans ($1,000)	Average size ($1,000)	Weighted average maturity[2]	Loan rate (percent)		Loans secured by collateral (percent)	Loans made under commitment (percent)	Participation loans (percent)	Most common base pricing rate[5]
			Days	Weighted average effective[3]	Standard error[4]				
LARGE BANKS									
1 Overnight[6]	5,687,807	6,871	*	4.00	.21	8.4	59.7	8.4	Other
2 One month and under (excluding overnight)	5,539,357	3,657	16	4.13	.18	28.3	74.6	6.2	Other
3 Fixed rate	4,425,194	5,202	16	4.09	.18	22.0	71.7	5.6	Other
4 Floating rate	1,114,163	1,678	15	4.28	.30	53.4	86.2	8.7	Domestic
5 Over one month and under a year	3,903,242	718	133	4.95	.18	49.3	87.0	6.3	Prime
6 Fixed rate	1,705,237	2,159	98	4.51	.24	44.1	81.3	1.8	Foreign
7 Floating rate	2,198,005	473	160	5.28	.22	53.4	91.4	9.7	Prime
8 Demand[7]	10,129,528	557	*	5.17	.13	64.4	61.0	1.4	Prime
9 Fixed rate	2,697,965	2,520	*	4.06	.18	27.5	71.1	.2	Domestic
10 Floating rate	7,431,564	434	*	5.57	.15	77.8	57.4	1.9	Prime
11 **Total short term**	**25,259,935**	**972**	**40**	**4.64**	**.14**	**41.6**	**67.7**	**4.8**	**Other**
12 Fixed rate (thousands of dollars)	14,516,203	4,102	21	4.10	.17	20.3	68.0	5.2	Other
13 1–99	20,611	25	122	6.83	.17	62.7	56.1	1.6	Prime
14 100–499	127,140	235	70	5.54	.14	55.2	73.0	5.7	Other
15 500–999	201,898	680	40	4.84	.15	36.3	85.4	6.5	Other
16 1,000–4,999	2,350,399	2,336	23	4.51	.09	28.1	71.2	5.7	Other
17 5,000–9,999	2,732,399	6,852	26	4.25	.10	21.1	69.6	8.8	Domestic
18 10,000 and over	9,083,757	18,767	17	3.91	.13	17.1	66.3	4.0	Other
19 Floating rate (thousands of dollars)	10,743,732	479	111	5.38	.18	70.3	67.3	4.2	Prime
20 1–99	442,319	32	146	7.26	.13	82.5	92.0	1.4	Prime
21 100–499	1,251,008	207	149	6.87	.09	73.8	92.4	3.7	Prime
22 500–999	699,851	670	152	6.50	.15	63.2	87.8	7.1	Prime
23 1,000–4,999	2,107,299	2,043	138	5.94	.23	52.7	87.8	5.8	Prime
24 5,000–9,999	1,181,331	6,855	104	5.22	.43	59.9	75.9	4.2	Prime
25 10,000 and over	5,061,924	22,624	80	4.50	.45	79.1	45.6	3.5	Fed funds
			Months						
26 **Total long term**	**2,594,212**	**693**	**42**	**5.94**	**.18**	**51.4**	**79.1**	**12.5**	**Prime**
27 Fixed rate (thousands of dollars)	487,766	611	43	5.38	.35	43.7	77.1	9.4	Foreign
28 1–99	14,968	30	45	9.15	.26	94.3	18.5	1.1	Other
29 100–499	31,728	193	48	7.58	.44	78.2	62.2	4.8	Other
30 500–999	34,879	699	62	7.37	.49	75.8	55.3	4.1	Other
31 1,000 and over	406,191	4,351	41	4.89	.89	36.4	82.3	10.6	Foreign
32 Floating rate (thousands of dollars)	2,106,446	715	42	6.07	.12	53.2	79.6	13.2	Prime
33 1–99	41,178	35	38	7.17	.13	87.2	74.1	7.8	Prime
34 100–499	247,677	234	36	6.98	.13	77.4	82.4	11.5	Prime
35 500–999	205,150	659	35	6.52	.19	66.9	78.7	13.1	Prime
36 1,000 and over	1,612,441	4,097	44	5.85	.14	46.9	79.4	13.6	Prime
			Days	Loan rate (percent)					Prime rate[9]
				Effective[3]	Nominal[8]				
LOANS MADE BELOW PRIME[10]									
37 Overnight[6]	5,553,819	7,646	*	3.95	3.94	6.9	58.7	8.6	6.00
38 One month and under (excluding overnight)	5,239,032	5,594	15	3.99	3.98	25.5	74.8	5.4	6.00
39 Over one month and under a year	2,749,775	4,170	114	4.18	4.16	38.9	87.7	6.6	6.00
40 Demand[7]	5,785,907	4,791	*	3.86	3.82	58.4	41.7	.1	6.00
41 **Total short term**	**19,328,533**	**5,475**	**29**	**3.97**	**3.94**	**31.9**	**62.1**	**4.9**	**6.00**
42 Fixed rate	13,917,872	5,694	20	4.00	3.99	18.7	67.3	5.3	6.00
43 Floating rate	5,410,661	4,982	82	3.87	3.83	65.9	48.8	3.8	6.00
			Months						
44 **Total long term**	**1,067,696**	**2,852**	**46**	**4.42**	**4.36**	**33.3**	**89.5**	**7.5**	**6.00**
45 Fixed rate	331,369	2,916	36	4.15	4.10	23.3	86.4	13.0	6.00
46 Floating rate	736,327	2,824	50	4.54	4.47	37.8	90.9	5.0	6.00

For notes see end of table.

4.23 TERMS OF LENDING AT COMMERCIAL BANKS Survey of Loans Made, February 1-5, 1993[1]—Continued

Commercial and industrial loans—Continued

Characteristic	Amount of loans ($1,000)	Average size ($1,000)	Weighted average maturity[2]	Loan rate (percent)		Loans secured by collateral (percent)	Loans made under commitment (percent)	Participation loans (percent)	Most common base pricing rate[5]
			Days	Weighted average effective[3]	Standard error[4]				
OTHER BANKS									
1 Overnight[6]	3,662,233	6,337	*	3.51	.26	1.0	52.4	.4	Fed funds
2 One month and under (excluding overnight)	1,707,351	259	24	5.12	.28	35.1	61.3	30.5	Fed funds
3 Fixed rate	1,140,456	319	22	4.73	.41	30.9	67.6	22.5	Fed funds
4 Floating rate	566,895	188	28	5.89	.33	43.5	48.6	46.7	Domestic
5 Over one month and under a year	4,362,558	89	177	6.09	.20	60.4	77.5	12.4	Prime
6 Fixed rate	1,250,101	64	160	5.50	.34	46.9	60.4	8.1	Other
7 Floating rate	3,112,458	106	184	6.32	.21	65.8	84.4	14.1	Prime
8 Demand[7]	4,189,633	132	*	6.82	.21	72.4	80.4	9.0	Prime
9 Fixed rate	435,949	143	*	5.03	.39	26.8	93.7	13.4	Domestic
10 Floating rate	3,753,684	131	*	7.03	.17	77.7	78.9	8.5	Prime
11 **Total short term**	**13,921,776**	**158**	**84**	**5.51**	**.20**	**45.3**	**69.8**	**10.5**	**Prime**
12 Fixed rate (thousands of dollars)	6,488,739	242	38	4.21	.32	16.9	59.4	6.7	Fed funds
13 1-99	368,821	15	151	8.73	.34	80.1	33.3	.0	Other
14 100-499	206,813	182	106	6.81	.44	62.4	43.8	7.4	Other
15 500-999	178,775	635	171	4.27	.25	19.7	49.1	4.1	Other
16 1,000-4,999	1,160,067	2,359	61	4.52	.16	21.8	71.4	10.5	Fed funds
17 5,000-9,999	993,082	7,216	28	3.99	.13	7.5	73.1	11.1	Fed funds
18 10,000 and over	3,581,180	20,998	13	3.55	.11	8.6	55.9	5.0	Fed funds
19 Floating rate (thousands of dollars)	7,433,037	121	160	6.65	.20	70.1	78.9	13.8	Prime
20 1-99	1,201,559	25	163	7.62	.05	84.2	84.3	2.5	Prime
21 100-499	2,004,308	202	188	7.15	.04	82.8	82.0	10.0	Prime
22 500-999	793,191	648	152	6.74	.13	77.5	94.5	20.2	Prime
23 1,000-4,999	2,116,421	1,836	172	6.63	.48	59.1	82.6	14.3	Prime
24 5,000-9,999	402,571	6,644	126	4.58	.49	10.0	75.4	12.1	Domestic
25 10,000 and over	914,987	32,454	114	5.12	.52	69.2	44.2	30.8	Domestic
			Months						
26 **Total long term**	**2,053,945**	**90**	**44**	**6.71**	**.20**	**66.4**	**67.1**	**5.4**	**Prime**
27 Fixed rate (thousands of dollars)	813,232	67	40	6.19	.37	52.0	65.3	1.1	Other
28 1-99	180,626	16	38	9.31	.17	91.5	21.9	.2	Other
29 100-499	152,611	193	83	8.11	.35	96.0	24.3	4.1	Other
30 500-999	31,035	595	70	7.48	.33	94.8	44.8	.0	Prime
31 1,000 and over	448,960	6,730	24	4.20	.38	18.1	98.2	.6	Other
32 Floating rate (thousands of dollars)	1,240,714	116	47	7.04	.19	75.8	68.3	8.2	Prime
33 1-99	208,746	24	51	8.06	.09	81.3	43.7	.6	Prime
34 100-499	377,192	213	50	7.37	.20	81.5	66.4	6.7	Prime
35 500-999	123,041	628	41	6.98	.30	86.0	79.5	21.8	Prime
36 1,000 and over	531,735	2,727	46	6.42	.47	67.3	76.8	9.1	Prime
			Days	Loan rate (percent)					Prime rate[9]
				Effective[3]	Nominal[8]				
LOANS MADE BELOW PRIME[10]									
37 Overnight[6]	3,660,764	10,472	*	3.51	3.47	1.0	52.4	.4	6.00
38 One month and under (excluding overnight)	1,255,130	1,295	23	4.08	4.03	25.3	58.8	38.2	6.04
39 Over one month and under a year	2,036,476	261	170	4.69	4.65	44.2	84.1	11.9	6.38
40 Demand[7]	675,546	600	*	4.37	4.34	24.1	98.8	20.4	6.20
41 **Total short term**	**7,627,916**	**744**	**55**	**3.99**	**3.96**	**18.6**	**66.0**	**11.5**	**6.13**
42 Fixed rate	5,860,036	1,056	31	3.76	3.73	11.8	62.2	7.4	6.04
43 Floating rate	1,767,880	375	145	4.75	4.69	41.1	78.8	25.1	6.40
			Months						
44 **Total long term**	**761,147**	**321**	**30**	**4.82**	**4.80**	**38.1**	**91.6**	**2.2**	**6.56**
45 Fixed rate	471,816	346	27	4.37	4.35	21.0	92.8	.5	6.24
46 Floating rate	289,331	287	34	5.56	5.54	66.1	89.8	4.9	7.08

For notes see following page.

NOTES TO TABLE 4.23

1. As of Sept. 30, 1990, assets of most of the large banks were at least $7.0 billion. For all insured banks, total assets averaged $275 million.
2. Average maturities are weighted by loan size and exclude demand loans.
3. Effective (compounded) annual interest rates are calculated from the stated rate and other terms of the loans and weighted by loan size.
4. The chances are about two out of three that the average rate shown would differ by less than this amount from the average rate that would be found by a complete survey of lending at all banks.
5. The most common base rate is that used to price the largest dollar volume of loans. Base pricing rates include the prime rate (sometimes referred to as a bank's "basic" or "reference" rate); the federal funds rate; domestic money market rates other than the federal funds rate; foreign money market rates; and other base rates not included in the foregoing classifications.
6. Overnight loans mature on the following business day.
7. Demand loans have no stated date of maturity.
8. Nominal (not compounded) annual interest rates are calculated from the stated rate and other terms of the loans and weighted by loan size.
9. The prime rate reported by each bank is weighted by the volume of loans extended and then averaged.
10. The proportion of loans made at rates below the prime may vary substantially from the proportion of such loans outstanding in banks' portfolios.

4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, December 31, 1992[1]

Millions of dollars

Item	All states		New York		California		Illinois	
	Total *including* IBFs	IBFs only	Total *including* IBFs	IBFs only	Total *including* IBFs	IBFs only	Total *including* IBFs	IBFs only
1 **Total assets**[4]	**712,559**	**314,981**	**537,212**	**249,843**	**81,337**	**38,873**	**55,951**	**18,456**
2 Claims on nonrelated parties	627,343	199,982	467,420	166,780	74,780	15,972	55,656	13,176
3 Cash and balances due from depository institutions	151,886	126,055	130,867	106,540	8,750	8,205	10,991	10,656
4 Cash items in process of collection and unposted debits	2,417	0	2,309	0	10	0	80	0
5 Currency and coin (U.S. and foreign)	25	n.a.	18	n.a.	2	n.a.	1	n.a.
6 Balances with depository institutions in United States	90,111	68,450	77,826	57,286	5,969	5,457	5,548	5,368
7 U.S. branches and agencies of other foreign banks (including IBFs)	84,833	65,964	73,295	55,008	5,720	5,427	5,227	5,201
8 Other depository institutions in United States (including IBFs)	5,278	2,485	4,531	2,279	249	30	322	167
9 Balances with banks in foreign countries and with foreign central banks	58,823	57,606	50,276	49,253	2,752	2,748	5,351	5,288
10 Foreign branches of U.S. banks	1,741	1,649	1,369	1,280	71	71	234	232
11 Other banks in foreign countries and foreign central banks	57,083	55,957	48,906	47,973	2,680	2,676	5,117	5,056
12 Balances with Federal Reserve Banks	509	n.a.	438	n.a.	17	n.a.	11	n.a.
13 **Total securities and loans**	**388,594**	**63,843**	**263,684**	**51,502**	**59,109**	**6,781**	**38,824**	**2,227**
14 Total securities, book value	78,690	13,668	71,632	12,822	3,577	520	3,103	298
15 U.S. Treasury	28,908	n.a.	27,947	n.a.	102	n.a.	811	n.a.
16 Obligations of U.S. government agencies and corporations	14,081	n.a.	13,343	n.a.	569	n.a.	103	n.a.
17 Other bonds, notes, debentures, and corporate stock (including state and local securities)	35,701	13,668	30,342	12,822	2,906	520	2,188	298
18 Federal funds sold and securities purchased under agreements to resell	37,025	3,328	35,309	2,879	864	449	455	0
19 U.S. branches and agencies of other foreign banks	8,919	2,673	7,720	2,277	636	396	296	0
20 Commercial banks in United States	5,444	71	5,154	71	88	0	73	0
21 Other	22,663	583	22,435	531	141	53	86	0
22 Total loans, gross	310,034	50,185	192,146	38,688	55,554	6,262	35,727	1,929
23 Less: Unearned income on loans	130	11	94	9	22	1	6	0
24 Equals: Loans, net	309,904	50,174	192,053	38,680	55,531	6,261	35,721	1,929
Total loans, gross, by category								
25 Real estate loans	51,879	549	26,133	292	16,906	217	5,235	40
26 Loans to depository institutions	46,092	30,783	35,748	23,417	5,269	4,224	2,620	1,408
27 Commercial banks in United States (including IBFs)	22,017	10,826	16,152	7,442	3,656	2,650	1,910	724
28 U.S. branches and agencies of other foreign banks	19,508	10,396	14,407	7,096	3,498	2,580	1,444	709
29 Other commercial banks in United States	2,509	430	1,745	345	158	70	466	15
30 Other depository institutions in United States (including IBFs)	0	0	0	0	0	0	0	0
31 Banks in foreign countries	24,075	19,957	19,596	15,975	1,613	1,574	710	684
32 Foreign branches of U.S. banks	320	270	248	200	70	70	0	0
33 Other banks in foreign countries	23,755	19,687	19,347	15,775	1,543	1,504	710	684
34 Other financial institutions	23,272	1,056	20,288	914	1,050	37	1,461	21
35 Commercial and industrial loans	167,885	12,441	92,088	9,480	31,756	1,602	25,630	376
36 U.S. addressees (domicile)	147,905	448	77,684	343	29,342	84	24,942	7
37 Non-U.S. addressees (domicile)	19,981	11,993	14,403	9,137	2,414	1,519	688	369
38 Acceptances of other banks	1,339	75	847	68	86	0	2	0
39 U.S. banks	651	0	343	0	22	0	0	0
40 Foreign banks	688	75	504	68	65	0	2	0
41 Loans to foreign governments and official institutions (including foreign central banks)	6,846	5,063	5,209	4,377	187	149	383	85
42 Loans for purchasing or carrying securities (secured and unsecured)	8,637	78	8,422	45	152	32	48	0
43 All other loans	4,084	140	3,412	95	146	1	349	0
44 All other assets	49,837	6,756	37,560	5,860	6,057	537	5,385	292
45 Customers' liability on acceptances outstanding	18,387	n.a.	13,138	n.a.	4,035	n.a.	891	n.a.
46 U.S. addressees (domicile)	12,634	n.a.	8,142	n.a.	3,535	n.a.	789	n.a.
47 Non-U.S. addressees (domicile)	5,753	n.a.	4,996	n.a.	500	n.a.	102	n.a.
48 Other assets including other claims on nonrelated parties	31,450	6,756	24,423	5,860	2,022	537	4,495	292
49 Net due from related depository institutions[5]	85,216	114,998	69,792	83,063	6,557	22,901	295	5,280
50 Net due from head office and other related depository institutions[5]	85,216	n.a.	69,792	n.a.	6,557	n.a.	295	n.a.
51 Net due from establishing entity, head offices, and other related depository institutions[5]	n.a.	114,998	n.a.	83,063	n.a.	22,901	n.a.	5,280
52 **Total liabilities**[4]	**712,559**	**314,981**	**537,212**	**249,843**	**81,337**	**38,873**	**55,951**	**18,456**
53 Liabilities to nonrelated parties	599,132	278,109	484,727	221,890	66,169	38,206	30,030	11,585

4.30—Continued

Millions of dollars

Item	All states: Total excluding IBFs	All states: IBFs only	New York: Total excluding IBFs	New York: IBFs only	California: Total excluding IBFs	California: IBFs only	Illinois: Total excluding IBFs	Illinois: IBFs only
54 Total deposits and credit balances	149,782	207,838	129,107	187,448	4,482	9,386	6,909	5,182
55 Individuals, partnerships, and corporations	106,142	15,282	88,518	10,009	4,213	600	6,156	37
56 U.S. addressees (domicile)	91,271	3,007	79,729	3,007	2,393	0	5,148	0
57 Non-U.S. addressees (domicile)	14,872	12,276	8,789	7,002	1,820	600	1,007	37
58 Commercial banks in United States (including IBFs)	27,876	63,788	25,989	58,284	38	2,895	693	2,147
59 U.S. branches and agencies of other foreign banks	12,426	57,361	11,751	52,459	11	2,671	280	1,858
60 Other commercial banks in United States	15,451	6,427	14,238	5,825	26	224	413	289
61 Banks in foreign countries	7,442	110,402	7,263	101,984	4	5,061	43	2,875
62 Foreign branches of U.S. banks	4,022	5,273	3,979	4,535	0	385	40	331
63 Other banks in foreign countries	3,420	105,130	3,284	97,449	4	4,676	3	2,544
64 Foreign governments and official institutions (including foreign central banks)	2,405	18,253	1,984	17,059	180	830	3	123
65 All other deposits and credit balances	5,550	113	5,047	112	24	0	4	0
66 Certified and official checks	366		306		24		9	
67 Transaction accounts and credit balances (excluding IBFs)	7,558		6,083		307		321	
68 Individuals, partnerships, and corporations	5,754		4,548		250		303	
69 U.S. addressees (domicile)	4,190		3,570		206		296	
70 Non-U.S. addressees (domicile)	1,563		978		44		7	
71 Commercial banks in United States (including IBFs)	116		110		1		0	
72 U.S. branches and agencies of other foreign banks	26		24		0		0	
73 Other commercial banks in United States	90		86		1		0	
74 Banks in foreign countries	857		753		4		1	
75 Foreign branches of U.S. banks	6		5		0		0	
76 Other banks in foreign countries	850		748		3		1	
77 Foreign governments and official institutions (including foreign central banks)	370		302		4		2	
78 All other deposits and credit balances	96		63		23		4	
79 Certified and official checks	366		306		24		9	
80 Demand deposits (included in transaction accounts and credit balances)	6,947		5,784		232		305	
81 Individuals, partnerships, and corporations	5,354		4,416		199		289	
82 U.S. addressees (domicile)	4,028		3,500		169		283	
83 Non-U.S. addressees (domicile)	1,326		916		30		5	
84 Commercial banks in United States (including IBF)s	94	n.a.	89	n.a.	1	n.a.	0	n.a.
85 U.S. branches and agencies of other foreign banks	16		14		0		0	
86 Other commercial banks in United States	79		75		0		0	
87 Banks in foreign countries	738		645		3		1	
88 Foreign branches of U.S. banks	6		5		0		0	
89 Other banks in foreign countries	732		640		3		1	
90 Foreign governments and official institutions (including foreign central banks)	339		281		4		2	
91 All other deposits and credit balances	56		47		1		4	
92 Certified and official checks	366		306		24		9	
93 Non-transaction accounts (including MMDAs, excluding IBFs)	142,224		123,024		4,175		6,588	
94 Individuals, partnerships, and corporations	100,389		83,970		3,963		5,852	
95 U.S. addressees (domicile)	87,080		76,159		2,187		4,852	
96 Non-U.S. addressees (domicile)	13,309		7,811		1,776		1,000	
97 Commercial banks in United States (including IBFs)	27,760		25,878		36		693	
98 U.S. branches and agencies of other foreign banks	12,400		11,727		11		280	
99 Other commercial banks in United States	15,360		14,152		25		413	
100 Banks in foreign countries	6,585		6,510		0		42	
101 Foreign branches of U.S. banks	4,015		3,974		0		40	
102 Other banks in foreign countries	2,570		2,535		0		2	
103 Foreign governments and official institutions (including foreign central banks)	2,035		1,682		176		1	
104 All other deposits and credit balances	5,454		4,984		0		1	
105 IBF deposit liabilities		207,838		187,448		9,386		5,182
106 Individuals, partnerships, and corporations		15,282		10,009		600		37
107 U.S. addressees (domicile)		3,007		3,007		0		0
108 Non-U.S. addressees (domicile)		12,276		7,002		600		37
109 Commercial banks in United States (including IBFs)		63,788		58,284		2,895		2,147
110 U.S. branches and agencies of other foreign banks	n.a.	57,361	n.a.	52,459	n.a.	2,671	n.a.	1,858
111 Other commercial banks in United States		6,427		5,825		224		289
112 Banks in foreign countries		110,402		101,984		5,061		2,875
113 Foreign branches of U.S. banks		5,273		4,535		385		331
114 Other banks in foreign countries		105,130		97,449		4,676		2,544
115 Foreign governments and official institutions (including foreign central banks)		18,253		17,059		830		123
116 All other deposits and credit balances		113		112		0		0

For notes see end of table.

4.30 ASSETS AND LIABILITIES of U.S. Branches and Agencies of Foreign Banks, December 31, 1992[1]—Continued

Millions of dollars

Item	All states		New York		California		Illinois	
	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only
117 Federal funds purchased and securities sold under agreements to repurchase	73,134	12,196	62,191	9,036	6,847	1,765	3,744	1,372
118 U.S. branches and agencies of other foreign banks	10,495	2,101	7,396	949	1,692	546	1,310	601
119 Other commercial banks in United States	13,861	316	10,698	138	2,263	107	778	71
120 Other	48,778	9,780	44,097	7,949	2,893	1,113	1,656	699
121 Other borrowed money	119,879	52,159	69,219	20,230	39,685	26,509	9,098	4,877
122 Owed to nonrelated commercial banks in United States (including IBFs)	47,522	22,002	20,461	4,292	22,256	15,775	3,347	1,631
123 Owed to U.S. offices of nonrelated U.S. banks	14,302	1,829	9,527	803	3,262	849	1,122	135
124 Owed to U.S. branches and agencies of nonrelated foreign banks	33,220	20,172	10,934	3,489	18,994	14,925	2,225	1,496
125 Owed to nonrelated banks in foreign countries	27,866	26,610	14,025	12,888	10,705	10,628	2,865	2,855
126 Owed to foreign branches of nonrelated U.S. banks	2,126	2,000	853	749	1,107	1,107	143	133
127 Owed to foreign offices of nonrelated foreign banks	25,740	24,610	13,171	12,138	9,598	9,521	2,723	2,723
128 Owed to others	44,491	3,546	34,734	3,050	6,725	106	2,887	390
129 All other liabilities	48,499	5,915	36,762	5,176	5,769	546	5,097	154
130 Branch or agency liability on acceptances executed and outstanding	20,433	n.a.	14,875	n.a.	4,073	n.a.	884	n.a.
131 Other liabilities to nonrelated parties	28,067	5,915	21,887	5,176	1,696	546	4,213	154
132 Net due to related depository institutions[5]	113,427	36,872	52,485	27,952	15,168	667	25,921	6,871
133 Net due to head office and other related depository institutions[5]	113,427	n.a.	52,485	n.a.	15,168	n.a.	25,921	n.a.
134 Net due to establishing entity, head office, and other related depository institutions[5]	n.a.	36,872	n.a.	27,952	n.a.	667	n.a.	6,871
MEMO								
135 Non-interest bearing balances with commercial banks in United States	1,308	0	1,015	0	133	0	82	0
136 Holding of commercial paper included in total loans	1,966	↑	1,800	↑	99	↑	57	↑
137 Holding of own acceptances included in commercial and industrial loans	3,228		2,551		361		109	
138 Commercial and industrial loans with remaining maturity of one year or less	99,952		52,693		19,262		16,154	
139 Predetermined interest rates	63,163	n.a.	31,017	n.a.	12,615	n.a.	12,198	n.a.
140 Floating interest rates	36,788		21,675		6,647		3,956	
141 Commercial and industrial loans with remaining maturity of more than one year	67,934		39,395		12,494		9,476	
142 Predetermined interest rates	23,890		13,655		4,008		4,401	
143 Floating interest rates	44,044	↓	25,740	↓	8,486	↓	5,075	↓

4.30—Continued

Millions of dollars

Item	All states		New York		California		Illinois	
	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only	Total excluding IBFs	IBFs only
144 Components of total nontransaction accounts, included in total deposits and credit balances of nontransactional accounts, including IBFs	148,384	↑	129,843	↑	4,922	↑	6,729	↑
145 Time CDs in denominations of $100,000 or more	112,201		98,066		2,812		4,895	
146 Other time deposits in denominations of $100,000 or more	23,657	n.a.	20,930	n.a.	943	n.a.	1,466	n.a.
147 Time CDs in denominations of $100,000 or more with remaining maturity of more than 12 months	12,526	↓	10,847	↓	1,167	↓	368	↓
	All states[2]		New York		California		Illinois	
	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only	Total including IBFs	IBFs only
148 Market value of securities held	77,801	13,408	70,704	12,545	3,656	538	3,064	296
149 Immediately available funds with a maturity greater than one day included in other borrowed money	77,521	n.a.	41,627	n.a.	29,786	n.a.	4,881	n.a.
150 Number of reports filed[6]	573	0	268	0	133	0	51	0

1. Data are aggregates of categories reported on the quarterly form FFIEC 002, "Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks." Details may not add to totals because of rounding. This form was first used for reporting data as of June 30, 1980, and was revised as of December 31, 1985. From November 1972 through May 1980, U.S. branches and agencies of foreign banks had filed a monthly FR 886a report. Aggregate data from that report were available through the Federal Reserve statistical release G.11, last issued on July 10, 1980. Data in this table and in the G.11 tables are not strictly comparable because of differences in reporting panels and in definitions of balance sheet items.

2. Includes the District of Columbia.

3. Effective December 1981, the Federal Reserve Board amended Regulations D and Q to permit banking offices located in the United States to operate International Banking Facilities (IBFs). As of December 31, 1985 data for IBFs are reported in a separate column. These data are either included in or excluded from the total columns as indicated in the headings. The notation "n.a." indicates that no IBF data re reported for that item, either because the item is not an eligible IBF asset or liability or because that level of detail is not reported for IBFs. From December 1981 through September 1985, IBF data were included in all applicable items reported.

4. Total assets and total liabilities include *net* balances, if any, due from or due to related banking institutions in the United States and in foreign countries (see footnote 5). On the former monthly branch and agency report, available through the G.11 statistical release, *gross* balances were included in total assets and total liabilities. Therefore, total asset and total liability figures in this table are not comparable to those in the G.11 tables.

5. "Related banking institutions" includes the foreign head office and other U.S. and foreign branches and agencies of the bank, the bank's parent holding company, and majority-owned banking subsidiaries of the bank and of its parent holding company (including subsidiaries owned both directly and indirectly).

6. In some cases two or more offices of a foreign bank within the same metropolitan area file a consolidated report.

Index to Statistical Tables

References are to pages A3–A83 although the prefix "A" is omitted in this index

ACCEPTANCES, bankers (*See* Bankers acceptances)
Agricultural loans, commercial banks, 21, 22
Assets and liabilities (*See also* Foreigners)
 Banks, by classes, 19–22
 Domestic finance companies, 35
 Federal Reserve Banks, 11
 Financial institutions, 27
 Foreign banks, U.S. branches and agencies, 23, 80–83
Automobiles
 Consumer installment credit, 38
 Production, 47, 48

BANKERS acceptances, 10, 24, 25
Bankers balances, 19–22, 80–83. (*See also* Foreigners)
Bonds (*See also* U.S. government securities)
 New issues, 34
 Rates, 25
Branch banks, 23, 55
Business activity, nonfinancial, 44
Business expenditures on new plant and equipment, 34
Business loans (*See* Commercial and industrial loans)

CAPACITY utilization, 46
Capital accounts
 Banks, by classes, 19, 71, 73, 75
 Federal Reserve Banks, 11
Central banks, discount rates, 67
Certificates of deposit, 25
Commercial and industrial loans
 Commercial banks, 17, 21, 70, 72, 74, 76–79
 Weekly reporting banks, 21–23
Commercial banks
 Assets and liabilities, 19–22, 76–79
 Commercial and industrial loans, 17, 19, 20, 21, 22, 23
 Consumer loans held, by type and terms, 38, 70, 72, 74
 Loans sold outright, 21
 Nondeposit funds, 18, 80–83
 Number by classes, 71, 73, 75
 Real estate mortgages held, by holder and property, 37
 Terms of lending, 76–79
 Time and savings deposits, 4
Commercial paper, 24, 25, 35
Condition statements (*See* Assets and liabilities)
Construction, 44, 49
Consumer installment credit, 38
Consumer prices, 44, 46
Consumption expenditures, 52, 53
Corporations
 Nonfinancial, assets and liabilities, 34
 Profits and their distribution, 34
 Security issues, 33, 65
Cost of living (*See* Consumer prices)
Credit unions, 38
Currency and coin, 70, 72, 74
Currency in circulation, 5, 14
Customer credit, stock market, 26

DEBITS to deposit accounts, 16
Debt (*See specific types of debt or securities*)
Demand deposits
 Banks, by classes, 19–23
 Ownership by individuals, partnerships, and corporations, 23
 Turnover, 16
Depository institutions
 Reserve requirements, 9
 Reserves and related items, 4, 5, 6, 13, 71, 73, 75
Deposits (*See also specific types*)
 Banks, by classes, 4, 19–22, 23
 Federal Reserve Banks, 5, 11
 Turnover, 16
Discount rates at Reserve Banks and at foreign central banks and foreign countries (*See* Interest rates)
Discounts and advances by Reserve Banks (*See* Loans)
Dividends, corporate, 34

EMPLOYMENT, 45
Eurodollars, 25

FARM mortgage loans, 37
Federal agency obligations, 5, 10, 11, 12, 30, 31
Federal credit agencies, 32
Federal finance
 Debt subject to statutory limitation, and types and ownership of gross debt, 29
 Receipts and outlays, 27, 28
 Treasury financing of surplus, or deficit, 27
 Treasury operating balance, 27
Federal Financing Bank, 27, 32
Federal funds, 7, 18, 21, 22, 23, 25, 27
Federal Home Loan Banks, 32
Federal Home Loan Mortgage Corporation, 32, 36, 37
Federal Housing Administration, 32, 36, 37
Federal Land Banks, 37
Federal National Mortgage Association, 32, 36, 37
Federal Reserve Banks
 Condition statement, 11
 Discount rates (*See* Interest rates)
 U.S. government securities held, 5, 11, 12, 29
Federal Reserve credit, 5, 6, 11, 12
Federal Reserve notes, 11
Federally sponsored credit agencies, 32
Finance companies
 Assets and liabilities, 35
 Business credit, 35
 Loans, 38
 Paper, 24, 25
Financial institutions
 Loans to, 21, 22, 23
 Selected assets and liabilities, 27
Float, 51
Flow of funds, 39, 41, 42, 43
Foreign banks, assets and liabilities of U.S. branches and agencies, 22, 23, 80–83
Foreign currency operations, 11
Foreign deposits in U.S. banks, 5, 11, 21, 22
Foreign exchange rates, 68
Foreign trade, 54

Foreigners
  Claims on, 55, 57, 60, 61, 62, 64
  Liabilities to, 22, 54, 55, 57, 58, 63, 65, 66

GOLD
  Certificate account, 11
  Stock, 5, 54
Government National Mortgage Association, 32, 36, 37
Gross domestic product, 51

HOUSING, new and existing units, 49

INCOME, personal and national, 44, 51, 52
Industrial production, 44, 47
Installment loans, 38
Insurance companies, 29, 37
Interest rates
  Bonds, 25
  Commercial banks, 76–79
  Consumer installment credit, 38
  Federal Reserve Banks, 8
  Foreign central banks and foreign countries, 67
  Money and capital markets, 25
  Mortgages, 36
  Prime rate, 24
International capital transactions of United States, 53–67
International organizations, 57, 58, 60, 63, 64
Inventories, 51
Investment companies, issues and assets, 34
Investments (*See also specific types*)
  Banks, by classes, 19, 20, 21, 22, 23, 27
  Commercial banks, 4, 17, 19–22, 72
  Federal Reserve Banks, 11, 12
  Financial institutions, 37

LABOR force, 45
Life insurance companies (*See* Insurance companies)
Loans (*See also specific types*)
  Banks, by classes, 19–22
  Commercial banks, 4, 17, 19–22, 70, 72, 74
  Federal Reserve Banks, 5, 6, 8, 11, 12
  Financial institutions, 27, 37
  Insured or guaranteed by United States, 36, 37

MANUFACTURING
  Capacity utilization, 46
  Production, 46, 48
Margin requirements, 26
Member banks (*See also* Depository institutions)
  Federal funds and repurchase agreements, 7
  Reserve requirements, 9
Mining production, 48
Mobile homes shipped, 49
Monetary and credit aggregates, 4, 13
Money and capital market rates, 25
Money stock measures and components, 4, 14
Mortgages (*See* Real estate loans)
Mutual funds, 34
Mutual savings banks (*See* Thrift institutions)

NATIONAL defense outlays, 28
National income, 51

OPEN market transactions, 10

PERSONAL income, 52
Prices
  Consumer and producer, 44, 50
  Stock market, 26
Prime rate, 24
Producer prices, 44, 50
Production, 44, 47
Profits, corporate, 34

REAL estate loans
  Banks, by classes, 17, 21, 22, 37, 72
  Financial institutions, 27
  Terms, yields, and activity, 36
  Type of holder and property mortgaged, 37
Repurchase agreements, 7, 18, 21, 22, 23
Reserve requirements, 9
Reserves
  Commercial banks, 19
  Depository institutions, 4, 5, 6, 13
  Federal Reserve Banks, 11
  U.S. reserve assets, 54
Residential mortgage loans, 36
Retail credit and retail sales, 38, 39, 44

SAVING
  Flow of funds, 39, 41, 42, 43
  National income accounts, 51
Savings and loan associations, 37, 38, 39. (*See also* SAIF-insured institutions)
Savings Association Insurance Funds (SAIF) insured institutions, 27
Savings banks, 27, 37, 38
Savings deposits (*See* Time and savings deposits)
Securities (*See also specific types*)
  Federal and federally sponsored credit agencies, 32
  Foreign transactions, 65
  Life insurance companies, 70
  New issues, 33
  Prices, 26
Special drawing rights, 5, 11, 53, 54
State and local governments
  Deposits, 21, 22
  Holdings of U.S. government securities, 29
  New security issues, 33
  Ownership of securities issued by, 21, 22
  Rates on securities, 25
Stock market, selected statistics, 26
Stocks (*See also* Securities)
  New issues, 33
  Prices, 26
Student Loan Marketing Association, 32

TAX receipts, federal, 28
Thrift institutions, 4. (*See also* Credit unions *and* Savings and loan associations)
Time and savings deposits, 4, 14, 18, 19, 20, 21, 22, 23, 71, 73, 75
Trade, foreign, 54
Treasury cash, Treasury currency, 5
Treasury deposits, 5, 11, 27
Treasury operating balance, 27

UNEMPLOYMENT, 45
U.S. government balances
  Commercial bank holdings, 19, 20, 21, 22
  Treasury deposits at Reserve Banks, 5, 11, 27
U.S. government securities
  Bank holdings, 19–22, 23, 29
  Dealer transactions, positions, and financing, 31
  Federal Reserve Bank holdings, 5, 11, 12, 29
  Foreign and international holdings and transactions, 11, 29, 66
  Open market transactions, 10
  Outstanding, by type and holder, 27, 29
  Rates, 24
U.S. international transactions, 53–67
Utilities, production, 48

VETERANS Administration, 36, 37

WEEKLY reporting banks, 21–23
Wholesale (producer) prices, 44, 50

YIELDS (*See* Interest rates)

Federal Reserve Board of Governors and Official Staff

ALAN GREENSPAN, *Chairman*
DAVID W. MULLINS, JR., *Vice Chairman*

WAYNE D. ANGELL
EDWARD W. KELLEY, JR.

OFFICE OF BOARD MEMBERS

JOSEPH R. COYNE, *Assistant to the Board*
DONALD J. WINN, *Assistant to the Board*
THEODORE E. ALLISON, *Assistant to the Board for Federal Reserve System Affairs*
LYNN S. FOX, *Special Assistant to the Board*
WINTHROP P. HAMBLEY, *Special Assistant to the Board*
BOB STAHLY MOORE, *Special Assistant to the Board*
DIANE E. WERNEKE, *Special Assistant to the Board*

LEGAL DIVISION

J. VIRGIL MATTINGLY, JR., *General Counsel*
SCOTT G. ALVAREZ, *Associate General Counsel*
RICHARD M. ASHTON, *Associate General Counsel*
OLIVER IRELAND, *Associate General Counsel*
KATHLEEN M. O'DAY, *Associate General Counsel*
MARYELLEN A. BROWN, *Assistant to the General Counsel*

OFFICE OF THE SECRETARY

WILLIAM W. WILES, *Secretary*
JENNIFER J. JOHNSON, *Associate Secretary*
BARBARA R. LOWREY, *Associate Secretary*
ELLEN MALAND, *Assistant Secretary*

DIVISION OF BANKING SUPERVISION AND REGULATION

RICHARD SPILLENKOTHEN, *Director*
STEPHEN C. SCHEMERING, *Deputy Director*
DON E. KLINE, *Associate Director*
WILLIAM A. RYBACK, *Associate Director*
FREDERICK M. STRUBLE, *Associate Director*
HERBERT A. BIERN, *Deputy Associate Director*
ROGER T. COLE, *Deputy Associate Director*
JAMES I. GARNER, *Deputy Associate Director*
HOWARD A. AMER, *Assistant Director*
GERALD A. EDWARDS, JR., *Assistant Director*
JAMES D. GOETZINGER, *Assistant Director*
STEPHEN M. HOFFMAN, JR., *Assistant Director*
LAURA M. HOMER, *Assistant Director*
JAMES V. HOUPT, *Assistant Director*
JACK P. JENNINGS, *Assistant Director*
MICHAEL G. MARTINSON, *Assistant Director*
RHOGER H PUGH, *Assistant Director*
SIDNEY M. SUSSAN, *Assistant Director*
MOLLY S. WASSOM, *Assistant Director*

DIVISION OF INTERNATIONAL FINANCE

EDWIN M. TRUMAN, *Staff Director*
LARRY J. PROMISEL, *Senior Associate Director*
CHARLES J. SIEGMAN, *Senior Associate Director*
DALE W. HENDERSON, *Associate Director*
DAVID H. HOWARD, *Senior Adviser*
DONALD B. ADAMS, *Assistant Director*
PETER HOOPER III, *Assistant Director*
KAREN H. JOHNSON, *Assistant Director*
RALPH W. SMITH, JR., *Assistant Director*

DIVISION OF RESEARCH AND STATISTICS

MICHAEL J. PRELL, *Director*
EDWARD C. ETTIN, *Deputy Director*
WILLIAM R. JONES, *Associate Director*
THOMAS D. SIMPSON, *Associate Director*
LAWRENCE SLIFMAN, *Associate Director*
DAVID J. STOCKTON, *Associate Director*
MARTHA BETHEA, *Deputy Associate Director*
PETER A. TINSLEY, *Deputy Associate Director*
MYRON L. KWAST, *Assistant Director*
PATRICK M. PARKINSON, *Assistant Director*
MARTHA S. SCANLON, *Assistant Director*
JOYCE K. ZICKLER, *Assistant Director*
JOHN J. MINGO, *Adviser*
LEVON H. GARABEDIAN, *Assistant Director (Administration)*

DIVISION OF MONETARY AFFAIRS

DONALD L. KOHN, *Director*
DAVID E. LINDSEY, *Deputy Director*
BRIAN F. MADIGAN, *Associate Director*
RICHARD D. PORTER, *Deputy Associate Director*
DEBORAH DANKER, *Assistant Director*
NORMAND R.V. BERNARD, *Special Assistant to the Board*

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS

GRIFFITH L. GARWOOD, *Director*
GLENN E. LONEY, *Associate Director*
DOLORES S. SMITH, *Associate Director*
MAUREEN P. ENGLISH, *Assistant Director*
IRENE SHAWN MCNULTY, *Assistant Director*

JOHN P. LAWARE
LAWRENCE B. LINDSEY

SUSAN M. PHILLIPS

OFFICE OF STAFF DIRECTOR FOR MANAGEMENT

S. DAVID FROST, *Staff Director*
WILLIAM SCHNEIDER, *Special Assignment: Project Director, National Information Center*
PORTIA W. THOMPSON, *Equal Employment Opportunity Programs Officer*

DIVISION OF HUMAN RESOURCES MANAGEMENT

DAVID L. SHANNON, *Director*
JOHN R. WEIS, *Associate Director*
ANTHONY V. DIGIOIA, *Assistant Director*
JOSEPH H. HAYES, JR., *Assistant Director*
FRED HOROWITZ, *Assistant Director*

OFFICE OF THE CONTROLLER

GEORGE E. LIVINGSTON, *Controller*
STEPHEN J. CLARK, *Assistant Controller (Programs and Budgets)*
DARRELL R. PAULEY, *Assistant Controller (Finance)*

DIVISION OF SUPPORT SERVICES

ROBERT E. FRAZIER, *Director*
GEORGE M. LOPEZ, *Assistant Director*
DAVID L. WILLIAMS, *Assistant Director*

DIVISION OF INFORMATION RESOURCES MANAGEMENT

STEPHEN R. MALPHRUS, *Director*
BRUCE M. BEARDSLEY, *Deputy Director*
MARIANNE M. EMERSON, *Assistant Director*
PO KYUNG KIM, *Assistant Director*
RAYMOND H. MASSEY, *Assistant Director*
EDWARD T. MULRENIN, *Assistant Director*
DAY W. RADEBAUGH, JR., *Assistant Director*
ELIZABETH B. RIGGS, *Assistant Director*
RICHARD C. STEVENS, *Assistant Director*

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

CLYDE H. FARNSWORTH, JR., *Director*
DAVID L. ROBINSON, *Deputy Director (Finance and Control)*
CHARLES W. BENNETT, *Assistant Director*
JACK DENNIS, JR., *Assistant Director*
EARL G. HAMILTON, *Assistant Director*
JEFFREY C. MARQUARDT, *Assistant Director*
JOHN H. PARRISH, *Assistant Director*
LOUISE L. ROSEMAN, *Assistant Director*
FLORENCE M. YOUNG, *Assistant Director*

OFFICE OF THE INSPECTOR GENERAL

BRENT L. BOWEN, *Inspector General*
DONALD L. ROBINSON, *Assistant Inspector General*
BARRY R. SNYDER, *Assistant Inspector General*

Federal Open Market Committee and Advisory Councils

FEDERAL OPEN MARKET COMMITTEE

MEMBERS

ALAN GREENSPAN, *Chairman*

E. GERALD CORRIGAN, *Vice Chairman*

WAYNE D. ANGELL
EDWARD G. BOEHNE
SILAS KEEHN
EDWARD W. KELLEY, JR.
JOHN P. LAWARE
LAWRENCE B. LINDSEY
ROBERT D. MCTEER, JR.
DAVID W. MULLINS, JR.
SUSAN M. PHILLIPS
GARY H. STERN

ALTERNATE MEMBERS

J. ALFRED BROADDUS, JR.
ROBERT P. FORRESTAL
JERRY L. JORDAN
JAMES H. OLTMAN
ROBERT T. PARRY

STAFF

DONALD L. KOHN, *Secretary and Economist*
NORMAND R.V. BERNARD, *Deputy Secretary*
JOSEPH R. COYNE, *Assistant Secretary*
GARY P. GILLUM, *Assistant Secretary*
J. VIRGIL MATTINGLY, JR., *General Counsel*
ERNEST T. PATRIKIS, *Deputy General Counsel*
MICHAEL J. PRELL, *Economist*
EDWIN M. TRUMAN, *Economist*
RICHARD G. DAVIS, *Associate Economist*
RICHARD W. LANG, *Associate Economist*
DAVID E. LINDSEY, *Associate Economist*
LARRY J. PROMISEL, *Associate Economist*
ARTHUR J. ROLNICK, *Associate Economist*
HARVEY ROSENBLUM, *Associate Economist*
KARL A. SCHELD, *Associate Economist*
CHARLES J. SIEGMAN, *Associate Economist*
THOMAS D. SIMPSON, *Associate Economist*
LAWRENCE SLIFMAN, *Associate Economist*

WILLIAM J. MCDONOUGH, *Manager of the System Open Market Account*
MARGARET L. GREENE, *Deputy Manager for Foreign Operations*
JOAN E. LOVETT, *Deputy Manager for Domestic Operations*

FEDERAL ADVISORY COUNCIL

E. B. ROBINSON, JR., *President*
JOHN B. MCCOY, *Vice President*

MARSHALL N. CARTER, First District
CHARLES S. SANFORD, JR., Second District
ANTHONY P. TERRACCIANO, Third District
JOHN B. MCCOY, Fourth District
EDWARD E. CRUTCHFIELD, JR., Fifth District
E.B. ROBINSON, JR., Sixth District
EUGENE A. MILLER, Seventh District
ANDREW B. CRAIG, III, Eighth District
JOHN F. GRUNDHOFER, Ninth District
DAVID A. RISMILLER, Tenth District
CHARLES R. HRDLICKA, Eleventh District
RICHARD M. ROSENBERG, Twelfth District

HERBERT V. PROCHNOW, *Secretary*
WILLIAM J. KORSVIK, *Associate Secretary*

CONSUMER ADVISORY COUNCIL

DENNY D. DUMLER, Denver, Colorado, *Chairman*
JEAN POGGE, Chicago, Illinois, *Vice Chairman*

BARRY A. ABBOTT, San Francisco, California
JOHN R. ADAMS, Philadelphia, Pennsylvania
JOHN A. BAKER, Atlanta, Georgia
VERONICA E. BARELA, Denver, Colorado
MULUGETTA BIRRU, Pittsburgh, Pennsylvania
DOUGLAS D. BLANKE, St. Paul, Minnesota
GENEVIEVE BROOKS, Bronx, New York
TOYE L. BROWN, Boston, Massachusetts
CATHY CLOUD, Washington, D.C.
MICHAEL D. EDWARDS, Yelm, Washington
MICHAEL FERRY, St. Louis, Missouri
NORMA L. FREIBERG, New Orleans, Louisiana
LORI GAY, Los Angeles, California
DONALD A. GLAS, Hutchinson, Minnesota
BONNIE GUITON, Charlottesville, Virginia
JOYCE HARRIS, Madison, Wisconsin
GARY S. HATTEM, New York, New York
JULIA E. HILER, Marietta, Georgia
RONALD HOMER, Boston, Massachusetts
THOMAS L. HOUSTON, Dallas, Texas
HENRY JARAMILLO, Belen, New Mexico
EDMUND MIERZWINSKI, Washington, D.C.
JOHN V. SKINNER, Irving, Texas
LOWELL N. SWANSON, Portland, Oregon
MICHAEL W. TIERNEY, Washington, D.C.
GRACE W. WEINSTEIN, Englewood, New Jersey
JAMES L. WEST, Tijeras, New Mexico
ROBERT O. ZDENEK, Washington, D.C.

THRIFT INSTITUTIONS ADVISORY COUNCIL

DANIEL C. ARNOLD, Houston, Texas, *President*
BEATRICE D'AGOSTINO, Somerville, New Jersey, *Vice President*

WILLIAM A. COOPER, Minneapolis, Minnesota
PAUL L. ECKERT, Davenport, Iowa
GEORGE R. GLIGOREA, Sheridan, Wyoming
THOMAS J. HUGHES, Merrifield, Virginia
KERRY KILLINGER, Seattle, Washington
CHARLES JOHN KOCH, Cleveland, Ohio
ROBERT MCCARTER, New Bedford, Massachusetts
NICHOLAS W. MITCHELL, JR., Winston-Salem, North Carolina
STEPHEN W. PROUGH, Irvine, California
THOMAS R. RICKETTS, Troy, Michigan

Federal Reserve Board Publications

For ordering assistance, write PUBLICATIONS SERVICES, MS-138, Board of Governors of the Federal Reserve System, Washington, DC 20551 or telephone (202) 452-3244 or FAX (202) 728-5886. *When a charge is indicated, payment should accompany request and be made payable to the Board of Governors of the Federal Reserve System. Payment from foreign residents should be drawn on a U.S. bank.*

THE FEDERAL RESERVE SYSTEM—PURPOSES AND FUNCTIONS. 1984. 120 pp.

ANNUAL REPORT.

ANNUAL REPORT: BUDGET REVIEW, 1991–92.

FEDERAL RESERVE BULLETIN. Monthly. $25.00 per year or $2.50 each in the United States, its possessions, Canada, and Mexico. Elsewhere, $35.00 per year or $3.00 each.

ANNUAL STATISTICAL DIGEST: period covered, release date, number of pages, and price.

1981	October 1982	239 pp.	$ 6.50
1982	December 1983	266 pp.	$ 7.50
1983	October 1984	264 pp.	$11.50
1984	October 1985	254 pp.	$12.50
1985	October 1986	231 pp.	$15.00
1986	November 1987	288 pp.	$15.00
1987	October 1988	272 pp.	$15.00
1988	November 1989	256 pp.	$25.00
1980–89	March 1991	712 pp.	$25.00
1990	November 1991	185 pp.	$25.00
1991	November 1992	215 pp.	$25.00

SELECTED INTEREST AND EXCHANGE RATES—WEEKLY SERIES OF CHARTS. Weekly. $30.00 per year or $.70 each in the United States, its possessions, Canada, and Mexico. Elsewhere, $35.00 per year or $.80 each.

THE FEDERAL RESERVE ACT and other statutory provisions affecting the Federal Reserve System, as amended through August 1990. 646 pp. $10.00.

REGULATIONS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

ANNUAL PERCENTAGE RATE TABLES (Truth in Lending—Regulation Z) *Vol. I* (Regular Transactions). 1969. 100 pp. *Vol. II* (Irregular Transactions). 1969. 116 pp. Each volume $2.25; 10 or more of same volume to one address, $2.00 each.

Introduction to Flow of Funds. 1980. 68 pp. $1.50 each; 10 or more to one address, $1.25 each.

Federal Reserve Regulatory Service. Looseleaf; updated at least monthly. (Requests must be prepaid.)
- Consumer and Community Affairs Handbook. $75.00 per year.
- Monetary Policy and Reserve Requirements Handbook. $75.00 per year.
- Securities Credit Transactions Handbook. $75.00 per year.
- The Payment System Handbook. $75.00 per year.
- Federal Reserve Regulatory Service. 3 vols. (Contains all four Handbooks plus substantial additional material.) $200.00 per year.
- *Rates for subscribers outside the United States are as follows and include additional air mail costs:*
- Federal Reserve Regulatory Service, $250.00 per year.
- Each Handbook, $90.00 per year.

THE U.S. ECONOMY IN AN INTERDEPENDENT WORLD: A MULTI-COUNTRY MODEL, May 1984. 590 pp. $14.50 each.

WELCOME TO THE FEDERAL RESERVE. March 1989. 14 pp.

INDUSTRIAL PRODUCTION—1986 EDITION. December 1986. 440 pp. $9.00 each.

FINANCIAL FUTURES AND OPTIONS IN THE U.S. ECONOMY. December 1986. 264 pp. $10.00 each.

FINANCIAL SECTORS IN OPEN ECONOMIES: EMPIRICAL ANALYSIS AND POLICY ISSUES. August 1990. 608 pp. $25.00 each.

CONSUMER EDUCATION PAMPHLETS

Short pamphlets suitable for classroom use. Multiple copies are available without charge.

Consumer Handbook on Adjustable Rate Mortgages
Consumer Handbook to Credit Protection Laws
A Guide to Business Credit for Women, Minorities, and Small Businesses
How to File A Consumer Credit Complaint
Series on the Structure of the Federal Reserve System
- The Board of Governors of the Federal Reserve System
- The Federal Open Market Committee
- Federal Reserve Bank Board of Directors
- Federal Reserve Banks
- Organization and Advisory Committees

A Consumer's Guide to Mortgage Lock-Ins
A Consumer's Guide to Mortgage Settlement Costs
A Consumer's Guide to Mortgage Refinancings
Home Mortgages: Understanding the Process and Your Right to Fair Lending
Making Deposits: When Will Your Money Be Available?
When Your Home is on the Line: What You Should Know About Home Equity Lines of Credit

STAFF STUDIES: Summaries Only Printed in the Bulletin

Studies and papers on economic and financial subjects that are of general interest. Requests to obtain single copies of the full text or to be added to the mailing list for the series may be sent to Publications Services.

Staff Studies 1–145 are out of print.

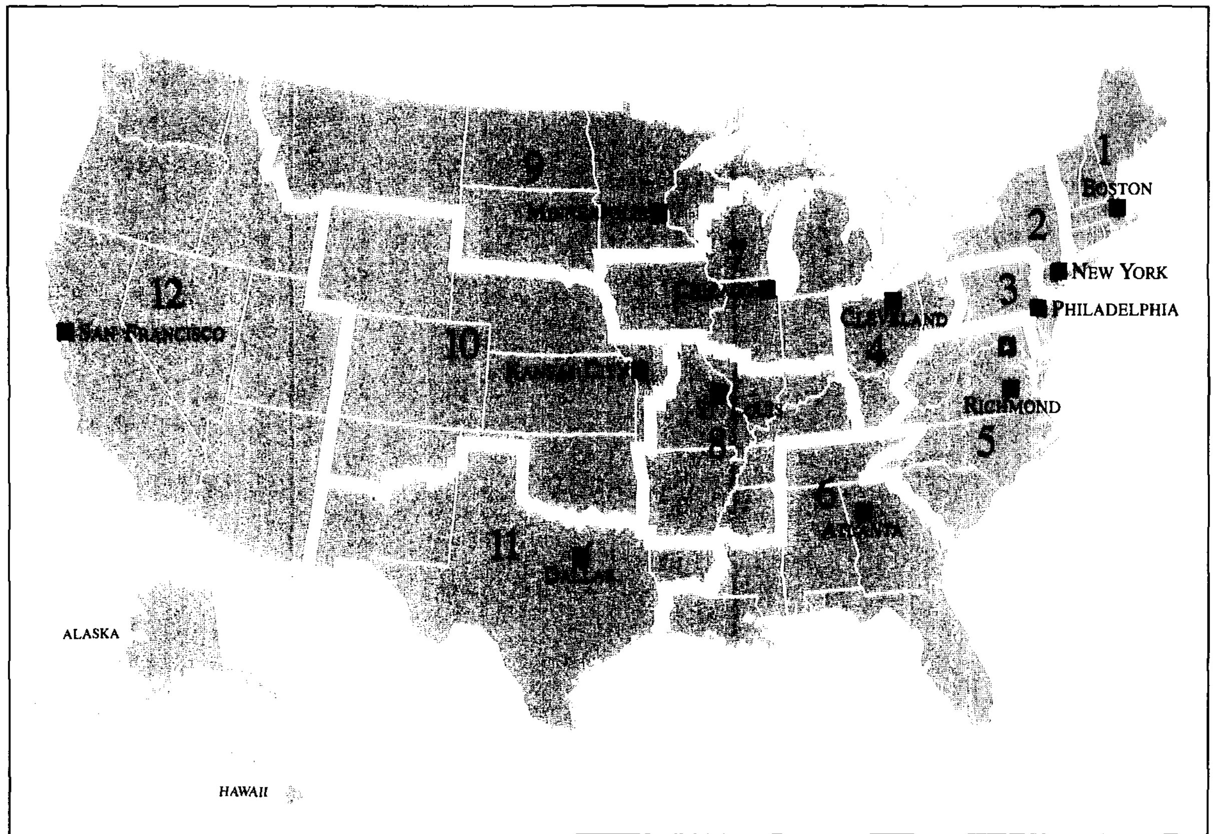
146. THE ROLE OF THE PRIME RATE IN THE PRICING OF BUSINESS LOANS BY COMMERCIAL BANKS, 1977–84, by Thomas F. Brady. November 1985. 25 pp.
147. REVISIONS IN THE MONETARY SERVICES (DIVISIA) INDEXES OF THE MONETARY AGGREGATES, by Helen T. Farr and Deborah Johnson. December 1985. 42 pp.
148. THE MACROECONOMIC AND SECTORAL EFFECTS OF THE ECONOMIC RECOVERY TAX ACT: SOME SIMULATION RESULTS, by Flint Brayton and Peter B. Clark. December 1985. 17 pp.
149. THE OPERATING PERFORMANCE OF ACQUIRED FIRMS IN BANKING BEFORE AND AFTER ACQUISITION, by Stephen A. Rhoades. April 1986. 32 pp.
150. STATISTICAL COST ACCOUNTING MODELS IN BANKING: A REEXAMINATION AND AN APPLICATION, by John T. Rose and John D. Wolken. May 1986. 13 pp.
151. RESPONSES TO DEREGULATION: RETAIL DEPOSIT PRICING FROM 1983 THROUGH 1985, by Patrick I. Mahoney, Alice P. White, Paul F. O'Brien, and Mary M. McLaughlin. January 1987. 30 pp.
152. DETERMINANTS OF CORPORATE MERGER ACTIVITY: A REVIEW OF THE LITERATURE, by Mark J. Warshawsky. April 1987. 18 pp.
153. STOCK MARKET VOLATILITY, by Carolyn D. Davis and Alice P. White. September 1987. 14 pp.
154. THE EFFECTS ON CONSUMERS AND CREDITORS OF PROPOSED CEILINGS ON CREDIT CARD INTEREST RATES, by Glenn B. Canner and James T. Fergus. October 1987. 26 pp.
155. THE FUNDING OF PRIVATE PENSION PLANS, by Mark J. Warshawsky. November 1987. 25 pp.
156. INTERNATIONAL TRENDS FOR U.S. BANKS AND BANKING MARKETS, by James V. Houpt. May 1988. 47 pp.
157. M2 PER UNIT OF POTENTIAL GNP AS AN ANCHOR FOR THE PRICE LEVEL, by Jeffrey J. Hallman, Richard D. Porter, and David H. Small. April 1989. 28 pp.
158. THE ADEQUACY AND CONSISTENCY OF MARGIN REQUIREMENTS IN THE MARKETS FOR STOCKS AND DERIVATIVE PRODUCTS, by Mark J. Warshawsky with the assistance of Dietrich Earnhart. September 1989. 23 pp.
159. NEW DATA ON THE PERFORMANCE OF NONBANK SUBSIDIARIES OF BANK HOLDING COMPANIES, by Nellie Liang and Donald Savage. February 1990. 12 pp.
160. BANKING MARKETS AND THE USE OF FINANCIAL SERVICES BY SMALL AND MEDIUM-SIZED BUSINESSES, by Gregory E. Elliehausen and John D. Wolken. September 1990. 35 pp.
161. A REVIEW OF CORPORATE RESTRUCTURING ACTIVITY, 1980–90, by Margaret Hastings Pickering. May 1991. 21 pp.
162. EVIDENCE ON THE SIZE OF BANKING MARKETS FROM MORTGAGE LOAN RATES IN TWENTY CITIES, by Stephen A. Rhoades. February 1992. 11 pp.
163. CLEARANCE AND SETTLEMENT IN U.S. SECURITIES MARKETS, by Patrick Parkinson, Adam Gilbert, Emily Gollob, Lauren Hargraves, Richard Mead, Jeff Stehm, and Mary Ann Taylor. March 1992. 37 pp.

REPRINTS OF SELECTED Bulletin *ARTICLES*

Some Bulletin *articles are reprinted. The articles listed below are those for which reprints are available. Most of the articles reprinted do not exceed twelve pages.* Limit of ten copies

Recent Developments in the Bankers Acceptance Market. 1/86.
The Use of Cash and Transaction Accounts by American Families. 2/86.
Financial Characteristics of High-Income Families. 3/86.
Prices, Profit Margins, and Exchange Rates. 6/86.
Agricultural Banks under Stress. 7/86.
Foreign Lending by Banks: A Guide to International and U.S. Statistics. 10/86.
Recent Developments in Corporate Finance. 11/86.
Measuring the Foreign-Exchange Value of the Dollar. 6/87.
Changes in Consumer Installment Debt: Evidence from the 1983 and 1986 Surveys of Consumer Finances. 10/87.
Home Equity Lines of Credit. 6/88.
Mutual Recognition: Integration of the Financial Sector in the European Community. 9/89.
The Activities of Japanese Banks in the United Kingdom and in the United States, 1980–88. 2/90.
Industrial Production: 1989 Developments and Historical Revision. 4/90.
Recent Developments in Industrial Capacity and Utilization. 6/90.
Developments Affecting the Profitability of Commercial Banks. 7/90.
Recent Developments in Corporate Finance. 8/90.
U.S. Exchange Rate Policy: Bretton Woods to Present. 11/90.
The Transmission Channels of Monetary Policy: How Have They Changed? 12/90.
Changes in Family Finances from 1983 to 1989: Evidence from the Survey of Consumer Finances. 1/92.
U.S. International Transactions in 1991. 5/92.

Maps of the Federal Reserve System



LEGEND

Both pages

■ Federal Reserve Bank city

◘ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

• Federal Reserve Branch city

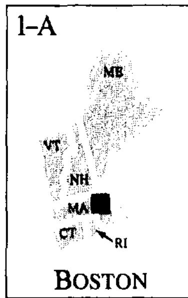
— Branch boundary

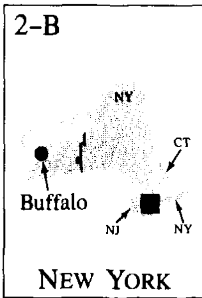
NOTE

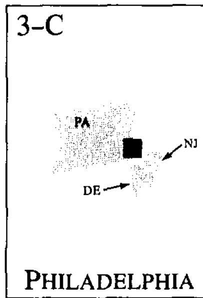
The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

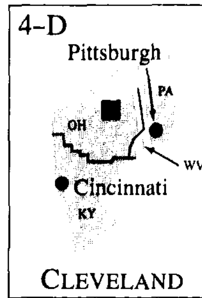
In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

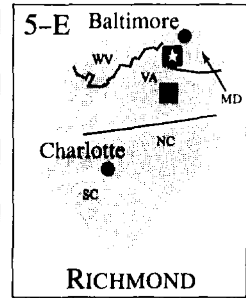
The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System most recently in December 1991.

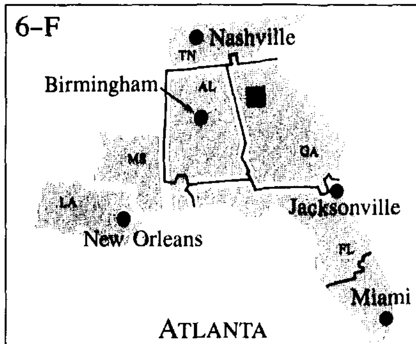

1–A
ME
VT
NH
MA
CT
RI
BOSTON

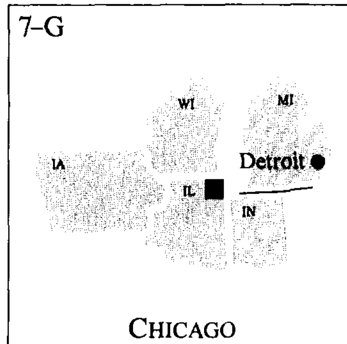

2–B
NY
CT
Buffalo
NJ
NY
NEW YORK

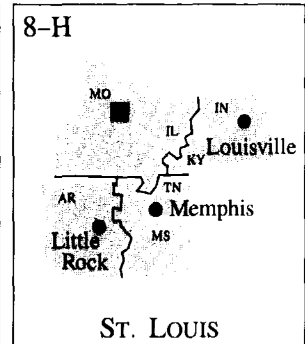

3–C
PA
NJ
DE
PHILADELPHIA

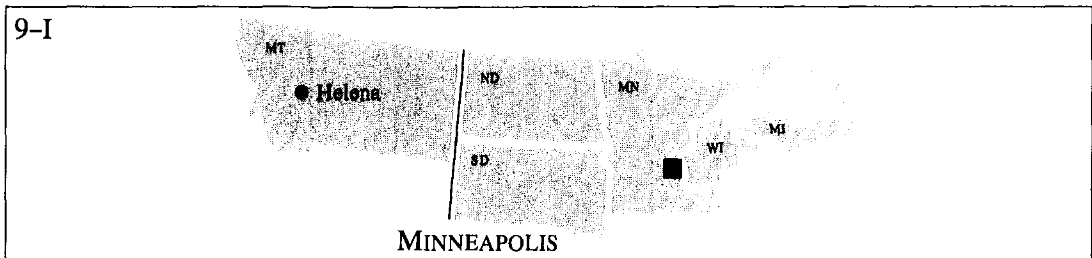

4–D
Pittsburgh
PA
OH
WV
Cincinnati
KY
CLEVELAND

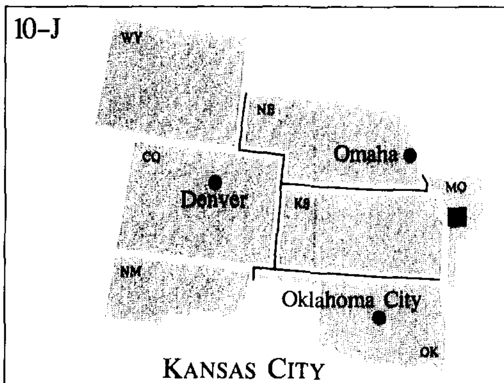

5–E
Baltimore
WV
VA
MD
Charlotte
NC
SC
RICHMOND

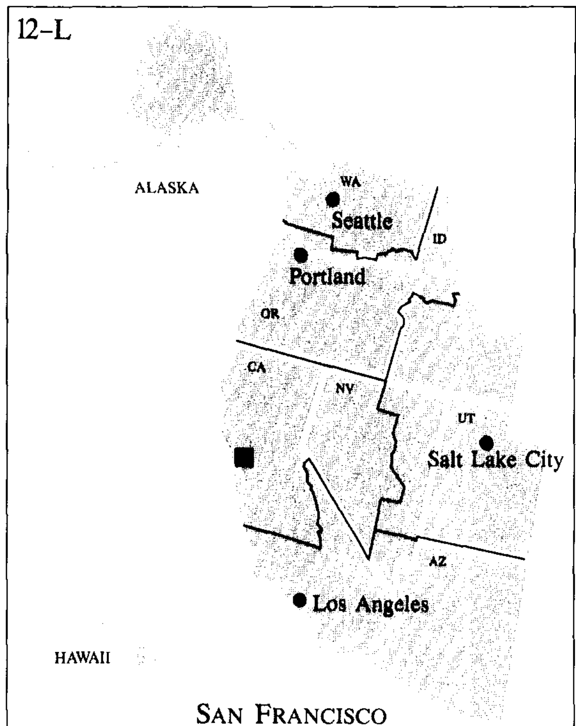

6–F
Nashville
TN
Birmingham
AL
MS
GA
LA
Jacksonville
New Orleans
FL
Miami
ATLANTA

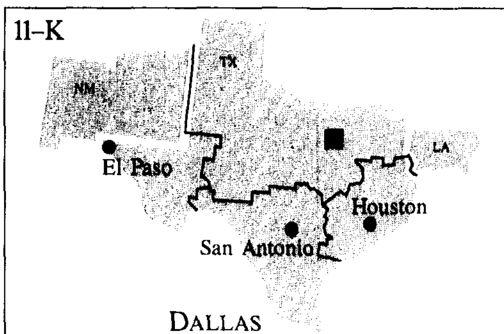

7–G
WI
MI
IA
Detroit
IL
IN
CHICAGO


8–H
MO
IN
IL
KY
Louisville
TN
AR
Memphis
Little Rock
MS
ST. LOUIS


9–I
MT
Helena
ND
MN
MI
WI
SD
MINNEAPOLIS


10–J
WY
NE
Omaha
CO
Denver
KS
MO
NM
Oklahoma City
OK
KANSAS CITY


12–L
ALASKA
WA
Seattle
ID
Portland
OR
CA
NV
UT
Salt Lake City
AZ
Los Angeles
HAWAII
SAN FRANCISCO


11–K
TX
NM
LA
El Paso
Houston
San Antonio
DALLAS

Federal Reserve Banks, Branches, and Offices

FEDERAL RESERVE BANK branch, or *facility*	Zip	Chairman Deputy Chairman	President First Vice President	Vice President in charge of branch
BOSTON*	02106	Jerome H. Grossman Warren B. Rudman	Richard F. Syron Cathy E. Minehan	
NEW YORK*	10045	Ellen V. Futter Maurice R. Greenberg	E. Gerald Corrigan James H. Oltman	
Buffalo	14240	Herbert L. Washington		James O. Aston
PHILADELPHIA	19105	Jane G. Pepper James M. Mead	Edward G. Boehne William H. Stone, Jr.	
CLEVELAND*	44101	A. William Reynolds To be announced	Jerry L. Jordan Sandra Pianalto	
Cincinnati	45201	Marvin Rosenberg		Charles A. Cerino[1]
Pittsburgh	15230	Robert P. Bozzone		Harold J. Swart[1]
RICHMOND*	23219	Anne Marie Whittemore Henry J. Faison	J. Alfred Broaddus, Jr. Jimmie R. Monhollon	
Baltimore	21203	To be announced		Ronald B. Duncan[1]
Charlotte	28230	Anne M. Allen		Walter A. Varvel[1]
Culpeper Communications and Records Center	*22701*			John G. Stoides[1]
ATLANTA	30303	Edwin A. Huston Leo Benatar	Robert P. Forrestal Jack Guynn	Donald E. Nelson[1]
Birmingham	35283	Donald E. Boomershine		Fred R. Herr[1]
Jacksonville	32231	Joan D. Ruffier		James D. Hawkins[1]
Miami	33152	R. Kirk Landon		James T. Curry III
Nashville	37203	James R. Tuerff		Melvyn K. Purcell
New Orleans	70161	Lucimarian Roberts		Robert J. Musso
CHICAGO*	60690	Richard G. Cline Robert M. Healey	Silas Keehn William C. Conrad	
Detroit	48231	J. Michael Moore		Roby L. Sloan[1]
ST. LOUIS	63166	Robert H. Quenon Janet McAfee Weakley	Thomas C. Melzer James R. Bowen	
Little Rock	72203	Robert D. Nabholz, Jr.		Karl W. Ashman
Louisville	40232	John A. Williams		Howard Wells
Memphis	38101	Seymour B. Johnson		John P. Baumgartner
MINNEAPOLIS	55480	Delbert W. Johnson Gerald A. Rauenhorst	Gary H. Stern Thomas E. Gainor	
Helena	59601	James E. Jenks		John D. Johnson
KANSAS CITY	64198	Burton A. Dole, Jr. Herman Cain	Thomas M. Hoenig Henry R. Czerwinski	
Denver	80217	Barbara B. Grogan		Kent M. Scott
Oklahoma City	73125	Ernest L. Holloway		David J. France
Omaha	68102	Sheila Griffin		Harold L. Shewmaker
DALLAS	75201	Leo E. Linbeck, Jr. Cece Smith	Robert D. McTeer, Jr. Tony J. Salvaggio	
El Paso	79999	W. Thomas Beard, III		Sammie C. Clay
Houston	77252	Judy Ley Allen		Robert Smith, III[1]
San Antonio	78295	Erich Wendl		Thomas H. Robertson
SAN FRANCISCO	94120	James A. Vohs Judith M. Runstad	Robert T. Parry Patrick K. Barron	
Los Angeles	90051	Donald G. Phelps		John F. Moore[1]
Portland	97208	William A. Hilliard		E. Ronald Liggett[1]
Salt Lake City	84125	Gary G. Michael		Andrea P. Wolcott
Seattle	98124	George F. Russell, Jr.		Gordon Werkema[1]

*Additional offices of these Banks are located at Lewiston, Maine 04240; Windsor Locks, Connecticut 06096; Cranford, New Jersey 07016; Jericho, New York 11753; Utica at Oriskany, New York 13424; Columbus, Ohio 43216; Columbia, South Carolina 29210; Charleston, West Virginia 25311; Des Moines, Iowa 50306; Indianapolis, Indiana 46204; and Milwaukee, Wisconsin 53202.

1. Senior Vice President.