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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

December 11, 1970

## SUPPLEMENTAL NOTES

### The Domestic Economy

Retail sales. According to the advance report, sales of all stores at retail declined half a per cent in November--primarily as a result of continued weakness in strike-affected automotive sales. Excluding automotive sales, which were off 5.0 per cent, the level of sales was up 0.3 per cent from October. Furniture and appliance sales and general merchandise were unchanged from October, and sales of the apparel group were strong for the second month in a row. Compared with a year earlier, total sales were up 7.3 per cent, excluding automotive stores; including autos, sales were up 2.9 per cent.

### SALES OF RETAIL STORES

|                       | Billions of dollars |      |      | Per cent change<br>from previous month |       |      |
|-----------------------|---------------------|------|------|----------------------------------------|-------|------|
|                       | 1970                |      |      | 1970                                   |       |      |
|                       | Sept.               | Oct. | Nov. | Sept.                                  | Oct.  | Nov. |
| All stores            | 30.9                | 30.5 | 30.3 | .3                                     | -1.3  | -.5  |
| Total, excluding auto | 25.2                | 25.6 | 25.7 | -.1                                    | 1.4   | .3   |
| Durable goods         | 9.6                 | 8.9  | 8.7  | .6                                     | -7.0  | -2.6 |
| Auto                  | 5.7                 | 4.9  | 4.7  | 2.4                                    | -13.1 | -5.0 |
| Furniture & appliance | 1.3                 | 1.4  | 1.4  | -3.9                                   | 3.9   | 0    |
| Nondurable            | 21.3                | 21.6 | 21.7 | .2                                     | 1.3   | .3   |
| Food                  | 6.9                 | 6.9  | 6.9  | .8                                     | .2    | -.1  |
| General merchandise   | 5.2                 | 5.3  | 5.3  | 1.2                                    | 1.8   | .1   |

Inventory anticipations. When surveyed in November, manufacturers anticipated increasing their rate of inventory growth (book value) in the fourth quarter of 1970 to an annual rate of \$4.8 billion

from \$4 billion in the third quarter. In the first quarter of 1971, a further increase to an annual rate of \$6.4 billion is expected. The survey's record of accuracy is spotty, even with respect to the direction of change in inventory accumulation.

Durable goods manufacturers expected some slowdown in the fourth quarter and then acceleration in the first quarter of 1971 to a rate higher than any achieved in 1970; "both steel and auto producers project substantial inventory additions early next year," according to the report. Nondurable goods manufacturers anticipated a return from no change in the third quarter of 1970 to relatively high rates in each of the next two quarters.

Manufacturers expected sales to dip 1 per cent in the fourth quarter and to rise 4-1/2 per cent in the first quarter of 1971. Excluding motor vehicles, increases of 2 per cent are anticipated for both the fourth and first quarters.

#### The Domestic Financial Situation

Money supply growth in November has been revised upward to a seasonally adjusted annual rate of 4.5 per cent from the estimated 2.8 per cent shown in the Greenbook. The revision was attributable to a rise in privately-held demand deposits in late November that exceeded earlier estimates. As a result of this increase in demand deposits, the adjusted credit proxy expanded at a slightly faster rate than previously estimated and is now estimated at a 7.8 per cent annual rate of growth.

Mortgage market. A new departure for Federal agency support of the residential mortgage market was launched December 10, when the Federal Home Loan Mortgage Corporation began to operate the first formal market for participations in conventional first mortgage loans. FHLMC has asked members of the Federal Home Loan Bank System to submit, by December 23, offers to sell to FHLMC participating interests of between 25 and 75 per cent in certain outstanding conventional home and multifamily mortgages originated during 1970. The participating interests are to be evidenced by transferable participation certificates issued in multiples of \$100,000 each against a designated group of mortgages, to yield FHLMC a fixed 8-1/2 per cent after servicing. While individual sellers may offer certificates totaling not less than \$500,000 nor more than \$5 million, FHLMC has placed no ceiling on the aggregate amount of certificates it may buy. At some later date, FHLMC may resell the certificates, possibly by pooling them and then issuing pass-through type securities against the pool. Earlier this year, FHLMC purchased \$315 million in whole FHA and VA mortgages sold by members of the FHLB System, and in another action entered into commitments to buy an additional \$200 million from them.

Sales of new homes by merchant builders declined in October. However, the decline, which may have reflected seasonal adjustment problems, was from an exceptionally high September rate and left the October level more than three-tenths above a year earlier. Homes available for sale rose somewhat, but this reflected mainly an increase in homes not yet completed.

Median prices of new homes sold, although unchanged in October, at \$22,700, were 7 per cent below a year earlier, owing mainly to the shift in the mix of sales toward smaller, lower-priced units which has been a particularly conspicuous feature of developments this year. Median intended prices of homes available for sale edged off in October, but remained near earlier highs and some \$4,000 above comparable prices of homes actually sold in that month. Median prices of existing homes sold, at \$22,740 in October, were 4 per cent above a year earlier and 13 per cent above two years earlier. While the year-to-year rise suggested some downshift in the mix of such prices, the two-year rise was about the same as has prevailed in most other months this year.

INTEREST RATES

|                                   | 1970         |              |              |             |
|-----------------------------------|--------------|--------------|--------------|-------------|
|                                   | Highs        | Lows         | Nov. 16      | Dec. 10     |
| <u>Short-Term Rates</u>           |              |              |              |             |
| Federal funds (weekly averages)   | 9.39 (2/18)  | 4.91 (12/9)  | 5.80 (11/12) | 4.91 (12/9) |
| 3-months                          |              |              |              |             |
| Treasury bills (bid)              | 7.93 (1/6)   | 4.80 (11/23) | 5.30         | 4.90        |
| Bankers' acceptances              | 8.75 (1/13)  | 5.38 (12/4)  | 6.00         | 5.50        |
| Euro-dollars                      | 10.50 (1/9)  | 6.62 (11/24) | 7.31         | 7.29        |
| Federal agencies                  | 8.30 (1/9)   | 4.97 (12/10) | 5.78 (11/12) | 4.97        |
| Finance paper                     | 8.25 (2/1)   | 5.38 (12/10) | 6.25         | 5.38        |
| CD's (prime NYC)                  |              |              |              |             |
| Most often quoted new issue       | 6.75 (10/30) | 5.00 (11/25) | 5.75 (11/12) | 5.50        |
| Secondary market                  | 9.25 (1/23)  | 5.50 (11/25) | 6.35         | 5.70        |
| 6-month                           |              |              |              |             |
| Treasury bills (bid)              | 7.99 (1/5)   | 4.92 (12/4)  | 5.46         | 4.94        |
| Bankers' acceptances              | 8.88 (1/13)  | 5.50 (12/4)  | 6.12e        | 5.62e       |
| Commercial paper (4-6 months)     | 9.13 (1/8)   | 5.63 (12/4)  | 6.50         | 5.75        |
| Federal agencies                  | 8.50 (1/28)  | 5.13 (12/10) | 6.01 (11/12) | 5.13        |
| CD's (prime NYC)                  |              |              |              |             |
| Most often quoted new issue       | 7.00 (10/7)  | 5.50 (12/2)  | 6.38 (11/12) | 5.62        |
| Secondary market                  | 9.38 (1/23)  | 5.50 (12/2)  | 6.50         | 5.80        |
| 1-year                            |              |              |              |             |
| Treasury bills (bid)              | 7.62 (1/30)  | 4.78 (11/23) | 5.38         | 4.91        |
| CD's (prime NYC)                  |              |              |              |             |
| Most often quoted new issue       | 7.50 (9/16)  | 5.50 (11/25) | 6.38 (11/12) | 5.62        |
| Prime municipals                  | 5.60 (1/9)   | 2.95 (11/27) | 3.10         | 3.00        |
| <u>Intermediate and Long-term</u> |              |              |              |             |
| Treasury coupon issues            |              |              |              |             |
| 5-years                           | 8.30 (1/7)   | 5.85 (12/4)  | 6.63         | 5.95        |
| 20-years                          | 7.73 (5/26)  | 6.16 (12/4)  | 6.68         | 6.25        |
| Corporate                         |              |              |              |             |
| Seasoned Aaa                      | 8.60 (6/24)  | 7.77 (12/10) | 8.05         | 7.77        |
| Baa                               | 9.47 (8/28)  | 8.57 (3/10)  | 9.39         | 9.23        |
| New Issue Aaa                     | 9.30 (6/19)  | 7.74 (12/10) | 8.40 (11/12) | 7.74        |
| Municipal                         |              |              |              |             |
| Bond Buyer Index                  | 7.12 (5/28)  | 5.33 (12/10) | 6.12 (11/12) | 5.33        |
| Moody's Aaa                       | 6.95 (6/18)  | 5.15 (12/10) | 5.95 (11/12) | 5.15        |
| Mortgage--implicit yield          |              |              |              |             |
| in FNMA biweekly auction 1/       | 9.36 (1/2)   | 8.54 (12/7)  | 8.93 (11/2)  | 8.54 (12/7) |

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.

International developments

The following notes on changes in liabilities of U.S. banks to their foreign branches amplify and supplement the account given on page IV-5 of the Greenbook. On Wednesday, November 25, liabilities to branches totaled \$8.8 billion (on the basis the staff generally uses in reporting the Wednesday figures). This was about \$850 million below the amount on October 28, four weeks earlier, \$1.7 billion below the average of 5 Wednesdays in September, and \$3.5 billion below the average of 4 Wednesdays in June. From Wednesday, November 25 to Monday, November 30, there was a further reduction of over \$600 million (partly estimated, using daily data). Much of this month-end drop should be viewed as a fairly normal reflection of end-of-November conditions in European money markets.

The Board's action on Regulation M was announced late in the day on November 30. In the next two days there was a substantial rise in liabilities to branches. While Eurodollar deposits of more than overnight maturity are normally not settled until two days after the contract, the increase in liabilities to branches from November 30 to December 2 could have been affected by branch takings of overnight money arranged in the first two days after the Board's announcement. However, it is reasonable to suppose that a considerable part of the rise of about \$500 million in liabilities from November 30 to Wednesday, December 2 was a normal reversal of a normal month-end drop.

In the following week, to Wednesday, December 9, there was little net change. This is contrary to the information that was available



in time for the Greenbook, which showed a substantial net increase in liabilities to branches through Monday. The daily data during the week exhibited very large fluctuations, with liabilities rising or falling by \$200-400 million most days. At the close of business on Wednesday, December 9, liabilities to branches were virtually unchanged from a week earlier, according to the preliminary indications given by the daily data (which do not have complete coverage).

Three points are of interest. (1) In the first week after the month-end dip and recovery, which is also approximately the first week in which the Board's action might have had an effect, there was a cessation of the decline in U.S. banks' liabilities to their foreign branches which had been going on pretty continuously since midyear. This is not the first time that the decline has stopped for a week or two, but this time the interest rate relationships have been highly unfavorable for borrowing Eurodollars.

(2) The average level of borrowings through the first half of the current reserve computation period now appears to be some half billion dollars or more below the daily average in the preceding computation period (which ended November 25). This is the result of the decline through all the latter half of November, which was only partly offset by the post-month-end recovery and bulge. Between now and December 23 (the end of the current period) the banks are likely to find rate relationships very unfavorable for an attempt to avoid new losses of historical reserve-free bases.

(3) Different banks have been acting differently. Some have increased their borrowings since December 2. On the other hand, one or two banks that had previously given up substantial parts of their May 1969 bases have continued to reduce their borrowings.

The National Bank of Belgium reduced its discount rate effective December 10 from 7 to 6-1/2 per cent. Other discount rate reductions since the November 13 Greenbook Supplement include two changes in Germany, which are referred to on page IV-1 of this week's Greenbook. The first of these, from 7 to 6-1/2 per cent, took effect November 18; the second was to 6 per cent, effective December 3. The Bundesbank's rate on advances ("Lombard rate") went from 9 to 8 to 7-1/2 per cent.

#### Corrections

Section III, page 6, beginning paragraph 2, all of page III-7 and III-8 should be shifted to follow III-16.

Section II, page 2 table, the figure in the first line, GNP, second column, current projection, should be \$5.4 billion instead of \$1.4.

Section II, page 8 GNP table. Changes in Industrial production were left out. They should be:

| 1970<br>proj. | 1971<br>proj. | 1970 |       | 1971       |     |     |     |
|---------------|---------------|------|-------|------------|-----|-----|-----|
|               |               | III  | IV    | Projection |     |     |     |
|               |               |      |       | I          | II  | III | IV  |
| 3.0           | 0.8           | -3.1 | -13.1 | 11.1       | 2.4 | 2.9 | 5.7 |

Section II, page 27, Table Wholesale Prices. Please substitute the following corrected table.

WHOLESALE PRICES  
(Seasonally adjusted percentage changes at annual rates)

|                                         | Dec 1969<br>to<br>Mar 1970 | Mar 1970<br>to<br>June 1970 | June 1970<br>to<br>Sept 1970 | Sept 1970<br>to<br>Oct 1970 | Oct 1970<br>to<br>Nov 1970 |
|-----------------------------------------|----------------------------|-----------------------------|------------------------------|-----------------------------|----------------------------|
| All commodities                         | 4.0                        | 1.1                         | 3.9                          | 2.5                         | -1.1                       |
| Farm and food products                  | 6.8                        | -9.9                        | 8.9                          | -14.7                       | -4.1                       |
| Farm products                           | 5.0                        | -14.9                       | 12.2                         | -28.5                       | -17.1                      |
| Processed foods & feeds                 | 8.7                        | 6.2                         | 5.6                          | -1.9                        | 3.9                        |
| Industrial commodities                  | 3.1                        | 4.5                         | 2.9                          | 7.8                         | 0.0                        |
| Selected groups                         |                            |                             |                              |                             |                            |
| Fuels and related<br>products and power | .8                         | 6.5                         | 11.3                         | 20.1                        | 12.4                       |
| Metals and metal products               | 9.0                        | 8.9                         | -1.0                         | 4.0                         | -10.0                      |
| Nonferrous metals <u>1/</u>             | 9.1                        | 4.2                         | -16.0                        | -7.0                        | -23.1                      |
| Machinery and equipment                 | 4.0                        | 4.1                         | 5.2                          | 5.9                         | 2.4                        |
| Finished goods                          |                            |                             |                              |                             |                            |
| Producer finished goods                 | 4.3                        | 2.9                         | 4.8                          | 12.1                        | 2.4                        |
| Consumer nonfoods                       | 2.2                        | 2.9                         | 3.3                          | 11.5                        | 2.1                        |
| Nondurables                             | 2.1                        | 3.0                         | 3.5                          | 4.4                         | 3.1                        |
| Durables                                | 3.0                        | 2.4                         | 3.1                          | 22.7                        | 3.4                        |

1/ Not seasonally adjusted.

## SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES\*

Participants in the November 15, 1970, Survey of Bank Lending Practices indicated a substantial shift in policy from the time of the previous survey. With loans demands weakening and funds more readily available, banks generally eased the terms and conditions on loans and were particularly willing to lend to customers which had been screened heavily during the past two years. Banks also indicated increased willingness to make selected major types of loans, including term loans to businesses and mortgage loans.

### Loan Demand

Banks reported that the demand for business loans generally weakened during the three months ending November 15, 1970. A full three-fifths of the respondents indicated slackened loan demand while little more than one-third reported essentially unchanged demand. Moreover, a sizable number of banks expected business loan demands to weaken further during the next three months. These results represent a clear break from the previous survey when participants reported strengthening loan demands and an expectation of continuing strength; however, the earlier survey was taken as of August 15 when financial markets were still reacting to the Penn Central insolvency, and this could have masked the underlying weakness in loan demands.

### Terms and Conditions on Lending to Nonfinancial Businesses

A large majority of banks (nearly three-fourths of the respondents) reported an easing of interest rates over the three-month period, which was a reflection of the declines in the prime rate in September and early November. Moreover, a third to a half of the respondents reported easier policies in reviewing lines of credit for both new and established customers and for local customers generally. On the other hand, few banks reduced their compensating balance requirements, and standards of credit worthiness applied to loan applicants were stiffened somewhat at a significant minority of banks. This change presumably reflected increased quality consciousness in light of the well-known difficulties of some larger business firms during the summer and probably a concern over a possible rise in classified loans.

The easing reported in the November survey represents a marked reversal in the trend of lending policy developments that had prevailed over the preceding seven survey periods. During that time, the lending posture of banks, in most respects, had remained restrictive, as shown in Table 2A. In November, however, the net responses of participants indicate a substantial shift toward ease, particularly in interest rates and in reviewing credit lines. Moreover, the intended use of the loan was receiving less scrutiny than had been the case earlier.

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\* - Prepared by James Kichline, Economist, Banking Section, Division of Research and Statistics.

### Lending to Noncaptive Finance Companies

The easier lending posture of banks in regard to nonfinancial business loans was carried over only in part to finance company loans. While banks generally reduced the interest rates charged on finance company loans, only 17 per cent of respondents indicated an easier policy in establishing new or larger credit lines. Furthermore, compensating or supporting balance requirements and the endorsement of such balances were stiffened on balance in the case of finance companies.

### Willingness to Make Other Loans

The extent of the shift to an easier policy is indicated by a considerable increase in bank willingness to make selected major types of loans. Term loans to business were being considered more favorably by thirty per cent of the banks in the survey, with an insignificant number of banks less willing to make such loans. Banks also reported a distinct trend toward increased willingness to extend mortgage loans--single-family, multi-family, and other types of mortgage loans.

### Variation by Size of Bank

There were relatively few differences in survey responses among banks with \$1 billion in deposits or more compared with smaller banks. However, those banks that reported an increase in loan demand over the past three months, or an expectation of stronger loan demand in the forthcoming three months, were generally the smaller banks. The smaller banks when reviewing credit lines also appeared to place a greater priority on factors relating to the applicant--value as a depositor, for example--than did larger banks.

Those respondents who offered supplementary comments reported their policy changes were directly related to reduced loan demands and an increased availability of funds, as would be expected. Several banks indicated specifically their concern about credit quality. A few banks noted that the shift to an easier policy would now permit the extension of credit for certain types of loans they had not made for some time, such as loans for acquisition purposes.

TABLE 2A  
NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS  
(In per cent)

|                                                                             | Nov.<br>1968 | Feb.<br>1969 | May<br>1969 | Aug.<br>1969 | Nov.<br>1969 | Feb.<br>1970 | May<br>1970 | Aug.<br>1970 | Nov.<br>1970 |
|-----------------------------------------------------------------------------|--------------|--------------|-------------|--------------|--------------|--------------|-------------|--------------|--------------|
| Strength of loan demand <sup>1/</sup><br>(compared to 3 months ago)         | 25.6         | 54.4         | 60.0        | 30.6         | 28.0         | -1.6         | 12.1        | 16.0         | -56.8        |
| Anticipated demand in next 3 months                                         | 20.8         | 49.2         | 41.8        | 5.7          | 8.9          | -8.0         | 11.2        | 13.6         | -32.0        |
| <u>LENDING TO NONFINANCIAL BUSINESSES<sup>2/</sup></u>                      |              |              |             |              |              |              |             |              |              |
| Terms and Conditions                                                        |              |              |             |              |              |              |             |              |              |
| Interest rates charged                                                      | -27.2        | 86.2         | 91.0        | 78.3         | 49.6         | 34.4         | -12.8       | 15.2         | -73.6        |
| Compensating or supporting balances                                         | 10.4         | 64.3         | 75.6        | 68.3         | 57.6         | 38.4         | 18.4        | 24.8         | -0.8         |
| Standards of credit worthiness                                              | 4.8          | 32.8         | 41.4        | 40.6         | 36.0         | 22.4         | 20.8        | 22.4         | 4.8          |
| Maturity of term loans                                                      | 1.6          | 30.3         | 42.3        | 42.2         | 35.2         | 17.6         | 10.4        | 14.4         | -7.2         |
| Reviewing Credit Lines                                                      |              |              |             |              |              |              |             |              |              |
| Established customers                                                       | -1.6         | 32.5         | 47.2        | 51.6         | 36.8         | 18.4         | 5.6         | 1.6          | -32.0        |
| New customers                                                               | 6.4          | 61.7         | 80.2        | 81.4         | 60.8         | 34.4         | 17.6        | 6.4          | -40.8        |
| Local service area customers                                                | -4.1         | 30.9         | 46.7        | 48.8         | 32.0         | 14.4         | 5.6         | -3.2         | -33.6        |
| Nonlocal service area customers                                             | 15.4         | 49.5         | 71.3        | 68.8         | 56.5         | 31.4         | 22.6        | 16.1         | -16.8        |
| Factors Relating to Applicant<br>(Net percentage indicating more important) |              |              |             |              |              |              |             |              |              |
| Value of depositor as source of Business                                    | 16.0         | 58.6         | 67.2        | 65.0         | 46.0         | 29.9         | 18.5        | 18.5         | --           |
| Intended use of loan                                                        | 6.4          | 54.5         | 71.6        | 68.5         | 39.2         | 21.6         | 12.0        | 9.6          | -9.6         |
| <u>LENDING TO NONCAPTIVE FINANCE COMPANIES<sup>2/</sup></u>                 |              |              |             |              |              |              |             |              |              |
| Terms and Conditions                                                        |              |              |             |              |              |              |             |              |              |
| Interest rates charged                                                      | -26.4        | 53.3         | 50.8        | 48.0         | 19.3         | 14.5         | -16.0       | 9.7          | -41.6        |
| Compensating or supporting balances                                         | 2.4          | 22.9         | 27.9        | 35.0         | 26.7         | 21.7         | 6.4         | 12.1         | 1.6          |
| Enforcement of balance requirements                                         | 3.2          | 29.5         | 42.6        | 42.3         | 34.7         | 30.7         | 16.0        | 23.4         | 6.4          |
| Establishing new or larger credit lines                                     | 4.8          | 54.9         | 62.4        | 62.0         | 48.4         | 32.2         | 21.6        | 22.6         | -10.4        |
| <u>WILLINGNESS TO MAKE OTHER LOANS<sup>3/</sup></u>                         |              |              |             |              |              |              |             |              |              |
| Term loans to businesses                                                    | -0.8         | 48.8         | 64.3        | 65.9         | 48.0         | 21.6         | 12.8        | 8.8          | -28.8        |
| Consumer instalment loans                                                   | -15.3        | 4.2          | 17.2        | 26.9         | 24.2         | 17.7         | -4.1        | --           | -24.2        |
| Single-family mortgage loans                                                | -3.3         | 30.8         | 45.5        | 49.7         | 30.4         | 19.7         | -8.2        | -11.6        | -25.6        |
| Multi-family mortgage loans                                                 | 4.1          | 40.1         | 57.5        | 58.3         | 36.3         | 21.8         | 3.4         | --           | -12.4        |
| All other mortgage loans                                                    | 1.7          | 42.5         | 62.0        | 62.5         | 42.3         | 22.2         | 9.9         | 5.0          | -15.4        |
| Participation loans with correspondent banks                                | --           | 18.7         | 38.4        | 48.4         | 31.5         | 10.6         | 5.6         | -2.4         | -9.6         |
| Loans to brokers                                                            | 1.6          | 34.2         | 40.0        | 59.3         | 36.1         | 20.5         | 20.3        | 10.6         | -0.9         |

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.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES  
 AT SELECTED LARGE BANKS IN THE U.S. 1/  
 (STATUS OF POLICY ON NOVEMBER 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 | 0                  | 0.0 | 4                        | 3.2  | 46                           | 36.8 | 72                       | 57.6 | 3                  | 2.4 |
| ANTICIPATED DEMAND IN NEXT 3 MONTHS                                                                          | 125                | 100.0 | 0                  | 0.0 | 15                       | 12.0 | 55                           | 44.0 | 54                       | 43.2 | 1                  | 0.8 |
|                                                                                                              |                    |       |                    |     |                          |      |                              |      |                          |      |                    |     |
|                                                                                                              | 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 | 1                        | 0.8  | 31                           | 24.8 | 87                       | 69.6 | 6                  | 4.8 |
| COMPENSATING OR SUPPORTING BALANCES                                                                          | 125                | 100.0 | 0                  | 0.0 | 4                        | 3.2  | 116                          | 92.8 | 5                        | 4.0  | 0                  | 0.0 |
| STANDARDS OF CREDIT WORTHINESS                                                                               | 125                | 100.0 | 0                  | 0.0 | 11                       | 8.8  | 109                          | 87.2 | 5                        | 4.0  | 0                  | 0.0 |
| MATURITY OF TERM LOANS                                                                                       | 125                | 100.0 | 1                  | 0.8 | 4                        | 3.2  | 106                          | 84.8 | 14                       | 11.2 | 0                  | 0.0 |
| REVIEWING CREDIT LINES OR LOAN APPLICATIONS                                                                  |                    |       |                    |     |                          |      |                              |      |                          |      |                    |     |
| ESTABLISHED CUSTOMERS                                                                                        | 125                | 100.0 | 0                  | 0.0 | 2                        | 1.6  | 81                           | 64.8 | 40                       | 32.0 | 2                  | 1.6 |
| NEW CUSTOMERS                                                                                                | 125                | 100.0 | 0                  | 0.0 | 8                        | 6.4  | 58                           | 46.4 | 51                       | 40.8 | 8                  | 6.4 |
| LOCAL SERVICE AREA CUSTOMERS                                                                                 | 125                | 100.0 | 0                  | 0.0 | 1                        | 0.8  | 81                           | 64.8 | 39                       | 31.2 | 4                  | 3.2 |
| NONLOCAL SERVICE AREA CUSTOMERS                                                                              | 125                | 100.0 | 0                  | 0.0 | 6                        | 4.8  | 92                           | 73.6 | 25                       | 20.0 | 2                  | 1.6 |

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 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 | 5                        | 4.0 | 110                          | 88.8 | 7                        | 5.6  | 0                         | 0.0 |
| INTENDED USE OF THE LOAN                            | 125                | 100.0 | 1                         | 0.8 | 3                        | 2.4 | 105                          | 84.0 | 16                       | 12.8 | 0                         | 0.0 |
| LENDING TO "NONCAPTIVE" FINANCE COMPANIES           |                    |       |                           |     |                          |     |                              |      |                          |      |                           |     |
| TERMS AND CONDITIONS:                               |                    |       |                           |     |                          |     |                              |      |                          |      |                           |     |
| INTEREST RATES CHARGED                              | 125                | 100.0 | 0                         | 0.0 | 4                        | 3.2 | 65                           | 52.0 | 51                       | 40.8 | 5                         | 4.0 |
| COMPENSATING OR SUPPORTING BALANCES                 | 125                | 100.0 | 1                         | 0.8 | 3                        | 2.4 | 119                          | 95.2 | 2                        | 1.6  | 0                         | 0.0 |
| ENFORCEMENT OF BALANCE REQUIREMENTS                 | 125                | 100.0 | 1                         | 0.8 | 7                        | 5.6 | 117                          | 93.6 | 0                        | 0.0  | 0                         | 0.0 |
| ESTABLISHING NEW OR LARGER CREDIT LINES             | 125                | 100.0 | 3                         | 2.4 | 5                        | 4.0 | 96                           | 76.8 | 21                       | 16.8 | 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 | 0                         | 0.0 | 2                        | 1.6 | 85                           | 68.0 | 38                       | 30.4 | 0                         | 0.0 |
| CONSUMER INSTALMENT LOANS                           | 124                | 100.0 | 0                         | 0.0 | 2                        | 1.6 | 90                           | 72.6 | 28                       | 22.6 | 4                         | 3.2 |
| SINGLE FAMILY MORTGAGE LOANS                        | 121                | 100.0 | 1                         | 0.8 | 0                        | 0.0 | 88                           | 72.8 | 31                       | 25.6 | 1                         | 0.8 |
| MULTI-FAMILY MORTGAGE LOANS                         | 121                | 100.0 | 1                         | 0.8 | 0                        | 0.0 | 104                          | 86.0 | 16                       | 13.2 | 0                         | 0.0 |
| ALL OTHER MORTGAGE LOANS                            | 123                | 100.0 | 1                         | 0.8 | 0                        | 0.0 | 102                          | 83.0 | 19                       | 15.4 | 1                         | 0.8 |
| PARTICIPATION LOANS WITH CORRESPONDENT BANKS        | 125                | 100.0 | 2                         | 1.6 | 2                        | 1.6 | 105                          | 84.0 | 16                       | 12.8 | 0                         | 0.0 |
| LOANS TO BROKERS                                    | 124                | 100.0 | 1                         | 0.8 | 6                        | 4.8 | 109                          | 87.9 | 8                        | 6.5  | 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 NOVEMBER 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       | 0             | 0         | 0                   | 5         | 24                    | 45        | 72                | 49        | 4           | 1         |
| ANTICIPATED DEMAND IN NEXT 3 MONTHS                                                                          | 100                                        | 100       | 0             | 0         | 6                   | 15        | 47                    | 43        | 47                | 41        | 0           | 1         |
|                                                                                                              |                                            |           |               |           |                     |           |                       |           |                   |           |             |           |
|                                                                                                              | 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 |
|                                                                                                              | \$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         | 2                   | 0         | 28                    | 23        | 64                | 73        | 6           | 4         |
| COMPENSATING OR SUPPORTING BALANCES                                                                          | 100                                        | 100       | 0             | 0         | 2                   | 4         | 92                    | 93        | 6                 | 3         | 0           | 0         |
| STANDARDS OF CREDIT WORTHINESS                                                                               | 100                                        | 100       | 0             | 0         | 6                   | 10        | 90                    | 96        | 4                 | 4         | 0           | 0         |
| MATURITY OF TERM LOANS                                                                                       | 100                                        | 100       | 2             | 0         | 0                   | 5         | 94                    | 80        | 4                 | 15        | 0           | 0         |
| REVIEWING CREDIT LINES OR LOAN APPLICATIONS                                                                  |                                            |           |               |           |                     |           |                       |           |                   |           |             |           |
| ESTABLISHED CUSTOMERS                                                                                        | 100                                        | 100       | 0             | 0         | 0                   | 3         | 64                    | 65        | 32                | 32        | 4           | 0         |
| NEW CUSTOMERS                                                                                                | 100                                        | 100       | 0             | 0         | 2                   | 9         | 42                    | 48        | 43                | 40        | 13          | 3         |
| LOCAL SERVICE AREA CUSTOMERS                                                                                 | 100                                        | 100       | 0             | 0         | 0                   | 1         | 58                    | 70        | 36                | 28        | 6           | 1         |
| NONLOCAL SERVICE AREA CUSTOMERS                                                                              | 100                                        | 100       | 0             | 0         | 2                   | 6         | 64                    | 80        | 30                | 14        | 4           | 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 NOVEMBER 15, 1970.

|                                                     | NUMBER ANSWERING QUESTION |           | SIZE OF BANK MUCH FIRMER POLICY |           | TOTAL DEPOSITS IN BILLIONS 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         | 0                                                   | 6         | 96                           | 95        | 4                        | 6         | 0                         | 0         |
| INTENDED USE OF THE LOAN                            | 100                       | 100       | 0                               | 1         | 0                                                   | 4         | 87                           | 82        | 13                       | 13        | 0                         | 0         |
| LENDING TO "NONCAPTIVE" FINANCE COMPANIES           |                           |           |                                 |           |                                                     |           |                              |           |                          |           |                           |           |
| TERMS AND CONDITIONS:                               |                           |           |                                 |           |                                                     |           |                              |           |                          |           |                           |           |
| INTEREST RATES CHARGED                              | 100                       | 100       | 0                               | 0         | 0                                                   | 5         | 54                           | 51        | 40                       | 41        | 6                         | 3         |
| COMPENSATING OR SUPPORTING BALANCES                 | 100                       | 100       | 0                               | 1         | 0                                                   | 4         | 96                           | 95        | 4                        | 0         | 0                         | 0         |
| ENFORCEMENT OF BALANCE REQUIREMENTS                 | 100                       | 100       | 0                               | 1         | 2                                                   | 8         | 98                           | 91        | 0                        | 0         | 0                         | 0         |
| ESTABLISHING NEW OR LARGER CREDIT LINES             | 100                       | 100       | 2                               | 3         | 2                                                   | 5         | 68                           | 82        | 28                       | 10        | 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                               | 0         | 2                                                   | 1         | 66                           | 70        | 32                       | 29        | 0                         | 0         |
| CONSUMER INSTALMENT LOANS                           | 100                       | 100       | 0                               | 0         | 0                                                   | 3         | 79                           | 68        | 17                       | 26        | 4                         | 3         |
| SINGLE FAMILY MORTGAGE LOANS                        | 100                       | 100       | 0                               | 1         | 0                                                   | 0         | 68                           | 76        | 30                       | 23        | 2                         | 0         |
| MULTI-FAMILY MORTGAGE LOANS                         | 100                       | 100       | 0                               | 1         | 0                                                   | 0         | 84                           | 87        | 16                       | 12        | 0                         | 0         |
| ALL OTHER MORTGAGE LOANS                            | 100                       | 100       | 0                               | 1         | 0                                                   | 0         | 81                           | 85        | 17                       | 14        | 2                         | 0         |
| PARTICIPATION LOANS WITH CORRESPONDENT BANKS        | 100                       | 100       | 4                               | 0         | 0                                                   | 3         | 83                           | 84        | 13                       | 13        | 0                         | 0         |
| LOANS TO BROKERS                                    | 100                       | 100       | 2                               | 0         | 9                                                   | 3         | 83                           | 91        | 6                        | 6         | 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.