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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

December 15, 1972

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SUPPLEMENTAL NOTES

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The Domestic Economy

Industrial production. Industrial production rose 1.1 per cent further in November and at 118.5 per cent was 10.3 per cent above a year earlier. Gains in output over the month were widespread among consumer goods, business equipment, and materials. Production of defense and space equipment, however, remained at the level prevailing since July.

INDUSTRIAL PRODUCTION  
1967=100, seasonally adjusted

	1971 Nov.	r.Sept.	1972 r.Oct.	e.Nov.	Per cent change from Oct. to Nov. A year ago	
Total index	107.4	116.1	117.2	118.5	1.1	10.3
Consumer goods	118.0	124.7	125.4	126.9	1.2	7.5
Business equip.	97.9	106.4	108.1	109.4	1.2	11.7
Defense equip.	75.9	77.7	78.7	79.1	.5	4.2
Materials	106.5	119.1	120.2	120.9	.6	13.5
steel	81.9	113.4	117.3	115.9	-1.2	41.5
Autos	109.2	109.6	116.9	124.2	6.2	13.7

Seasonally adjusted sales of new homes by merchant builders, which had already advanced to a new plateau in August, accelerated again in October to a record annual rate of 853,000 units. As a result, even though merchant builders' stocks of new homes rose somewhat further, the stocks level in October equaled 5.5 months' supply, compared with a

relatively high 6.3 months' supply as recently as last July when sales were appreciably lower. Upgraded demands continued to be a factor in the sales expansion in October, as the median price of new homes sold reached \$28,500, nearly \$3,000 above the median price of the mix of such homes sold in October of last year.

Sales of existing homes were also exceptionally strong in October, and at a median price--\$27,060-- well above a year earlier.

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes Sold 1/ (Thousands of units)	Homes for Sale 2/ (Thousands of units)	Median price of Homes Sold    Homes for Sale (Thousands of dollars)	
<u>1971</u>				
QIV	682	284	25.5	25.9
<u>1972</u>				
QI	701	318	26.2	26.1
QII	686	355	26.8	26.5
QIII (p)	746	385	27.9	27.1
July (r)	692	361	27.7	26.7
August (r)	774	385	28.0	27.0
September (p)	772	385	28.0	27.1
October (p)	853	394	28.5	27.6

1/ SAAR.

2/ SA, end of period.

INTEREST RATES

	1972			
	Highs	Lows	Nov. 20	Dec. 14
<u>Short-Term Rates</u>				
Federal funds (wkly. avg.)	5.29 (12/13)	3.18 (3/1)	4.89 (11/15)	5.29 (12/13)
3-month				
Treasury bills (bid)	5.10 (12/11)	2.99 (2/11)	4.76	5.02
Comm. paper (90-119 day)	5.38 (12/14)	3.75 (2/29)	5.25	5.38
Banker's acceptances	5.50 (12/14)	3.75 (2/23)	5.38	5.50
Euro-dollars	6.31 (12/5)	4.62 (3/8)	5.69	6.00
CD's (prime NYC)				
Most often quoted new	5.38 (10/25)	3.50 (2/23)	5.12 (11/15)	5.25
6-month				
Treasury bills (bid)	5.28 (12/12)	3.35 (1/10)	5.05	5.27
Comm. paper (4-6 mo.)	5.38 (12/14)	3.88 (3/3)	5.25	5.38
Federal agencies	5.51 (9/25)	3.79 (2/17)	5.28	5.51
CD's (prime NYC)				
Most often quoted new	5.50 (12/13)	3.88 (2/23)	5.38 (11/15)	5.50
1-year				
Treasury bills (bid)	5.55 (9/22)	3.57 (1/8)	5.15	5.17
Federal agencies	5.80 (10/16)	4.32 (1/17)	5.56	5.72
CD's (prime NYC)				
Most often quoted new	5.75 (11/15)	4.62 (1/19)	5.75 (11/15)	5.62
Prime municipals	3.20 (9/14)	2.35 (1/12)	2.90 (11/17)	3.10
<u>Intermediate and Long-term</u>				
Treasury coupon issues				
5-years	6.32 (9/14)	5.47 (1/13)	6.08	6.11
20-years	6.22 (4/14)	5.71 (11/15)	5.73	5.94
Corporate				
Seasoned Aaa	7.37 (4/24)	7.05 (12/7)	7.10	7.09
Baa	8.29 (1/3)	7.93 (12/7)	7.96	7.94
New Issue Aaa Utility	7.60 (4/21)	7.08 (3/10)	7.12 (11/16)	7.21
Municipal				
Bond Buyer Index	5.54 (4/13)	4.99 (1/13)	5.01 (11/16)	5.03
Mortgage--implicit yield				
in FNMA auction <sup>1/</sup>	7.72 (10/30)	7.54 (3/20)	7.71 (11/13)	7.67 (12/11)

<sup>1/</sup> Yield on short-term 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.

## APPENDIX A: MATURITIES ON NEW-AUTO LOANS\*

New-car loans for as long as 42 and 48 months, while still a very minor share of total new-car loans, are under experiment at a growing number of smaller commercial banks and finance companies. Currently, the usual maximum term is 36 months.

If a leading national lender should begin to promote 42 or 48 month auto loans, longer maturity loans would probably soon be offered by virtually every auto lender, although the relative volume of such loans would probably increase only gradually for most lenders. Loans of 42 to 48 months may become widespread, even dominant, in the future, but the development is likely to take years rather than months.

With credit involved in about two-thirds of all new-auto sales, auto demand could respond strongly to a widespread lengthening of maturities. An extension to 42 or 48 months could reduce monthly payments on a given car by approximately 10 to 20 per cent, or increase by about 15 to 30 per cent the size of loan that could be supported with a given monthly payment. Sales rose sharply during the last major upward shift in auto loan maturities (to 36 from 24 and 30 months) which took place in the mid-1950's. In 1955, when the shifting in maturities was in full force, auto sales grew explosively, and sales in the next two years, although falling below the 1955 level, remained generally strong. But even if auto sales were not to respond vigorously to a future lengthening of maturities, substantially lower monthly auto payments could permit consumers to increase expenditures on other goods and services.

Although some lenders have begun to offer 42 and 48 month new-car loans, very few such loans have yet been originated. At finance companies, the proportion of over-36-month new-car loans made in October (latest date available) was double that of a year ago, but still only 1.3 per cent of total new-car loans. At commercial banks, no comparable data are available; but a spot check of banks around the country suggests that many are seriously studying longer maturities though not yet committing themselves to such a policy.

In Seattle, at least one bank has been actively promoting 42-month auto loans (while also lowering the downpayment requirement from one-third to one-quarter) since March of this year. In September, 39 of this bank's 169 direct auto loans (23 per cent) had 42-month maturities. An officer of the bank cited five major reasons for the extended-maturity plan:

- (1) competition from credit unions and auto dealers offering longer plans;
- (2) calculations that the equity position of the consumer in his automobile would not become adverse to the bank's interest under such terms;1

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\* Prepared by Charles Lockett, Economist, Mortgage, Agricultural, and Consumer Finance Section, Division of Research and Statistics.

- (3) consideration of the extent to which car prices have risen in recent years;
- (4) the recognition that consumer attitudes are changing as indicated by more consumer leasing of cars, and a growing propensity for individuals to finance other expenditures by refinancing an auto loan that has been almost paid off; and
- (5) a desire to increase loan volume--consumer reluctance to borrow during Seattle's aerospace industry depression had lowered the loan-deposit ratio below the desired level.

In the East, several bankers indicated that new-auto loans in excess of 36 months were virtually nil, and they generally felt that no other banks in their area were offering such terms. But according to Bankers Research one large New York City bank has just recently reintroduced the use of balloon paper, an instrument which had virtually disappeared from the auto finance field. Since the large final balloon payment is almost always refinanced, such loans can be used as an indirect way of lengthening maturities and reducing monthly payments.

One bank was contacted in Worcester, Massachusetts, that had initiated a 48-month loan plan as reported last year in Automotive News. The bank has set up very strict guidelines for the plan, however, and only about 2 per cent of its loans have carried 48-month maturities since the program's inception.

In the Midwest, some banks are moving cautiously towards trying out longer maturities. An Akron bank has just begun to offer 42-month loans in response to such a move a month ago by two competitors. In Columbus, apparently no banks are promoting longer maturity plans at present. One banker mentioned that a dealer from which his bank buys paper has been advertising 48-month loans for about three years, but no one else he knows of has followed suit.

An April issue of the American Banker noted that a Detroit area bank had just then begun a 48-month plan. A call to an officer of that bank elicited the estimate that 5 to 8 per cent of the bank's new-car loans were in the 48-month category. He indicated that two major Detroit banks had also recently begun 48-month plans. In Chicago, according to the October 16 American Banker, a medium-sized bank was offering 48-month auto loans on an experimental basis during October.

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1/ Staff calculations indicate that, at the end of one year, assuming an original downpayment of 20 per cent of retail price, the trade-in value of a standard size American car will be about \$200 greater than the remaining loan obligation for a 36-month loan, about equal to the loan obligation for a 42-month loan, and \$200 less than the loan obligation for a 48-month loan.

SUPPLEMENTAL APPENDIX B  
THE OCTOBER 31 QUARTERLY  
SURVEY OF LOAN COMMITMENTS \*

Outstanding unused loan commitments at the 42 banks participating in the October 31 Survey of Bank Loan Commitments showed sustained strength -- growing nearly six per cent since the end of July. (See Table 1A.) All major categories recorded some gains, with the major increase occurring in the commercial and industrial area. Commitments for real estate mortgages also were particularly strong, while commitments to nonbank financial institutions grew at about the moderate-to-strong pace recorded in the previous survey.

The rise in commercial and industrial unused commitments was marked by a very strong advance in commitments for term loans and revolving credits -- the rate of growth in each category being the strongest since the survey began in early 1969. To some extent, this growth may be connected with reports of introductions of "cap" loans, which have maximum interest rates guaranteed over the life of the loan, and liberalized amortization schedules under which little or nothing is paid on the principal until maturity.

As for underlying commitment flows, the volume in most categories of new commitments and takedowns, expirations, and cancellations was considerably below the levels of three months ago. (Tables 1B, 1C.) Most of this moderation probably reflected earlier expirations and renewals which were induced by reviews of credit lines during the summer months. Moving more strongly than most other categories, new commitments for term loans and revolving credits matched the high reached in the previous survey. The volume of new commitments for real estate mortgages was also at an all-time high with new commitments on nonresidential properties responsible for most of the increased activity. At the same time, the level of takedowns, expirations, and cancellations for real estate mortgages was equaled only in July, 1971.

Turning to respondents' views on commitments and commitment policies, more than half anticipated a moderate step-up in takedown activity during the next three months. (See Table 2.) Commitment policies at the majority of banks, in the meantime, had not changed significantly. Of the three banks which recently adopted less restrictive policies, one switch was explained, in comments to the survey, by increased competition, while the remaining two banks cited lack of strength in loan demand. (Table 3.) All three of the banks were in New York City.

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\* Prepared by Marilyn Barron, Research Assistant, Division of Research and Statistics.

NOT FOR  
QUOTATION OR  
PUBLICATION

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS  
AT SELECTED LARGE U.S. BANKS \*1  
(AS OF OCT. 31, 1972)

TABLE 1A UNUSED COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
	AS OF OCT. 31 1972	% CHG	AS OF JUL. 31 1972	% CHG	AS OF APR. 30 1972	% CHG	AS OF JAN. 31 1972	% CHG	AS OF OCT. 29 1971	% CHG	AS OF JUL. 31 1971	% CHG	AS OF APR. 30 1971	% CHG	AS OF JAN. 31 1971	% CHG
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
UNUSED COMMITMENTS	80.2	5.9	75.7	5.1	72.0	2.5	70.3	5.0	66.9	2.9	65.1	4.7	62.1	6.4	58.4	6.8
C & I FIRMS	60.5	5.8	57.2	4.9	54.5	7.6	53.2	3.9	51.1	2.4	50.0	5.3	47.4	6.5	44.5	6.6
NONBK FINAN INSTS	14.4	5.0	13.7	4.8	13.1	0.9	13.0	6.7	12.2	4.1	11.7	3.3	11.3	3.0	11.0	7.3
REAL ESTATE MORTG	5.3	10.9	4.7	8.9	4.4	5.9	4.1	13.6	3.6	6.2	3.4	1.1	3.4	18.0	2.9	8.3
MEMO: CONSTRUCTION LOANS INCL ABOVE	4.1	8.2	3.8	8.7	3.5	8.2	3.2	9.2	2.9	1.0	2.9	5.4	2.7	18.8	2.3	6.7
COMMERCIAL & INDUST FIRMS																
TERM LOANS	3.1	23.4	2.5	12.7	2.3	5.2	2.1	-6.6	2.3	19.9	1.9	6.9	1.8	16.9	1.5	5.4
REVOLVING CREDITS	15.3	8.6	14.1	4.9	13.4	-3.8	14.0	2.7	13.6	1.9	13.3	3.0	12.9	1.2	12.8	7.4
TOT: TERM & REV *2	19.1	10.7	17.2	5.6	16.3	-2.3	16.7	1.2	16.5	3.9	15.9	3.2	15.4	1.5	15.1	8.4
CONFIRMED LINES	36.9	2.8	35.9	4.8	34.2	4.7	32.7	5.6	31.0	1.7	30.4	5.2	28.9	8.5	26.7	5.9
OTHER COMMITMENTS	4.6	11.3	4.1	3.2	4.0	5.4	3.8	2.3	3.7	1.4	3.6	17.7	3.1	15.4	2.7	4.9
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	8.4	1.9	8.3	1.6	8.1	0.7	8.1	5.8	7.7	5.2	7.3	1.9	7.1	0.0	7.1	6.9
MTGE WAREHOUSING	2.2	1.5	2.2	8.2	2.0	5.1	1.9	2.7	1.9	5.0	1.8	10.6	1.6	-1.6	1.6	9.6
ALL OTHER	3.8	15.1	3.3	11.4	2.9	-1.1	3.0	12.2	2.6	0.2	2.6	2.6	2.6	16.0	2.2	6.7
REAL ESTATE MORTGES																
RESIDENTIAL	1.8	-8.1	2.0	12.0	1.8	13.5	1.6	16.6	1.3	13.7	1.2	12.3	1.0	17.7	0.9	10.7
OTHER	3.4	24.6	2.8	6.8	2.6	1.3	2.6	11.8	2.3	2.3	2.2	-4.0	2.3	18.2	2.0	7.2

\*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF \$1 BILLION OR MORE.  
\*2 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

\*\* NOTE: MINOR INCONSISTENCIES MAY OCCUR IN FIGURES DUE TO ROUNDING. \*\*

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS  
AT SELECTED LARGE U.S. BANKS \*1  
(AS OF OCT. 31, 1972)

TABLE 1B NEW COMMITMENTS

(DOLLAR AMOUNTS IN BILLIONS)

	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
	AS OF OCT. 31 1972	% CHG	AS OF JUL. 31 1972	% CHG	AS OF APR. 30 1972	% CHG	AS OF JAN. 31 1972	% CHG	AS OF OCT. 29 1971	% CHG	AS OF JUL. 31 1971	% CHG	AS OF APR. 30 1971	% CHG	AS OF JAN. 31 1971	% CHG
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
GRAND TOTAL	28.7	-21.4	36.6	35.3	27.0	15.6	23.4	10.3	21.2	-39.4	35.0	43.0	24.5	16.0	21.1	38.9
NEW COMMITMENTS	21.9	-22.1	28.1	38.1	20.4	12.0	18.2	8.5	16.8	-38.7	27.4	45.2	18.9	17.7	16.0	38.3
C & I FIRMS	4.3	-31.5	6.2	32.8	4.7	30.2	3.6	25.5	2.9	-48.1	5.5	37.8	4.0	6.4	3.8	47.3
NONBK FINAN INSTS	2.5	16.0	2.2	12.3	1.9	23.9	1.6	1.9	1.5	-24.9	2.1	29.7	1.6	22.9	1.3	24.1
MEMO: CONSTRUCTION LOANS INCL ABOVE	1.7	26.6	1.3	10.0	1.2	11.7	1.1	4.8	1.0	-24.2	1.4	16.4	1.2	21.8	1.0	19.6
COMMERCIAL & INDUST FIRMS	2.9	-17.4	3.6	60.3	2.2	11.6	2.0	-8.8	2.2	17.3	1.9	-0.1	1.9	24.5	1.5	67.6
TERM LOANS	6.1	10.8	5.5	12.3	4.9	11.1	4.4	17.6	3.8	-44.6	6.8	40.8	4.8	-6.7	5.2	83.0
REVOLVING CREDITS	4.3	0.0	9.3	26.9	7.3	11.9	6.5	5.4	6.2	-30.4	8.9	29.2	6.9	1.1	6.8	75.3
TOT: TERM & REV *2	11.1	-36.3	17.5	48.3	11.8	18.7	9.9	4.8	9.5	-36.6	14.9	35.1	11.1	30.5	8.5	19.6
CONFIRMED LINES	1.5	10.0	1.4	8.2	1.3	-25.8	1.7	57.0	1.1	-68.9	3.5	291.1	0.9	25.4	0.7	18.8
OTHER COMMITMENTS																
NONBANK FINANCIAL INSTITUTIONS	1.9	-46.1	3.6	41.7	2.5	52.3	1.7	-0.4	1.7	-52.6	3.5	63.6	2.2	-4.4	2.3	40.4
FINANCE COMPANIES	0.8	-17.0	1.0	3.9	0.9	1.9	0.9	65.9	0.5	-40.1	0.9	46.2	0.6	-14.0	0.7	97.3
MTGE WAREHOUSING	1.5	-9.0	1.7	36.3	1.2	19.5	1.0	57.1	0.7	-40.3	1.1	-10.7	1.2	55.0	0.8	34.8
ALL OTHER																
REAL ESTATE MORTGES	1.0	-5.7	1.1	22.5	0.9	19.1	0.8	-2.2	0.8	-13.0	0.9	51.9	0.6	47.7	0.4	18.0
RESIDENTIAL	1.5	38.0	1.1	3.6	1.0	28.3	0.8	6.0	0.8	-33.9	1.2	16.7	1.0	12.0	0.9	27.1
OTHER																

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(AS OF OCT. 31, 1972)

TABLE 1C TAKEDOWNS, EXPIRATIONS AND CANCELLATIONS

(DOLLAR AMOUNTS IN BILLIONS)

	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
	AS OF OCT. 31 1972	% CHG	AS OF JUL. 31 1972	% CHG	AS OF APR. 30 1972	% CHG	AS OF JAN. 31 1972	% CHG	AS OF OCT. 29 1971	% CHG	AS OF JUL. 31 1971	% CHG	AS OF APR. 30 1971	% CHG	AS OF JAN. 31 1971	% CHG*
NUMBER OF BANKS	42		42		42		42		42		42		42		42	
TOTAL TAKEDOWNS	24.2	23.2	32.9	30.3	25.3	26.0	20.1	22.2	19.3	22.4	32.0	33.0	20.7	25.0	17.4	0.0
C & I FIRMS	18.6	23.6	25.5	30.8	19.0	25.9	16.2	23.3	15.6	23.4	24.8	33.2	16.0	25.2	13.2	0.0
NONBK FINAN INSTS	3.6	19.9	5.6	29.0	4.6	25.9	2.8	17.7	2.4	16.5	5.2	30.6	3.7	24.6	3.0	0.0
REAL ESTATE MORTG	2.0	27.7	1.8	27.5	1.7	28.1	1.1	20.7	1.3	26.8	2.0	37.1	1.1	24.0	1.1	0.0
MEMO: CONSTRUCTION LOANS INCL ABOVE	1.4	25.3	1.0	21.5	0.9	21.5	0.8	20.4	1.0	25.6	1.2	29.6	0.7	21.2	0.8	0.0
COMMERCIAL & INDUST FIRMS																
TERM LOANS	2.3	42.8	3.3	56.3	2.1	48.3	2.1	50.0	1.8	44.0	1.7	47.6	1.6	47.3	1.4	0.0
REVOLVING CREDITS	4.9	24.3	4.9	25.6	5.4	28.9	4.1	22.5	3.5	20.5	6.4	32.4	4.7	26.5	4.3	0.0
TOT: TERM & REV *4	7.5	28.1	8.4	32.7	7.7	32.1	6.3	27.5	5.6	25.3	8.4	34.7	6.7	30.3	5.7	0.0
CONFIRMED LINES	10.1	21.6	15.8	30.6	10.2	23.0	8.2	20.1	9.0	22.4	13.4	30.6	8.8	23.3	7.0	0.0
OTHER COMMITMENTS	1.1	18.8	1.3	23.4	1.1	21.3	1.6	30.2	1.0	22.1	3.0	45.0	0.5	13.6	0.6	0.0
NONBANK FINANCIAL INSTITUTIONS																
FINANCE COMPANIES	1.8	17.4	3.5	29.5	2.5	23.3	1.2	13.1	1.3	14.4	3.4	31.7	2.2	23.2	1.8	0.0
MTGE WAREHOUSING	0.8	25.6	0.8	26.6	0.8	28.9	0.9	30.7	0.5	19.6	0.7	29.3	0.7	28.7	0.6	0.0
ALL OTHER	1.1	21.9	1.4	29.5	1.3	30.4	0.7	19.5	0.7	19.9	1.0	28.4	0.9	25.8	0.7	0.0
REAL ESTATE MORTGGS																
RESIDENTIAL	1.2	39.7	0.9	30.9	0.7	28.0	0.5	25.4	0.6	31.3	0.8	39.1	0.4	28.9	0.3	0.0
OTHER	0.8	19.2	0.9	24.8	1.0	28.2	0.5	17.6	0.7	23.9	1.3	36.0	0.6	21.6	0.8	0.0

\*1 BANKS PARTICIPATING IN THE QUARTERLY INTEREST RATE SURVEY -- MAINLY BANKS WITH TOTAL DEPOSITS OF \$1 BILLION OR MORE.

\*2 FOR THIS TABLE THE PERCENTAGE CHANGE COLUMN CONTAINS THE RATIO OF TAKEDOWNS TO AVAILABLE COMMITMENTS; EXPRESSED AS A PERCENTAGE.  
(AVAILABLE COMMITMENTS = UNUSED COMMITMENTS FROM THE PREVIOUS QUARTER + NEW COMMITMENTS IN THE CURRENT QUARTER).

\*3 PERCENTAGE CHANGE NOT COMPUTED FOR THIS QUARTER DUE TO THE SIZE CONSTRAINTS OF THE MATRIX.

\*4 THE TOTAL MAY EXCEED THE SUM OF THE PREVIOUS TWO ITEMS SINCE SOME BANKS REPORT ONLY TOTALS.

\*\* NOTE: MINOR INCONSISTENCIES MAY OCCUR IN FIGURES DUE TO ROUNDING. \*\*

NOT FOR  
QUOTATION OR  
PUBLICATION

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS  
AT SELECTED LARGE U.S. BANKS  
(AS OF OCT. 31, 1972)

TABLE 2: VIEWS ON COMMITMENT POLICY

	(1) OCT. 31 1972	(2) JULY 31 1972	(3) APR. 30 1972	(4) JAN. 31 1972	(5) OCT. 29 1971	(6) JULY 31 1971	(7) APR. 30 1971	(8) JAN. 31 1971
TOTAL NUMBER OF BANKS RESPONDING:	48	48	48	48	48	48	48	48
UNUSED COMMITMENTS IN THE PAST THREE MONTHS HAVE:								
RISEN RAPIDLY	1	2	0	1	0	1	5	3
RISEN MODERATELY	24	17	20	22	25	19	25	31
REMAINED UNCHANGED	19	21	21	19	15	19	12	7
DECLINED MODERATELY	4	8	7	6	8	9	6	6
DECLINED RAPIDLY	0	0	0	0	0	0	0	0
TAKEDOWNS IN THE NEXT THREE MONTHS SHOULD:								
RISE RAPIDLY	0	0	0	0	0	0	0	0
RISE MODERATELY	24	26	26	14	13	16	13	8
REMAIN UNCHANGED	20	21	20	28	31	31	33	29
DECLINE MODERATELY	0	1	2	6	4	1	2	10
DECLINE RAPIDLY	0	0	0	0	0	0	0	0
COMMITMENT POLICY COMPARED TO THREE MONTHS AGO IS:								
MUCH MORE RESTRICTIVE	0	0	0	0	0	0	0	0
SOMEWHAT MORE RESTRICTIVE	5	1	1	0	0	2	1	0
UNCHANGED	40	42	44	34	37	37	25	8
LESS RESTRICTIVE	3	5	3	13	11	9	21	34
MUCH LESS RESTRICTIVE	0	0	0	1	0	0	1	5

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QUARTERLY SURVEY OF BANK LOAN COMMITMENTS  
AT SELECTED LARGE U.S. BANKS  
(AS OF OCT. 31, 1972)

TABLE 3 EXPLANATION OF CHANGES IN NEW COMMITMENT POLICY

	(1) OCT. 31 1972	(2) JULY 31 1972	(3) APR. 30 1972	(4) JAN. 31 1972	(5) OCT. 29 1971	(6) JULY 31 1971	(7) APR. 30 1971	(8) JAN. 31 1971
INDICATED CHANGE:								
MORE RESTRICTIVE:								
INCREASED DEMAND	5	1	1	0	0	2	1	0
REDUCED FUNDS	4	0	0	0	0	1	0	0
BOTH	0	0	0	0	0	1	0	0
	1	1	1	0	0	0	1	0
LESS RESTRICTIVE:								
INCREASED FUNDS	3	5	3	14	11	9	22	39
DECREASED DEMAND	0	1	2	2	0	5	7	11
BOTH	2	2	1	3	5	2	4	5
OTHER	0	2	0	9	6	2	11	23
	1							

## SUPPLEMENTAL APPENDIX C

## QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES\*

More than half of the 125 banks participating in the November 15 Survey of Changes in Bank Lending Practices indicated increased business loan demand in the previous three months, continuing the movement recorded in the preceding survey. More than 65 per cent of the respondents believe that this strength would be sustained through February. (See Table 1).

Not surprisingly, this pick-up in realized and anticipated business loan demand was accompanied by a stiffening of terms and conditions of lending. Interest rate policies firmed significantly; compensating balances and standards of credit worthiness tightened moderately. Banks were appreciably more stringent in reviewing credit lines or loan applications from new and non-local service area customers and placed greater emphasis on the value of loan applicants as depositors or as a source of collateral business.

An exception to the over-all rule of greater stringency, however, was in term lending, where competitive pressures from open market financing induced large money market loans. More willingness to lend also characterized consumer instalment lending, particularly at small banks.

Reviewing the survey in greater detail shows that interest rate policies had tightened at three-fifths of the participating banks, reflecting largely the prime rate increases totaling one half of a percentage point over the three month interval from the preceding survey. Compensating balance requirements were somewhat more restrictive at about 15 per cent of the banks. And, on credit lines and loan applications roughly the same proportion of respondents reported that new and non-local customers faced more stringent reviews. The value of customers as depositors and as a source of collateral business was also given significantly greater weight as over 14 per cent of the respondents indicated a firmer policy.

In contrast to tightening in other aspects of lending, approximately one-fifth of the banks reported greater willingness to make term loans to non-financial businesses. Perhaps as a result, the ratio of

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

term loans to total business loans has remained fairly steady in recent months, against a background of a slight downtrend in that ratio over the last several years. The easing probably reflected, in part, recent innovations in lending policies where some term loans carry relatively little or no repayment of the principal until maturity and in other cases where there is a guaranteed upper limit on the interest rate charged over the life of the loan. As supplemental comments to the survey indicated, these easing policies probably had occurred in response to large customers' increasing use of open market financing as an alternative to bank financing. Accordingly, a relatively great portion of the modification in term lending policies seemed to be at large money market banks. Most of the banks showing greater ease were over \$1 billion in total deposits and were in the New York, Chicago, and San Francisco Districts. (See Tables 2 and 3).

Despite the increasing stringency in conditions surrounding loans to non-financial businesses, 22 per cent of the banks, particularly those with less than \$1 billion in deposits, indicated some intention to expand their portfolios of consumer loans. (Tables 1 and 2). Otherwise, a greater proportion of the banks in the smaller size class moved toward more restrictive policies.

NOT FOR QUOTATION OR PUBLICATION

TABLE 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES  
 AT SELECTED LARGE BANKS IN THE U.S. 1/  
 (STATUS OF POLICY ON NOVEMBER 15, 1972 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	4	3.2	68	54.4	49	39.2	4	3.2	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	2	1.6	80	64.0	42	33.6	1	0.8	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	4	3.2	68	54.4	50	40.0	3	2.4	0	0.0
COMPENSATING OR SUPPORTING BALANCES	124	100.0	1	0.8	17	13.7	99	79.9	7	5.6	0	0.0
STANDARDS OF CREDIT WORTHINESS	124	100.0	3	2.4	9	7.3	111	89.5	1	0.8	0	0.0
MATURITY OF TERM LOANS	124	100.0	2	1.6	6	4.8	92	74.2	24	19.4	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	9	7.2	113	90.4	2	1.6	1	0.8
NEW CUSTOMERS	125	100.0	2	1.6	18	14.4	99	79.2	5	4.0	1	0.8
LOCAL SERVICE AREA CUSTOMERS	125	100.0	0	0.0	8	6.4	114	91.2	2	1.6	1	0.8
NONLOCAL SERVICE AREA CUSTOMERS	125	100.0	4	3.2	19	15.2	94	75.2	8	6.4	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1972.

NOT FOR QUOTATION OR PUBLICATION

TABLE 1 (CONTINUED)

	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	125	100.0	2	1.6	18	14.4	103	82.4	2	1.6	0	0.0
INTENDED USE OF THE LOAN	125	100.0	2	1.6	8	6.4	113	90.4	2	1.6	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	1	0.8	37	29.6	86	68.8	1	0.8	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	4	3.2	117	93.6	4	3.2	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	1	0.8	8	6.4	113	90.4	3	2.4	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	1	0.8	12	9.6	101	80.8	11	8.8	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	1	0.8	10	8.0	96	76.8	17	13.6	1	0.8
CONSUMER INSTALMENT LOANS	123	100.0	1	0.8	1	0.8	93	75.6	27	22.0	1	0.8
SINGLE FAMILY MORTGAGE LOANS	123	100.0	0	0.0	11	8.9	96	78.1	16	13.0	0	0.0
MULTI-FAMILY MORTGAGE LOANS	122	100.0	0	0.0	11	9.0	104	85.3	7	5.7	0	0.0
ALL OTHER MORTGAGE LUANS	123	100.0	0	0.0	5	4.1	102	82.9	16	13.0	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	123	100.0	0	0.0	1	0.8	105	85.4	17	13.8	0	0.0
LOANS TO BROKERS	121	100.0	0	0.0	3	2.5	109	90.0	7	5.8	2	1.7

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.

NOT FOR QUOTATION OR PUBLICATION

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/  
 (STATUS OF POLICY ON NOVEMBER 15, 1972, 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	4	56	54	38	39	4	3	0	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	2	1	67	62	31	36	0	1	0	0
	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER	
	\$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	6	46	61	52	30	2	3	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	1	9	17	80	81	11	1	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	0	4	9	6	91	89	0	1	0	0
MATURITY OF TERM LOANS	100	100	0	3	2	7	66	80	32	10	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	2	11	94	88	2	1	2	0
NEW CUSTOMERS	100	100	0	3	7	20	85	74	6	3	2	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	2	10	94	89	2	1	2	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	0	6	11	18	82	70	7	6	0	0

1/ SURVEY OF LENDING PRACTICES AT 54 LARGE BANKS (DEPOSITS OF \$1 BILLION OR MORE) AND 71 SMALL BANKS (DEPOSITS OF LESS THAN \$1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1972.

NOT FOR QUOTATION OR PUBLICATION

TABLE 2 (CONTINUED)

	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	25	96	72	4	0	0	0
INTENDED USE OF THE LOAN	100	100	0	3	6	7	90	90	4	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHANGED	100	100	0	1	24	34	74	65	2	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	2	4	91	96	7	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	1	2	10	92	89	6	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	0	1	2	15	83	80	15	4	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	1	0	14	81	74	17	11	2	0
CONSUMER INSTALMENT LOANS	100	100	0	1	0	1	83	71	17	26	0	1
SINGLE FAMILY MORTGAGE LOANS	100	100	0	0	2	14	83	75	15	11	0	0
MULTI-FAMILY MORTGAGE LUANS	100	100	0	0	4	13	88	83	8	4	0	0
ALL OTHER MORTGAGE LUANS	100	100	0	0	2	6	90	77	8	17	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	2	0	85	86	13	14	0	0
LOANS TO BROKERS	100	100	0	0	2	3	89	92	7	4	2	1

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.

NOT FOR QUOTATION OR PUBLICATION

TABLE 3

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES AT SELECTED LARGE BANKS IN THE U.S. 1/  
STATUS OF POLICY ON NOVEMBER 15, 1972 COMPARED TO THREE MONTHS EARLIER  
(NUMBER OF BANKS)

	ALL CITS	ROSE- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	S. FRI
<b>STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)</b>														
COMPARED TO 3 MONTHS AGO	125													
MUCH STRONGER	4	0	0	0	0	0	2	1	0	0	0	0	0	1
MODERATELY STRONGER	68	5	13	5	8	4	6	7	4	7	6	1	4	6
ESSENTIALLY UNCHANGED	49	3	6	4	2	2	5	3	5	7	3	2	5	7
MODERATELY WEAKER	4	0	1	0	1	0	0	0	1	0	0	0	0	1
MUCH WEAKER	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ANTICIPATED DEMAND NEXT THREE MONTHS	125													
MUCH STRONGER	2	0	0	0	0	0	0	1	1	0	0	0	0	0
MODERATELY STRONGER	80	6	12	7	5	4	7	9	10	7	3	5	3	7
ESSENTIALLY UNCHANGED	42	2	7	2	5	2	4	5	4	2	0	4	6	6
MODERATELY WEAKER	1	0	1	0	1	0	0	0	0	0	0	0	0	0
MUCH WEAKER	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>LENDING TO NONFINANCIAL BUSINESSES</b>														
<b>TERMS AND CONDITIONS</b>														
INTEREST RATES CHARGED	125													
MUCH FIRMER POLICY	4	0	0	0	0	0	1	1	1	0	0	0	0	0
MODERATELY FIRMER POLICY	68	4	8	2	6	3	4	10	5	6	6	2	6	4
ESSENTIALLY UNCHANGED POLICY	50	3	11	6	5	3	6	1	3	8	3	1	3	5
MODERATELY EASIER POLICY	3	1	1	1	0	0	0	1	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
COMPENSATING BALANCES	124													
MUCH FIRMER POLICY	1	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	17	2	2	0	2	0	2	3	1	1	0	3	0	2
ESSENTIALLY UNCHANGED POLICY	99	4	17	8	9	5	8	8	14	8	3	6	9	9
MODERATELY EASIER POLICY	7	1	1	1	0	1	1	1	0	0	0	0	0	2
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF NOVEMBER 15, 1972.



NOT FOR QUOTATION OR PUBLICATION

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK		PHIL- ADEL.	CLEVE- LAND	HICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES														
REVIEWING CREDIT LINES OR LOANS														
-NONLOCAL SERVICE AREA CUST	125													
MUCH FIRMER POLICY	4	1	0	0	0	0	0	2	0	0	0	1	0	0
MODERATELY FIRMER POLICY	19	0	4	0	4	1	2	1	2	2	0	3	2	1
ESSENTIALLY UNCHANGED POLICY	94	6	16	9	7	5	9	7	13	5	3	4	7	10
MODERATELY EASIER POLICY	8	1	0	0	0	0	1	0	0	2	0	1	0	2
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FACTORS RELATING TO APPLICANT 2/														
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	125													
MUCH FIRMER POLICY	2	1	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	18	0	4	0	4	0	3	3	1	2	0	1	4	0
ESSENTIALLY UNCHANGED POLICY	103	7	16	9	7	6	11	9	6	14	7	3	8	11
MODERATELY EASIER POLICY	2	0	0	0	0	0	0	0	0	0	0	0	0	2
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTENDED USE OF LOAN	125													
MUCH FIRMER POLICY	2	0	0	0	0	0	0	2	0	0	0	0	0	0
MODERATELY FIRMER POLICY	8	1	1	0	1	0	1	0	0	2	0	1	0	1
ESSENTIALLY UNCHANGED POLICY	113	7	19	9	10	5	11	8	15	7	3	8	9	10
MODERATELY EASIER POLICY	2	0	0	0	0	0	0	0	0	0	0	0	0	2
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES														
TERMS AND CONDITIONS														
INTEREST RATES CHARGED	125													
MUCH FIRMER POLICY	1	0	0	0	0	0	1	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	37	1	5	2	3	3	0	7	3	2	2	1	4	3
ESSENTIALLY UNCHANGED POLICY	86	7	15	7	8	3	10	5	7	13	7	2	5	6
MODERATELY EASIER POLICY	1	0	0	0	0	0	0	0	0	0	0	0	0	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	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.

NOT FOR QUOTATION OR PUBLICATION

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK TOTAL CITY OUTSIDE	PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS, CITY	DAL- LAS	SAN FRAN
LENDING TO "NONCAPTIVE" FINANCE COMPANIES													
TERMS AND CONDITIONS:													
SIZE OF COMPENSATING BALANCES	125												
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	4	0	0	0	0	1	1	0	0	0	1	0	0
ESSENTIALLY UNCHANGED POLICY	117	8	20	9	11	6	9	11	9	3	8	9	10
MODERATELY EASIER POLICY	4	0	0	0	0	1	0	0	0	0	0	0	3
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENT	125												
MUCH FIRMER POLICY	1	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	8	0	2	0	2	0	1	3	1	0	0	1	0
ESSENTIALLY UNCHANGED POLICY	113	8	18	9	9	6	10	9	8	15	9	3	8
MODERATELY EASIER POLICY	3	0	0	0	0	0	0	0	0	0	0	0	3
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	125												
MUCH FIRMER POLICY	1	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	12	0	3	0	3	0	2	0	1	0	1	2	1
ESSENTIALLY UNCHANGED POLICY	101	6	16	8	8	6	8	12	8	14	8	2	6
MODERATELY EASIER POLICY	11	2	1	1	0	0	1	0	0	1	0	0	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0
WILLINGNESS TO MAKE OTHER TYPES OF LOANS													
TERM LOANS TO BUSINESSES	125												
CONSIDERABLY LESS WILLING	1	0	0	0	0	0	0	0	1	0	0	0	0
MODERATELY LESS WILLING	10	0	1	0	1	0	1	0	1	0	2	2	0
ESSENTIALLY UNCHANGED	96	7	16	6	10	5	9	11	7	13	6	3	5
MODERATELY MORE WILLING	17	1	3	3	0	1	1	1	1	1	0	2	2
CONSIDERABLY MORE WILLING	1	0	0	0	0	0	0	0	0	0	0	0	1
CONSUMER INSTALMENT LOANS	123												
CONSIDERABLY LESS WILLING	1	0	0	0	0	0	0	1	0	0	0	0	0
MODERATELY LESS WILLING	1	0	1	0	1	0	0	0	0	0	0	0	0
ESSENTIALLY UNCHANGED	93	7	16	7	9	5	10	9	7	10	4	3	5
MODERATELY MORE WILLING	27	0	2	1	1	1	1	2	3	4	5	0	4
CONSIDERABLY MORE WILLING	1	0	0	0	0	0	0	1	0	0	0	0	0



TABLE 4

		AUG. 15, 1972		NOVEMBER 15, 1972		
		NUMBER OF BANKS		NUMBER OF BANKS		
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS			STRONGER	UNCHANGED	WEAKER	
COMPARED TO THREE MONTHS AGO						
	STRONGER	68	45	22	1	
	UNCHANGED	51	25	24	2	
	WEAKER	6	2	3	1	
ANTICIPATED DEMAND THREE MONTHS HENCE						
	STRONGER	90	67	23	0	
	UNCHANGED	35	15	19	1	
	WEAKER	0	0	0	0	
ANTICIPATED DEMAND THREE MONTHS HENCE			COMPARED TO THREE MONTHS AGO			
	STRONGER	90	55	32	3	
	UNCHANGED	35	17	17	1	
	WEAKER	0	0	0	0	
LENDING TO NONFINANCIAL BUSINESSES			FIRMER	UNCHANGED	EASIER	
INTEREST RATES CHARGED						
	FIRMER	51	38	12	1	
	UNCHANGED	71	33	36	2	
	EASIER	3	1	2	0	
COMPENSATING OR SUPPORTING BALANCES						
	FIRMER	14	5	9	0	
	UNCHANGED	104	13	86	4	
	EASIER	7	0	4	3	
STANDARDS OF CREDIT WORTHINESS						
	FIRMER	10	4	6	0	
	UNCHANGED	114	8	104	1	
	EASIER	1	0	1	0	
MATURITY OF TERM LOANS						
	FIRMER	6	0	6	0	
	UNCHANGED	95	6	77	12	
	EASIER	23	2	9	11	

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TABLE 4 (CONTINUED)

REVIEWING CREDIT LINES OR LOAN APPLICATION	AUG. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	FIRMER	UNCHANGED	EASIER
ESTABLISHED CUSTOMERS				
FIRMER	3	1	2	0
UNCHANGED	116	8	108	0
EASIER	6	0	3	3
NEW CUSTOMERS				
FIRMER	13	6	7	0
UNCHANGED	104	13	88	3
EASIER	7	1	3	3
LOCAL SERVICE AREA CUSTOMERS				
FIRMER	3	1	2	0
UNCHANGED	117	7	109	1
EASIER	5	0	3	2
NONLOCAL SERVICE AREA CUSTOMERS				
FIRMER	14	10	4	0
UNCHANGED	103	12	86	5
EASIER	8	1	4	3
FACTORS RELATING TO APPLICANT				
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS				
FIRMER	14	7	7	0
UNCHANGED	108	13	94	1
EASIER	3	0	2	1
INTENDED USE OF THE LOAN				
FIRMER	5	2	3	0
UNCHANGED	119	8	109	2
EASIER	1	0	1	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES				
TERMS AND CONDITIONS:				
INTEREST RATES CHARGED				
FIRMER	33	21	12	0
UNCHANGED	90	17	72	1
EASIER	2	0	2	0
COMPENSATING OR SUPPORTING BALANCES				
FIRMER	3	0	3	0
UNCHANGED	118	4	110	4
EASIER	4	0	4	0

TABLE 4 (CONTINUED)

LENDING TO "NONCAPTIVE" FINANCE COMPANIES	AUG. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	FIRMER	UNCHANGED	EASIER
TERMS AND CONDITIONS:				
ENFORCEMENT OF BALANCE REQUIREMENTS				
FIRMER	8	3	5	0
UNCHANGED	114	6	106	2
EASIER	3	0	2	1
ESTABLISHING NEW OR LARGER CREDIT LINES				
FIRMER	13	2	11	0
UNCHANGED	98	10	81	7
EASIER	14	1	9	4
WILLINGNESS TO MAKE OTHER TYPES OF LOANS				
		LESS	UNCHANGED	MORE
TERM LOANS TO BUSINESSES				
LESS	8	3	5	0
UNCHANGED	95	7	76	12
MORE	22	1	15	6
CONSUMER INSTALMENT LOANS				
LESS	1	1	0	0
UNCHANGED	98	0	80	17
MORE	24	1	12	11
SINGLE FAMILY MORTGAGE LOANS				
LESS	6	2	4	0
UNCHANGED	103	9	82	12
MORE	13	0	9	4
MULTI-FAMILY MORTGAGE LOANS				
LESS	10	6	4	0
UNCHANGED	106	5	96	5
MORE	5	0	3	2
ALL OTHER MORTGAGE LOANS				
LESS	8	4	4	0
UNCHANGED	99	1	89	9
MORE	14	0	9	5
PARTICIPATION LOANS WITH CORRESPONDENT BANKS				
LESS	2	0	2	0
UNCHANGED	114	1	98	13
MORE	7	0	3	4
LOANS TO BROKERS				
LESS	4	2	2	0
UNCHANGED	109	1	97	9
MORE	8	0	8	0

TABLE 5

## A CROSS-CLASSIFICATION OF SELECTED RESPONSES IN THE NOVEMBER SURVEY

	NOV. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	NUMBER OF BANKS ESSENTIALLY		
		FIRMER	UNCHANGED	EASIER
<b>LENDING TO NONFINANCIAL BUSINESSES</b>				
<b>INTEREST RATES CHARGED</b>				
FIRMER	72	16	53	3
ESSENTIALLY UNCHANGED	50	2	45	2
EASIER	3	0	1	2
<b>NEW CUSTOMERS</b>				
FIRMER	20	9	11	0
ESSENTIALLY UNCHANGED	99	0	99	0
EASIER	6	0	3	3
<b>VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS</b>				
FIRMER	20	5	15	0
ESSENTIALLY UNCHANGED	103	5	98	0
EASIER	2	0	0	2
<b>LENDING TO "NONCAPTIVE" FINANCE COMPANIES</b>				
<b>INTEREST RATES CHARGED</b>				
FIRMER	38	3	34	1
ESSENTIALLY UNCHANGED	86	1	83	2
EASIER	1	0	0	1
<b>COMPENSATING OR SUPPORTING BALANCES</b>				
FIRMER	4	3	1	0
ESSENTIALLY UNCHANGED	117	6	110	1
EASIER	4	0	2	2
<b>COMPENSATING OR SUPPORTING BALANCES</b>				
FIRMER	4	2	2	0
ESSENTIALLY UNCHANGED	117	11	99	7
EASIER	4	0	0	4
<b>ENFORCEMENT OF BALANCE REQUIREMENTS</b>				
<b>ESTABLISHING NEW OR LARGER CREDIT LINES</b>				
FIRMER	4	2	2	0
ESSENTIALLY UNCHANGED	117	11	99	7
EASIER	4	0	0	4

NOT FOR QUOTATION OR PUBLICATION

TABLE 5 (CONTINUED)

## A CROSS-CLASSIFICATION OF SELECTED RESPONSES IN THE NOVEMBER SURVEY

WILLINGNESS TO MAKE OTHER TYPES OF LOANS	NOV. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	LESS	ESSENTIALLY UNCHANGED	GREATER
TERM LOANS TO BUSINESSES		MATURITY OF TERM LOANS		
LESS	11	4	7	0
ESSENTIALLY UNCHANGED	96	4	77	15
GREATER	18	0	8	9
SINGLE FAMILY MORTGAGE LOANS		MULTI-FAMILY MORTGAGE LOANS		
LESS	11	7	4	0
ESSENTIALLY UNCHANGED	96	4	91	1
GREATER	16	0	9	6
SINGLE FAMILY MORTGAGE LOANS		ALL OTHER MORTGAGE LOANS		
LESS	11	3	8	0
ESSENTIALLY UNCHANGED	96	2	86	8
GREATER	16	0	8	8
TERM LOANS TO BUSINESSES		CONSUMER INSTALMENT LOANS		
LESS	11	1	7	3
ESSENTIALLY UNCHANGED	96	1	77	16
GREATER	18	0	9	9
TERM LOANS TO BUSINESSES		PARTICIPATION LOANS WITH CORRESPONDENT BANKS		
LESS	11	0	11	0
ESSENTIALLY UNCHANGED	96	0	85	9
GREATER	18	1	9	8
TERM LOANS TO BUSINESSES		LOANS TO BROKERS		
LESS	11	1	10	0
ESSENTIALLY UNCHANGED	96	2	85	6
GREATER	18	0	14	3

NOT FOR QUOTATION OR PUBLICATION

TABLE 5 (CONTINUED)

## A CROSS-CLASSIFICATION OF SELECTED RESPONSES IN THE NOVEMBER SURVEY

STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS	NOV. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	NUMBER OF BANKS ESSENTIALLY		
		FIRMER	UNCHANGED	EASIER
COMPARED TO THREE MONTHS AGO		INTEREST RATES CHARGED TO NONFINANCIAL BUSINESSES		
STRONGER	72	46	25	1
ESSENTIALLY UNCHANGED	49	23	24	2
WEAKER	4	3	1	0
COMPARED TO THREE MONTHS AGO		COMPENSATING OR SUPPORTING BALANCES		
STRONGER	72	10	58	3
ESSENTIALLY UNCHANGED	49	8	37	4
WEAKER	4	0	4	0
COMPARED TO THREE MONTHS AGO		STANDARDS OF CREDIT WORTHINESS		
STRONGER	72	8	63	0
ESSENTIALLY UNCHANGED	49	4	45	0
WEAKER	4	0	3	1
COMPARED TO THREE MONTHS AGO		MATURITY OF TERM LOANS		
STRONGER	72	6	53	12
ESSENTIALLY UNCHANGED	49	2	36	11
WEAKER	4	0	3	1
COMPARED TO THREE MONTHS AGO		NEW CUSTOMERS		
STRONGER	72	13	56	3
ESSENTIALLY UNCHANGED	49	5	42	2
WEAKER	4	2	1	1
COMPARED TO THREE MONTHS AGO		("NONCAPTIVE FINANCE COMPANIES") ENFORCEMENT OF BALANCE REQUIREMENTS		
STRONGER	72	6	64	2
ESSENTIALLY UNCHANGED	49	2	46	1
WEAKER	4	1	3	0
COMPARED TO THREE MONTHS AGO		("NONCAPTIVE FINANCE COMPANIES") ESTABLISHING NEW OR LARGER CREDIT LINES		
STRONGER	72	7	60	5
ESSENTIALLY UNCHANGED	49	5	40	4
WEAKER	4	1	1	2

NOT FOR QUOTATION OR PUBLICATION

TABLE 5 (CONTINUED)

## A CROSS-CLASSIFICATION OF SELECTED RESPONSES IN THE NOVEMBER SURVEY

STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS	NOV. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	LESS	ESSENTIALLY UNCHANGED	GREATER
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE TERM LOANS TO BUSINESSES		
STRONGER	77	6	56	10
ESSENTIALLY UNCHANGED	49	4	39	6
WEAKER	4	1	1	2
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE CONSUMER INSTALLMENT LOANS		
STRONGER	77	1	55	16
ESSENTIALLY UNCHANGED	49	1	37	9
WEAKER	4	0	1	3
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE SINGLE FAMILY MORTGAGE LOANS		
STRONGER	72	7	56	8
ESSENTIALLY UNCHANGED	49	3	37	8
WEAKER	4	1	3	0
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE MULTI-FAMILY MORTGAGE LOANS		
STRONGER	77	7	60	4
ESSENTIALLY UNCHANGED	49	2	47	3
WEAKER	4	2	2	0
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE ALL OTHER MORTGAGE LOANS		
STRONGER	72	3	62	6
ESSENTIALLY UNCHANGED	49	0	38	10
WEAKER	4	2	2	0
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE PARTICIPATION LOANS WITH CORRESPONDENT BANKS		
STRONGER	72	0	62	10
ESSENTIALLY UNCHANGED	49	1	41	5
WEAKER	4	0	2	2
COMPARED TO THREE MONTHS AGO		WILLINGNESS TO MAKE LOANS TO BROKERS		
STRONGER	72	2	63	6
ESSENTIALLY UNCHANGED	49	1	42	3
WEAKER	4	0	4	0

NOT FOR QUOTATION OR PUBLICATION

TABLE 5 (CONTINUED)

## A CROSS-CLASSIFICATION OF SELECTED RESPONSES IN THE NOVEMBER SURVEY

	NOV. 15, 1972	NOVEMBER 15, 1972		
	NUMBER OF BANKS	FIRMER	ESSENTIALLY UNCHANGED	EASIER
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS				
ANTICIPATED DEMAND IN NEXT 3 MONTHS				
STRONGER	82	COMPENSATING OR SUPPORTING BALANCES		
ESSENTIALLY UNCHANGED	42	16	61	4
WEAKER	1	2	37	3
STANDARDS OF CREDIT WORTHINESS				
STRONGER	82	0	1	0
ESSENTIALLY UNCHANGED	42	10	71	0
WEAKER	1	2	39	1
MATURITY OF TERM LOANS				
STRONGER	82	6	59	16
ESSENTIALLY UNCHANGED	42	2	32	8
WEAKER	1	0	1	0
NEW CUSTOMERS				
STRONGER	82	15	65	2
ESSENTIALLY UNCHANGED	42	5	33	4
WEAKER	1	0	1	0
("NONCAPTIVE FINANCE COMPANIES") ESTABLISHING NEW OR LARGER CREDIT LINES				
STRONGER	82	10	64	8
ESSENTIALLY UNCHANGED	42	3	36	3
WEAKER	1	0	1	0
ESSENTIALLY LESS UNCHANGED MORE				
WILLINGNESS TO MAKE TERM LOANS TO BUSINESSES				
STRONGER	82	8	63	11
ESSENTIALLY UNCHANGED	42	3	32	7
WEAKER	1	0	1	0

## SUPPLEMENTAL APPENDIX D

NOTE: The results of the Michigan Survey should be treated as Administratively Confidential until released by Michigan or Treasury Department.

### RESULTS OF THE MICHIGAN SURVEY RESEARCH CENTER SURVEY AND EFFECTS OF TAX OVERWITHOLDINGS\*

#### Introduction and Summary

A change in the withholding schedules for Federal personal income taxes provided in the 1971 Revenue Act has added uncertainty to the forecasts of consumption in 1973. Early next year individuals will receive large, and to a considerable extent unexpected refunds due to overwithholding. Even after allowing for some offsetting effects of rising Social Security taxes the present staff projection for disposable income in the first half of 1973 is \$866 billion (at an annual rate). This represents a 13 per cent annual rate of growth from the fourth quarter of 1972 compared to a 6.7 per cent growth for all of 1972. 1/

To improve the factual basis for projections of disposable income and consumption the staff has sought information on people's expectations concerning the 1973 refunds and the possible saving and spending decisions if they receive large windfalls. There is little information on this subject. In fact, there is little information on what people do with their refund under normal circumstances. For this reason the Treasury, with financial support from the Board, contracted with the University of Michigan Survey Research Center (SRC) to provide data on this subject. A series of surveys began in August, 1972. A subsequent survey was taken in November, 1972 but its results have not yet been tabulated. Additional surveys will be taken in February and May of 1973.

The Michigan survey results lead to several conclusions that are important for the 1973 outlook. The first is that taxpayers are not aware of the changes in withholding schedules and that the larger than normal refunds in 1973 will mainly be unexpected. It is, therefore, unlikely that those individuals that are overwithholding are doing so as a deliberate savings device.

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1/ Social Security tax increases have a negative \$5 billion effect on the 1973 disposable income figure. Also, in the fourth quarter of 1972 there was an increase in Social Security benefits of \$8 billion (annual rate).

\*Prepared by Albert Teplin, Economist, Government Finance Section, Division of Research and Statistics

The fact that few people have decreased their withholding may lead to changes in income expectations. If people see that their income is higher there is a strong possibility that consumption will be increased more than normal in 1973. Furthermore, it seems likely that the survey savings expectations are overstated, given the 1972 disposition pattern. This is especially important given significant downpayments incurred by recipients of large refunds in 1972.

#### Background on Withholding

In 1971, 55 million taxpaying units received refunds from their 1970 wage and salary withholdings. Total refunds amounted to over \$14 billion. The average refund in 1971 was \$263. Table 1 compares the 1971 figures with those of previous years. It also gives a rough estimate for 1972. Although uneven at times, the growth of refunds increased over 200 per cent between 1961 and 1972--about twice as fast as personal tax receipts. In one year, 1965, refunds dropped somewhat from the previous year. This was probably due to the 1964 tax rate changes. The Table also shows that the number of returns that resulted in refunds has grown over 43 per cent over the same period. The per cent of all returns with refunds has also increased. The August survey result on the per cent who received a refund compares favorably with the actual figures in Table 1. After eliminating respondents who did not file a tax return or did not know if they received a refund, the SRC survey shows that 59 per cent of the original sample received a refund in 1972.

It has been estimated by both the Board's staff and the Treasury that refunds in 1973 will jump to \$22 billion from \$14.3 billion in 1972. This would be an increased of 54 per cent over the 1972 estimate--an unusually large annual increase. The jump is due to changes in the 1972 withholding schedule incorporated in the 1971 Revenue Act. The Congress felt that due to "the increase in the low-income allowance to \$1,300 for 1972 and the acceleration of the increases in personal exemption and the percentage standard deduction scheduled for 1973 to 1972, it is necessary to change the withholding rates..." 2/

The new tax withholding schedule assumes that each taxpaying unit holds two jobs and that units that do not hold two jobs would declare an extra exemption. Also, there are additional increases in the progressivity as income increases into higher brackets. This does not take account of the fact that the higher income brackets include many taxpayers that itemize their deductions and thus experience lower effective tax rates. Individuals were expected to claim extra exemptions under the new rules in order to decrease their withholding, but such action had to be made at the taxpayer's

2/ House of Representatives Report No. 92-533, The Revenue Act of 1971, p. 39

initiative. The failure of taxpayers to adjust in this fashion is confirmed by the survey and reported in detail below.

Table 1

Background data on tax refunds\*  
(calendar years 1961-1972)

Year	Number of returns with a refund (thousands)	Amount of refunds (billion dollars)	Average size of refunds (\$ amounts)	Per cent of total returns with a refund
1961	38,356	5.216	136	62.4
1962	38,956	5.616	144	62.1
1963	39,765	6.053	152	62.2
1964	37,605	4.956	132	57.5
1965	42,595	5.926	139	63.0
1966	47,725	7.613	159	68.0
1967	49,405	9.080	184	69.0
1968	48,920	9.806	200	66.4
1969	53,076	13.071	246	70.0
1970e	54,845	13.322	243	74.0
1971e	55,299	14.533	263	n.a.
1972e	55,059	14.311	259	n.a.

\*Source for 1961 through 1969: Internal Revenue Service, Statistics of Income (for year of data), Individual Income Tax Returns.

Data for 1970 and 1971 are based on unpublished Treasury memoranda.

Data for 1972 are based on data from January thru October of this year.

While the major concern of Congress was underwithholding they seemed to overlook the fact that there already existed a large degree of overwithholding. Clearly more than half of the taxpayers overwithheld and

in some cases taxpayers may have purposely overwithheld. The numbers in Table 1 seems to indicate that there is a tendency to "play it safe" with one's Federal tax liability.

The exact amount of the current tax receipts that are attributable overwithholding is difficult to ascertain because of a number of simultaneous changes in the tax laws. The following table suggests one way of preparing such an estimate.

Table 1A  
Overwithholding in 1972 Relative to 1971  
(billions of dollars)

	Calendar Years	
	<u>1971</u>	<u>1972 e/</u>
1. Actual receipts, withheld & Social Security taxes	\$114.3	\$132.6
2. Wages & salaries	573.5	626.3
3. Observed tax rate (2 - 1 in per cent)	19.9	21.2
4. Receipts at stable tax rate of 19.9 per cent	114.3	124.6
5. Excess actual receipts	--	<u>8.0</u>
Items explaining excess receipts:		
(a) Normal Progressivity		2.4
(b) Increase in social security wage base		3.0
(c) Decrease in tax rates (Tax Reform Act of 1969 and 1971 Revenue Act)		-5.2
(d) Overwithholding		7.8

Since the tax law and withholding schedule changes affect so many individuals there is little way one can deduce, a priori, what the total impact will be. The direction of the overall effect, however, seems to be that there will be more refunds and/or less final payments. The fact that the withholding changes were designed not only to accommodate a reduction in tax rates but also to correct for underwithholding in previous years suggests that the magnitude of overwithholding has been increased.

#### Survey Results

The first survey question dealt with Federal income tax rates in general. About 87 per cent of the respondents incorrectly thought

that rates had gone up or remained about the same as in the past two or three years. This large per cent suggests that in this particular year, at least, taxpayers may not be fully aware of their tax liabilities. <sup>3/</sup> In line with this there is evidence that, although a high per cent of people may be aware that their withholding is larger than last year, they have not made the proper changes to prevent a large windfall in the spring of 1973. For example, 45.4 per cent of the respondents noticed that a larger proportion of their income was being withheld this year, but only 4.8 per cent of these respondents thought that the larger withholding was too large relative to their expected tax liabilities. In other words, the survey indicates that taxpayers generally are not aware of any overwithholding.

These results suggest that taxpayers are not knowingly using their overwithholding as part of their savings. When savings rates fell last spring it was suggested that people have saved less in institutions but were holding savings in the form of tax withholdings. This of course, would be contrary to the economic behavior normally assumed for individuals. If people were aware of the overwithholding they could change their withholding status and put their funds in interest bearing accounts. However, only a few of the respondents decreased the number of exemptions and thereby increased their withholding as is seen by the following:

- 16 per cent of the respondents said they changed their number of exemptions from last year.
- Most of those that changed--60.3 per cent--decreased the number of exemptions and, therefore, increased their withholding.
- This means that only 6.3 per cent of the sample with 1972 wage and salary income withheld decreased their withholding from the previous year.

These results taken together with the historical record of large numbers of taxpayers with refunds suggests that although people may desire refunds as a form of risk avoidance, they are not aware of the possibility of larger refunds in 1973. This evidence suggests that it is highly doubtful that overwithholding is a form of deliberate savings.

Since the sample data suggests that there will be a considerable number of unexpected larger refunds in the spring of 1973 we are left with

<sup>3/</sup> There are a number of other explanations for respondents not recognizing that tax rates have fallen. For example, many may have included Social Security taxes in their answer or they may have considered their own tax liabilities which may have increased due to income increases. Unfortunately, this result raises more questions than it answers.

two other alternative hypotheses. One is that individuals will be surprised with a windfall refund, and moreover, will revise their permanent income expectations. A second view is that individuals will be surprised by their refunds but will consider this a one time change and will not change their income expectations.

A case can be made that many people will view the unexpected refund as a change in permanent income. Evidence in favor of this view is that--judging by the survey--people in the past have more or less correctly anticipated their tax liabilities. Thus when they get a surprise refund in 1973, this probably would not be attributed to chance and a reaction will ensue. In fact most taxpayers think that tax rates have recently gone up and the refund should allow them to revise this opinion.

The evidence in favor of this line of reasoning is as follows:

1. Most respondents (64.5 per cent) receiving a 1971 refund were not surprised by the size of their refund. Of those who were surprised more thought the refund was smaller rather than larger than they expected (21.9 vs. 13.5). This difference is reasonable in view of the underwithholding that was introduced into the tax schedules in 1971.
2. Of the 45.4 per cent who noticed their withholdings was higher than last year only a few (4.2 per cent) attributed it to overwithholding. However 14.3 per cent explicitly gave increases in withholding rates or tax rates as causing the larger withholding.

Whether or not people view an unexpected refund or a larger than normal refund as a change in their permanent income has a bearing on the disposition of the refund. A change in permanent income may induce people to increase their consumption over what they would otherwise spend. If they consider the refund a one time windfall, the spending/saving decision is more uncertain but some increment in spending is still likely.

The disposition of the refunds may also affect the monetary aggregates. If individuals put their money in demand deposits as a transitory type of holding before they spend the funds there should be an unexpected temporary increase in demand for money. When the refunds are spent there will be an increase in transaction balance demand which is anticipated to the extent that spending projections are correct. Demand for time deposits may also be affected, of course.

It is important, therefore, to ascertain the intentions of taxpayers regarding their spending and saving of the refund. The survey attempts to deal with this both in regard to past and future behavior.

### Past Behavior

Of those in the sample who have had 1972 income withheld, 67.3 per cent said they were entitled to a refund after filing last year's return. The per cent who received a refund in each of four income classes was different (Table 2). Those in the lower income classes had a higher incidence of refunds. If we add in those that said they came out even, the relationship is clearer. Over 10 per cent more of those in the lower income classes than in the higher income class answered that they received a refund or came out even.

Table 2

Income (thous. \$)	Per cent in income class who said they received a refund in 1972	Per cent with refund or came out even.
0-4.9	69.3	78.6
5-9.9	75.3	78.8
10-12.5	70.0	73.1
Over 12.5	59.8	65.1
All incomes	67.3	71.2

The following question was asked of those respondents who received a refund of \$25 or more in 1972:

Q1 "What did you do with the money from your Federal income tax refund--did you spend it, save it, invest it, repay debts, use it for a downpayment on something, or what?"

Specific forms of saving and downpayments were also ascertained. Overall this question was asked to about 500 people, a fairly large cross section of the sample.

Most respondents, 72.0 per cent, said they had spent their refunds while 23.9 per cent said they had saved them. <sup>4/</sup> The remaining 4.1 per cent said they used the money for a downpayment--a form of spending combined with dissaving. A rather high per cent (28.3) of the respondents said they used

<sup>4/</sup> It should be pointed out that these per cents can not be translated into savings rates unless one assumes that the per cent of respondents saving also represents the per cent of refunds saved.

the money to pay bills and debts (other than medical). These have been included in the spending category since it is believed that most of these bills are for current purchases such as small credit card purchases or department store charges. To the degree that the "pay bills, debts" category represents a reduction in aggregate consumer credit it should be considered a form of savings. After discussions with the Michigan SRC the pay bills item was left in the spending category.

Table 3 summarizes the spending/savings information provided by the sample. Note that the per cent who said they saved was higher for the higher incomes. This may be due to the larger size of refunds going to higher income people as well as different behavior due to income differences.

Table 3

Per cent of Respondents Spending or Saving Last Year's Refund by Income Class

<u>Income size (thous. \$)</u>	<u>Down payment</u>	<u>Spend</u>	<u>Save</u>
0-4.9	4.9	79.4	17.2
5-9.9	2.7	76.9	20.4
10-12.5	1.6	71.5	26.9
Over 12.5	6.4	65.4	28.1
All	4.1	72.0	23.9

There is additional evidence that the larger the refund the more chance the recipient will save it. In Table 4 the per cent who said they saved or spent the refunds is broken down by the size of the refunds they received. Of those in the largest refund category 30.2 per cent said they had saved the money while saving was only 11.9 per cent in the smallest category. These particular results are subject to larger sampling error than most of the per cents reported since the size of the sample by refund size was usually less than 100. The \$126-175 refund group was the smallest (47 respondents) and its result, inconsistent with the rest of the table, should be considered as being more likely to be wrong than the other per cents in Table 3.

Table 4

Per Cent of Respondents Spending and Saving by Size of Last Year's Refund

Size of refund	Down payment	Spend	Save
\$1-75	1.2	56.0	11.9
76-125	0.0	78.6	21.4
126-175	0.5	82.4	14.3
176-225	1.9	68.6	29.5
226-325	3.9	74.3	21.7
326-550	7.1	58.5	34.4
511-9,997	11.0	53.9	30.2

Totals may not add to 100% since some answered they did not know.

An interesting result in Table 4 is that the larger the refund the more likely the respondent used the money for a downpayment. This has implications for the larger refunds in 1973. Note that for those with refunds over \$362 the per cent using the money on downpayments is over 7 per cent. For the largest refund group it is 11 per cent. The dissaving associated with large refunds could offset in (dollar amounts), the over 30 per cent who said they saved the larger refunds.

Anticipated Spend/Saving of 1973 Refund

About 41 per cent of the sample said they expected a refund in 1973. This included some of those who received a refund in 1972 and some that had not received a 1972 refund. The group was asked two questions on the disposition of the expected refunds. The first was the question:

Q2 What do you think you will do with the money you get from tax refund next spring . . . ?"

They were also asked the question:

Q3 "Suppose your tax refund turns out to be a couple of hundred dollars larger than you expected--what would you do with the extra money?"

A different group, those who did not know if they would receive a refund or expected to owe less than last year (about 20 per cent of the total sample) were asked:

Q4 "Suppose it turns out that you get a refund equal to about one week's income--what would you do with the money--...?"

Table 5 presents the saving/spending pattern for the three questions relating to 1973 refunds and for Q1, the question relating to last years refund. Q3, concerning \$200 extra in refund money, shows the highest per cent of respondents who said they would save. Those that do not expect a refund or expect to come out even (Q4) also have a high per cent who said they would save.

Table 5

Disposition of Refund for Four Questions

	Down payment	Spend	Save
Q1 (last years refund)	4.1	72.0	23.9
Q2 (Expected 1973 refund)	4.1	57.1	38.7
Q3 (\$200 extra)	3.0	39.8	57.2
Q4 (Unexpected; equal to week's salary)	0.1	49.9	49.9

Both the responses to Q3 to Q4 are quite different than the past behavior found in Q1. The general question posed in Q2 lies between the other responses. Of those that expected a refund in 1973, 38.7 said they would save the money. One wonders if more people say they are going to save than actually would since there is 15 percentage point spread between Q1 and Q2, even though people do not expect next year's refunds to be larger than last years. The February and May surveys should shed some light on this.

The per cent of people who said they did or would use their refund for a downpayment is the same for Q1 and Q2. However, the per cent who said they would use the refund for a downpayment is lower for Q3 and Q4. People may report spending and downpayment intentions only when they have definite items in mind and report savings intentions when they have no specific plans. If this were the case the low downpayment and savings intentions that are reported as the refund becomes more hypothetical would fall into place.

## Characteristics of the Survey

The August sample consisted of 1,162 respondents. These respondents, used in previous Michigan SRC surveys, had been selected on a random basis and interviewed by telephone. This telephone technique was used to save time since most of the demographic and economic characteristics of the sample were known before respondents were asked questions relating to refunds. The subsequent November survey consisted of an entirely new sample, but the August and November questions were essentially the same. Also, the November survey was a personal interview in the home of the respondent. 5/

A flow diagram at the end of this paper shows the procedure used by the interviewer and a rough idea of both the type of questions that were asked and the sequence of the questions. The diagram shows that respondents were first divided into groups according to their refund status in 1972. After questions concerning the disposition of last years refund or on the means of paying their taxes, respondents were asked about their refund expectations for 1973. The design of the survey was such that respondents were not asked about the disposition of a refund in 1973 if they expected to owe about the same amount (or more) money to the Treasury at tax settlement than in 1972. Also, the particular question about the disposition of a 1973 refund depended on the respondents expectations of a refund. This procedure was designed to assure that hypothetical questions about the disposition of a refund were not asked of those who definitely expected to owe money.

The per cent figures for each question and some of the responses in the flow diagram represent the per cent of the total sample of 1,162 that were asked a given question. On subsequent evaluation it was decided to eliminate those respondents that said they did not have any withholdings in 1972 (obtained through questions C21 and C23 at the end of the flow diagram. This reduced the total sample size to about 780. The percentages reported above, unless otherwise noted, are based on this smaller sample. Thus, a question dealing with disposition of a probable refund in 1973 is based on only those that were filtered through the flow and have had 1972 income withheld for Federal taxes.

The sample was stratified by economic and demographic characteristics so that it would more closely represent the national population.

5/ A tentative schedule for the November survey calls for selected results to be reported in early December and the detailed data late in the month.

This involved weighting the respondents according to the characteristics obtained from their original interview. Percentages in the text are based on the weighted sample size.

It should be emphasized that results from any sampling technique are subject to errors. <sup>6/</sup> Nevertheless, the results do represent new information that may be of considerable use in economic projections. Results subject to abnormally large sampling errors were noted in the text.

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<sup>6/</sup> The SRC method and standard errors are described in chapter 14 of their 1970 Survey of Consumer Finances, by George Katona, et. al., (University of Michigan, 1971) or in similar chapters of their previous consumer surveys.

# FLOW CHART FOR OVERWITHOLDING SURVEY

