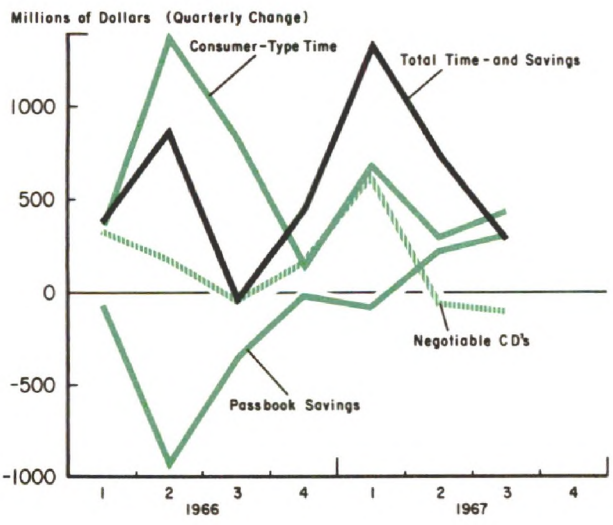
Accelerated Expansion

LARGE banks in the Twelfth District outpaced their counterparts elsewhere by recording a $1.4-billion expansion of credit during the third quarter. Despite this massive increase—which nearly equaled that of the entire first half of the year—Western banks were under less reserve pressure than in the more sedate second quarter. Largely because of a heavy deposit inflow during the June-September period, District banks were able to expand credit and at the same time reduce their reliance on borrowed funds.

Borrowing by District banks at the Federal Reserve discount window declined to $8.3 million in the third-quarter from the $16.0-million second-quarter figure, and their net free reserves (excess reserves less borrowings) rose to $19.5 million from $12.4 million. Major District banks meanwhile reduced their net purchases of Federal funds from other banks to $328 million ($63 million below the second-quarter average), and increased their Fed-funds sales (loans) to securities dealers to $399 million. These banks thus became overall net sellers of Fed funds—a reversal of their position in the first half of the year, when their net purchases on inter-bank transactions exceeded their sales of funds to dealers. (All data are on a daily average basis.)

Large inflows from household sector offset drop in business, public deposits



Deposit gain

At the end of September, total deposits of large District banks were up $1.1 billion from the mid-year level. In both demand and time-and-savings categories, their deposit performance was substantially better than in the comparable period of 1966.

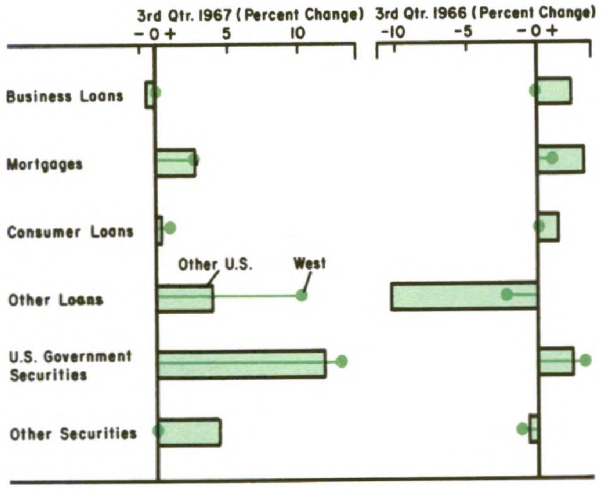
Individual savings flows into these banks were quite large, both in the form of passbook savings and consumer-type time certificates. However, a seasonal reduction of $408 million in public time deposits and a run-off of $118 million in large negotiable CD's—mainly over the September tax date—limited the quarterly increase in total time-and-savings deposits to $285 million, a smaller gain than those recorded in the first two quarters of 1967.

On the asset side, large Western banks added $607 million in securities in the third quarter, further strengthening their liquidity positions. The gains were all in U.S. Treasury issues and Federal Agency participation certificates—mostly Treasury bills and short- and intermediate-term notes and bonds. These banks meanwhile reduced their municipal-bond holdings by $47 million, in sharp contrast to their record $1.6-billion expansion during the first half of the year. Tax exempts, however, still accounted for over one half of their total securities portfolios.

Loans: record September

Loans accounted for over one half—$813 million—of the third-quarter credit expansion. But the quarterly figures overstate the

Jump in treasury-security holdings features third-quarter credit surge



strength of basic loan demand, since $484 million of the increase showed up in short-term credits to brokers, dealers and others for financing securities. The figures also obscure the slow pace of loan demand in July and August and the greater-than-seasonal demand in September. For that month, and for the quarter as a whole, loan expansion was relatively stronger at Western banks than it was elsewhere.

Over the quarter, large Western banks suffered a slight ($30 million) decline in their business-loan portfolios. The decline was almost reversed in September, however, when these banks extended a record $332 million of business credit over the September tax date, with almost all borrower categories sharing in that increase. (In September 1966, by way of contrast, banks were under considerable reserve restraint and increased their business credit by only $39 million.) In financing their longer-term credit needs, business borrowers relied more heavily on term loans and revolving-credit loans during this quarter than they did earlier in the year.

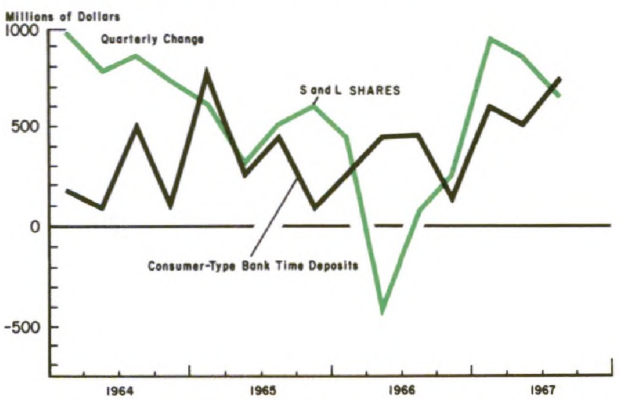
The average interest rate charged by District metropolitan banks varied only slightly over the quarter. Their average rate on all short-term business loans (loans maturing in one year or less) declined 5 basis points, from 6.00 to 5.95 percent, between the first half of May and the first half of August. The average rate on regular short-term loans remained at 6.05 percent, but the rate on loans extended under formal revolving-credit agreements averaged 5.88 percent—7 basis points lower than in May. The average rate on ordinary term loans, on the other hand, rose 5 basis points to 6.24 percent.

Consumer, mortgage gains

Consumer credit demand quickened in the third quarter—in contrast to the situation in the sluggish January-June period, when repayments actually offset new credit extensions. The $54-million third-quarter increase, which was relatively larger than the gain elsewhere, was stimulated by the inauguration of a major credit program by a group of large California banks.

Nonetheless, the major strength in bank loan demand came from the mortgage sector as the Western housing pace gained further momentum. While the turn-around actually came in the second quarter, the June-September increase ($272 million) was several times greater than the March-June gain—and it accounted for about one-third of the total increase in mortgage holdings reported by large banks nationally.

Heavy inflows of savings contrast sharply with 1966 experience



The substantial inflow of individual savings served as a stimulus to renewed bank interest in mortgage lending. With a $297-million quarterly gain in passbook savings plus a $431-million increase in consumer-type certificates, the savings inflow was one-third above the second-quarter figure and nearly two-thirds greater than the depressed level of a year ago.

S&L expansion

District savings-and-loan associations posted a $636-million net gain in savings accounts over the quarter—a smaller gain than in the preceding quarter, in part because of some withdrawals induced by a July 1 roll-back in maximum rates payable by S&L's in several District states. Despite this reduced inflow of funds, S&L's were able both to expand sharply their lending activity, by adding $514 million to mortgage portfolios, and to improve their liquidity, by repaying $160 million of borrowings from the Federal Home Loan Bank. Since the beginning of the year, S&L's have repaid about 40 percent of the borrowings outstanding at the time of last summer's "crunch" of savings withdrawals.

The acceleration in mortgage activity was accompanied by a continued firming of mortgage yields. Over the quarter, discounts on government-insured mortgages again increased, partly in response to a reduction in FNMA's secondary-market purchase price; yields on FHA 30-year 6-percent mortgages thus rose by 40 basis points, to 6.63 percent, while the conventional mortgage rate for new homes rose by 25 basis points, to 6.95 percent. (In the nation, the conventional mortgage rate reached 6.55 percent by the end of the quarter.) In all cases, yields lagged only slightly below those which prevailed during last year's "crunch."

Ruth Wilson and Verle Johnston

SELECTED ITEMS FROM WEEKLY CONDITION REPORT OF LARGE BANKS IN THE TWELFTH FEDERAL RESERVE DISTRICT

(dollar amounts in millions)

	TWELFTH DISTRICT				U. S. MINUS TWELFTH DISTRICT		
		Net Change				Net Change	
		Third Quarter 1967		Third Quarter 1966		Third Quarter 1967	Third Quarter 1966
	Outstanding 9/27/67	Dollars	Percent	Percent	Outstanding 9/27/67	Percent	Percent
ASSETS							
Loans adjusted and investments[1]	$43,126	+1420	+ 3.40	— .10	$154,598	+ 2.98	— .36
Loans adjusted[1]	30,167	+ 813	+ 2.77	— .39	107,842	+ 1.08	— .78
Commercial and industrial	10,955	— 30	— .27	— .70	52,434	— .66	+ 2.57
Real estate	9,382	+ 272	+ 2.99	+ 1.22	18,955	+ 2.81	+ 3.37
Agricultural	1,234	+ 24	+ 1.98	— 1.26	655	— 2.38	+ 2.15
To non-bank financial institutions	1,611	+ 37	+ 2.35	— 5.86	8,573	— 1.40	—10.02
For purchasing and carrying securities	1,019	+ 489	+92.26	— 7.58	6,189	+ 1.77	—17.20
To foreign banks	243	— 15	— 5.81	+ 8.40	1,099	+ 1.76	— .56
Consumer instalment	4,412	+ 54	+ 1.24	— .25	11,743	+ .34	+ 1.47
To foreign governments, etc.	115	— 5	— 4.17	—18.57	1,011	+ 6.42	— 2.30
All other	1,700	+ 3	+ .18	+ 2.05	9,638	+ 3.57	— 6.74
Total securities	12,959	+ 607	+ 4.91	+ .72	46,756	+ 7.66	+ .73
U. S. Government securities	5,345	+ 621	+13.15	+ 3.80	21,697	+11.83	+ 2.65
Obligations of states and political subdivisions	6,471	— 47	— .72	+ 1.21	22,256	+ 4.92	+ .77
Other securities	1,143	+ 33	+ 2.97	—16.60	18,850	— .46	—11.57
LIABILITIES							
Demand deposits adjusted	14,620	+ 581	+ 4.14	+ 1.83	59,775	+ 1.08	— .84
Total time deposits	27,017	+ 285	+ 1.07	— .22	74,641	+ 3.50	+ .38
Savings	15,536	+ 297	+ 1.95	— 2.34	32,813	+ .96	— 2.46
Other time, I.P.C.	7,836	+ 345	+ 4.61	+14.82	29,337	+ 6.19	+ 3.49
States and political subdivisions	2,533	— 408	—13.87	—17.78	7,009	+ 4.24	+10.31
(Neg. CD's $100,000 and over)	2,830	— 118	— 4.00	— 1.97	17,164	+ 6.01	— 7.87

[1]Exclusive of loans to domestic commercial banks and after deduction of valuations reserves; individual loan items are shown gross.
NOTE: Quarterly changes are computed from June 28, 1967 — September 27, 1967 and from June 29, 1966 — September 28, 1966.