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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

September 11, 1970

The Domestic Economy

Industrial production. Industrial production in August was 169.0 per cent, compared with 169.2 in July and 174.3 per cent a year earlier. Since May, when the index was also 169.0, monthly changes in the total index have been quite small.

In August, output of business equipment declined further but production of defense equipment, consumer goods, and materials changed little. Among consumer goods, auto assemblies were at an annual rate of 8.5 million units, the same as in July. Output of television sets and furniture rose, but production of appliances declined from the July high. Output declines in business equipment were widespread. Production of steel and construction materials was off, output of crude oil was up sharply, and production of most other industrial materials showed offsetting changes.

Retail sales. Retail sales in August declined 0.3 per cent from July, according to the advance report. Sales of durable goods were about unchanged as improved sales of farm equipment, furniture and appliances offset declines elsewhere. Sales of nondurable goods were down 0.5 per cent, with all major types of stores except food and gasoline stations declining. July sales were revised 0.4 per cent on the basis of the more complete preliminary report.

RETAIL SALES
(Billions of dollars)

	1970					Percentage change from previous month				
	Apr.	May	June	July	Aug.	Apr.	May	June	July	Aug.
All retail stores	30.5	30.5	30.5	30.7	30.6	2.5	- .1	.1	.7	- .3
Durable	9.3	9.3	9.4	9.5	9.5	2.3	- .2	1.0	.8	.1
Nondurable	21.2	21.2	21.1	21.3	21.2	2.6	- .1	- .4	.7	- .5
Total real*	24.4	24.2	24.2	24.3	n.a.	1.9	- .6	- .2	.6	n.a.

*Deflated by all commodities CPI.

Inventories. The book value of business inventories rose at a $14.5 billion annual rate in July, after a June increase of $5 billion. The July acceleration of inventory growth occurred at durable goods manufacturers, repeating last year's pattern of a low June and a high July for this group. Last year, book value growth at durable goods manufacturers moderated in August and September.

Manufacturers' anticipations also suggest more moderate growth in the quarter as a whole than the reported July rate; durable goods manufacturers anticipate accumulating stocks at a $3.2 billion annual rate, while nondurable goods manufacturers anticipate a $0.8 billion rate. This anticipated rate is somewhat higher than the second-quarter actual rate, however, and for the fourth quarter, some further stepup is anticipated. The fourth quarter acceleration is all at nondurable manufacturers, with durable growth slowing somewhat.

Trade inventory growth in July was well above the second-quarter average, although still below the June rate. Auto dealers continued to increase their stocks in July, and their stocks of new cars rose further in August. Growth of wholesale inventories was reported down slightly in July, but is likely to be revised upward, as it was in June and most previous months. Nondurable retailers continued June's rather high rate of inventory growth, with the bulk of the increase at general merchandise outlets in both months.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally adjusted annual rates, billions of dollars

	1970		
	QII	June	July prel.
Manufacturing and trade, total	5.4	5.1	14.5
Manufacturing, total	3.3	-2.2	9.2
Durable	.4	-2.9	9.8
Nondurable	2.9	.7	-.6
Trade, total	2.1	7.3	5.3
Wholesale	1.2	1.8	1.0
Retail	.9	5.5	4.3
Durable	.3	2.6	1.6
Automotive	1.1	2.2	1.7
Nonautomotive	-.8	.4	-.1
Nondurable	.6	2.9	2.7

Sales increased as much as inventories, in percentage terms, and the manufacturing and trade inventory-sales ratio was unchanged in July. The cyclically significant trade ratio was revised upward in June and was unchanged in July. This ratio has been brought down somewhat from earlier highs but remains above the same months in 1967, when economic activity was beginning to recover from the retardation in the first half of that year. However, to a considerable extent this higher level reflects heavier auto stocks, as the industry appears to be anticipating a more extended work stoppage than they anticipated in 1967.

INVENTORY RATIOS

	1967		1970	
	June	July	June	July prel.
Inventories to sales:				
Manufacturing and trade, total	1.57	1.58	1.57	1.57
Manufacturing, total	1.78	1.81	1.73	1.73
Durable	2.08	2.15	2.11	2.10
Nondurable	1.41	1.41	1.29	1.29
Trade, total	1.35	1.35	1.39	1.39
Wholesale	1.20	1.19	1.22	1.22
Retail	1.44	1.46	1.50	1.50
Durable	1.95	1.99	2.14	2.13
Automotive	1.43	1.46	1.77	1.78
Nonautomotive	2.70	2.76	2.65	2.63
Nondurable	1.20	1.21	1.22	1.22
Inventories to unfilled orders, durable manufacturing	.673	.674	.794	.807

The Domestic Financial Situation

Mortgage market. In the most recent FNMA auction, yields on 6-month forward purchase commitments remained virtually unchanged and now appear to have levelled at a yield just above 9 per cent. However, there was a rather sharp reduction in the volume of bids received in the September 8 auction--about a third below the level received two weeks earlier. While the drop-off in the volume of bids received may tend to confirm trade reports that indicate an increase in the availability of mortgage funds in the government-underwritten sector of the mortgage market, it may also reflect a degree of uncertainty engendered by the expected reduction in the interest rate ceiling on FHA and VA mortgage loans.[1/]

FNMA AUCTION

	Amount of total offers		Implicit private market yield on
	Received	Accepted	6-month commitments
	(Millions of dollars)		(Per cent)
Weekly Auction			
1969 high	$410 (6/16)	$152 (9/8)	8.87 (12/29)
1970 high	705 (1/5)	151 (1/12)	9.36 (1/12)
May 11	269	102	9.07
18	300	136	9.13
25	290	145	9.18
June 1	224	114	9.24
Bi-weekly Auction			
1970 high	581 (1/26)	298 (1/26)	9.33 (6/29)
June 15	250	128	9.30
29	156	99	9.33
July 13	286	113	9.21
27	324	150	9.12
Aug. 10	441	180	9.03
24	575	215	9.03
Sept. 8	384	200	9.04

NOTE: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of fee paid by investors to servicers of 50 basis points prior to August 10 auction, and 38 basis points thereafter. At least partially offsetting the effect of the reduction in servicing fees on bid prices and gross yields in the August 10 and following auctions was another FNMA regulatory change permitting mortgage servicers to retain all escrow funds received on mortgages serviced under the reduced fee schedule. Under earlier practice, FNMA had retained most of these funds itself.

1/ If the FHA and VA ceiling rate were reduced, builders would have to absorb higher discounts in order for loans, which were originated at a lower ceiling rate, to be delivered under a FNMA commitment based on the current 8-1/2 per cent limit. In the event that builders would be unable or unwilling to incur the higher discounts, bidders would probably be forced to cancel their current FNMA commitments and forfeit the commitment fee.

CORRECTED COPY

INTEREST RATES

	1970			
	Highs	Lows	Aug. 17	Sept. 10
Short-Term Rates				
Federal funds (weekly averages)	9.39 (2/18)	6.34 (8/26)	6.82 9/2	6.64 9/9
3-months				
Treasury bills (bid)	7.92 (1/6)	6.08 (3/24)	6.53	6.41
Bankers' acceptances	8.75 (1/13)	7.13 (9/10)	7.25	7.13
Euro-dollars	10.50 (1/9)	7.69 (8/12)	8.23	7.97
Federal agencies	8.30 (1/9)	6.50 (7/24)	7.01 (8/14)	6.70
Finance paper	8.19 (1/30)	7.25 (4/28)	7.75	7.50
CD's (prime NYC)				
Highest quoted new issue	6.75	6.75	6.75	6.75
Second market	9.25 (1/23)	6.75 (4/10)	7.75	7.40
6-month				
Treasury bills (bid)	7.99 (1/5)	6.18 (3/23)	6.62	6.58
Bankers' acceptances	8.88 (1/13)	7.25 (3/30)	7.38 (e)	7.25 (e)
Commercial paper (4-6 months)	9.13 (1/8)	7.38 (9/10)	8.00	7.38
Federal agencies	8.50 (1/28)	6.91 (4/17)	7.32 (8/14)	7.03
CD's (prime NYC)				
Highest quoted new issue	7.00	7.00	7.00	7.00
Secondary market	9.15 (1/7)	7.25 (4/17)	7.80	7.50
1-year				
Treasury bills (bid)	7.59 (1/9)	6.20 (4/13)	6.60	6.50
Prime municipals	5.60 (1/9)	3.80 (3/27)	4.20 (8/14)	4.10
Intermediate and Long-Term				
Treasury coupon issues				
5-years	8.30 (1/7)	7.05 (3/25)	7.68	7.43
20-years	7.73 (5/26)	6.55 (2/27)	7.28	7.00
Corporate				
Seasoned Aaa	8.60 (6/24)	7.78 (3/10)	8.11	8.12
Baa	9.45 (7/8)	8.57 (3/10)	9.41	9.44
New Issue Aaa				
No call protection	--	--	--	--
Call protection	9.29 (6/17)	8.20 (2/27)	8.53 (8/13)	8.52
Municipal				
Bond Buyer Index	7.12 (5/28)	5.95 (3/12)	6.30 (8/14)	6.30
Moody's Aaa	6.95 (6/18)	5.75 (3/12)	6.10 (8/14)	6.00
Mortgage--implicit yield in FNMA auction 1/	9.36 (1/2)	9.03 (8/26)	9.03	9.06 (9/8)

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. e--estimated.

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES*

The responses of the participants in the most recent Survey of Bank Lending Practices indicate that demand for business loans generally remained strong during the three months ending August 15. Nearly a fourth of the respondents recorded an intensification of loan demand for this period while 70 per cent experienced little change in demand. Most of the participants expected loan demands to be sustained or strengthened further during the next three months. Since financial markets were still showing aftereffects of the Penn Central disturbance at the time the survey was conducted, it is possible that responses may have been influenced in some cases by that development.

Lending Terms and Conditions

About 18 per cent of the participants reported a firming of interest rates over the three-month period, while 80 per cent did not significantly alter their rates. A significant number of banks also reported a general firming of loan terms, especially for those borrowers returning from the commercial paper market to the banking system. Loan applicants at close to one-fourth of the banks found that compensating or supporting balance requirements and standards of credit worthiness stiffened over the latest report period.

Nonlocal service customers again were subjected to additional credit rationing--according to nearly 20 per cent of the banks--while only a few banks firmed policies on lending to local and established customers. There has been progressive decline in the proportion of banks reporting net firming of policies for all three groups of customers in the past 4 surveys, as shown in Table 2A. In part, this reflects the recent appearance of a small number of banks reporting some easing in policy particularly as regards new customers. When reviewing credit applicants, between 10 and 20 per cent of the panel indicated a heavier reliance on such factors as the intended use of the loan and the value of the borrower as a source of deposits or collateral business.

Lending to Noncaptive Finance Companies

Appreciable numbers of banks reported firming of their policies relating to terms and conditions on loans to finance companies, significantly more than in the May survey. For example, nearly a fourth of those surveyed had stiffened their enforcement of balance requirements and were more restrained in establishing or enlarging credit lines. This trend may have been related in part to publicity regarding financing difficulties encountered by some finance companies following the Penn Central bankruptcy.

*Prepared by Marilyn Connors, Research Assistant, Banking Section, Division of Research and Statistics.

Willingness to Make Other Types of Loans

About 17 per cent of the respondents became moderately more receptive to making single-family mortgage loans. Term loans to business and loans to brokers were treated with increased restraint while willingness to grant consumer installment loans or participations with correspondents was relatively unchanged.

Size of Bank Variation

There was little variation by size of bank in responses with respect to either current and anticipated loan demand. However, the larger banks, with deposits of $1 billion or more, showed a greater tendency to firm compensating balance requirements while smaller banks, with deposits of less than $1 billion showed a greater tendency to become more selective when reviewing loan applications, particularly for new and nonlocal customers, and to rely more heavily on the borrower's potential value when establishing or enlarging credit lines to finance companies. The smaller banks were generally less willing to make most other types of loans--especially term loans and mortgages for larger-unit dwellings.

Several banks making supplemental comments reported that the inflow of funds from CD's was not enough to sustain the continued and increasing demand for money. Consequently, these banks were unable to ease their lending practices significantly but maintained the already restrictive policies in effect in the past few surveys. Uncertainties in the commercial paper market also were indicated to be a factor encouraging a closer scrutiny of potential borrowers.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON AUGUST 15, 1970 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	125	100.0	2	1.6	28	22.4	85	68.0	10	8.0	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	0	0.0	29	23.2	84	67.2	12	9.6	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	22	17.6	100	80.0	3	2.4	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	1	0.8	31	24.8	92	73.6	1	0.8	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	2	1.6	26	20.8	97	77.6	0	0.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	2	1.6	17	13.6	105	84.0	1	0.8	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	6	4.8	115	92.0	4	3.2	0	0.0
NEW CUSTOMERS	124	100.0	5	4.0	15	12.1	92	74.2	11	8.9	1	0.8
LOCAL SERVICE AREA CUSTOMERS	125	100.0	0	0.0	5	4.0	111	88.8	9	7.2	0	
NONLOCAL SERVICE AREA CUSTOMERS	124	100.0	6	4.8	16	12.9	100	80.7	2	1.6	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF AUGUST 15, 1970.

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	124	100.0	2	1.6	21	16.9	101	81.5	0	0.0	0	0.0
INTENDED USE OF THE LOAN	125	100.0	0	0.0	13	10.4	111	88.8	1	0.8	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	124	100.0	2	1.6	10	8.1	112	90.3	0	0.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	124	100.0	1	0.8	14	11.3	109	87.9	0	0.0	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	124	100.0	5	4.0	24	19.4	95	76.6	0	0.0	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	124	100.0	16	12.9	14	11.3	92	74.2	2	1.6	0	0.0

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	125	100.0	2	1.6	15	12.0	102	81.6	6	4.8	0	0.0
CONSUMER INSTALMENT LOANS	124	100.0	0	0.0	8	6.5	108	87.0	8	6.5	0	0.0
SINGLE FAMILY MORTGAGE LOANS	121	100.0	1	0.8	5	4.1	95	78.6	20	16.5	0	0.0
MULTI-FAMILY MORTGAGE LOANS	121	100.0	3	2.5	7	5.8	101	83.4	10	8.3	0	0.0
ALL OTHER MORTGAGE LOANS	122	100.0	3	2.5	9	7.4	104	85.2	6	4.9	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	124	100.0	0	0.0	1	0.8	119	96.0	4	3.2	0	0.0
LOANS TO BROKERS	123	100.0	1	0.8	13	10.6	108	87.8	1	0.8	0	0.0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON AUGUST 15, 1970, COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	2	1	21	23	64	71	13	5	0	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	0	19	26	68	66	13	8	0	

	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	21	15	79	81	0	4	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	1	34	19	66	79	0	1	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	2	1	17	23	81	76	0	0	0	0
MATURITY OF TERM LOANS	100	100	0	3	13	14	85	83	2	0	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	0	8	94	91	6	1	0	0
NEW CUSTOMERS	100	100	0	6	11	13	76	73	11	8	2	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	0	6	87	90	13	4	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	0	8	11	14	87	77	2	1	0	0

1/ SURVEY OF LENDING PRACTICES AT 47 LARGE BANKS (DEPOSITS OF $1 BILLION OR MORE) AND 78 SMALL BANKS (DEPOSITS OF LESS THAN $1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF AUGUST 15, 1970.

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	NUMBER ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	0	3	11	21	89	76	0	0	0	0
INTENDED USE OF THE LOAN	100	100	0	0	4	14	96	85	0	1	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	2	1	11	6	87	93	0	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	1	13	10	87	89	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	2	5	17	21	81	74	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	6	17	9	13	81	70	4	0	0	0

	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	0	3	4	17	90	76	6	4	0	0
CONSUMER INSTALMENT LOANS	100	100	0	0	9	5	84	89	7	6	0	0
SINGLE FAMILY MORTGAGE LOANS	100	100	0	1	2	5	64	88	34	6	0	0
MULTI-FAMILY MORTGAGE LOANS	100	100	0	4	2	8	78	87	20	1	0	0
ALL OTHER MORTGAGE LOANS	100	100	0	4	2	11	94	80	4	5	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	0	1	98	95	2	4	0	0
LOANS TO BROKERS	100	100	0	1	11	11	89	87	0	1	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

TABLE 2A

NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS
(In per cent)

	Aug. 1968	Nov. 1968	Feb. 1969	May 1969	Aug. 1969	Nov. 1969	Feb. 1970	May 1970	Aug. 1970
Strength of loan demand[1] (compared to 3 months ago)	-2.4	25.6	54.4	60.0	30.6	28.0	-1.6	12.1	16.0
Anticipated demand in next 3 months	--	20.8	49.2	41.8	5.7	8.9	-8.0	11.2	13.6
LENDING TO NONFINANCIAL BUSINESSES[2]									
Terms and Conditions									
Interest rates charged	0.8	-27.2	86.2	91.0	78.3	49.6	34.4	-12.8	15.2
Compensating or supporting balances	4.8	10.4	64.3	75.6	68.3	57.6	38.4	18.4	24.8
Standards of credit worthiness	4.8	4.8	32.8	41.4	40.6	36.0	22.4	20.8	22.4
Maturity of term loans	1.6	1.6	30.3	42.3	42.2	35.2	17.6	10.4	14.4
Reviewing Credit Lines									
Established customers	-5.6	-1.6	32.5	47.2	51.6	36.8	18.4	5.6	1.6
New customers	-5.6	6.4	61.7	80.2	81.4	60.8	34.4	17.6	6.4
Local service area customers	-5.6	-4.1	30.9	46.7	48.8	32.0	14.4	5.6	-3.2
Nonlocal service area customers	10.6	15.4	49.5	71.3	68.8	56.5	31.4	22.6	16.1
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	12.8	16.0	58.6	67.2	65.0	46.0	29.9	18.5	18.5
Intended use of loan	8.1	6.4	54.5	71.6	68.5	39.2	21.6	12.0	9.6
LENDING TO NONCAPTIVE FINANCE COMPANIES[2]									
Terms and Conditions									
Interest rates charged	2.4	-26.4	53.3	50.8	48.0	19.3	14.5	-16.0	9.7
Compensating or supporting balances	2.4	2.4	22.9	27.9	35.0	26.7	21.7	6.4	12.1
Enforcement of balance requirements	8.1	3.2	29.5	42.6	42.3	34.7	30.7	16.0	23.4
Establishing new or larger credit lines	15.3	4.8	54.9	62.4	62.0	48.4	32.2	21.6	22.6
WILLINGNESS TO MAKE OTHER LOANS[3]									
Term loans to businesses	4.8	-0.8	48.8	64.3	65.9	48.0	21.6	12.8	8.8
Consumer instalment loans	-11.3	-15.3	4.2	17.2	26.9	24.2	17.7	-4.1	--
Single-family mortgage loans	-14.1	-3.3	30.8	45.5	49.7	30.4	19.7	-8.2	-11.6
Multi-family mortgage loans	8.2	4.1	40.1	57.5	58.3	36.3	21.8	3.4	--
All other mortgage loans	3.4	1.7	42.5	62.0	62.5	42.3	22.2	9.9	5.0
Participation loans with correspondent banks	1.6	--	18.7	38.4	48.4	31.5	10.6	5.6	-2.4
Loans to brokers	6.5	1.6	34.2	40.0	59.3	36.1	20.5	20.3	10.6

1/ Per cent of banks reporting stronger loan demand minus per cent of banks reporting weaker loan demand. Positive number indicates net stronger loan demand, negative number indicates net weaker loan demand.
2/ Per cent of banks reporting firmer lending policies minus per cent of banks reporting weaker lending policies. Positive number indicates net firmer lending policies, negative indicates net easier lending policies.
3/ Per cent of banks reporting less willingness to make loans minus per cent of banks more willing to make loans. Positive number indicates less willingness, negative number indicates more willingness.

SUPPLEMENTAL APPENDIX B: SURVEY OF BANK LOAN COMMITMENTS*

The reports of the 43 banks participating in the July 31 survey of bank loan commitments indicate that during the preceding three months these banks made new commitments to lend totaling nearly \$22 billion. This is slightly more than \$3 billion above the volume of new commitments reported in the April survey. The volume of takedowns, expirations, and cancellations on previously existing commitments (hereafter referred to simply as takedowns) totaled nearly \$21 billion during the current report period--about \$1.5 billion more than the volume for the preceding report period. With new commitments exceeding takedowns, the level of unused commitments increased by about \$1 billion to more than \$50 billion during the latest report period. This modest advance contrasts with the declines recorded in the preceding April and January report periods. The current volume of unused commitments remains about \$5 billion below the high for this series reported in the October Survey last year.

Difficulties encountered by borrowers in the commercial paper market following bankruptcy of the Penn Central Railroad probably contributed importantly to the rise in the volume of both new commitments and takedowns, as some firms were forced to utilize their bank lines to replace maturing commercial paper while others found it necessary to bolster their bank lines in order to maintain the attractiveness of their paper in the market.

<u>New commitments</u>. Most of the increase in new commitments reported in the latest survey was in commitments to commercial and industrial firms, with commitments under confirmed lines of credit accounting for nearly three-fifths of the increase for these borrowers. However, a relatively large rise also occurred in new commitments to nonbank financial institutions. New extensions to finance companies were responsible for the largest portion of this increase. New commitments for real estate mortgages remained at about the same level as in the past four surveys.

Commitment policies for the majority of respondents generally were reported as unchanged during the quarter. More restrictive policies were reported by 5 banks and less restrictive policies were reported by 6 banks. Those banks indicating a less restrictive commitment policy attributed this change to increased availability of funds.

* Prepared by Frederick M. Struble, Economist, Banking Section, Division of Research and Statistics.

<u>Takedowns, expirations, and cancellations</u>. Although takedowns by commercial and industrial firms increased somewhat during the July reporting period, nonbank financial institutions were responsible for the major part of the total advance. Takedowns by these institutions amounted to more than $4 billion or nearly a third of their total available commitments from April to July--unused commitments in April plus new commitments during the period. Takedowns for real estate mortgages were relatively unchanged from April and were about the same as in July of 1969.

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS AT SELECTED LARGE U.S. BANKS 1/

Table 1: NEW AND UNUSED COMMITMENTS
(Billions of dollars, not seasonally adjusted)

	New commitments made during 3-months ending			Takedowns, expirations, and cancellations during 3-months ending			Unused commitments: Change during 3-months ending			Unused commitments: Outstand-ing on
	Jan. 31	Apr. 30	July 31	Jan. 31	Apr. 30	July 31	Jan. 31	Apr. 30	July 31	July 30
Grand total commitments	13.8	18.6	21.8	19.0	19.3	20.8	-5.3	-0.7	1.0	50.3
Total- Comm. & Indust.	10.4	14.5	17.0	14.4	15.3	15.6	-4.0	-0.8	1.4	38.7
Total- Nonbank Finan. Institutions	2.3	3.0	3.8	3.0	2.8	4.0	-0.7	0.1	-0.2	9.0
Total- Real Estate Mortgages	1.1	1.1	1.0	1.6	1.2	1.2	-0.5	-0.1	-0.2	2.6
MEMO: Const. Loans (Included above)	0.8	0.9	0.8	1.1	0.8	1.0	-0.4	0.1	-0.3	2.2
Total- Comm. & Indust.										
Term Loans	0.7	0.8	1.2	1.1	0.8	1.3	-0.3	0.1	-0.1	1.3
Revolving Credits	2.9	2.9	3.8	4.1	2.9	3.5	-1.2	1/	0.2	10.6
Total Term & Revolving 2/	3.7	3.9	5.1	5.3	4.0	4.8	-1.6	-0.1	0.2	12.6
Confirmed Lines of Credit	6.3	10.0	11.4	8.4	11.0	10.8	-2.2	-1.0	0.5	23.3
Other Commitments	0.4	0.6	0.5	0.7	0.3	-0.1	-0.3	0.3	0.6	2.8
Total- Nonbank Finan. Institutions										
Finance Companies	1.3	1.9	2.5	2.2	1.6	2.7	-0.9	0.4	-0.3	5.6
For Mortgage Ware-housing	0.4	0.5	0.5	0.4	0.4	0.5	3/	3/	-0.1	1.4
All Other	0.5	0.6	0.8	0.4	0.8	0.7	0.2	-0.3	0.1	1.9
Total- Real Estate Mortgages										
Residential	0.3	0.3	0.4	0.5	0.5	0.3	-0.2	-0.2	3/	0.8
Other	0.8	0.8	0.6	1.1	0.7	0.8	-0.3	0.1	-0.1	1.8

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than $1 billion (43 banks).
2/ This item may exceed sum of previous two items because some banks report combined total only.
3/ Less than $50 million.
NOTE: Figures may not add to total due to rounding.

Table 2: VIEWS ON COMMITMENT POLICY

Number of Banks

	Jan. 31 1969	Apr. 30 1969	July 31 1969	Oct. 31 1969	Jan. 31 1970	Apr. 30 1970	July 31 1970
Total number of banks responding:	48	48	48	48	48	48	48
Unused commitments in the past three months have:							
Risen rapidly	3	4	0	0	1	0	0
Risen moderately	19	19	16	5	7	12	19
Remained unchanged	17	11	21	20	18	15	17
Declined moderately	9	14	11	23	21	21	12
Declined rapidly	0	0	0	0	1	0	0
Takedowns in the next three months will:							
Rise rapidly	4	2	1	0	0	0	0
Rise moderately	28	26	14	13	9	13	13
Remain unchanged	15	17	28	31	30	30	33
Decline moderately	1	3	5	4	9	5	2
Decline rapidly	0	0	0	0	0	0	0
Commitment policies in the past three months were:							
Much more restrictive	8	26	26	12	3	0	0
Somewhat more restrictive	28	15	16	20	15	7	5
Unchanged	12	7	6	15	29	40	37
Less restrictive	0	0	0	1	1	1	6
Much less restrictive	0	0	0	0	0	0	0

Table 3: EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT POLICIES AS INDICATED IN THE CURRENT SURVEY

Indicated Change	Number of Banks Indicating Change	Reasons for Change (Number of Banks)		
		Increased Loan Demand	Reduced Availability of Funds	Both Demand And Funds
More restrictive	5	2	2	1
		Decreased Loan Demand	Increased Availability of Funds	Both Demand And Funds
Less restrictive	6	0	5	1