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COMMERCIAL BANK LENDING AND MONETARY MANAGEMENT

Remarks by

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Board of Governors of the

Federal Reserve System

Before the

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By

Andrew F. Brimmer*

I was delighted to accept the invitation to participate in this Annual Meeting of the Robert Morris Associates. The request to me indicated that I might address myself to any subject. However, because the typical member of this Association is primarily concerned with bank commercial loans, it was thought that a discussion of monetary policy in relation to bank lending would be of particular interest. Moreover, with the introduction of the Administration's New Economic Policy in mid-August, such a topic has undoubtedly become even more appealing.

I recognize the concern of the organization's members, and I would like very much to respond to it. Unfortunately, however, it would be impossible for me to discuss prospective developments in monetary policy. By long tradition (which I support), Members of the Federal Reserve Board do not speculate in public about the future course of monetary policy. The reason is simple: the seven members,

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*Member, Board of Governors of the Federal Reserve System.

I am grateful to several members of the Board's staff for assistance in the preparation of these remarks. Mr. Frederick M. Struble helped with the analysis of banks' asset preferences and lending behavior. Mr. Peter J. Feddor was responsible for the computer programming on which the study of asset preferences and lending behavior is based.

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along with the Presidents of five of the Federal Reserve Banks, also serve on the Federal Open Market Committee; through their votes, they help determine the objectives and content of monetary policy. Thus, in my own public comments, I try to avoid giving any indications which might be taken as a forecast of my own views about the appropriate targets of Federal Reserve monetary policy.

So, rather than respond to what I recognized as a natural interest, I would like to focus again on a problem that has troubled me a great deal during the 5-1/2 years that I have been a Member of the Federal Reserve Board. That problem is the differential impact of changing credit conditions on the availability of credit in particular sectors of the economy. The general features of this problem are widely recognized. During periods of strong credit demands and inflationary pressures (such as 1966 and 1969-70), Federal Reserve monetary policy ordinarily assumes a posture of substantial restraint. However, the impact of this restraint is felt most unevenly by various groups of borrowers in the country. Some borrowers (most notably the largest business concerns) are able to obtain most (or at least a large share) of the funds they require to continue their activities -- particularly investment in plant expansion. In contrast, other borrowers (especially State and local governments and families attempting to purchase homes) are severely rationed in their efforts to obtain credit. The effects on spending and output that result from this disproportionate shift in the distribution of loanable funds are no less apparent.

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Business spending on plant and equipment and on inventories continues at a pace essentially unchanged from that prevailing prior to the adoption of a restrictive credit policy; and the expansion continues long after spending by State and local governments -- and particularly by home buyers -- has been severely retarded.

This is a familiar story, and the explanation of the outcome is also widely known: the institutional rigidities of housing finance (derived from the inflexibility of the mortgage as a debt instrument and the limited ability of savings and loan associations to compete for funds), combined with the reluctance of home buyers to pay market-determined rates of interest, serve to erect formidable obstacles to the continued flow of funds into residential construction during periods of tight credit conditions. Similar rigidities (notably limitations on borrowing costs) inhibit the ability of State and local governments to compete in the capital market. Numerous proposals have been advanced to cope with the situation by lessening barriers and stabilizing the flow of funds into specific sectors. Some of these have been adopted, and a few have resulted in improvements.

Nevertheless, the problem remains an urgent one, and much of the debate over the issue continues to focus on the role of the Federal Reserve. This is not surprising because the reduced availability of funds in the adversely affected sectors becomes most evident as market forces respond to monetary restraint. Of course, one

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can contend that the objective of monetary policy is to impose general restraints on borrowing and place the blame for the differential impact which it actually has on rigidities in housing finance and state and local borrowing limitations. And there is an element of truth in this position. Nonetheless, if the impact of monetary policy consistently affects specific sectors of the economy and just as consistently leaves other sectors unaffected, then it is also true that whatever its intent, the effect of monetary policy is specific rather than general. It is recognition of this fact that has led many observers to feel that they need to look no farther than Federal Reserve policy for an explanation -- and remedy of this problem.

When the Federal Reserve is called upon to devise a solution, it is really being asked to "do something" to insure greater stability in the allocation of commercial bank credit over the cycle. This focus on the commercial banks is by no means misplaced. While other institutions may play a larger overall role (in terms of total lending) in certain markets than commercial banks, changes in the volume of funds supplied by the latter over a fairly short period of time can have a disproportionate impact on the level of spending in particular sectors. And the principal beneficiary of such shifts in the availability of funds is the corporate business sector.

But, as I emphasized above, this is not a new situation -- and taken alone it would not justify a discussion on the crowded agenda of this Annual Meeting. However, there are forces at work behind the familar facade which are less readily recognized but whose potential effects on the Nation's financial system could be considerable;

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and the lending behavior of commercial banks is the fulcrum of the situation. In fact, the situation is roughly analogous to that of an iceberg: the proportion below the surface greatly exceeds that which is visible at first glance. What can be seen readily is the changing availability of funds in particular sectors as commercial banks respond to monetary restraint. What is less visible is the mosaic of relations between banks and corporations which virtually guarantees that bank loans to business firms will be substantially insulated from monetary restraint.

The natural preference which banks have for business loans is attributable in part to their high profitability. This attraction is reinforced by a pattern of customer relationsips that makes it difficult for banks to decline requests for business loans. Moreover, the historic and continuing interest between commercial bank lenders and business borrowers has been strengthened further by the rapidly spreading tendency of banks to make forward commitments to lend to such customers. The latter, in turn, are becoming increasingly willing to pay a fee to ensure accommodation. To meet such commitments, banks have become far more prepared to compete for loanable funds (both at home and abroad) and to pay whatever interest rates the money market may set. The net result is a linkage of banks and business which dampens the effectiveness of monetary policy and makes more difficult the management of national economic policy in the United States.

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The evidence supporting this conclusion is presented below. The highlights can be summarized here:

- To a considerable extent, the striking shifts in the availability of credit in key sectors of the economy in recent years can be traced in part to the lending behavior of commercial banks as they responded to the changing requirements of monetary policy. Moreover, a significant part of the instability in the composition of commercial bank credit flows, in turn, can be traced to the activity of roughly 20 multi-national banks (which are an integral part of the Euro-dollar market) and about 60 larger banks which are dominant in their regions.

- Commercial banks have a marked tendency to prefer loans to business firms over loans to other sectors of the economy. The preference for business loans rises progressively as the size of banks increases, with the largest banks having more than one-third of their total earning assets represented by such loans. Moreover, the preference for business loans at the largest banks appears to have strengthened over the last five years.

- This strong preference by banks for business loans is partly the result of the relatively high profitability of such loans. However, the preference is reinforced by a network of customer relationships which substantially insulates bank credit to business from the impact of monetary restraint.

- In the last year or so, these linkages between banks as lenders and businesses as borrowers have been increasingly strengthened by the spreading tendency of banks to make commitments to lend in the future. Frequently a fee is paid by the potential borrower. The result is a significant reduction in the banks' ability to manage their assets in a flexible manner. It may also mean a reduction in the ability of the Federal Reserve to influence spending in the private sector in the interest of economic stability.

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Fortunately, if the economic stabilization program that was recently introduced serves to curb inflation to the extent we hope it will, I believe there is a good chance that we can for some time avoid having to face the kinds of conditions that necessitate severe credit restraint. Thus, the need to establish arrangements to ameliorate the problems created by the differential effects of monetary restraint would appear unlikely to become acute in the immediate future. Nevertheless, I believe that the best time to confront and resolve a potential problem is well before it is likely to arise.

Monetary Policy and Commercial Bank Lending in Recent Years

The differential impact of monetary policy on particular types of credit flows can be seen clearly in the record for the last few years. It will be recalled that, as a by-product of the policy of severe monetary restraint followed in 1969, a striking change occurred in the pattern of credit flows compared with that for the previous year. In 1970, to a considerable extent, such credit flows returned to more traditional channels. Of course, the policy of

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monetary restraint in 1969 itself was an integral part of the national campaign to check inflation. In the same vein, the policy of moderate easing in credit conditions was part of our national effort to cushion the slowdown in the economy and thereby prevent a large decline in production and an unacceptable rise in unemployment. Thus, in both 1969 and 1970, the pattern of credit flows was a by-product of concerted efforts to attain the nation's economic objectives.

Of course, the most graphic picture of the impact of monetary policy on credit flows can be seen in the behavior of commercial banks. The figures in Table 1 (attached) can be used for this purpose. In 1969, commercial banks' liabilities (the key to their lending ability) rose by roughly two-fifths as much as in the preceding year. The primary reason for the lag was a noticeable loss of time deposits -- especially negotiable certificates of deposits in denominations of $100,000 and over (CD's). The latter experience, in turn, was due to the decision of supervisory authorities to hold the maximum rates of interest which could be paid on time deposits below sharply rising market yields. In 1970 (and particularly after mid-year when the ceilings were suspended with respect to CD's with maturities of less than 90 days), interest rates offered by the banks were again competitive with market yields -- which were declining sharply -- and the banks gained funds.

The figures in Table 1 also show the sharp changes in uses of commercial bank funds in recent years. In 1969, total bank credit expanded by less than half the amount recorded the previous year. However, the rise in bank loans in 1969 was about as large as that

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recorded the year before. To meet this private demand for credit, the banks liquidated a sizable amount of U.S. Government securities and switched the funds into loans. In 1970, the growth in bank credit was nearly double that recorded in the preceding year. But the overwhelming proportion of the banks' funds went into investments, and only a modest growth occurred in bank loans. Finally, in 1969, commercial banks pulled in a record amount of Euro-dollars through their foreign branches in an effort to offset the loss of domestic time deposits. Last year, they employed a substantial portion of their enlarged resources to repay liabilities to their foreign branches.

Banking Structure and the Behavior of Bank Credit Flows

Early in 1970, I devised a framework of analysis which allows one to study the lending behavior of commercial banks according to the character of their business.[1/] The framework was constructed by recasting data for selected groups of large banks which report to the Federal Reserve on a weekly basis.

Given the focus of these remarks, it might be helpful to summarize here developments at these groups of banks during the last few years. The results of the regrouping are shown in Tables 2 and 3. In this schema, I identified 20 banks as "Multi-National Banks" and

1/ The approach was first described in "The Banking Structure and Monetary Management," which I presented before the San Francisco Bond Club, April 1, 1970.

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another 60 banks as "Major Regional Banks." Those banks classed as multi-national banks were picked on the basis of their size, volume of business loans, importance in the Federal Funds market in particular and the money market in general, the volume of their foreign lending, and the extent of their participation in the Euro-dollar market. Similar criteria were used to classify major regional banks, but greater stress was given to domestic activities and the relative importance of these banks in their own area of the country. The remaining 250 weekly reporting banks were designated "Large Local Banks."2/

The experience of these groups of banks with deposit flows has differed considerably. In 1968, the multi-national banks lagged somewhat behind the other two groups in the expansion of deposits. However, in 1969, both the multi-national banks and major regional banks experienced deposit outflows that were relatively much more severe than those recorded by the large local banks. Yet, similar relative changes were recorded in earning asset holdings, both unadjusted and adjusted for loan sales, at all groups of banks. This similarity in total asset performance in the face of markedly different deposit flows reflected greater flexibility among the largest banks in developing alternative sources of lendable funds. The two larger groups of banks relied much more heavily on domestic nondeposit

2/ It should be remembered that the smallest banks in this group have total deposits of at least $100 million.

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sources and siphoned substantially larger volumes of funds from the Euro-dollar market. The multi-national banks were particularly heavy borrowers in the Euro-dollar market. The affiliates of multi-national and major regional banks also sold a considerably larger volume of commercial paper -- and in turn purchased larger quantities of loans -- than did the large local banks.

General changes in the composition of asset portfolios were somewhat more similar at these three groups of banks. However, data in Table 2 do indicate that the multi-national banks made relatively larger reductions in their security holdings than did the other two bank groups. At the same time, after adjustment for loan sales, growth in total loans and in business loans was much stronger at the multi-national banks than at either the major regional or large local banks in 1969.

The pattern of deposit and credit flows at these three groups of banks in 1970 differed considerably from that recorded in 1969. Referring again to Tables 2 and 3, it will be noted that the multi-national banks gained a substantial volume of new deposits during the year. This growth, measured in relative terms, was considerably stronger than that which occurred at the major regional banks, and it was almost as strong as that recorded by the large local banks.

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Yet, growth in earning assets (again in relative terms) at the multi-national banks was only slightly below that recorded by the major regional banks although it was considerably less than that which occurred at the large local banks. The explanation for the failure of earning asset developments at the three groups of banks to match more closely changes in deposits at these banks is that the multi-national banks decided to use a large portion of their incoming deposit funds to reduce nondeposit liabilities. The large local banks, on the other hand, channeled only a small portion of their relatively large inflow of deposits to the repayment of nondeposit liabilities while there was virtually no net change at major regional banks.

A fairly diverse pattern of change in credit expansion can also be seen in the statistical data for the three groups of banks. It appears that loan demands, particularly business loan demands, eased markedly at both the multi-national and major regional banks during 1970. Multi-national banks recorded a slight drop in their total loans, adjusted for loan sales, and a somewhat larger decrease in their business loans. The major regional banks had a modest rise in total loans (adjusted) and no net change in loans to business. In contrast, growth in total loans at the large local banks was much stronger in 1970 than in 1969, and the rate of advance in business loans was somewhat higher than the relatively sharp increase recorded in 1969. All three groups of banks made net additions to

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their investment portfolios during 1970. However, growth at the multinational banks was substantially stronger than at the other groups of banks.

The above analysis leads me to the following conclusion regarding the relative impact that changes in monetary and credit conditions have on different categories of banks and the ways in which these different groups of institutions have adjusted to the shifting deposit and loan circumstances: The largest banks -- with both domestic and foreign customers and which raise funds at home and abroad -- are able to avoid a substantial share of the effects of monetary restraint. Consequently they can maintain -- or even expand -- their earning assets. The large regional banks can succeed almost as well in pursuit of a similar course. The large local banks, although also much larger than the average bank in the country, can do so to a much lesser extent. But the net result of the overall pattern of response of all of these large banks is a substantial insulation of business loans from monetary restraint.

Asset Preferences of Commercial Banks

It is widely recognized that commercial banks channel a major share of their lendable funds into loans to business firms. However, the extent to which this is true is less widely appreciated. To cast more light on the role of business loans in bank lending, the composition of earning assets (total loans and investments) of all

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insured commercial banks, as of June, 1966, June, 1970, and June, 1971, was examined in considerable detail. The results are shown in Tables 4, 5, and 6.[3/] There is no need to discuss here the detailed findings. However, several points should be made, for they throw considerable light on the asset preferences of commercial banks. The first comments are based on the banks' structure of earnings assets in June, 1971, but the general pattern holds for each of the three years. The following generalizations can be made for each group of banks:

- Small banks hold a larger proportion of their earning assets in securities than do larger banks: the ratio of total investments (mainly U.S. Government and State and local issues) to total earning assets declines continually as the size group of banks increases. While there are minor differences among various classes of banks, the ratio generally drops from about 40 per cent for the smallest banks to about 27 per cent for the largest.

- Holdings of U.S. Treasury securities become a progressively smaller proportion of total earning assets -- and of total investments held -- as the size of banks encrease.

- Holdings of State and local government securities, expressed as a percentage of total earning assets, is generally higher at medium size banks than at either the smallest or largest size group.

3/ In this part of the analysis, the 13,000-odd insured commercial banks were grouped by deposit size, and 22 asset categories were identified separately. For each individual bank, the ratio of a particular asset category to the bank's total earning assets was calculated These ratios for individual banks were then averaged to obtain ratios for each size group of banks. Data were obtained from the Call Reports for June, 1966, June, 1970, and June, 1971.

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- The ratio of total loans (including Federal funds sold) to total earning assets rises continually as the size of banks increases. The ratio is about 60 per cent for the smallest size group and rises to about 75 per cent for the banks at the top of the size scale.

- Of the various categories of loans, business loans display the closest -- and clearest -- association with size of bank. The relative importance of such loans compared with total earning assets climbs progressively and in tandem as the size of banks advances. The ratio of business loans to total earning assets rises from about 8 per cent at the smallest size group to about 35 per cent at the largest.

- A similar pattern -- although less dramatic -- is evident in the case of loans to financial institutions (banks, nonbank financial institutions and brokers and dealers) and in loans to other investors for carrying securities. These "financial" loans rise from about 1 per cent at the smallest banks to about 10 per cent at the largest lenders.

- Loans to farmers as a percentage of total earning assets decline as the size of bank increases -- from around 17 per cent to 1 per cent.

- Real estate loans expressed as a proportion of total earning assets are generally highest at the medium size banks and lowest at both the smallest and largest size groups of banks. In general, such loans at the largest banks amount to about 12 per cent of total earning assets and to roughly 14 per cent at the smallest. In contrast, at medium size banks, the ratio was about 20 per cent.

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- A similar "rainbow-shaped" distribution of loans to individuals can be observed, with the ratios ranging from 14 per cent up to 19 per cent and down to 9 per cent, respectively, for the three size groups of banks.

Still further insights into the lending behavior of commercial banks can be gotten from an analysis of the changes in the composition of their assets, by size of bank, between June, 1966, June, 1970, and June 1971. The following generalizations are applicable:

- Between 1966 and 1970, total investments declined as a percentage of total earning assets at all size groups of banks. The extent of the decline was fairly uniform -- ranging, in almost all instances, between 2 and 3 percentage points. However, in the 12 months ending last June, the proportion of investments rose slightly.

- In the five-year period, U.S. Treasury issues declined -- and other securities increased -- in relative importance at all size groups of banks.

- Total loans increased in relative importance between 1966 and 1970. With respect to business loans, there was little if any change in relative importance -- except at the very largest banks, where such loans climbed a few percentage points in relation to total earning assets. But in the last year, as the demand for business loans slackened somewhat, while deposit inflows were strong, the proportion of loans in the banks' portfolios eased slightly.

- Real estate loans over the five-year period decreased at the smallest size group of banks and generally increased at the largest size groups -- when expressed as a proportion of total earning assets. However, in both cases, the changes were quite moderate -- about 1 or 2 percentage points.

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- Loans to individuals declined in relative importance over the five-year period. The proportionate decrease was evident at banks in most size categories.

On the basis of the evidence yielded by this analysis of commercial banks' asset preferences, I reach the following conclusions: the attraction of loans to business is so strong that one should ordinarily expect banks to respond to the fullest extent possible to the demand for credit by business firms. Experience indicates, moreover, that in a period of severe monetary restraint, other sectors of the economy are likely to obtain proportionately less -- while the business sector obtains proportionately more -- of a given supply of commercial bank funds. Since the Federal Reserve must channel through the banking system whatever additions to bank reserves it finds consistent with overall monetary policy objectives, this suggests that the lending behavior of commercial banks must be a matter of prime concern.

Network of Customer Relationships

The data reviewed above indicate the extent of the preferential treatment that banks give their business customers. Thus, if we are to assure that banks' lending behavior reinforces the basic aims of monetary management, some means must be found to discourage banks from favoring their business customers so disproportionately and to encourage them to channel a larger share of their funds to other borrower groups. Personally I would prefer to see this objective achieved through the voluntary decisions of bankers to alter their credit

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allocation policies. However, the factors militating against such a voluntary change in the scale of bank preferences for different assets are formidable indeed. At the crux of the difficulty is the network of linkages between banks and their business customers.

In part, the growth of business lending at the expense of other forms of lending during periods of restraint is a reflection of the success of commercial loan officers in building and cementing relationships with business borrowers. Many of these officers have watched ventures grow and mature, in significant part because their banks have provided much of the necessary financing and financial expertise required for the successful development of an enterprise. The experience gained in dealing with customers and solving financial problems builds up a valued personal relationship.

Business customers that successfully approach a commercial bank for loans in periods of restraint also very often have a record of having provided the bank with a major source of revenue for long periods of time. Such customers often have maintained large deposit balances while previously requesting little in the way of loan accommodation. In addition, many of these firms also may be the customers of auxiliary businesses of the bank, buying special data processing services or using the services of leasing subsidiaries. The bank's trust department may also administer the customers' pension fund, and their parent or subsidiary companies may also maintain profitable relationships with the lending institution.

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These customer relationships may even be sufficient at times to induce a bank to honor a loan request even though this can be done only by incurring a substantial loss. More often than not, however, the return on such business loans, when appropriate account is taken of compensating balance requirements, is quite attractive relative to the return on other types of assets. Thus, the inducement to honor the loan requests of business customers is further reinforced.

Recent Developments in Loan Commitments

The customer relationships just described give rise to what might be called "implicit commitments" on the part of banks to honor customer loan requests. These implicit commitments, however, are commonly made explicit by more formal arrangements in the form of firm or disclosed lines of credit. While only the former of these agreements may be legally binding, in effect both serve, when money is tight, to convert a situation in which it is "good business" for the bank to provide credit into a situation in which the bank feels a moral obligation to provide financing under the terms of the credit line agreement. Thus, formal loan commitments combine with the inducements provided by a network of customer relationships and the high profitability of business loans to make extremely difficult -- if not impossible -- the decision to rechannel already reduce supplies of lendable funds into assets other than credits to business firms.

It is the recognition of these considerations (which banks find compelling) that leads me to be far from optomistic about the

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prospects of achieving a shift in bank lending policies on a voluntary basis. In the past, when stringent credit conditions have arisen, banks have been so committed -- either implicitly or explicitly -- to honoring their business customer requests that it would have required some form of governmental intervention in the decision process to induce them to shift their selection of assets. To state it simply, when monetary restraint was imposed, banks were in an extremely inflexible position vis-a-vis their business customers -- because of decisions and arrangements made earlier.

However, this experience does provide us with a guide to one condition that is a necessary requisite for obtaining a different mix of credit flows on a voluntary basis. At the very least, banks must conduct their activities during periods of general credit ease characterized by slack business loan demands so that when restrictive credit conditions arise they retain some degree of flexibility in their portfolio allocation decisions.

In my opinion, the question of flexibility in asset management is particularly critical at the present time. Since early last year, there has been a sizable build-up in loan commitments at commercial banks. Surveys of loan commitments taken by the Federal Reserve System during the last year and a half have strongly suggested that banks have been expanding their commitment agreements at a very sharp pace. In part, this increase seems to be connected with uncertainties in financial markets created by developments such as the Penn Central

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and Lockheed crises. But much of the movement in commitments seems to be attributable to bank aggressiveness in seeking these arrangements. I assume the objectives are to increase the volume of business loans and to earn the fees and compensating balances associated with the granting of commitments.

Of course, I know that bank managements do not expect to have to meet all of their outstanding commitments. Many of these are canceled or are simply unused. But it is equally true that a large percentage of such commitment agreements is taken down. Moreover, it appears that the proportion of takedowns to total commitments has been rising in recent years. Thus, banks have been positioning themselves during this period of relative credit ease in such a way that they would again be in a very inflexible position, if conditions of credit restraint were to return.

Fortunately, in my judgment, the likelihood of circumstances arising that would bring about extremely tight conditions in the immediate future is quite small. Thus, with normal growth in deposits, the potential problems created by the present commitment volume can be diminished. However, to do so will require a different ordering of bank preferences than that which has been displayed to date.

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Concluding Observations

As I indicated at the outset, for a number of years, I have been concerned with the differential impact of monetary policy on different sectors of the economy. I have also urged that means be found to moderate these adverse effects. It was with this objective in mind, and given the record of commercial bank lending behavior, that I suggested in April, 1970, that consideration be given to imposing a supplemental reserve requirement on loans extended by banks. The response to the proposal was vigorous -- and for the most part adverse. The adverse reaction by Robert Morris Associates was among the strongest -- and resulted in a specially-commissioned critique of my position in the organization's official publication, The Journal of Commercial Bank Lending.

I certainly would not come before this Annual Meeting to reopen that debate. However, I would like to stress again my conviction that the adverse effects of monetary restraint on particular sectors of the economy -- amplified by the lending behavior of commercial banks -- are also serious. I believe members of the Robert Morris Associates will agree with this evaluation if they were to take another look at the evidence. Hopefully, you would conclude that a major effort must be made to increase the equity -- and efficiency -- in the functioning of our financial system during

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tight credit periods. The key point is that we need a genuine effort -- and not simply a continuation of pious rhetoric -- to bring about an improvement in the flow of credit in the years ahead.

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Table 1. Sources and Uses of Funds by Commercial Banks, 1968, 1969, and 1970
(Amounts in billions of dollars)

Source or Use	1968 Amount	1968 Per cent of total	1969 Amount	1969 Per cent of total	1970 Amount	1970 Per cent of total
Net acquisition of financial assets	44.0	100.0	19.7	100.0	41.9	100.0
Total bank credit	39.7	90.2	16.5	83.8	29.3	69.9
Credit Market instruments	38.4	87.3	17.7	89.9	27.5	65.6
U.S. Gov't. securities	3.4	7.7	- 9.5	- 48.2	8.2	19.6
Direct	2.2	5.0	- 9.3	- 47.2	5.2	12.4
Agency issues	1.1	2.5	1.1	5.6	3.7	8.8
Loan participation certifs.	0.2	0.5	- 1.3	- 6.6	- 0.7	- 1.7
State and local obligations	8.6	19.5	0.4	2.0	11.2	26.7
Corporate bonds	0.3	0.7	- 0.1	- 0.5	0.5	1.2
Home mortgages	3.5	8.0	3.0	15.2	0.9	2.1
Other mortgages	3.2	7.3	2.3	11.7	1.0	2.4
Consumer credit	4.9	11.1	3.3	16.8	1.9	4.5
Bank loans, N.E.C.	15.7	35.7	17.8	90.4	0.6	1.4
Open market paper	- 1.1	- 2.5	0.5	2.5	3.2	7.6
Security credit	1.3	3.0	- 1.1	- 5.6	1.8	4.3
Loans to affiliate banks	---	---	0.6	3.0	- 0.1	- 0.2
Vault cash and member bank reserves	2.0	4.5	0.4	2.0	2.2	5.3
Miscellaneous assets	2.3	5.2	2.2	11.2	10.5	25.1
Net increase in liabilities	42.2	100.0	18.0	100.0	39.8	100.0
Demand deposits, net	13.3	31.5	5.2	28.9	6.4	16.1
U.S. Government	- 0.2	- 0.5	*	*	2.7	6.8
Other	13.5	32.0	5.2	28.9	3.7	9.3
Time deposits	20.6	48.8	- 9.7	- 53.9	38.0	95.5
Large negotiable CD's	3.1	7.3	- 12.6	- 70.0	15.2	38.2
Other	17.4	41.2	2.9	16.1	22.9	57.3
Federal Reserve float	0.9	2.1	0.1	0.6	0.7	1.8
Borrowing at Federal Reserve Banks	*	*	*	*	0.2	0.5
Loans from affiliates	---	---	0.6	3.3	- 0.1	- 0.3
Bank security issues	0.2	4.7	0.1	0.6	*	*
Commercial paper issues	---	---	4.2	23.3	- 1.9	- 4.8
Profit tax liabilities	- 0.1	- 0.2	0.1	0.6	0.1	0.3
Miscellaneous liabilities	7.3	17.3	17.4	96.7	- 3.7	- 9.3
Liabilities to foreign branches	1.8	4.3	7.0	38.9	- 6.1	- 15.3
Other	5.5	13.0	10.4	57.8	2.4	6.0
Discrepancy	0.5		0.3		- 0.1	
Current surplus	2.9		3.1		3.0	
Plant and equipment	---		1.0		1.1	

NOTE: Data show combined statement for commercial banks and affiliates.

* Not available

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Table 2.
CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
1968, 1969 and 1970 1/
(In billions of dollars, not seasonally adjusted)

	Total			20-Multi-Nat'l Banks 7/			60 Major Regional Banks 8/			250 Large Local Banks		
	1968	1969	1970	1968	1969	1970	1968	1969	1970	1968	1969	1970
Total loans and investments, gross	23.0	2.6	21.8	10.9	1.7	5.7	6.2	-0.1	4.9	5.8	1.0	11.2
Total loan sales	n.a.	4.0	-1.0	n.a.	2.8	-0.3	n.a.	0.8	-0.5	n.a.	0.4	-0.3
Total loans and investments, adjusted for loan sales	23.0	6.6	20.8	10.9	4.5	5.4	6.2	0.7	4.4	5.8	1.4	10.9
U.S. Treasury	0.9	-5.8	4.4	0.9	-2.2	2.6	0.1	-1.7	0.8	--	-2.0	1.0
Other securities	5.4	-3.1	8.3	2.8	-2.7	3.3	1.2	-0.4	1.9	1.4	--	3.1
Total loans, gross	16.7	11.6	9.1	7.3	6.6	-0.3	4.9	2.1	2.2	4.5	2.9	7.1
Total loans, adjusted for loan sales	16.7	15.6	8.1	7.3	9.4	-0.6	4.9	2.9	1.7	4.5	3.3	6.9
Business loans	7.3	7.2	0.9	4.2	4.3	-1.8	1.6	1.6	0.3	1.5	1.3	2
Business loan sales	n.a.	2.9	-0.7	n.a.	2.1	-0.2	n.a.	0.4	-0.3	n.a.	0.3	-0.2
Business loans, adjusted for loan sales	7.3	10.1	0.2	4.2	6.4	-2.0	1.6	2.0	--	1.5	1.6	2.2
Real estate	3.1	2.1	--	0.9	1.1	-0.6	1.1	0.4	-0.2	1.1	0.6	0.8
Consumer installment	2.2	1.7	1.5	0.5	0.3	0.3	0.7	0.4	0.1	1.0	1.0	1.0
Total deposits 2/	14.2	-15.6	29.9	4.0	-9.1	12.9	4.6	-4.5	5.7	5.6	-2.0	11.3
Total demand deposits 2/	4.8	0.4	6.8	1.0	1.0	2.5	1.6	-0.5	0.9	2.1	-0.1	3.5
Total time and savings deposits	9.4	-16.0	23.0	3.0	-10.1	10.4	2.9	-4.0	4.7	3.5	-1.9	7.9
Large CD's 3/	3.1	-12.4	14.8	0.5	-7.2	7.7	1.4	-3.4	3.6	1.2	-1.8	3.5
Borrowings from major domestic sources 4/	3.7	10.1	-0.1	2.2	4.4	-0.5	1.3	3.4	0.3	0.2	2.3	0.1
Other liabilities	4.9	9.3	-4.7	4.1	7.4	-4.7	0.5	1.2	-0.3	0.3	0.7	0.3
Euro-dollar liabilities 5/	2.7	7.5	-5.0	2.6	6.7	-4.2	0.1	0.6	-0.6	--	0.3	-0.3
Loans and security reserves and total capital account	1.8	1.8	1.6	0.9	0.7	0.3	0.4	0.5	0.3	0.4	0.7	1.0
MEMO:												
Commercial paper 6/	n.a.	4.3	-2.0	n.a.	2.4	-0.7	n.a.	1.3	-0.8	n.a.	0.6	-[illegible]

1/ Changes for 1970 are from December 24, 1969, to December 23, 1970. Comparable dates were used to compute 1969 and 1968 changes.
2/ Less cash items in the process of collection.
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ The same criteria as those listed in footnote 7 were used to select these 60 banks. However, these banks, in general, are smaller and each region of the country was given representation.

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Table 3.

CHANGES IN MAJOR BALANCE SHEET ITEMS, WEEKLY REPORTING BANKS
1968, 1969 and 1970 1/
(In per cent, not seasonally adjusted)

	Total			20-Multi-Nat'l Banks 7/			60 Major Regional Banks 8/			250 Large Local Banks		
	1968	1969	1970	1968	1969	1970	1968	1969	1970	1968	1969	1970
Total loans and investments, gross	10.9	1.1	9.2	11.1	1.6	5.1	12.3	-0.1	8.6	9.3	1.4	16.1
Total loan sales	n.a.	n.a.	-25.9	n.a.	n.a.	-9.4	n.a.	n.a.	-65.7	n.a.	n.a.	-63.3
Total loans and investments, adjusted for loan sales	10.9	2.8	8.6	11.1	4.2	4.8	12.3	1.2	7.7	9.3	2.1	15.6
U.S. Treasury	3.2	-20.1	19.0	7.8	-18.1	27.0	1.3	-24.1	15.0	-0.4	-19.5	12.0
Other securities	16.3	-8.0	23.1	19.7	-16.0	23.4	14.7	-4.6	20.2	12.9	0.3	24.9
Total loans, gross	11.1	6.9	5.1	10.0	8.2	-0.3	14.0	5.3	5.3	10.7	6.3	14.5
Total loans, adjusted for loan sales	11.1	9.4	4.4	10.0	11.7	-0.6	14.0	7.2	4.0	10.7	7.2	13.9
Business loans	11.1	9.9	1.1	11.2	10.2	-4.0	11.2	10.0	1.8	10.9	8.9	15.1
Business loans sales	n.a.	n.a.	-24.8	n.a.	n.a.	-10.0	n.a.	n.a.	-65.5	n.a.	n.a.	-71.7
Business loans, adjusted for loan sales	11.1	13.8	0.2	11.2	15.3	-4.2	11.2	12.7	0.2	10.9	10.9	13.5
Real estate	10.8	6.7	0.1	8.3	8.8	-4.4	17.0	6.0	-2.3	9.8	5.0	6.3
Consumer installment	13.6	9.3	7.2	9.4	6.0	5.4	16.6	8.1	2.1	14.6	12.2	11.4
Total deposits 2/	7.0	-7.2	14.9	4.4	-9.7	15.2	9.2	-8.3	11.4	9.0	-2.9	17.2
Total demand deposits 2/	4.8	0.4	6.6	2.4	2.3	5.4	6.5	-1.9	3.5	6.9	-0.2	10.7
Total time and savings deposits	9.1	-14.3	24.0	6.3	-20.4	26.3	12.1	-14.7	20.5	11.1	-5.4	23.7
Large CD's 3/	15.5	-53.3	135.1	4.7	-59.1	156.0	27.5	-53.1	119.2	33.5	-37.9	116.6
Borrowings from major domestic sources 4/	48.8	88.7	-0.7	52.7	70.2	-4.9	61.7	95.1	4.4	15.9	148.7	2.1
Other liabilities	38.8	56.2	-17.4	45.9	56.2	-22.7	29.2	56.4	-10.4	15.6	29.2	10.8
Euro-dollar liabilities 5/	63.0	107.1	-36.1	63.0	98.0	-33.2	--	600.0	-62.0	--	--	-67.1
Loan and security reserves and total capital account	7.7	7.4	6.0	8.4	5.5	2.4	7.6	8.6	5.2	6.7	9.6	12.1
MEMO:												
Commercial paper 6/	n.a.	n.a.	-45.3	n.a.	n.a.	-31.7	n.a.	n.a.	-59.4	n.a.	n.a.	-56.8

1/ Changes for 1970 from Dec. 24, 1969, to Dec. 23, 1970. Comparable dates were used to compute 1969 and 1968 changes.
2/ Less cash items in the process of collection
3/ Negotiable time certificates of deposit in denomination of $100,000 or more.
4/ Largely borrowing in the Federal funds market and from Federal Reserve Banks.
5/ Bank liabilities to foreign branches.
6/ Issued by a bank holding company or other bank affiliate.
7/ These banks were selected on the basis of a number of criteria including size, volume of business loans, relative participation in Federal Funds market, Euro-dollar market and commercial paper market.
8/ For definition see Table 1.
NOTE: Figures may not sum exactly due to rounding.

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Table 4.

Ratios of Selected Assets to Total Earning Assets [1/]

All Insured Commercial Banks, by Size Groups

June 1966

(In per cent)

Item (as per cent of total earning assets)	Size Group--Total Deposits (in thousands of dollars)							
	Under 5,000	5,000-10,000	10,000-25,000	25,000-50,000	50,000-100,000	100,000-500,000	500,000-1,000,000	Over 1,000,000
U.S. Treasury securities	32	26	23	21	19	17	13	12
All other securities	12	16	17	17	17	16	15	14
Total loans	56	58	60	62	64	67	72	75
Real estate loans	16	19	20	20	20	17	15	13
Nonresidential	7	7	7	7	7	7	5	4
Residential	9	12	12	12	12	10	10	9
Loans to financial institutions and investors in securities	1	1	2	3	4	5	9	14
Agricultural loans	17	9	4	2	1	1	1	1
Business loans	8	11	13	16	19	21	27	33
Loans to individuals	14	17	19	20	18	19	17	11
Government agency securities	5	4	3	3	3	2	1	1
Municipal securities	7	12	13	14	14	14	14	12
Corporate and other securities	1	1	1	--	--	--	--	--
Trading account securities	na	na	na	na	na	na	na	na
Federal funds sold	--	--	1	1	1	1	1	1
Total loans less Federal funds sale	56	57	59	61	63	66	71	74
Residential, Government guarantee	1	1	2	2	3	3	4	4
All other residential	8	10	11	10	9	7	6	5
Loans to commercial banks	--	--	--	--	--	--	1	1
Loans to other financial institutions	--	1	1	2	2	4	6	
Loans to brokers and dealers	--	--	--	--	1	1	1	3
Other loans for carrying securities	--	1	1	1	1	1	1	2
Number of banks (Total: 13,555)	6,697	3,127	2,282	726	329	304	53	37
Average size (Total: 23,391)	2,539	6,793	14,847	33,124	66,128	190,031	610,693	2,945,526

1/ Ratios are average of ratios for individual banks. Loan transfers between banks and their affiliates are not reflected in the data.

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Table 5.
Ratios of Selected Assets to Total Earning Assets[1]
All Insured Commercial Banks, By Size Groups
June 1970
(In per cent)

Item (as per cent of total earning assets)	Size Group -- Total Deposits (in thousands of dollars)							
	Under 5,000	5,000-10,000	10,000-25,000	25,000-50,000	50,000-100,000	100,000-500,000	500,000-1,000,000	Over 1,000,000
U.S. Treasury securities	25	20	17	14	14	12	9	8
All other securities	15	19	21	21	21	19	17	15
Total loans	60	61	63	65	65	69	74	77
Real estate loans	15	18	19	20	20	19	17	13
Nonresidential	7	8	7	8	8	8	6	4
Residential	8	10	12	12	12	11	11	9
Loans to financial institutions and investors in securities	1	1	1	2	3	4	7	10
Agricultural loans	18	11	6	2	1	1	1	1
Business loans	8	10	13	16	18	22	28	38
Loans to individuals	13	16	19	20	19	19	16	11
Government agency securities	7	5	4	4	3	2	1	1
Municipal securities	7	13	16	17	17	16	14	13
Corporate and other securities	1	1	1	1	1	1	1	1
Trading account securities	--	--	--	--	--	--	1	
Federal funds sold	4	4	4	3	3	2	3	2
Total loans less Federal funds sale	56	58	59	62	63	66	69	75
Residential, Government guarantee	1	1	1	2	2	2	3	3
All other residential	7	10	11	11	10	9	8	6
Loans to commercial banks	--	--	--	--	--	--	1	1
Loans to other financial institutions	1	1	1	1	1	2	5	6
Loans to brokers and dealers	--	--	--	--	--	--	1	2
Other loans for carrying securities	--	1	1	1	1	1	1	1
Number of banks (Total: 13,483)	4,792	3,432	3,170	1,106	480	394	62	47
Average size (Total: 31,245)	2,835	7,087	15,095	33,516	67,048	199,139	683,654	3,093,814

1/ Ratios are average of ratios for individual banks. Loan transfers between banks and their affiliates are reflected in the data.

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Table 6.

Ratios of Selected Assets to Total Earning Assets[1/]

All Insured Commercial Banks, By Size Groups

June 1971

(In per cent)

Item (as per cent of total earning assets)	Size Group--Total Deposits (in thousands of dollars)							
	Under 5,000	5,000-10,000	10,000-25,000	25,000-50,000	50,000-100,000	100,000-500,000	500,000-1,000,000	Over 1,000,000
U.S. Treasury securities	24	19	17	14	14	12	10	9
All other securities	17	21	21	23	23	22	21	18
Total loans	59	60	61	63	63	66	69	74
Real estate loans	14	16	18	19	20	18	17	12
Nonresidential	6	7	7	7	8	7	6	4
Residential	8	9	11	12	12	11	11	8
Loans to financial institutions and investors in securities	1	1	1	2	2	5	6	11
Agricultural loans	17	11	6	3	1	1	1	1
Business loans	8	10	12	16	17	21	24	36
Loans to individuals	14	16	18	19	18	18	16	9
Government agency securities	8	6	5	5	4	3	2	1
Municipal securities	8	14	16	18	18	18	17	14
Corporate and other securities	1	1	1	1	1	1	1	1
Trading account securities	--	--	--	--	--	--	1	2
Federal funds sold	4	4	4	4	3	2	4	3
Total loans less Federal funds sale	55	56	56	59	59	65	66	71
Residential, Government guarantee	--	1	1	1	2	3	3	2
All other residential	7	9	10	11	10	7	7	5
Loans to commercial banks	--	--	--	--	--	--	1	1
Loans to other financial institutions	--	--	1	1	1	3	5	6
Loans to brokers and dealers	--	--	--	--	--	1	--	3
Other loans for carrying securities	--	--	--	--	--	1	1	1
Number of banks (Total: 13,550)	4,286	3,346	3,489	1,293	562	443	77	54
Average size (Total: 35,290)	2,907	7,126	15,117	33,714	67,269	198,216	696,815	3,081,220

1/ Ratios are average of ratios for individual banks. Loan transfers between banks and their affiliates are reflected in the data.

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